
# ARE YOU MANAGING OR LEADING ESG? LESSONS FROM ASEAN

By **PIETER E. STEK**

THERE are two common misconceptions about ESG, the movement towards increasing firms' focus on sustainability, social responsibility and ethical governance.

First, that ESG is merely a compliance issue, and second, that it primarily concerns what happens within the firm.

A year-long research project undertaken by the Asia School of Business (ASB) and Maybank's ASEAN Research Center, covering ESG stakeholders across all 10 Asean member states, showed that ESG awareness is driving fundamental changes in many businesses.

The biggest opportunities and threats are largely found in the external environment of firms.

Many businesses in Malaysia perceive ESG as a threat. You only need to open your newsfeed to see how ESG regulations in Europe or the US are impacting Malaysian exports.

It seems even Asian neighbours, like China and Thailand, have caught the "ESGeebies."

Amid these external changes, a natural reflex is to try to regain control by looking inward: Buy solar panels! Post pictures of staff volunteering! Get new certifications!

*Stek: Asean region offers many examples of organisations that have seized new opportunities related to ESG.*

*Pieter E. Stek is the senior lecturer at the Asia School of Business.*

While such ESG performances may bring some benefits, they can also obscure the need to fundamentally rethink the business from an ESG perspective.

We don't have to look far for inspiration: our Asean region offers many examples of organisations that have seized new opportunities related to ESG.

While each of these situations is unique, they all involve rethinking the organisation's business model and building alliances with external stakeholders.

Starting close to home, we interviewed a Malaysian SME processing seafood.

Recognising the threat of overfishing to its ability to source raw materials, the company is now exploring farmed fish, developing a circular model, together with new partners, whereby fish and vegetables are farmed together.

In Indonesia, faced with rising fuel costs and air pollution, a South Korean start-up identified the potential to retrofit conventional motorcycles into electric bikes.

This process is cheaper and has a lower environmental impact than scrapping and producing new electric bikes.

In Thailand, a petroleum company is investing heavily in biofuel production.

It believes its rural customer base is better served by biofuels, and that biofuel production itself can help revitalise rural areas.

As an oil and gas importer, investment in biofuels also helps improve Thailand's balance of trade.

In Laos, solid waste management and wastewater treatment projects were combined to create a "bankable" waste processing initiative.

Improved waste collection created new opportunities for recycling (and employment) while also reducing the toxicity of sludge from water treatment plants, making it usable for agricultural purposes.

By adopting a more holistic and circular economy approach to waste management, a new funding model emerged.

Asean is still growing, and green buildings and infrastructure represent a major opportunity for incorporating ESG principles.

While Indonesia's new capital, Nusantara, has garnered much attention, to the west of Jakarta, a new 60sq km energy-efficient, low-waste and public-transit-oriented city is also taking shape.

Privately funded and with a target population of 450,000, the development is as much about ESG as it is about providing residents with a high quality of life, often lacking in heavily congested and polluted Jakarta.

Each of these examples demonstrates leadership, as businesses integrate ESG concepts into a compelling value proposition.

Concerns about overfishing lead to sustainable agriculture. Electric vehicles offer a solution to reducing transportation costs. Biofuels revitalise rural areas.

Recovery of materials and nutrients supports better waste management. Building a green transit-oriented city improves quality of life.

These examples also highlight the importance of policy support and stakeholder engagement.

Governments have a role to play in providing favourable regulation in areas such as construction, transportation and waste management.

Businesses leading in ESG are proactive in their outreach, whether to suppliers, clients, business partners or regulators.

Rather than solely managing their internal operations, they seek to influence and lead the broader business ecosystem in which they operate.

While the role of businesses is important, governments can also act as ESG entrepreneurs.

One of the largest but least discussed ESG policies in Asean is Indonesia's biofuel mandate.

Currently, Indonesia requires 35% palm oil-based biodiesel content for diesel sold in the country.

The country hopes to raise this mandate to 50% starting next year.

Its biofuels policy offers clear environmental benefits by promoting the use of renewable energy.

However, the policy also supports the livelihoods of Indonesian palm oil farmers and a thriving domestic biodiesel industry.

Biodiesel has also helped Indonesia manage its balance of trade by reducing diesel imports and stabilising palm oil prices, thus amplifying the policy's socio-economic benefits.

In summary, businesses and governments that focus solely on "managing" ESG with an internally-focused and compliance-driven approach risk being blind to deeper ESG opportunities and risks.

Leadership in ESG in Asean requires a clear understanding of an organisation's external environment and a re-evaluation of existing business models.

It requires developing new ideas and building coalitions to execute them successfully.

Whereas ESG management is focused on short-term goals and maintaining control, ESG leadership looks to the long-term, building coalitions and trust.

While managing ESG may seem like the safe and prudent option, what is truly needed is leadership.