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ESG issues have leapt even more to the forefront, as a signpost of a resilient business. — AFP photo

ESG still a minefield, say analysts

AS can be seen, how a business manages financial and non-financial risks has become increasingly important in the decisions made by investors.

According to an analysis by RHB Research Institute Sdn Bhd (RHB Research), an organisation's ESG practices provide an increasingly vital metric for where they should park their funds.

"The Covid-19 pandemic has taught investors that, no matter how foreseeable a risk may be, the impact an event has on society and businesses hinges on the ability to plan for significant disruptions and changes in the operating environment," it said in its ESG report.

"ESG issues have, therefore, leapt even more to the forefront, as a signpost of a resilient business. This is why many institutional investors are now building ESG portfolios, and forming their own in-house ESG methodologies."

While corporate Malaysia has made some progress on the governance front, the environmental and social elements have impacted stock prices the most.

The plantations, oil and gas and energy sectors have come under the environmental spotlight in recent years.

More recently, shortfalls in the social pillar have been

detrimental to EMS, gloves, and plantation companies, not just from a share performance perspective, but has involved the affected company losing sizeable and material contracts, in addition to damage to management's reputation.

"Social pillar issues have typically involved matters concerning the treatment of their workforce and migrant workers in particular. Unfortunately, the domestic labour shortages and high reliance on large numbers of relatively low-skilled workers by many economically important sectors makes the social pillar a minefield for the affected corporates.

"The government may ultimately have to step to implement a holistic and comprehensive reform of migrant worker supply – from sourcing to housing, remuneration, working hours, overtime, repatriation and so on," it said.

In the longer term, to minimise dependence on manual labour, Malaysia needs to move further up the value chain to increase participation in higher tech industries involving the use of more automation and robotics.

Accordingly, RHB Research said investors need to perform stringent screening to avoid companies that may present ESG risks.