ESG: Beware of claims on 'green' products

Unethical acts, called greenwashing, exist across all industries with many buzzwords, jargons or false advertising to appeal to the increasing interest in sustainable products and services. – iStock image

By YAP LENG KUEN

FALSE claims on the environment and so-called "green" products mislead the public into believing that these are sustainable and climate friendly.

These unethical acts, called greenwashing, exist across all industries with many buzzwords, jargons or false advertising to appeal to the increasing interest in sustainable products and services.

The "green" picture that these companies paint may attract more consumers and investors, but in fact, the true value of carbon emissions is falsely reported, leaving an even greater impact on global warming.

Legal opinion is clear – boards that selectively or inaccurately disclose the climate risks their companies face, or leave their climate-related goals just as aspirational targets and commitments, will be exposed to regulatory action and potentially significant fines and other penalties.

"They should explain to the market what those aspirations mean for the company's operations on a practical level and how the company is progressing in its transition and implementation plans," said Climate Governance Malaysia chairman and director Datin Seri Sunita Rajakumar.

There must be zero tolerance on greenwashing – there are some climate claims that have "loopholes wide enough to drive a diesel truck through", said United Nations secretary-general Antonio Guterres at the launch of the report on greenwashing.

"Strengthening the company's corporate sustainability strategy is crucial to ensure that it is not associated with greenwashing," said Business Council for Sustainable Development Malaysia Bhd (BCSD Malaysia) CEO Roberto Benetello.

Five ways to tackle greenwashing, according to UN experts, include:

> Announcing a net-zero pledge with targets.

> Creating a transition plan.

> Increasing transparency and accountability.

> Phasing out fossil fuels and scaling up renewable energy.

> Using voluntary carbon credits.

"This transition is going to be challenging, given the low commitment from some companies, which could be due to lack of awareness, knowledge and capacity building," added Benetello.

From January 2023, BCSD Malaysia is looking into adopting a new set of membership criteria, as per the ones recently set by the World Business Council for Sustainable Development.

These cover climate, nature, human rights, diversity, equity, inclusion and non-discrimination as well as transparency and disclosure.

Within a company, the board plays a key role in determining how their company embeds and integrates sustainability into their corporate strategy and operations.

"Leaders should cultivate the right behaviour as well as have the right knowledge and competency to be able to identify and determine if organisations are misleading their stakeholders," said Institute of Corporate Directors Malaysia president and CEO Michele Kythe Lim.

Companies can protect themselves through:

> Having the right culture and values. Building customer trust is key to long-term success.

The right behaviours should be determined within the organisation, especially in the reward and remuneration system.

In determining board and senior management remuneration, the

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Malaysian Code on Corporate Governance encourages organisations to consider the company's performance in managing material sustainability risks and opportunities.

> Ensuring sound governance. At every level, there should be the right checks and validation.

Starting with the board level and directors, they should have more than sufficient grasp of the business, topic or product and service to be able to ask the right questions and pursue the right course of action.

> Going beyond compliance. companies that take the initiative to go beyond box-ticking or mere compliance with regulations and rules, are those that stay ahead of the curve.

> Investing in people and enablers such as technology. The right people are required to effectively track, manage, operate and govern companies as well as product lines while staying competitive and ahead of regulatory requirements.

> Setting goals and targets. Malaysian public listed companies across financial institutions, energy, property development to technology sectors, have taken the lead in supporting the country's goal to be a carbon neutral nation.

The updated Sustainability Reporting Framework by Bursa Malaysia also encourages the provision of assurance (which instils confidence that what a company says about its performance has been subject to proper scrutiny), for sustainability disclosures.

Building capacity is important, so is raising awareness, as there is no simple, magical solution to resolve the related issues.

Institutional memory, a repository of information, should be put in place so that businesses, especially SMEs, are not constantly reinventing the wheel.

Enhanced reporting and disclosure is vital to allocators of capital – investors, lenders and insurers – to establish if capital should be directed to businesses that are part of the ecosystem of solutions towards net zero.

Regulators should mandate shadow pricing on carbon that puts a price on carbon, thus helping a company prioritise low-carbon investments.

The High-Level Commission on Carbon Prices, a World Bank initiative, recommends carbon prices of US$50-100 per tonne by 2030 to keep global warming below 2°C.

This will ensure that only businesses compatible with a low-emissions transition will survive and remain profitable, said Sunita.

More countries are putting a price on carbon through carbon taxes or emissions trading schemes, but emissions are still priced too cheaply.

In respect to greenwashing, organisations should find a balance between managing their sustainability goals while communicating on their transition plans or strategies.

A company that misleads its stakeholders to cash in on the growing demand for sustainable products and services risks, among other things, reputational loss, continued detrimental environmental and social impact, business continuity as well as the setting of negative precedents and wrong behaviours.

Regulators, stakeholders and organisations will need to come together, continue to elevate their knowledge on sustainability and ESG practices, and ensure that everyone is doing his part in driving a sustainable planet.