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Do Some Sustainability Reporting Measures Enable ESG Greenwashing: A Case Study of Oil and Gas Industry in Malaysia

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Highlights: This case study analyze does the sustainability reporting measure enable ESG greenwashing for an oil and gas company in Malaysia. Based on relevant literature sourced from publicly accessible databases, assumptions for identifying occurrences of greenwashing have been categorized for analysis. This qualitative and exploratory study utilizes thematic analysis of company disclosures and information obtained from publicly available sources. The findings supported the hypothesis that there would be greenwashing in connection with sustainability reporting. The findings also showed that there is little influence of the independent report verification process in thwarting this possible practice. This study adopts an interdisciplinary approach, analyzing publicly available information from 2020 until recently and comparing it with the content of sustainability reports. The main finding shows that regardless of the determination of greenwashing in this particular case, there are elements within the company's sustainability reports that could be interpreted as greenwashing, Analyzing this information from different angles can improve comprehension of sustainability reporting and prompt consideration of the importance of ESG communication, underscoring the necessity for better disclosure of non-financial data.

Keywords: Sustainability Reporting, Greenwashing, Environmental Social Governance (ESG)

Introduction

Corporate sustainability refers to the impact of an organization's current actions on the future economic system, society, and natural environment, and its integration into a firm's strategic planning is crucial (Lozano, 2015). A PwC survey revealed that corporate Malaysia is in the early stages of educating about sustainability, with a low maturity in managing sustainability risk factors. The foundation of sustainability values lies in the respect for ecosystems (Environment), people (Social), and governance (ESG). Literature indicates that ecological degradation continues to adversely affect oil production. Sustainability workshops and programs in the oil and gas industry primarily enhance ecosystems, support a low-carbon economy, and improve living conditions in the region. Neglecting sustainability issues can be highly detrimental to society, potentially leading to environmental degradation and unexpected financial losses (Havas et al., 2023).

However, companies tend to exaggerate their ESG inputs, making ESG information disclosure a serious 'greenwash' (Zhang, 2022). This study characterizes "greenwashers" as companies that present themselves as transparent and extensively share ESG data but fall short in actual ESG performance. It delves into the phenomenon of greenwashing, particularly examining the

disclosure of sustainability reports. These reports often contain misleading environmental data, leading readers to believe the company is committed to social and environmental responsibility. First, good ESG performance helps firms to alleviate financing constraints (Guo et al., 2023), avoid risks (Capelli et al., 2023) and ultimately obtain value-enhancing benefits (Friede et al., 2015). Furthermore, the anticipated benefits of good ESG performance motivate firms to 'greenwash' their ESG disclosures. The potential positive impacts of strong ESG performance encourage companies to engage in 'greenwashing' their ESG reports. The positive effects of good ESG performance can be foreseen, motivating companies to ‘greenwash’ their ESG disclosures. Second, ESG reporting is still at the stage of voluntary disclosure, and there is a lack of clear guidelines on ESG disclosure. Additionally, the form of disclosure, quantitative indicators, and data calibre of ESG reports are not yet standardised, providing an opportunity for companies to ‘greenwash’ their ESG reports. Low-quality ESG information disclosure increases the cost of information processing for users and reduces the efficiency of social resource allocation. For example, the ‘greenwashing’ of corporate ESG information can disrupt the standard supply of green credit and investment, resulting in genuine green enterprises being unable to obtain financial support, which causes the ‘expulsion of good money by bad money’. The phenomenon of ‘bad money driving out good money’ can negatively impact the economy’s green development; therefore, it is imperative to curb the ‘greenwashing’ of corporate ESG reports and discuss the factors that influence such ‘greenwashing’.

Purpose/Background

Currently, the oil and gas industry are shifting its focus by adopting new models of sustainable and responsible production and business management. This is because decarbonization has become a key factor in ecosystem improvement; therefore, environmental policies in the oil sector represent a means of ensuring the optimal development of sector activities under rigorous international standards. Addressing environmental criteria is widely recognized among industry executives, with a focus on evaluating costs and climate risks. Collaboration in emissions reduction is an essential aspect in the field, as it ensures long-term competitiveness and also serves as a means of accessing investment funds.

The importance and value of these regulations are consensually recognized throughout the oil sector. According to investors and financial directors, ESG metrics and strategies will define guidelines for the next decade in the context of sustainable investments. The reason for this is that business models are based on companies’ proper performance with the environment and society so that they can be financed.

ESG criteria have become key issues for socially responsible investors. In addition to the financial results they generate, they can also be indicative of long-term success, given the value they provide to each of the operations carried out in the oil sector. This paper examines a Malaysian oil and gas company and aims to address the question: Does the sustainability reporting measures enable ESG greenwashing for an oil and gas company?

Methodology

This case is representative because the company’s ESG practices significantly affect the well-being of millions of people and have a substantial environmental impact. The Malaysian oil and gas industry is proposed as our research sample for several reasons. Firstly, oil and gas firms in Malaysia play a crucial role in the nation's economic development. Positioned at the crossroads of east-west shipping lanes and with strong economic ties to regional neighbours, Malaysia’s thriving oil and gas industry offers significant advantages and market opportunities. This sector

is a vital part of the country's economy, contributing about 20% to the annual GDP (Abd Aziz et al., 2024). Thus, Malaysia's oil and gas industry serves as a backbone and a core sector for the country's growth.

Secondly, the oil and gas industry are not only important but also one of the riskiest sectors (capital and labour-intensive, high risk, high reward) in the global economy (Cairns et al., 2008). Its operations have both positive and negative effects on triple bottom line performance, prompting stakeholders to incur superfluous risks (Shad & Lai, 2019). For example, the Gulf of Mexico oil spill in April 2010, caused by a failure of leadership and management at BP, was one of the most destructive oil spills in U.S. history. This incident significantly impacted local economies, businesses, sensitive coastlines, marine life, wildlife, and human communities, making it one of the biggest catastrophes in the history of the oil and gas industry.

The study involves a case analysis of a Malaysian oil and gas company, focusing on the research question: What elements in the company's corporate sustainability reports could be interpreted as greenwashing? Thematic analysis was employed to compare the company's annual sustainability reports, information published about the company in newspapers, and relevant legislation affecting its business to assess potential greenwashing in the reports (Braun & Clarke, 2012).

The thematic analysis facilitated the identification and codification of themes, providing a comprehensive understanding through the patterns selected in the company's published reports. These patterns enabled the identification of relationships between the topics and the research question (Braun & Clarke, 2012). Table 1 outlines the steps taken to develop the conceptual-theoretical framework and conduct the data analysis.

Table 1: Steps On The Data Analysis

Steps	Items
Case selection	Corporate sustainability reports
Literature review, building the conceptual theoretical framework	Definitions of greenwashing
	Requirements to assess greenwashing
	Accounting analyses and best practices of corporate sustainability reports
	Evaluation of corporate sustainability reports and greenwashing in the literature
Documentary research	Corporate sustainability reports
	Public statements from the company and stakeholders
	Environmental laws
	Information on court lawsuits related to the events explored in the case study
Content analysis	Provisory definition of themes
Codification	Based on information obtained from documentary research
Defining themes	Review and confirmation of outcomes from the previous steps
Written	Reflexive analysis of the selected themes

Findings/ Results

In 2021, one of Malaysia's national oil companies was placed on a watchlist for removal from JP Morgan's ESG Emerging Market Bond Index at the end of June. The US bank stated that the

state-owned company "is expected to exit the ESG suite at the June month-end rebalance" because its scores fell below the required threshold for inclusion. JP Morgan relies on third-party companies to assess the ESG scores necessary for index inclusion. Sustainalytics, one of these companies, noted that some of the company's or its affiliates' activities in "high-risk regions" could be seen as violating a United Nations arms embargo, according to a statement cited by Reuters. Public sources indicated that the low score was also due to "ongoing exposure to multiple incidents related to human rights" and "the ongoing political situation in Myanmar," where the military seized power in a coup on February 1, leading to significant unrest.

In June 2021, the company issued a media release stating that JP Morgan's decision did not accurately reflect their ongoing commitment to sustainable and responsible investing in line with ESG practices. Furthermore, in its 2021 Sustainability Report, the company highlighted that its human rights commitment standards and guidelines align with the United Nations Guiding Principles on Business and Human Rights, and that their Human Rights Assessment activities showed a 100% compliance rate in 2021. However, the report did not explicitly address the human rights incidents or how the company mitigated the situations.

Therefore, while it cannot be conclusively stated that there was greenwashing, it can be inferred that the report was imprecise or vague regarding the risks associated with legal obligations, financial operations, and the company's activities, which could be interpreted as greenwashing.

In different case in 2020, the company announced its Net Zero Carbon Emissions by 2050 Programme (NZSE), aimed at adopting a holistic approach to sustainability that balances ESG considerations. As part of this initiative, the company diversified its product portfolio in the third quarter of FY2020 to include the marketing of liquefied natural gas (LNG) as a cleaner fuel option via the virtual pipeline system (VPS). Additionally, it began marketing LNG to the marine industry through its first LNG Bunkering Vessel (LBV), which facilitates ship-to-ship transfers, a first in Southeast Asia.

However, Malaysia's Third Biennial Update Report to the United Nations Framework Convention on Climate Change (UNFCCC) highlighted that the country's oil and gas industry was responsible for 8.3% of national greenhouse gas emissions due to the company's venting, flaring, and fugitive emissions. Despite having the technical, engineering, regulatory, and financial capabilities to eliminate the 25.3 million metric tonnes (MMT) of carbon dioxide equivalent (CO2e) emissions per annum, the company is indirectly showing signal of using a greenwashing tactic to avoid accountability for its contribution to the climate crisis.

Recently, in 2023, the same company was reported for greenwashing advertisements by the UK's advertising regulator. Several newspaper, TV, and poster advertisements from the company were banned in the UK for promoting investments in renewable energy without mentioning the extent of the company's polluting activities. The UK Advertising Standards Authority (ASA) emphasized that businesses in high-emission sectors need to be cautious with environmental messaging. In this case, a TV commercial aired in September 2023 claimed the company was 'enriching lives for a sustainable future.' However, the ASA found that the advertisement failed to mention the company's significant carbon emissions and misleadingly suggested that the company was already having a positive environmental impact.

According to its Sustainability Report 2022, the company was responsible for 54 million tonnes of greenhouse gas emissions in that year alone. The company argued that the commercial

acknowledged its role in contributing to the problem and portrayed its commitment to a sustainable future. Nonetheless, the company was instructed not to air the advertisement again in the UK and to ensure future advertisements did not misleadingly omit material information. The statement that the company acted proactively towards reducing emissions might be considered exaggerated or irrelevant. Thus, such declarations in the sustainability report may be interpreted as greenwashing (Pagotto & Carvalho, 2020).

After illustrating specific instances within the report that could be perceived as greenwashing, it's important to note that none of the data presented in this study definitively confirms the company's engagement in greenwashing through its sustainability reports. The evidence is contentious, and there hasn't been a conclusive legal verdict to determine the extent of responsibility.

Conclusion/Discussion

The adoption of ESG criteria in oil and gas company, besides benefiting sector companies, presents significant advantages for the planet and communities near such facilities. Reducing environmental footprint, promoting fair and ethical labor practices, and embracing responsible business models are among the strategies that can contribute to a better future.

While the implementation of ESG criteria poses certain considerations, these should not hinder progress towards a more sustainable oil industry. Companies that effectively integrate these criteria will have higher standards, positioning them better in the market, ensuring long-term success, securing sector viability, and contributing to a greener and more equitable industry.

Therefore, the effective enforcement of stricter regulations faces challenges due to the ambiguity surrounding what constitutes environmentally friendly behavior and the uncertainty regarding the disclosure of corporate sustainability efforts. The case analysis revealed that the independent verification process of sustainability reports has limitations in detecting potential instances of greenwashing. Consequently, regardless of the determination of greenwashing in this particular case, there are elements within the company's sustainability reports that could be interpreted as greenwashing, suggesting that such practices may persist despite certification by independent agents who are unable to prevent them. This underscores the necessity for collaborative efforts between companies and government to establish a regulatory framework that ensures the adequate provision of information for societal awareness and informed decision-making within companies. Adopting a multi-stakeholder approach, prioritizing transparency and enhancing corporate environmental performance are essential. Hence, there is a clear imperative for incentivizing companies, through public policies, to disclose high-quality environmental information.

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