Green Goals, Big Impact: ESG Reporting for OGSE SMEs

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Introduction

In March 2025, the Department of Statistics Malaysia (DOSM) in collaboration with Malaysia Petroleum Resources Corporation (MPRC), published the OGSE Census 2024 which surveyed 2,894 OGSE companies.

The census showed that only 357 OGSE companies (12.3%) reported on their sustainability practices in 2023.

Further to this, the census also showed that for Environmental, Social and Governance (ESG) reporting, most of the companies only tracked and disclosed their Social and Governance aspects. On the Environmental factors, the census showed that OGSE companies remained on 'awareness' mode and were not actively tracking this component of ESG.

With MPRC's latest OGSE100 publication for the financial year ended 2023 (FY2023) showing that 96 of the industry's top 100 companies by revenue producing sustainability reports, both the OGSE Census 2024 and OGSE100 FY2023 data show that the majority of OGSE companies that have not started their sustainability reporting are mainly Small and Medium-sized Enterprises (SMEs).

Government Lays Foundation For Corporate Sustainability

Since committing to a net zero future as a signatory to the Paris Agreement, in recent Malaysia years has accelerated the groundwork needed for the private sector to incorporate sustainability in support of the country's low carbon aspirations.

Policies such as the National Sustainability Reporting Framework (NSRF) by the Ministry of Finance, the Ministry of International Trade and Industry's (MITI) i-ESG Framework and Bursa Malaysia's Sustainability Reporting Requirements for all Public Listed Companies have been introduced and disseminated to raise awareness for sustainability reporting and disclosure.

The impending *Rang Undang-Undang Perubahan Iklim* (RUUPIN) and the launch of the Nationally Determined Contribution Roadmap and Action Plan (NDC RAP) and Long-Term Low Emissions Development Strategies (LT-LEDS) by the Ministry of Natural Resources and Environmental Sustainability (NRES) in May this year further complete Malaysia's sustainability regulations.

In addition, various guides and financial assistance are also available to assist companies, such as Capital Market Malaysia's Simplified ESG Disclosure Guide (SEDG) and SME Corp's PKSLestari.

The Government has also announced a tax deduction for ESG expenses starting in the 2024 assessment year.

Getting OGSE On Board With Sustainability

For the OGSE industry specifically, MPRC has promoted sustainability adoption amongst OGSE companies since the introduction of its National OGSE Sustainability programme in 2023.

The programme is made up of a trilogy of documents and accompanying initiatives aimed at supporting OGSE companies in adopting and reporting on sustainability practices, beginning with the National OGSE Sustainability Plans (NOS-P), National OGSE Sustainability Roadmap (NOS-R) and National OGSE Sustainability – Framework Guide (NOS-F Guide).

Further completing the OGSE sustainability ecosystem, in 2024 PETRONAS launched its PETRONAS Supplier Support Programme (PSSP), encouraging suppliers to sign up and get various assistance for their sustainability journey.

The stickiness of some companies however, especially amongst SMEs, to start their sustainability journey is not only within the OGSE industry but in most other sectors as well.

This article will examine companies' decision-making in starting their sustainability journey and the factors they should consider in making that decision.

The Great Sustainability Debate

Conversations about implementing sustainability to companies often spark a range of reactions, depending on the audience and context. On one hand, there are those who are passionate about sustainability and actively seek ways to contribute such as highlighting practical solutions and the positive impacts from the various sustainability practices.

On the other hand, there are those who question the feasibility of sustainability efforts, citing economic concerns or the challenge of balancing environmental goals with development. Sustainability discussions can sometimes feel overwhelming, especially when the focus is on alarming statistics, complex policies or the various reporting standards and their acronyms.

SMEs, meanwhile, have cited that they view sustainability as an unnecessary cost, or a barrier imposed by groups with a certain agenda, or a trend that will change over time.

Companies often use return-on-investment (ROI) analysis to guide sustainability decisions. Since sustainability efforts require resources, they typically choose initiatives that offer the strongest business case. In some cases, firms delay adopting environmentally friendly assets if the ROI is lower than that of conventional options.

Alternatively, some companies treat sustainability as a strategic communication tool, prioritising the perception of their stakeholders. This approach risks "greenwashing," where companies falsely portray their products or operations as eco-friendly.

While both strategies have its pros and cons, it's vital to view sustainability as a long-term value embedded in company culture — not a passing trend.

Companies also need to start recognising sustainability as a key factor in their customers' decision-making. It has become widely recognised that implementing sustainability is no longer an option but a strategic imperative.

As sustainability reporting becomes more prevalent, its principles will be increasingly integrated into daily operations, much like financial metrics and KPIs. Companies that embrace the sustainability challenge will usually start with the right approach to implement sustainability and get the best value from it.

Integrating ESG and Sustainability Reporting

Sustainability and ESG reporting, while often used interchangeably, serve distinct yet complementary roles. Sustainability is principle-driven, rooted in long-term goals such as the UN Sustainable Development Goals (SDGs), and emphasises a holistic approach to preserving resources, protecting the environment and promoting social equity. It calls for a transformation of corporate values and operations beyond profit.

ESG reporting, on the other hand, is metric-driven. It provides a structured framework for measuring and disclosing environmental, social and governance performance. These metrics enable transparency, comparability and accountability, especially for investors and regulators.

Challenges arise when ESG reporting becomes a superficial compliance exercise, overshadowing the deeper ethos of sustainability. Companies must ensure that ESG metrics reflect genuine sustainability efforts, not just marketing or image management. Misuse of ESG for promotional purposes—commonly referred to as greenwashing or social washing—can lead to ethical, financial and reputational risks.

Effective sustainability communication requires authenticity, transparency and alignment with core values. Reports should candidly reflect both achievements and challenges.

Additionally, companies must be sensitive to cultural contexts, especially in non-Western regions where ESG standards may be perceived as externally imposed.

Ultimately, sustainability provides the vision for a company and ESG reporting offers the tools to realise it. When integrated meaningfully, sustainability and ESG reporting empower businesses to lead with purpose, foster innovation and create lasting value for stakeholders and society.

ESG Reporting Challenges

Despite its strategic imperative, ESG reporting faces several challenges that affect its credibility, consistency and effectiveness.

Amongst these challenges are that there is currently still no standard ESG reporting framework for companies to use.

Companies can choose a variety of frameworks and standards (for example, Global Reporting Initiative Standards (GRI Standards), Sustainability Accounting Standards Board (SASB), Task Force on Climate-related Financial Disclosures (TCFD), International Sustainability Standards Boad (ISSB), among others), resulting in inconsistent disclosures and difficulties in comparing ESG performance between companies. Furthermore, some of the ESG metrics from these frameworks are qualitative and difficult to quantify (for example, “corporate culture,” “good governance,” or “community impact”).

Going forward, Malaysia’s National Sustainability Reporting Framework (NSRF) will adopt the IFRS S1 and IFRS S2 standards developed by the ISSB, an organisation established to create globally consistent guidelines for sustainability-related financial disclosures.

Another challenge is that ESG report requires companies to commit additional resources to data collection, monitoring, analysis and as an added option, assurances without immediately visible benefits. The decision to commit these resources is difficult to justify especially for

SMEs, which generally face resource constraints compared to larger companies, and addressing them will require a mix of strategy, operational and technological solutions.

For example, installing solar panels can be costly and often offers a low return on investment (ROI). However, solar power providers other important benefits beyond reducing energy costs. These include lowering carbon emissions, decreasing reliance on energy providers, improving brand reputation and potentially increasing property value.

Having an effective communication strategy especially in managing stakeholder expectations is also a challenge, especially in communicating a clear link between ESG reporting and financial performance in the short term.

As an example, in 2020, the UK oil and gas company, BP Plc, positioned itself as a climate leader by announcing that they aim to be a net zero company by 2050 through various activities such pledging to cut oil production by 25% by 2030, reducing Scope 3 emissions and investing heavily in renewables, bioenergy, and EV infrastructure. However, in 2025, BP scaled back these ambitions after reporting a dramatic drop in profits, from $15.2 billion in 2023 to just $381 million in 2024.

The BP example highlights the challenge faced by decision-makers in implementing ESG reporting when they are using traditional financial performance reporting. In most cases, the pressure to realise short term gains will almost always take precedence and can backtrack the original aim of reaching a sustainability goal.

To overcome the lack of clear links between ESG reporting and financial performance, companies must connect ESG efforts to core business outcomes, focus on materiality and communicate proactively with their financially oriented stakeholders.

Research by MSCI and Harvard Business Review suggest that ESG-integrated portfolios often match or outperform non-ESG portfolios over time. Firms with strong ESG practices show lower cost of capital, fewer controversies and higher employee productivity. Companies and its owners need to understand that incorporating ESG doesn't mean sacrificing returns. It's about smarter, more informed, long-term decision-making.

Without ESG	With ESG
Focuses on financial returns only	Balances financial return with sustainability and risk
May lead to unforeseen costs	Helps avoid long-term liabilities and build resilience

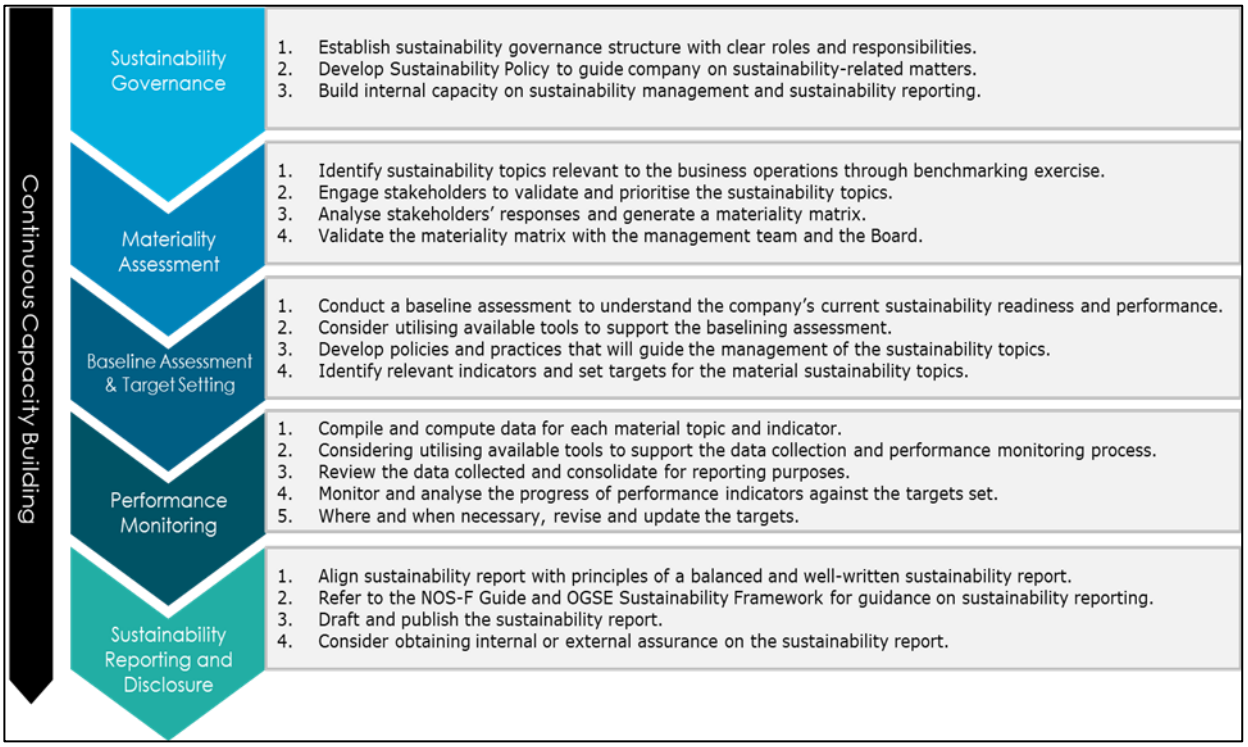
Guide for Companies to Start Their Sustainability Journey

Whether an SME or a PLC, the first decision for sustainability is to establish the sustainability governance structure.

For an SME, this usually means that the owner(s) or management must be clear on why they want to incorporate sustainability into their operations and to communicate this effectively to the whole company.

Once this is established, the next phases can be implemented without having the need for sustainability being questioned or the strategy being redeveloped.

There are various informative publications as well as consulting firms providing services to assist companies to start on their sustainability journey. In developing the National OGSE Sustainability programme, MPRC rigorously reviewed the best practices of various global and local sustainability reporting standards and worked together with the OGSE ecosystem to publish the National OGSE Sustainability Framework Guide (NOS-F Guide). This guide recommends the 5 phases of Sustainability Reporting as follows:



OGSE companies are welcome to download a copy of the guide from the MPRC website. MPRC will also conduct training programmes on NOS-F Guide from time to time. OGSE companies may also refer to the PSSP as an avenue for support on sustainability and ESG reporting.

As companies consider embarking on their sustainability journey, it may be useful to adopt the view that sustainability is not a cost centre, but rather a driver of innovation and resilience, with ESG reporting being the tool to achieve this goal. The journey from metrics to meaning is far from straightforward. But as the world faces urgent social and environmental challenges, it's a journey that businesses cannot afford to ignore.