Ethical Challenges in ESG Reporting: Comparing Malaysia, Thailand, and Indonesia

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Introduction to ESG Reporting

Environmental, social, and governance (ESG) is increasingly important in modern business as it reflects a company's commitment to sustainability and social responsibility. ESG is an important framework that assists stakeholders in understanding how companies manage their risks and opportunities related to ESG criteria as shown in Figure 1. ESG issues have attracted widespread attention from the practical and academic communities (Li et al., 2021)and companies have disclosed various kinds of ESG reporting to satisfy the stakeholders' expectations (Lokuwaduge & Heenetigala, 2017).

Environmental Your impact on the world	Social Your contribution to your communities	Governance How you conduct yourself
✓ Climate change	✓ Working conditions, including slavery and child labour	✓ Executive pay
✓ Greenhouse gas (GHG) emissions	✓ Impact on local communities	✓ Bribery and corruption
✓ Natural resource depletion	✓ Conflict regions	✓ Political lobbying and donations
✓ Waste and pollution	✓ Health and safety	✓ Board diversity and structure
✓ Deforestation	✓ Employee's relations and diversity	✓ Tax strategy
✓ Hazardous materials	✓ Employee benefits	✓ Data breaches
✓ Biodiversity	✓ Product mis-selling	✓ Shareholders rights
✓ Recycling processes	✓ Data protection	
	✓ Human rights	

Figure 1: ESG Criteria
Source: KPMG, 2020

ESG reporting refers to the provision of information about a company's ESG practices to stakeholders such as investors, consumers, and the general public. ESG reporting has become an important aspect of corporate management around the world, including in Malaysia, Thailand, and Indonesia. However, there are several ethical challenges faced in ESG reporting that can affect the integrity and effectiveness of this reporting. One of the main ethical challenges in ESG reporting is the practice of misleading of ESG information by the companies known as greenwashing.

What Is Greenwashing?

The term “greenwashing” was first used in 1986 by Jay Westerveld, in his essay whereby he is criticizing the hotel industry for encouraging guests to reuse towels in an effort to save water, while no action is actually taken by the hotels to reduce their environmental impact (Seele & Gatti, 2017). Greenwashing refers to the act of companies giving a false or misleading impression of their commitment to sustainability and green practices to portray positive environmental performance (Yu et al., 2020). Common tactic of greenwashing includes the use of labels or advertisements that emphasize the 'green' aspects of a product or service without strong evidence. For instance, products such as refrigerators that claim to have an "Energy Star" label but do not meet the energy efficiency criteria they should (Delmas & Burbano, 2011). The issue of greenwashing is important because it can undermine consumer and investor confidence, as well as reduce the positive impact of real sustainability initiatives (Santos et al., 2024).

Greenwashing practice in Malaysia, Thailand and Indonesia

Malaysia

In Malaysia, ESG reporting is getting more attention from large companies. However, the practice of green washing is a big challenge in this country. There are several cases where companies promote green initiatives that do not actually exist or are exaggerated. For instance, the Malaysian palm oil industry relies on marketing tactics that mislead the public about its environmental performance rather than genuinely pursuing greener practices (Flinders, 2008).

Thailand

In Thailand, ESG reporting is also gaining attention, but greenwashing remains a major issue. For example, Thailand government’s Forest Reclamation Policy which aims to reclaim forest land but has been accused for greenwashing. The policy has been criticized for it disproportionately affects poor communities by displacing them, while simultaneously permitting large commercial companies to engage in deforestation within protected regions. This led to more deforestation and environmental harm (Manushya Foundation, 2022).

Indonesia

Indonesia also faces major challenges in ESG reporting with greenwashing being a prominent issue. There are companies that promote green practices but do not actually practice them comprehensively. The phenomenon of greenwashing has been found in several cases in Indonesia, for example the practice of greenwashing by drinking water companies as a tourism requirement that claims to be environmentally friendly but does not match the facts on the ground. This can hinder the development and sustainability of Indonesian tourism (Wailmi et al., 2024). Another case associated to leading entities in the wood pulp sector, such as the Royal Golden Eagle Group (RGE) and Asia Pacific Resources International Limited (APRIL), in which involved in manufacturing products like paper and rayon from logged forests, leading to environmental degradation. In June 2015, RGE announced an initiative to eliminate deforestation across its operations. However, investigative reports and data analytics reveal that the deforestation practices persist. Evidence shows that RGE, along with APRIL, continues to procure materials from deforested regions in Indonesia, breaching their own anti-deforestation policies (Rainforest Action Network, 2024).

Factors that contribute to the practice of greenwashing in Malaysia, Thailand, and Indonesia

1. Pressure from Investors and Shareholders

The pressure to show good ESG performance to investors and shareholders also prompts companies in all three countries to take shortcuts through greenwashing practices (Kim et al., 2023). Investors who are increasingly aware of ESG require companies to appear committed to sustainability, even if such commitments do not actually exist.

2. Lack of Uniform Reporting Standards

The non-uniformity in ESG reporting standards in these three countries also contributes to the practice of greenwashing. When companies do not have clear and uniform guidelines to follow, they may take the opportunity to pass on information that benefits them without adhering to strict standards. This causes non-uniformity in the quality and accuracy of ESG reports (Erol & Cankaya, 2023).

3. Reporting and Data Collection Challenges

Challenges in accurate ESG data collection and reporting also contribute to greenwashing. Companies may face difficulties in gathering relevant and reliable data on their sustainability practices. The absence of accurate and complete data can cause the company to make misleading or not completely true reports. The inability to accurately measure and report ESG performance is another factor contributing to greenwashing (Kim et al., 2023).

Recommendation and Conclusion

In conclusion, ethical challenges in ESG reporting are complex issues that require a tailored approach for each country. Efforts to tackle greenwashing need to be stepped up through several steps that can be taken by companies and regulators. These include introducing stricter guidelines, conducting regular ESG audits, and increasing education about sustainability among company management. Regional cooperation is also important to raise ESG standards and ensure best practices are followed by all companies in the region. For example, the European Union, Great Britain, the United States, Canada, and some Asia-Pacific countries, are actively developing and improving ESG disclosure frameworks for better practices by companies (Vorontsova et al., 2023). With these measures, it is hoped that the future of ESG reporting in these three countries will be more transparent and ethical.

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