



ESG strategic  
management: Balancing  
stakeholder expectations  
with business strategy

MARIM International Conference 2024

16 July 2024



Building a better  
working world

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# Speaker



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EY Asia-Pacific Climate Change Advisory Leader

# Agenda for today

## 01. Why?

Why is integrating Environmental, Social and Governance (ESG) principles into strategies important?

## 02. Who?

Who are the key stakeholders with a high level of interests and influence?

## 03. How?

How to align with stakeholder expectations while driving sustainable business growth

## 04. What?

What is the future of ESG risk management?



**Why** is integrating  
Environmental, Social and  
Governance (ESG) principles  
into strategies important?



# ESG is capturing the undivided attention of the global community, prompting action on a global scale

## Growth of green finance

The green bond market hit the US\$2 trillion milestone at the end of Q3 2022, reaching US\$3.5 trillion in total issuance considering also social, sustainability, sustainable-linked and transition labelled bonds

## Managing human rights risks

e.g., European Union (EU)'s due diligence directive passed in Parliament in June 2023, requires companies to implement due diligence processes to address human rights issues in their operations and supply chains

Malaysia's National Action Plan aims to eliminate forced labour in Malaysia by 2030. In response to trade bans, Malaysian companies in the rubber glove and palm oil industries have committed to repay over US\$115.4 million recruitment fees to around 82,000 migrant workers

## ESG litigation surges

e.g., Large clothing company faces several legal suits for "Greenwashing" whereby they are accused of misleading claims about its "Conscious Choice" collection of clothing

## Updated sustainability standards and guidelines

to meet the rising ESG interests and demands of stakeholders. e.g., The Global Reporting Initiative (GRI) updates since 2020, International Sustainability Standards Board (ISSB) issued its inaugural standards International Financial Reporting Standards (IFRS) S1 and S2 in June 2023, Carbon Disclosure Project making 2023 reporting changes

## Legal rulings setting new precedents

e.g., The Dutch Court judgement handed to a large oil & gas (O&G) company, ordered the company to cut its overall emissions by 45% by 2030 after it lost a lawsuit challenging its climate inaction

## ↑ Increasing shareholder resolutions

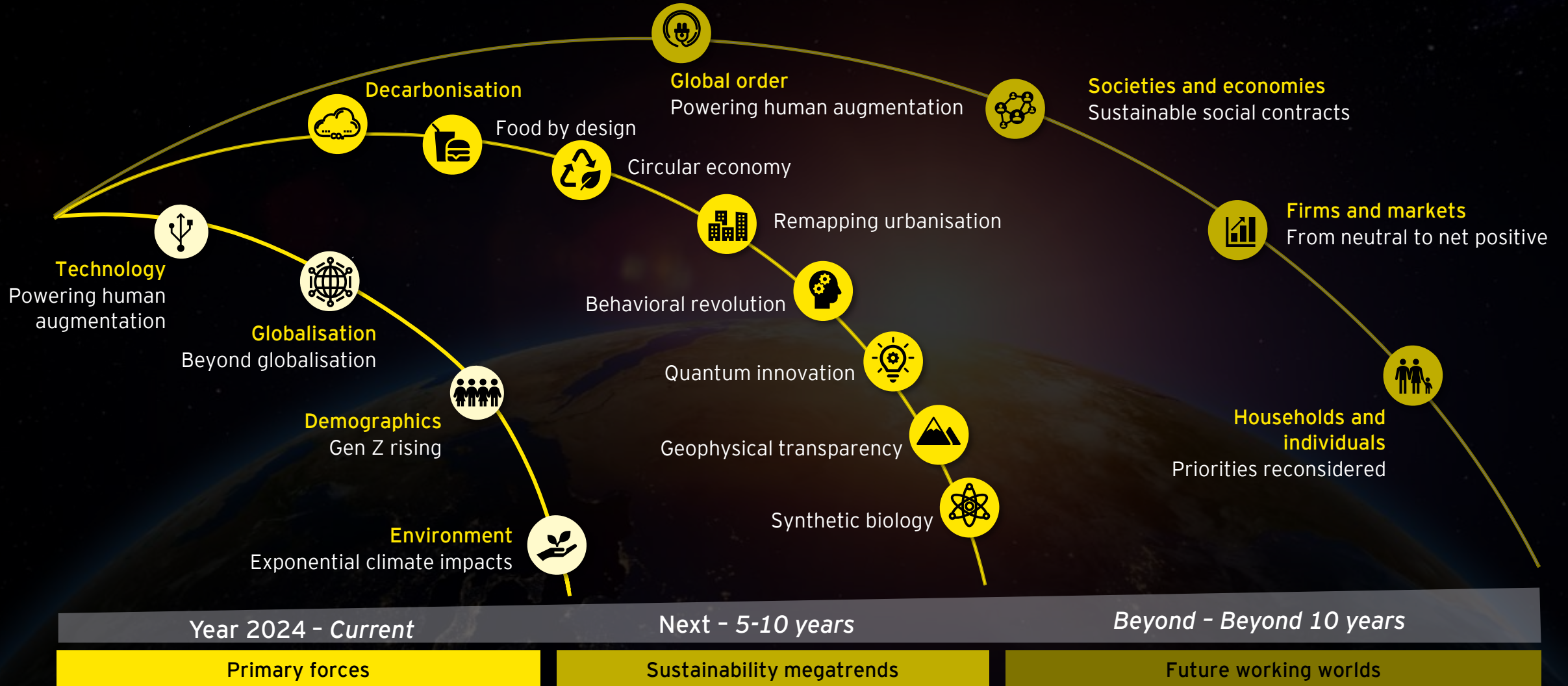
regarding environment and climate change (e.g., a large O&G company was urged to publish medium and long-term targets to reduce greenhouse gas (GHG) emissions)

## Workforce dynamics focus on diversity, equity and inclusion

e.g., Malaysia's stock exchange Board Diversity Policy Statement and Main Market Listing Requirements Paragraph 15.08A highlight having a mix of skills, independence and diversity (including gender diversity) to meet the needs of the listed issuer

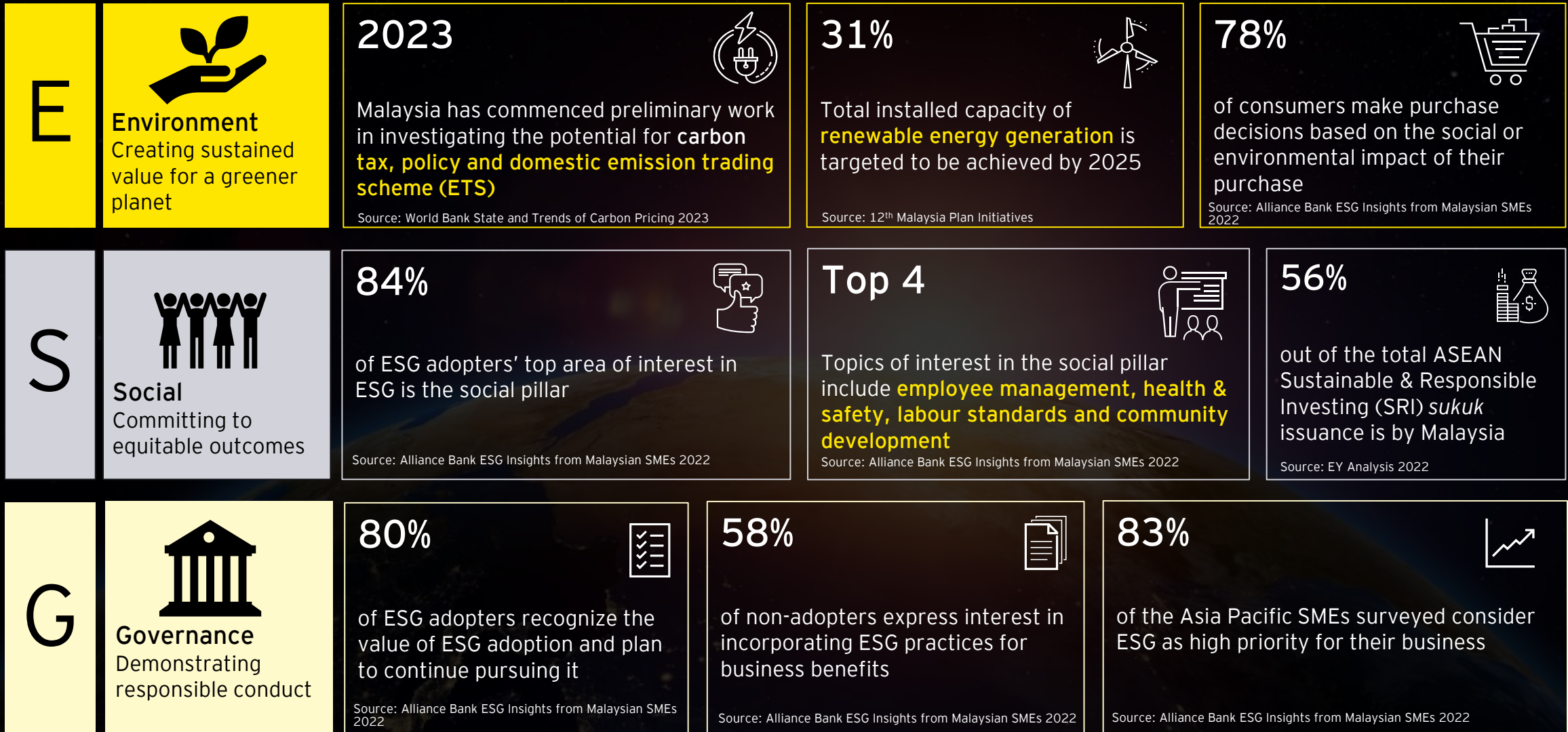


# ESG megatrends are shaping the rules in future working worlds and will impact all sectors and industries





# In Malaysia, ESG is gaining accelerated traction

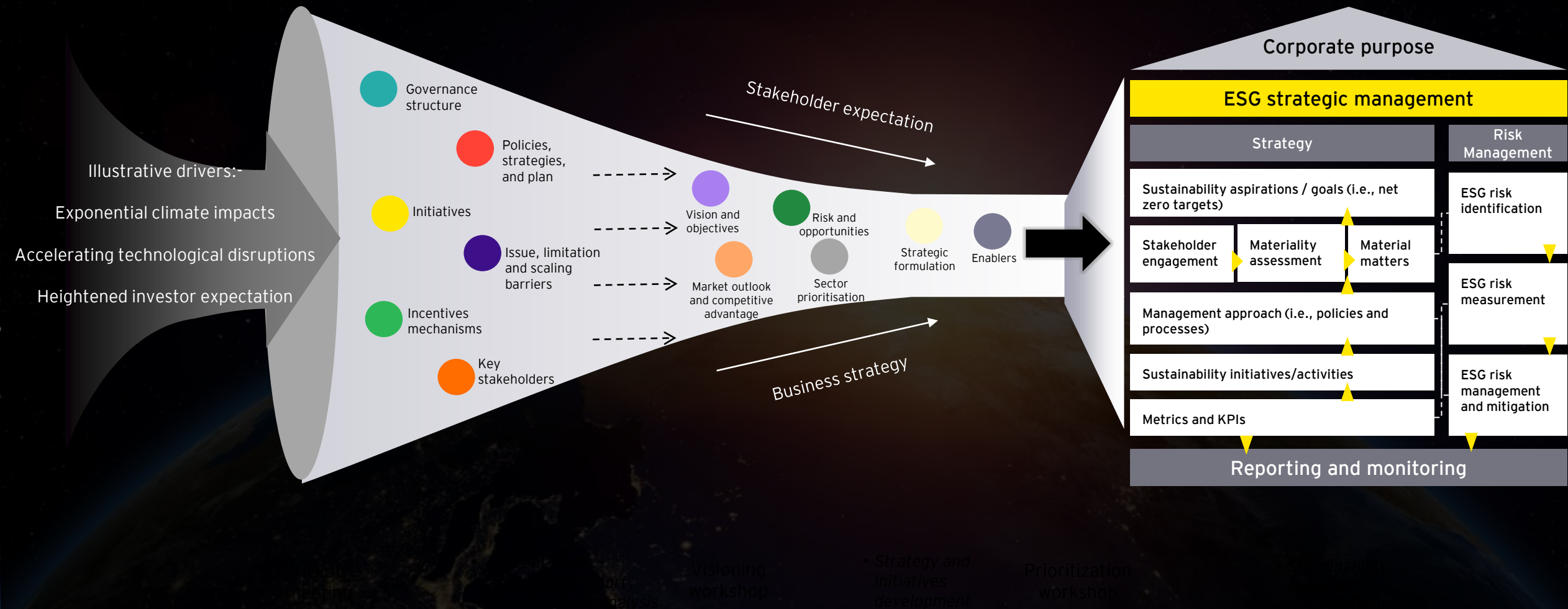



# Regulators have raised the bar for companies across all industries to adopt better sustainability practices





# To thrive in this new era, companies should embrace ESG strategic management as a business imperative





**Who** are the key stakeholders with a high level of interests and influence?



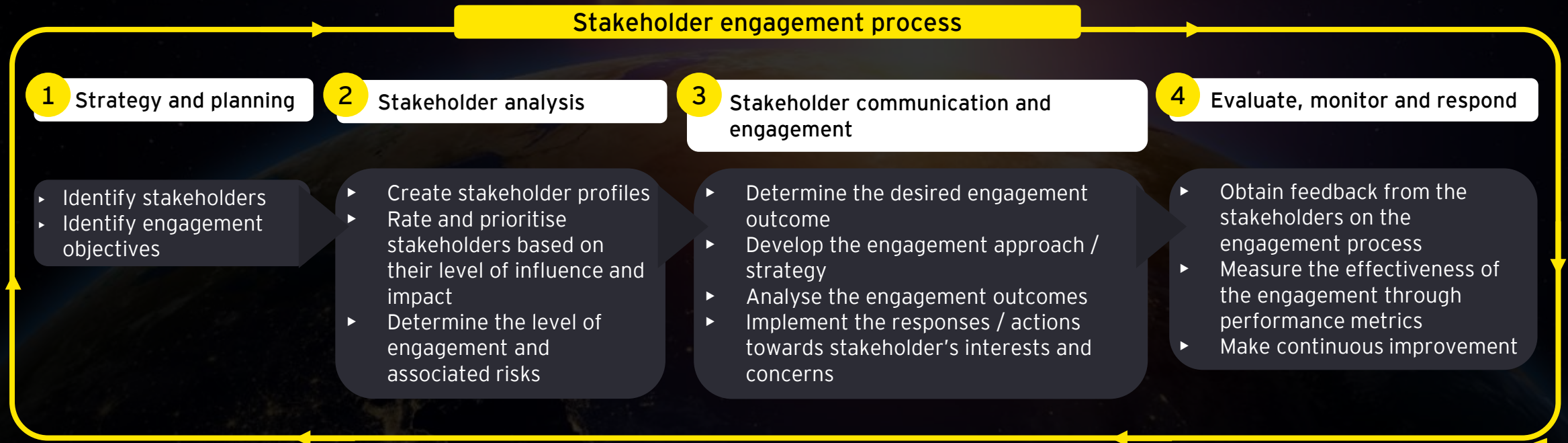
# Stakeholders play an important role in relation to an organisation's sustainability performance

“ A stakeholder is defined as an individual or group that has an interest that is affected or could be affected by an organisation's activities.

- GRI Universal Standard 2021 ”

Stakeholder engagement serves as a valuable tool to :

1. Identify the organisation's relevant stakeholders
2. Understand their needs and expectations in relation to the organisation's sustainability performance



# Identifying stakeholders is the first step to knowing a company's ESG ecosystem



- ✓ Knowing the ecosystem and how the company is viewed should be part of the board's oversight of strategic decision-making and communications.
- ✓ Identification of key stakeholders are usually conducted as part of a materiality assessment and the list is not exhaustive.

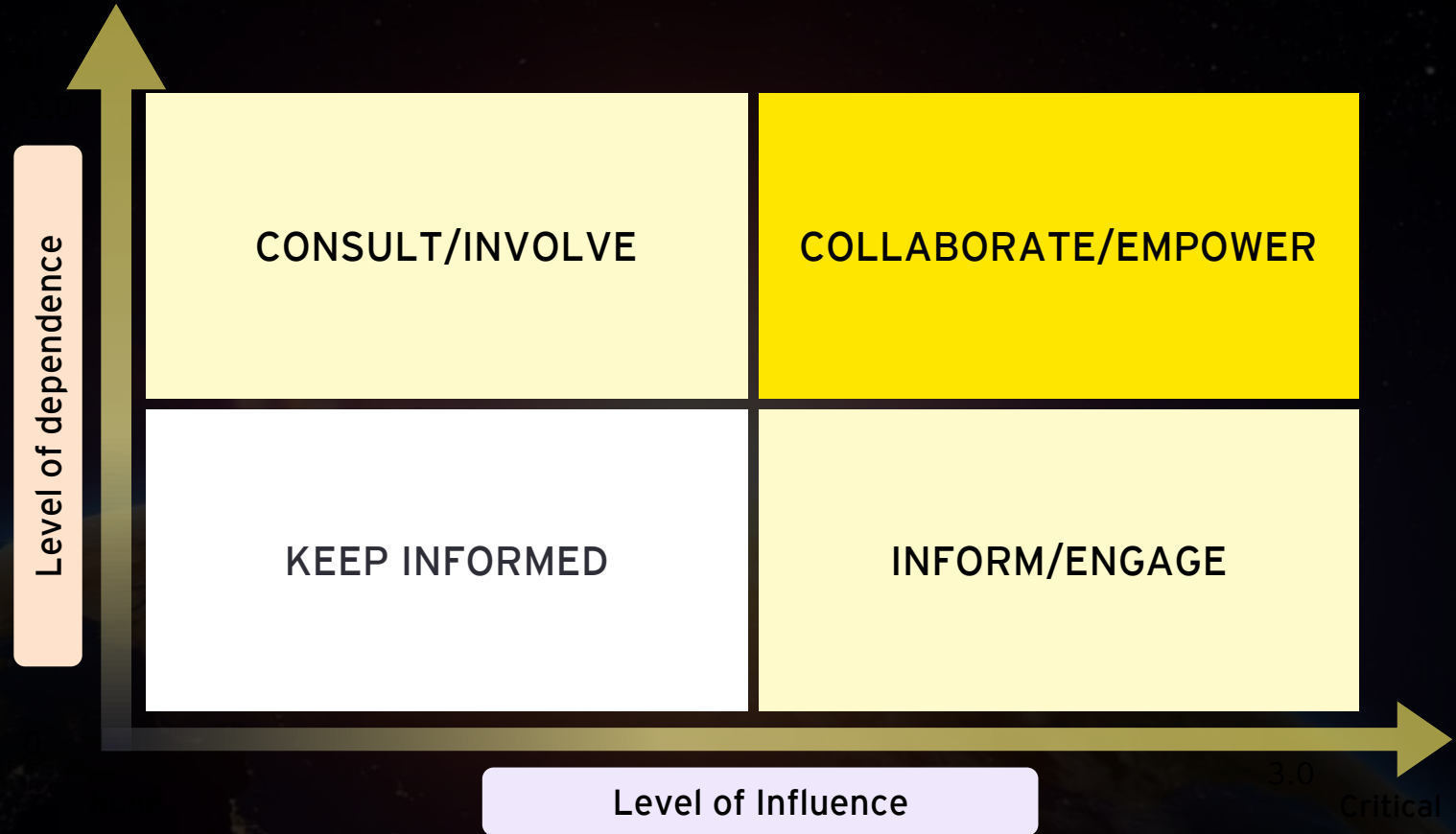


# Prioritising stakeholders' interests ensures the company makes the most meaningful impact

**3** Stakeholder has **high dependence on** and interests in the business

**2** Stakeholder has **moderate dependence on** and interests in the business

**1** Stakeholder has **low dependence on** and is neutral on the **business**



**1** Stakeholder has **limited influence on** the business and its sustainability matters

**2** Stakeholder has **moderate influence on** the business and its sustainability matters. His or her view is key

**3** Stakeholder has **significant influence on** the business and its sustainability matters

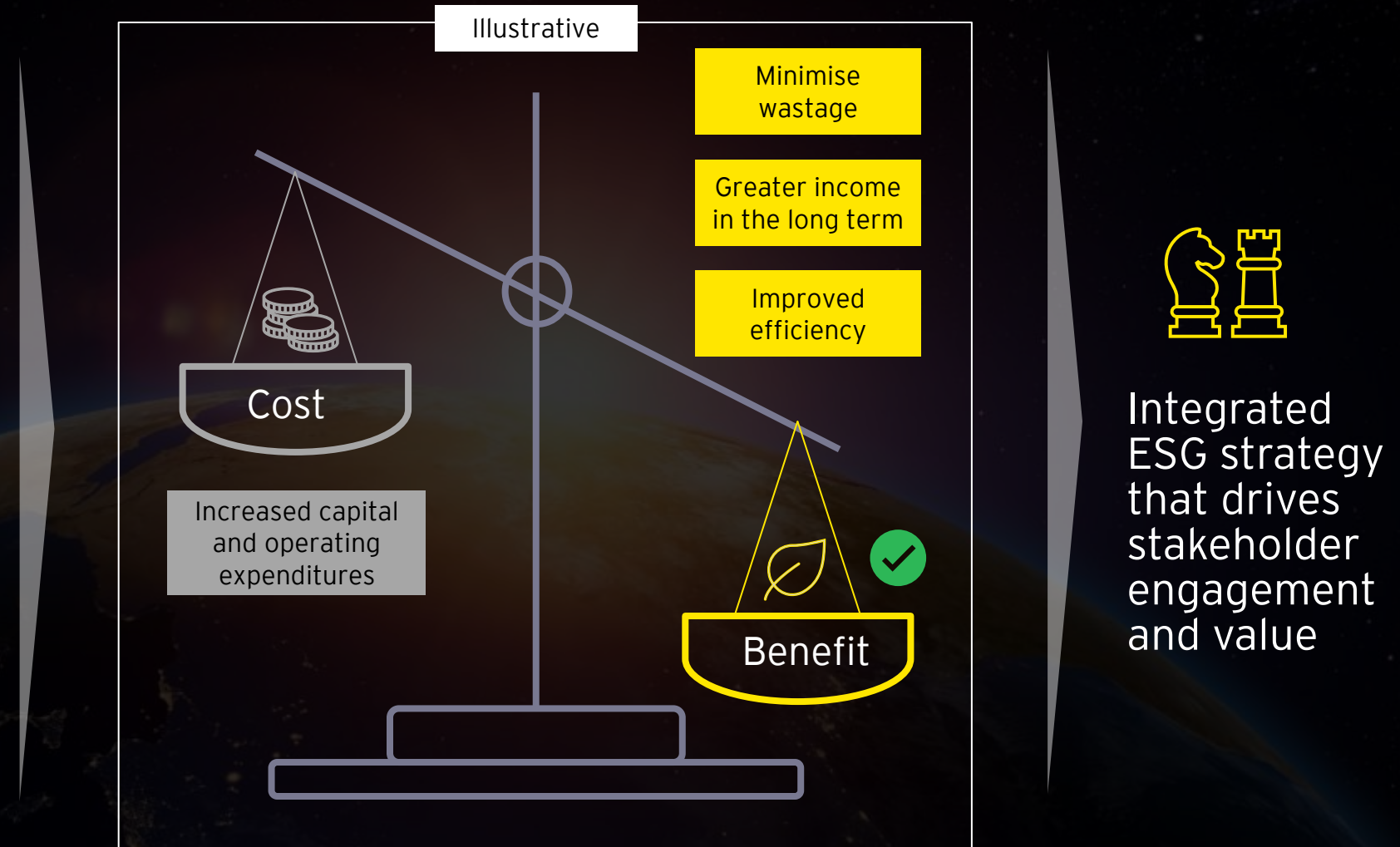
# 3

**How** to align with stakeholder expectations while driving sustainable business growth



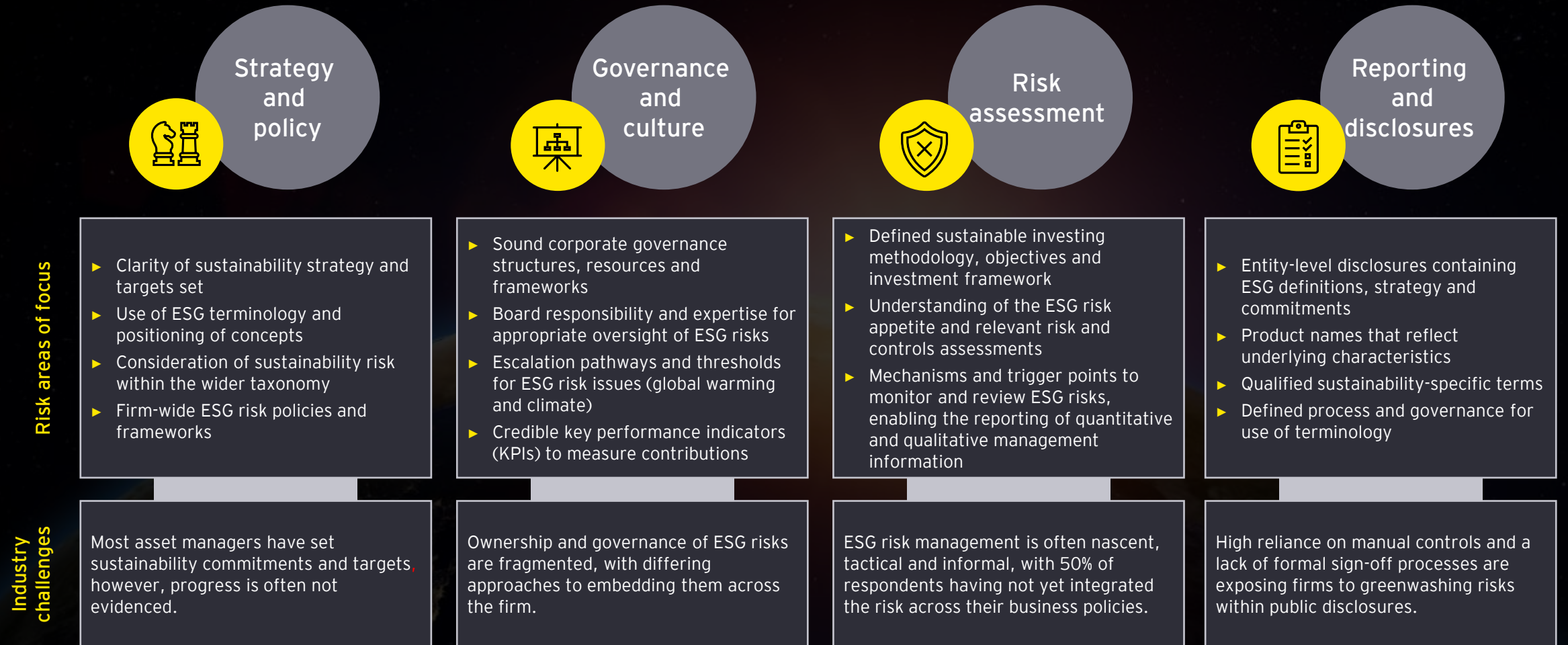
# Applying cost-benefit analysis help companies to balance stakeholder expectations with the business strategy

Stakeholder	Expectations
Shareholders	<ul style="list-style-type: none"> <li>▶ High return on investment</li> <li>▶ Transparent ESG governance structures</li> <li>▶ Alignment to regulatory frameworks</li> </ul>
Employees	<ul style="list-style-type: none"> <li>▶ Workforce diversity</li> <li>▶ Job mobility</li> <li>▶ Health and safety</li> </ul>
Customers	<ul style="list-style-type: none"> <li>▶ Affordable goods</li> <li>▶ High quality products</li> <li>▶ Meaningful business purpose</li> <li>▶ Sustainable products, practices and sourcing across the value chain</li> <li>▶ Innovative products/solutions</li> </ul>
Suppliers	<ul style="list-style-type: none"> <li>▶ Ethical business practices</li> <li>▶ Human rights</li> <li>▶ Competitive pricing</li> </ul>
Communities	<ul style="list-style-type: none"> <li>▶ Job creation and stability</li> <li>▶ Protection of natural capital and resources</li> </ul>



# Setting the tone to manage ESG risks effectively (1/2)

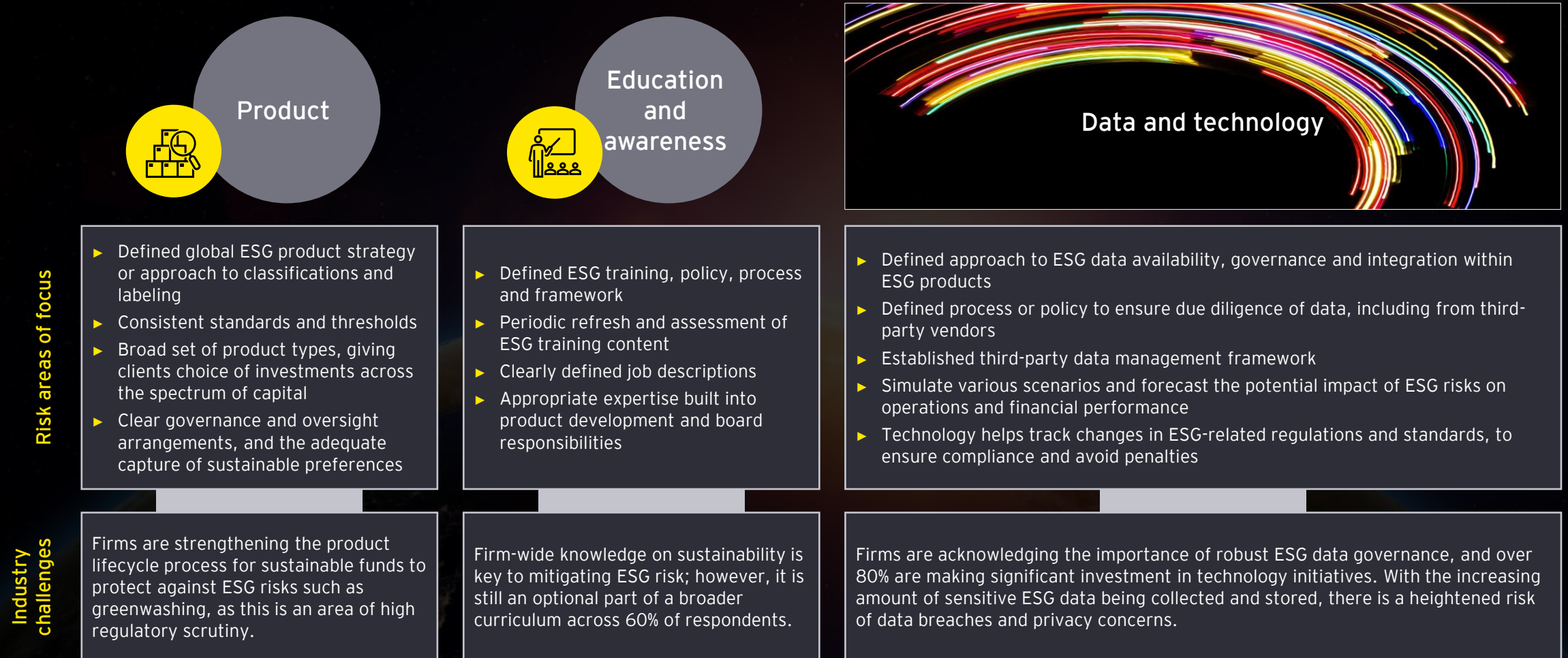
ESG risks can manifest in multiple ways across the operating model and value chain. The table below illustrates where these risks are prevalent at a high-level overview and the challenges the wider industry is experiencing in trying to manage ESG risks.





# Setting the tone to manage ESG risks effectively (2/2)

ESG risks can manifest in multiple ways across the operating model and value chain. The table below illustrates where these risks are prevalent at a more detailed level and the challenges the wider industry is experiencing in trying to manage ESG risks.



# Critical success factors for managing ESG risks (1/2)



## Embedding ESG risks within the existing risk management framework

- ▶ Formalizing the **definition** of different types of ESG risks (including the greenwashing risk) and gaining broad agreement across the firm
- ▶ Integrating ESG into the wider **risk taxonomy**
- ▶ Setting a specific ESG **risk appetite statement** and establishing management information reporting processes



## Defining clear ownership and accountabilities for ESG risk management across all lines of defence

- ▶ Establishing a **clear governance framework** for ESG risks
- ▶ Defining **ownership** based on how ESG is considered within the risk taxonomy, and determine the **accountabilities** at both the individual and committee levels
- ▶ Including ESG risk management in senior management **scorecards**



## Defining key sustainability terminology and classification methodology for products

- ▶ Defining and embedding key ESG and sustainability terms
- ▶ Mapping sustainable investment definitions to local regulatory regimes
- ▶ Building **robust controls and processes** around internal and regulatory definitions



# Critical success factors for managing ESG risks (2/2)



## Establishing minimum ESG and sustainability knowledge levels across the firm

- ▶ Incorporating ESG and sustainability training into core **mandatory training** for all employees, including the development of specific greenwashing risk modules
- ▶ Designing **role-specific training** for employees and functions that have higher exposure to greenwashing risk, and for board and executive committee members
- ▶ Embedding of **sustainability subject matter resources (SMRs) across business** functions



## Developing a robust governance framework for sustainable investment products

- ▶ Implementing **ESG controls** to manage risk in product and marketing processes
- ▶ Including **ESG and sustainability metrics** within the ongoing monitoring process of products
- ▶ Developing **regulatory horizon scanning** processes to ensure continued understanding of new and emerging regulation



## Establishing a sustainability risk program for a structured approach to mitigation

- ▶ Developing a **top-down approach** to ESG risk mitigation, including the holistic identification of the key drivers of greenwashing
- ▶ Establishing a **formal program and prioritized action plan**
- ▶ **Publishing an approach** to managing the various strands of ESG risks

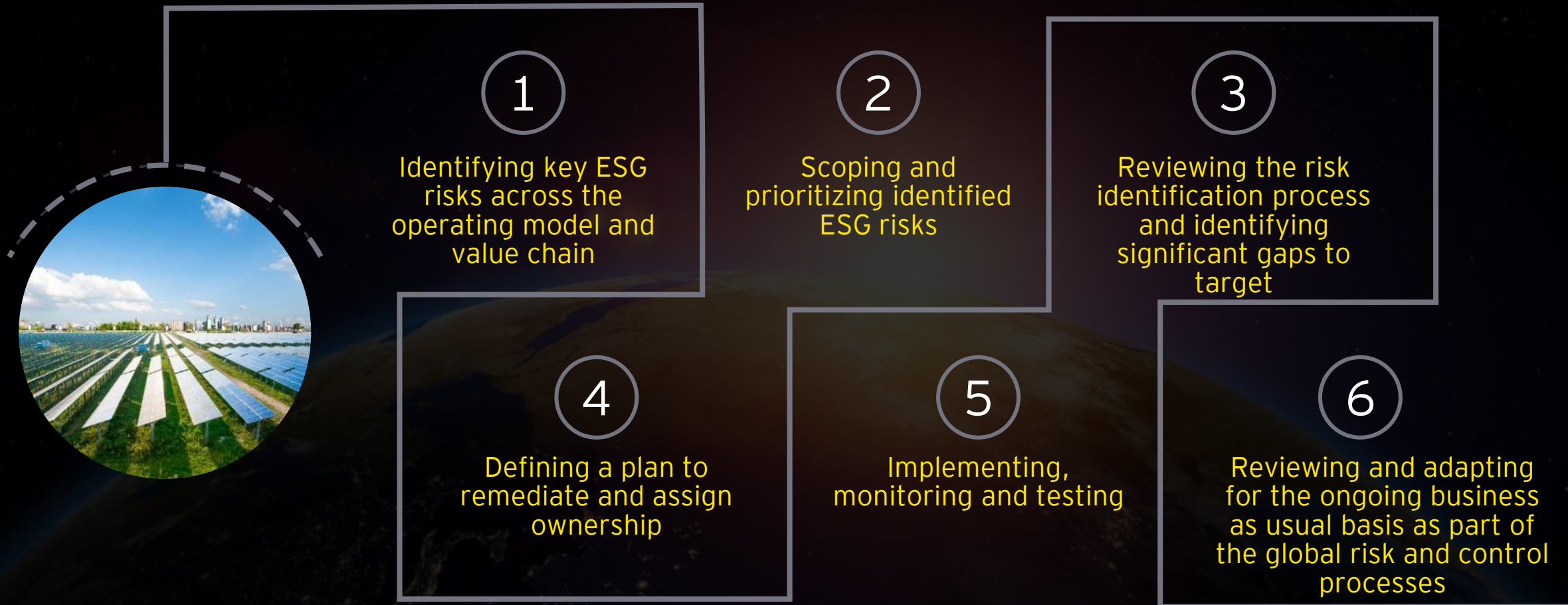
# 4

What is the future of ESG risk management?



# ESG cultivates a new paradigm in risk management

ESG risks should be managed in a similar manner to non-ESG risks presented to the wider firm. A clear and structured approach is required to effectively manage such risks, such as:



# Businesses must take the lead on ESG risk management



ESG risks

- ▶ ESG risks refer to a firm's environmental, social and governance factors that could create a bad reputation, such as by greenwashing or harming the firm financially.
- ▶ ESG risk is a regular business risk, and ESG risk management should be part of a firm's global standard risk reduction processes, with regional nuance where relevant.
- ▶ Greenwashing is a key example of an ESG risk that firms need to manage.

**ESG risks are complex and can arise in different ways – it is important to have the following pillars in mind when managing ESG risks at the firm, client and product level.**



Firm level

Occurs when a firm makes public sustainability commitments and doesn't act consistently with them or misstates actions to meet them



Client level

Failures in client-related communications



Product level

Failures in product design and investment considerations

Strategy



Policy



Governance and culture



Risk assessment



Product



Education and awareness



Reporting and disclosures



Data and technology



# ESG risk mitigation with Generative Artificial Intelligence (Gen AI)



Gen AI can create realistic but anonymised ESG data sets for AI training models and testing scenarios. This allows for more robust analysis without privacy concerns.



Gen AI models can analyse text and data to identify inconsistencies and potential greenwashing attempts in company ESG reports.



**Automating data processing**

**Generating synthetic data**

**Standardization and reporting tools**

**Identifying greenwashing**

**Predictive risk assessment**

Gen AI can automate data collection from various sources, cleaning and structuring it for efficient analysis. This saves time and resources while improving data quality.



Gen AI can be used to develop tools that help companies standardise their ESG reporting formats, ensuring consistency and facilitating comparisons.



Gen AI can analyze historical data and emerging trends to predict potential ESG risks a company might face, allowing for proactive mitigation strategies.

# Key takeaways

ESG risks manifest in various different ways across the operating model and value chain.



Firms must navigate multiple regulatory frameworks and principles, consolidating regulatory expectations that help manage ESG risks.



The key to managing ESG risks across firms is to adopt a global, holistic approach similar to the management of other risks.



Common themes are emerging from an ESG risk management lens, including greenwashing and climate risk.





# Q & A



Thank you!



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