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The Influence of Environmental, Social and Governance Reporting on Firm Value: Malaysian Evidence

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Abstract

Companies are expected to be more proactive in offering accurate and useful knowledge to their stakeholders. Consequently, companies must integrate Environmental, Social and Governance (ESG) elements into their business behaviour while ensuring the corporation earns long-term sustainable financial returns. Nevertheless, minimal studies are being performed to investigate the implications of incorporating the ESG components directly in financial areas on the efficiency of companies. ESG reporting are indicators of non-financial performance which will assist to determine the financial performance of the company. Hence, this paper aims to identify the standard of transparency based on various regulatory criteria for information on ESG reporting while exploring its impact on the firm value of the company among public listed companies in Malaysia. A total of 65 companies are selected from Bursa Malaysia for the financial data from 2017 to 2019 inclusive. The results indicate that there is a relationship between environmental practices and governance practices on firm value but no relationship between social practices on firm value. This study also showed that there is an improvement in ESG practices among the public listed companies in Malaysia over the three-year period. This study sheds light in the understanding of ESG reporting in the future.

Keywords: Environment, Social and Governance (ESG), Environmental Practices, Information Disclosure, Social Practices

Introduction

Environmental, social, and governance (ESG) practises have risen colossally in the global data network over the years as industry has remained competitive. The majority of businesses, investors, and untapped sources of competition for ESG data are still primarily overlooked (Greenwald, 2010). Societies are affected by environmental activities. Therefore, companies should have a social responsibility for governance. The combination could enhance management practices to boost the performance of the company. Nevertheless, it remains unknown as to what degree does ESG activities affect the Malaysian firms (Tarmuji, Maelah

& Tarmuji, 2016). Hence, it is important to empirically investigate to what extent does ESG is substantially beneficial to the financial performance.

The analysis to be conducted in Malaysia has a reasonable justification. Malaysia is an emerging economy aimed to become a developed nation by 2030. As a result, Malaysia's government has continually urged firms to adopt good governance and place a sufficient emphasis on CSR issues, as well as environmental protection. Its main goal is to improve people's total quality of life, which includes health and safety, security, noise, and the environment.

However, prudent investment initiatives are funded by the government of Malaysia. In 2014, Bursa Malaysia and FTSE launch Good Bursa Malaysia (IF4GBM) as an indication for the ESG index. Due to the rapidly changing business environment, a variety of labels are used to characterise investments that include ESG issues, ranging from the more traditional socially responsible investing to the more current responsible investing and sustainable investing.

Price Waterhouse Cooper discovered a significant communication gap between corporations and investors when it came to environmental, social, and governance (ESG) data in 2016. Investing decisions needed to be backed up with standardised data. Many companies release ESG data in a haphazard and difficult-to-understand manner, making it tough for investors to understand. This disparity has persisted since then, and ESG's importance has expanded.

Lins, Servaes, and Tamayo (2017) focused on social capital, trust, and corporate success in the context of a financial crisis. Community, diversity, jobs, the environment, and human rights were all investigated as factors in corporate social responsibility's impact on business performance. The findings suggest that corporate social responsibility has a favourable impact on business results.

Furthermore, there have been a few research on the effects of ESG on firm performance, such as Atan et al (2016); Johari (2019); and Landi and Sciarelli (2019). Furthermore, research is more prevalent in other countries than in Malaysia, for example, Yoon, Lee, and Byun et al (2018) studies in Korea, Fatemi, Glaum, and Kaiser (2018) studies in the United States, Aboud, and Datta (2018) studies in Egypt. Therefore, this study comes out with the gap to the influence of ESG factors on firm value among public listed companies in Malaysia.

Based on the issues raised above, this paper investigates the impact of ESG reporting on firm value across Malaysian public listed companies. Furthermore, it examines the involvement of ESG reporting in Malaysian public listed companies.

Understanding ESG reporting may help firms to get more involved in ESG reporting in the future. The policymakers oversee monitoring and identifying the company's coverage. The study's findings offer insights on the scope of ESG reporting in Malaysia. Furthermore, it would serve as a new baseline for future studies and local research. Scholars will be able to gain new perspectives and ideas for their work in the field of ESG reporting.

The scholars will be aware of Malaysia's current ESG reporting trend. Academics will be able to benefit from the additional research framework that is being developed. As a result, the gap in ESG reporting is still being filled.

The following is a breakdown of the paper's structure. The literature study that follows focuses on the environmental, social, and governance actions that influence the firm's value. Following that, the study's research approach is explained. The findings are then reported, followed by a discussion and conclusion in this paper.

Literature Review

The environmental performance of a business demonstrates its commitment to reducing resource consumption and pollution. Human rights protection, job security, product obligations, and societal connections are all examples of social success.

Finally, the success of a company's corporate management demonstrates corporate management's rights and responsibilities. Despite the fact that ESG is a relatively new concept, there has been a lot of research into its relationship with the importance of organisation and operational efficiency (Han, Kim, & Yu, 2016). The ESG score may lack coherence and measurement criteria due to its non-financial attributes.

Due to self-reports or own surveys has intrinsic bias associated with self-reports or generational biases. Even with quantified data, comparing CSR output between peers and over time is difficult (Bassen & Kovacs, 2008). The ESG is more comprehensive, and it is used to evaluate corporate management expertise in non-financial environmental, social, and corporate governance outcomes, as well as to promote risk management (Galbreath, 2013). ESG knowledge is essential for management purposes. Managers require detailed and up-to-date information on their global operations. Consequently, management should react according to their strategic plans, recognise and discuss significant changes to analyst forecasts proactively.

At this point in 2010, Greenwald claimed that analysts' forecasts were more plausible and practical, and that management required more information to meet or exceed demand targets and cope with performance. Active ESG performance businesses must have a clear understanding of long-term market trends in order to achieve long-term market trends. They take long-term measures to ensure that their companies' consistency is maintained over time. Brooks and Oikonomou (2018) focused their most recent comprehensive literature reviews on the impact of information and outcomes from fiscal, social, and governance on company assessments. Appropriate research has shown that evaluating the ESG element improves the threat, opportunity, and advanced risk management processes (Bassen & Kovacs, 2008), as well as the conditions under which business results can be produced, even if through complicated dynamics. ESG success is a management efficiency metric that measures a company's ability to deal with long-term trends that provides a competitive advantage (Murphy, 2013).

Environmental Practices

Due to the issue of pollution and emissions, Tarmuji, Maelah, and Tarmuji (2016) mentioned that there is a growing focus on the environmental performance of private companies.

Internal stakeholders, such as workers, may be influenced by occupational pollutants, whereas external stakeholders include local populations affected by pollution, environmental practises organisations (Bui, 2021), regulatory bodies, lenders, borrowers, customers, suppliers, and others. As a result, in order to reduce air pollution, waste, hazardous waste, water discharges, spills, or biodiversity, best management practises are required.

Management should also ensure that natural resources are fully utilised during the manufacturing process. Promoting advanced technology and innovation that demonstrates a company's ability to reduce environmental and consumer costs could improve long-term performance and thus create new market opportunities with new environmental technologies and processes, as well as dematerialized eco-designed goods (Reuters, 2018). Improved environmental performance, according to Schaltegger, Gibassier, and Zvezdov in 2013, would increase the company's value and attract new stakeholders.

Sound environmental practises can save reasonable costs and prevent the pollution problem from having an economic impact on operations. In response to the aforementioned concerns, the volume of environmental research in the accounting literature has risen dramatically. In 2016, Tarmuji, Maelah, and Tarmuji investigated the environmental impacts of company behaviour, including hazardous waste recovered from toxic waste, contamination levels in discharged water, and environmental enforcement of companies formed by external organisations. In 2013, Schaltegger, Gibassier, and Zvezdov examined various methods for measuring environmental productivity and improving the performance of organisations.

Malaysian environmental practise literature is minimal. Overall environmental information reported by Malaysian firms was general and narrative, according to Jalaludin, Sulaiman, and Ahmad in 2011. Businesses in Malaysia should take advantage of the ESG panel Data score index, which is widely used, developed, and implemented. Buniamin argued, just as he did in 2010, that Malaysia's environmental reports increase business visibility and influence investor expectations. As a result, using the ASSET4 ESG score index to build up the Malaysian company's repository would be beneficial. It may inspire companies to make voluntary environmental statements known to reassure stakeholders and will uncertainties and suspicion (Iatridis, 2013).

According to Lavorini (2020), a negative impact on the environment results in lower market stock value. In addition, environmental practises are the key to how businesses respond to climate change. Environmentally friendly companies had higher equity prices than their less environmentally friendly counterparts, according to Billio et al. (2020). These results are still important after many analytical tests. According to Li, Zhou, and Xiong's research from 2020, better environmental risk management correlates with lower capital expenditure, as it can lead to a lower corporate score, increased energy efficiency, and favourable tax benefits.

The ability and effectiveness of the business in emission control, proper use of natural resources in manufacturing and operating, and the role of the business in supporting eco-efficient research and development products or services form the foundation for measuring sustainable practises. This diagram illustrates how a company can reduce environmental risk and improve financial performance by maximising mitigation benefits (Nguyen and Nguyen, 2021).

The stakeholders' theory can be used to demonstrate the need to include non-traditional stakeholder groups as opponent regulators in order to adapt to changing social demands (Elijido-Ten, Kloot & Clarkson, 2010). As a result, it is hypothesized that:

H1: There is a significant relationship between environmental practices and firm value.

Social Practices

Corporations should have a social responsibility if they do not have proper control over environmental practises that affect the world, citizens, and income. There is a plethora of literature available on corporate social responsibility. According to Greenwald (2010), the three-dimensional definition included Corporate Social Practices (CSP). Businesses have social responsibilities, social responsiveness, and social issues. The findings reveal that the goal is to achieve the results and outcomes of the company's recognition of social responsibility and adoption of a sensitivity philosophy (Kamardin et al., 2014).

CSP is an organisation that shapes social responsibility, social response systems, strategies, services, and tangible results in terms of social relations within the business, according to Wood in 2010. CSP can also be defined as a framework that emphasises a business's responsibilities to a variety of stakeholders, such as employees and society, as well as its traditional financial obligations to shareholders (Greening & Turban, 2000). As a result, businesses with high social results are more likely to retain qualified employees.

As a result, the business should be socially responsible and sensitive in order to build trust and loyalty among its employees, customers, and community. Environmental sustainability, the environment, human rights, fairness and equality, employee standards, safety, and health and fitness are all indicators of corporate social responsibility (Reuters, 2018). Businesses with a low CSP perform better than companies with a moderate CSP, according to Barnett and Salomon (2012), but companies with a high CSP benefit financially more. It supports the principle of social responsibility being translated into stakeholder profit.

Wagner concluded in 2010 that CSP did not have a direct correlation with economic performance. Only a positive correlation exists between social corporate performance and financial performance as measured by advertisements. This demonstrates the importance of communicating socially connected practises to critical stakeholders, such as customers, NGOs, or a regulatory agency, in order to stay competitive.

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Billio et al. (2020) point out that worker productivity and long-term stock returns are inextricably linked. Li, Zhou, and Xiong discovered in 2020 that companies with a stronger sense of CSR have a higher share return and improved economic efficiency. In other words, CSR investments will serve as a buffer for the company during downturns. In general, companies with improved CSR efficiency are more transparent in reporting corporate details and place a higher priority on bond commitments and limitations (Fernando, Li & Hou, 2019).

Socially responsible behaviour is an important mechanism for a business to cultivate and maintain positive relationships with its stakeholders. Freeman claimed in 2010 that the CSP-financial performance relationship was beneficial to stakeholders. However, in 2012, Barnett and Salomon argued that some companies have a negative connection with CSP and financial performance, while others have a positive relationship with CSP and financial performance. It claims that whether progress is worthwhile is contingent on how businesses capitalise on social responsibility efforts.

The social and environmental measure is successful when its vulnerability to potential risks is reduced, and its environmental performance can be improved. Therefore, investors should interpret this knowledge as good news (Mallin, Michelon & Raggi, 2013). Therefore, it is hypothesized that:

H2: There is a significant relationship between social practices and firms value.

Governance Practices

An excellent corporate governance programme is critical for the market to optimise performance, reduce costs for businesses, and promote organisation sustainability. In the recruitment and selection of managers and board members, best practises and corporate governance concepts are used. Owners should receive equal and preferential treatment. The mission and strategy were discussed and incorporated into the daily economic and policy structures with the participation of all stakeholders. The company adheres to and improves upon the procedures and frameworks in place to ensure long-term viability. The term corporate governance refers to a company's environmental management systems being transparent (Klettner, Clarke & Boersma, 2014).

According to research conducted by Giannarakis, Konteos, and Sariannidis in 2014, corporate governance had an impact on business performance. Unlike O'Connell and Cramer in 2010, the size of the board has a significant negative impact on the firm's performance. Smaller companies' board composition and the number of non-leaders on the board were also found to be significantly reduced, according to the report. The link between business performance and profitability was advantageous and necessary for the small business.

According to studies, weak corporate governance is associated with a slightly lower company valuation and lower stock returns (Lavorini, 2020). Over the last few years, the term Corporate Responsibility Governance has become more widely used to refer to a company's availability of specific sustainability management systems. This is in line with recent research findings, which show that effective corporate governance and sustainability cannot be discussed separately (Fernando, Li & Hou, 2019). Several studies, such as Billio et al. (2020) and Tarmuji, Maelah, and Tarmuji (2016), continue to emphasise the importance of these activities' positive effects. Companies that report substantial amounts of unaudited income to have higher equity costs, whereas those that have undergone independent audits do have lower equity costs (Li, Zhou & Xiong, 2020).

The association between organisational success and board characteristics such as size and composition has been reported empirically (O'Connell & Cramer, 2010). It is consistent in terms of how organisational output is positively influenced by management structure. Nonetheless, the management board's job is becoming increasingly difficult. Good corporate governance has evolved to include a wider range of parties concerned with both the political

and financial aspects of a business as well as the non-financial aspects of the company's activities (Klettner, Clarke & Boersma, 2014). Corporate governance has resulted in this. As a result, corporate boards are urged to incorporate social and environmental responsibilities into central decision-making processes, resulting in positive growth.

Management boards will have well-informed policy advice and dedicated oversight outside of financial performance in the short term. To stay competitive, the board will anticipate actions that could have a negative impact on society and the environment (Mallin, Michelin & Raggi, 2013). Corporate governance mechanisms can be used in the course and supervision of a sustainable strategy. Corporations should better take stakeholder interests into account and track and comment on progress toward greater corporate sustainability, according to Klettner, Clarke, and Boersma (2014), who also recommended introducing frameworks and processes for corporate-social governance. Management's actions on behalf of shareholders are monitored through internal and external governance mechanisms. As a result, it is hypothesized that:

H3: There is a significant relationship between governance practices and firms value.

Research Framework

Variables have been described for this analysis were explored and developed from the literature and theories. This research framework indicates a substantial significance for the dependent variable, while independent variables are environment practices, social practices, and governance practices. The study builds the research framework as follows.

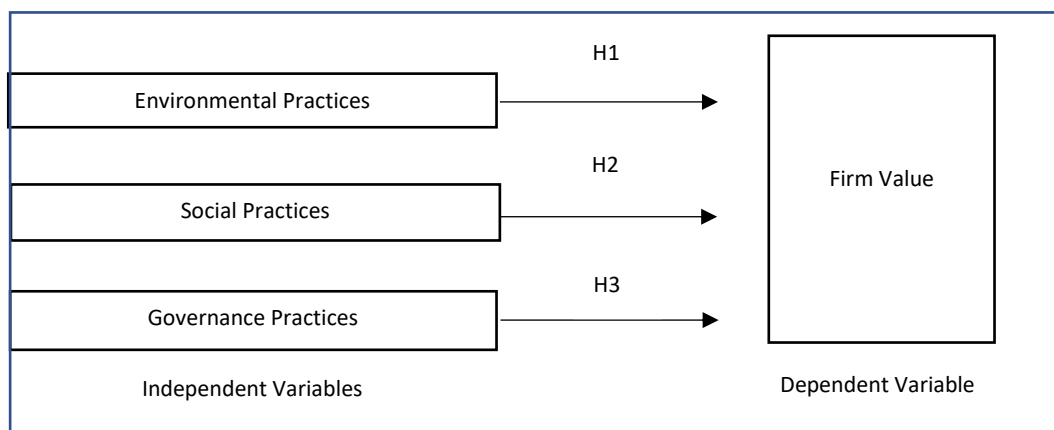


Figure 1: The Research Framework

Research Methodology

The study was based on secondary data from the annual report, sustainability report, and corporate governance report for the fiscal years 2017 to 2019. It also looks at the company's website and corporate financial report on the stock exchange, as well as the organisation's separate documentation, which includes social responsibility, growth, governance, environmental, and other related information.

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Environmental Practices, Social Practices, and Governance Practices are the study's independent variables. The ESG disclosure index is based on the Global Reporting Initiatives (GRI) G4 standard. In this study, a dichotomous score was used to calculate index scores, with '0' representing non-disclosure and '1' representing any quantitative, qualitative, or economic disclosure. The dimensions of environmental Social and Governance Practices are shown in Table 1.

Table 1: Dimensions of Environmental, Social and Governance Practices

Dimensions of Corporate Sustainability	Definition	Key Stakeholders Focusing Areas
Environmental	The environmental dimension of sustainability concerns the organisation's impact on living and non-living natural systems, including land, air, water, and ecosystems (GRI, 2013).	Environmental Management System (EMS) and Certifications, Material Used and Produced, Material Key Stakeholders Focusing Areas Recycled, Energy Consumption and Reduction, Water Consumption, Biodiversity, Emissions including Greenhouse Gases (GHG), Effluents and Waste Reductions, Product Environmental Impacts, Transportation Impacts, Suppliers Environmental Impacts, Environmental Related Awards.
Social	The social dimension of sustainability concerns the impacts the organisation has on the social systems within which it operates (GRI, 2013).	External (Community) and Internal (Employees) Community Engagement through Philanthropy, Product Responsibility, Customer Satisfaction, Products and Services Labelling (Eco-Labelling), Education Facilities (Training and Internships), Cultural, Heritage and Celebration of Special Occasion, Sports and Other Activities, Shelters Facilities, Donations, Social Sustainability Related Awards. Decent Labour Practices, Employment Opportunities, Occupational Health and Safety, Employee's development, training and education, Diversity and Equal Opportunities, Supplier Assessment regarding Labour Practices, Assurance of Human Rights, The Labour Union and Bargaining Power, Prevent Child Labour, Drinking water on the workplace, Employees Satisfaction Survey, Workplace Sustainability Awards.
Governance	For the organisations to have an impact on the economic conditions of	Corporate Governance Practices, Reporting of Performance, Market presence (Minimum Wages), Locals in

its stakeholders and economic systems at local, national, and global levels. The economic category illustrates the flow of capital among different stakeholders and the main economic impacts of the organisation throughout society (GRI, 2013).

Management, Indirect Economic Impact, Direct Economic Impact, R&D Activities, Procurement Activities, Internal Control Mechanism, Anti-corruption, and whistle Blowing, Ethical Standards, Product Responsibility, Economic Sustainability Awards

*Note: This dimension is adapted from Zahid, Rehman and Khan (2019)

Tobin's Q is used as a measure of performance or firm value for the dependent variable. The concept of firm value states that any business operation that increases shareholder interest will increase the company's valuation. Tobin's Q is a metric for estimating the firm value of a company (Yu, Guo & Luu, 2018; Atan, Alam, Said & Zamri, 2018; Zhang, Qin & Liu (2020); Aouadi & Marsat, 2018). A value of less than one indicates that the organisation's resources are being misused, and it is generating less market capital than its asset. A value greater than one, on the other hand, indicates that the stock's future value is greater than its current value. Many well-known flaws in conventional accounting metrics are overcome by Tobin's Q. The organisation does not practise this because it is not based on the timing and effort of management to address accounting procedures. This model takes into account all success factors and provides a detailed framework for assessing the full impact of management decisions. Before calculating a regression process in financial experiments, extreme values of all interest variables must be recalculated to deal with actual results. Tobin's Q is calculated using the formula below:

Tobin's Q = (Market Capitalisation + Total Liabilities + Preferred Equity + Minority Interest) / Total Assets

Hence, the multiple regression model for the current study is as follows:

$$Y = \beta_0 + \beta_1 EP + \beta_2 SP + \beta_3 GP + \varepsilon$$

where;

- Y = Firm Value (Tobin's Q ratio)
- β_0 = Constant value
- β = Regression coefficient
- EP = Environmental practices
- SP = Social practices
- GP = Governance practices
- ε = Residual term (error)

Findings

The industry is being categorised based on the Bursa Malaysia website categorisation as depicted in Figure 2. The total sample for this study consists of 65 public listed companies in

Malaysia. As in Figure 2, most of the companies is from the consumer goods and services totaling to 14 companies (21.5%), followed by financials, which consist of 8 companies (12.3%). The least amount of the industry is from healthcare companies, with only two companies (3.1%) adopting ESG reporting.

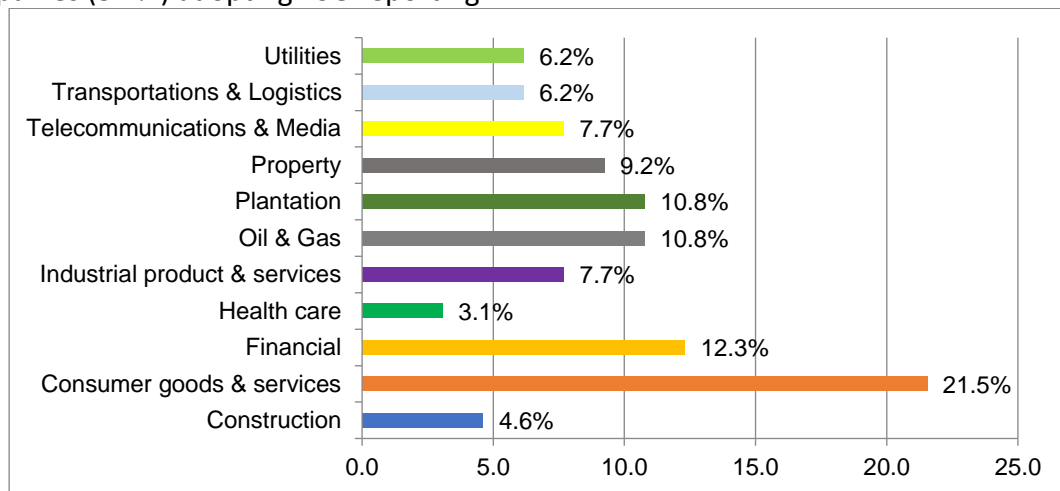


Figure 2: Industry Categorisation

Figure 3 shows that, environmental, social and governance practices are on an upward trend. Over the three-year period under study, it shows a gradual increase that reflects most of the companies continuously increasing to report on their environmental, social and governance practices.

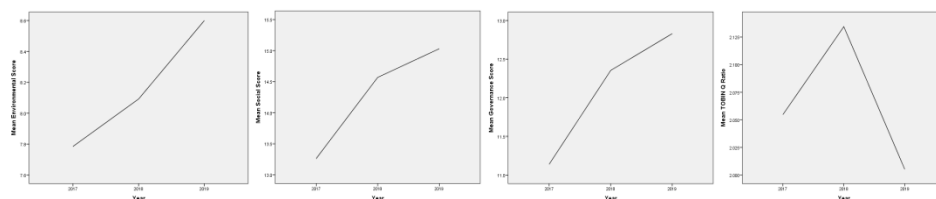


Figure 3: Environmental, Social, Governance Practices and Firm Value by Year

The firm value, overall, the graph shows both extremes, firstly upwards, and then downwards. It moves sharply upwards from the year 2017 to the year 2018 and then sharply downwards from the year 2018 to the year 2019. This shows that the companies' firm value in publicly listed companies in the year 2017 to 2018 shows that the future's expectation is higher than the current worth of the stock. While in the year from 2018 to 2019 shows that the organisation generates less market capital than its asset.

Table 2: Descriptive Analysis for Environmental, Social, Governance and Firm Value

Variable	Minimum	Maximum	Mean	Std. deviation
Environmental practices	2	19	8.16	4.173
Social practices	4	32	14.29	5.746
Governance practices	3	28	12.11	6.295
Firm value	0.41	14.62	2.06	2.412

Table 2 presents the descriptive analysis of both dependent variable and independent variables from 65 samples in the publicly listed companies in Malaysia in this study. The environmental practices score has a minimum of 2 and a maximum of 19. The mean is 8.16, which is the average environmental practices score by the public listed companies. The standard deviation of 4.178, which represents the standard score of environmental practices achieved by the public listed companies.

Meanwhile, the social practice score shows a minimum of 4 and a maximum of 32. The mean is 14.29, which is the average social practices score by the public listed companies. The standard deviation of 5.746, which represents the standard score of social practices achieved by the public listed companies.

This is followed by the governance practices score, showing a minimum of 3 and a maximum of 28. The mean is 12.11, which is the average governance practices score by the public listed companies. The standard deviation is 6.295, which represents the standard score of governance practices achieved by the public listed companies.

Finally, is the firm value. It has a minimum of 0.41 and a maximum of 14.62. The mean is 2.06, which is the Tobin's Q ratio by the public listed companies. The standard deviation of 2.412 which represents the standard score of Tobin's Q ratio achieved by the public listed companies. Descriptive analysis shows that between environmental practices, social practices, and governance practices, the public listed companies in Malaysia disclose and practices the social practices the highest with a score of 32. It also shows that the public listed companies in Malaysia disclose and practices the environmental practices the least with the highest score only at 19 compared to governance practices with a score of 28. Further descriptive analysis will be discussed below based on the environmental practices by industry, social practices by industry, governance practices by industry, and firm value by industry.

Table 3: Descriptive Analysis for Environmental, Social, Governance Practices and Firm Value by Industry

Industry	Environmental Practices		Social Practices		Governance Practices		Firm Value	
	Mean	Std. Dev	Mean	Std. Dev	Mean	Std. Dev	Mean	Std. Dev
Utilities	12.33	3.055	14.5	3.68	5.92	1.165	1.16	0.659
Transportation & logistics	10.83	5.06	14.25	4.595	10	4.843	1.58	0.938
Property	10.44	4.409	14.94	5.61	8.94	4.179	0.83	0.18
Industrial products & services	9.73	4.061	13.27	5.351	7.47	2.875	1.19	0.568
Construction	9.67	2.449	13.44	3.321	11.22	4.893	1.01	0.19
Health care	8.17	3.656	14.33	6.022	8.33	1.211	4.29	2.026
Consumer goods & services	8.12	4.681	12.67	6.296	14.31	6.777	3.96	4.17
Plantation	7.9	2.862	14.1	6.115	12.71	3.823	1.4	0.407
Oil & gas	6	3.209	20.19	6.668	9.95	3.339	1.59	0.971
Telecommunications & media	5.8	2.426	10.4	2.063	19.4	5.369	2.84	2.116
Financial	5.12	2.252	14.92	4.106	15.75	7.99	1.26	0.643

Based on Table 3, utilities have the highest mean of 12.33. This is followed by the transportation & logistic (mean=10.83) and property (mean=10.44). Next are the industrial products & services, which have a mean of 9.73, construction (mean=9.67), health care (mean=8.17), consumer goods & services (mean=8.12), and plantation (mean=7.90). The oil & gas is next with a mean of (mean=6.00), telecommunication & media (mean=5.80), and finally the financial with a mean of 5.12.

Based on the result, the average score of environmental practices in the industries of the public listed companies is ranging from 5.12 up to 12.33 over the three-year ESG reporting. While the standard deviation is ranging from 2.252 up to 5.060, this represents the standard score of environmental practices achieved by the public listed companies.

This result showed that companies from the industry utilities practice the highest among the other industries which the average score is 12.33 and followed by the second highest industries that practice the environmental practices from the industry of transportation & logistics which the average score is 10.83. This also showed that financial is the least industry among the other companies to practice environmental practices which the average score is 5.12 and followed by the second lowest are from the telecommunications & media industry which the average score is 5.80.

As for the social, the oil & gas industry have the highest mean of 20.19. This is followed by the property (mean=14.94), financial (mean=14.92), utilities (mean=14.50), health care (mean=14.33), transportation & logistics (mean=14.25) and plantation (mean=14.10). Next is the construction industry with a mean of 13.44, industrial products & services (mean=13.27),

and consumer goods & services (mean=12.67). Finally, the telecommunication & media industry has the least mean of 10.40.

Based on the result, the average score of social practices in the industries of the public listed companies is ranging from 10.40 up to 20.19 over the three-year ESG Reporting. While the standard deviation is ranging from 2.063 up to 6.668, this represents the standard score of social practices achieved by the public listed companies.

This result showed that companies from the industry oil & gas practice the social practices the highest among the other industries which the average score is 20.19 and the second highest industries are from the industrial property which the average score is 14.94. This also showed that telecommunication & media is the least industry among the other companies which the average score is 10.40 and followed by the second lowest are from consumer goods & services which the average score is 12.67.

As for the governance (see Table 3), the telecommunication and media industry have the highest mean of 19.40. This is being followed by the financial industry (mean=15.75), consumer goods, and services (mean=14.31), plantation (mean=12.71), and construction (mean=11.22). Next is the transportation and logistics (mean=10.00), oil and gas (mean=9.95), property (mean=8.94), health care (mean=8.33) and industrial products & services (mean=7.47). The least mean is the utilities industry (mean=5.92).

Based on the result, the average score of governance practices in the industries of the public listed companies is ranging from 5.92 up to 19.40 over the three-year ESG Reporting. While the standard deviation is ranging from 1.165 up to 7.990, this represents the standard score of governance practices achieved by the public listed companies.

This result showed that companies from the industry telecommunications & media practice the governance practices the highest among the other industries which the average score is 19.40 and followed by the second highest industries are from the industry financial which the average score is 15.75. This also showed that the utilities are the least industry among the other companies which the average score is 5.92 and followed by the second lowest are from the industrial products & services which the average score is 7.47.

Health care industry has the highest mean of 4.29. This is followed by the consumer goods and services (mean=3.96) and the telecommunication and media (mean=2.84). Next is the oil and gas (mean=1.59), transportation and logistics (mean=1.58), plantation (mean=1.40), financial (mean=1.26), industrial products & services (mean=1.19), utilities (mean=1.16) and construction (mean=1.01). The property industry has the lowest mean of 0.83 (see Table 3).

Based on the result, the average ratio of Tobin's Q in the industries of the public listed companies is ranging from 0.83 up to 4.29 over the three financial years. While the standard deviation is ranging from 0.180 up to 4.170, this represents the standard score of Tobin's Q ratio achieved by the public listed companies.

This result showed that companies from the industry health care have the highest firm value among the other industries which the average ratio is 4.29 and followed by the second highest industries with the highest firm value are from the industry consumer goods & services which

the average ratio is 3.96. This shows that the company's expectation for the future is higher than the current worth of the stock.

This also showed that the property industry has the lowest firm value among the other companies which the average ratio is 0.83, followed by the second lowest firm value from industry construction which the average ratio is 1.01. This shows that the resources are improperly utilized, and the organisation generates less market capital than its asset.

Correlation analyses were carried out to determine the relationships between variables of environmental, social, governance, and firm value. As the variable values were found to be normally distributed, the analyses were carried out using the Pearson Coefficient Correlation, a parametric correlation tool. The summary statistics of the correlation analyses are presented in Table 4 and are discussed as follows:

Table 4: Summary Statistics of Correlation Analysis between Environmental, Social, Governance and Firm Value

Variable	Firm value	
	Pearson Coefficient of Correlation (r)	p -value
Environmental practices	0.236	0.001**
Social practices	-0.004	0.959
Governance practices	0.267	0.000**

** Significant at 0.01

The p -value is a measure of the result's deteriorating reliability. The higher the p -value, the less it can be assumed that the sample-to-variable relationship observed is a reliable predictor of the correlation between the specific variable in the population (Hill & Lewicki, 2006).

Table 4 shows firm value is positively but lowly correlated with environmental practices ($r = 0.236$; $p < 0.01$) and governance practices ($r = 0.267$; $p < 0.01$). To a low extent, an increase of firm value is associated with an increase in environmental practices and governance practices, and vice versa. However, there is no correlation between firm value and social practices ($p > 0.05$).

Environmental practices show a positive little correlation relationship towards firm value. This means that the firm value is increased when they disclose information on environmental practices. Governance practices also show a little positive correlation towards firm value, whereby when the companies disclose information on governance practice, the higher the firm value. However, social practices show a negative little correlation relationship towards firm value. This means that even if the companies disclose information on social practices, it will not affect the firm value. From this study, we can see among the three pillars of ESG reporting. The companies are most likely to disclose environmental practices and governance practices rather than social practices because it enhances their firm value.

Regression Analysis

A regression equation was estimated with firm value as the dependent variable, and environmental, social, and governance as the independent variables. Table 5 presents the summary statistics of the estimated regression equation.

Table 5: Estimated Regression Equation

Variable	Coefficient	t-value	p-value
Environmental practices	0.156	3.920	0.000**
Social practices	-0.023	-0.797	0.426
Governance practices	0.110	4.267	0.000**
F	10.420		0.000**
R ²		0.241	

** Significant at 0.01

The regression equation is statistically significant at 0.01 ($p < 0.01$), implying an association between firm value and any independent variables. The R-square value of being 0.241 means that the three independent variables as a whole account for 24 percent of the variation in the dependent variable (firm value). That is, the effect of environmental, social, and governance on firm value is quite low. However, other variables consequently exert much more influence on the firm value but are beyond the scope of this study.

Looking at the individual regression coefficient, only the coefficient of environmental practices and governance practices are statistically significant at 0.01 ($p < 0.01$), whereas social practices are not. The coefficient of environmental practices (0.156) and governance practices (0.110) being positive means that an increase in environmental practices and governance practices increases firm value. In contrast, while changes in social practices have no impact on firm value.

Regression Analysis between Environmental Practices and Firm Value

The regression results showed that environmental practices were positive and showed an overall upward trend, while the significance level also increases. This indicated that the more information about environmental practices disclosed by the company, the more conducive it is to the growth of firm value.

This result is supported with Setyahuni and Handayani (2020); Qureshi, Kirkerud, Theresa and Ahsan (2020); Irawan et al (2021); Brogi and Lagasio (2019); Yoon, Lee, and Byun et al (2018), Atan et al (2018), and Miralles-Quirós et al. (2018) studies whereby it is found that environmental practices were positive and significant on firm value. However, this result also differs with Tarmuji, Maelah, and Tarmuji, (2016); Zhang, Qin, and Liu (2020); Qiu, Shaikat, and Tharyan (2016) studies whereby it is found that environmental practices are not significant on firm value.

As Sethayuni and Handayani noted in 2020, disclosure of quality environmental information will minimise capital cost rates, the result suggests that environmental information has essential relevance according to the price model. When it comes to assessing the risks of businesses, investors value environmental transparency. Environmental disclosure is a useful

indicator for investors, as it allows them to forecast the success of potential businesses. The market's reaction to the release of environmental data is reflected in market valuation. This study found that environmental activities are important to value and are positively related to stock price, as predicted by the stakeholder theory. These findings show that stakeholders have high regard for companies that adhere to high environmental standards, and that environmental policies help to increase value. The findings show that environmental practises have a significant impact on firm value, accepting the first hypothesis (H1).

Regression Analysis between Social Practices and Firm Value

The regression result revealed that social practises were negative and on the decline, with the significance level dropping as well. This indicated that the more information a company discloses about its social practises, the less conducive it is to the firm's growth value. This result could be explained by the fact that the high transparency of social practises data disclosure does not reflect the consistency of the data. If the information is not well clarified, it can lead to investor misunderstandings, which is even worse if the firm's value is not improved.

This result is supported with Atan, Alam, Said, and Zamri (2018), Tarmuji, Maelah and Tarmuji (2016), and Miralles-Quirós et al. (2018) whereby it is found that social practices were negative. However, this result differs with Setyahuni and Handayani (2020), Zhang, Qin, and Liu (2020), Qiu, Shaukat and Tharyan (2016), Brogi and Lagasio (2019), Yoon, Lee and Byun et al. (2018) and Qureshi, Kirkerud, Theresa, and Ahsan (2020) studies whereby it is found that social practices were positive and significant on firm value.

Social disclosure has no effect on the firm's value. The fact that social practises have no effect on firm value does not imply that they are meaningless. According to Sethayuni and Handayani (2020), the lack of an accounting information response from investors is due to investor expectations prior to the release of the information. The social information content is remarkably similar to that of the previous year. Investors anticipated the information's content in the months leading up to its release, so they don't react when the information is released. Social behaviours are also crucial. All companies have similar social practises because investors have a similar understanding of CSP.

According to the stakeholder theory, companies in Malaysia may engage in social practises in response to stakeholder demand. At this time, there is no evidence that value enhancing theory has a significant positive effect. The findings show that there is a significant relationship between social practises and firm value, thus rejecting the second hypothesis (H2).

Regression Analysis between Governance Practices and Firm Value

The regression results also showed that governance practices were positive and showed an overall upward trend, while the significance level also increases. This indicated that the more information about governance practices disclosed by the company, the more conducive it is to the growth of firm value.

This study has demonstrated a strong correlation between governance practices and firm value. The disclosure of governance reporting information is according to Sethayuni and Handayani (2020) is a type of corporate responsibility towards all stakeholders. Companies

are committed to protecting the interests of their shareholders, who are their most important stakeholders.

Governance transparency will improve the potential sustainability performance of prospective investors' level of trust. Disclosure of governance sends out a good signal for investors. Investors and potential investors often expect businesses to build long-term benefits for them. Thus, disclosure of information on quality governance can be replied directly by investors through the stock prices of the companies.

Governance practises, according to the stakeholder theory, increase value for both the company and its stakeholders. Companies will be rewarded for adhering to governance practises through the creation of value, with higher share prices for shareholders and a more sustainable sector for all stakeholders. Governance practises, as expected, are related positively to stock price and are relevant to value, which is consistent with the stakeholder theory. Such findings suggest that stakeholders have faith in companies that have a strong governance culture and that governance practises help to develop value.

The results provide evidence that there is a significant relationship between Governance practices on Firm Value, thus accepting the third hypothesis (H3).

Discussion and Conclusion

This specific study aimed to find out the influence of ESG reporting on firm value towards public listed companies in Malaysian. It is a new ESG index designed to measure companies' performance that practices good ESG. In line with the Global Reporting Initiative (GRI), the FTSE4 Good Bursa Malaysia Index can demonstrate that Malaysian listed companies support the transition to lower carbon and more sustainable economy. The total sample for this study consists of 65 public listed companies in Malaysia.

According to the demographic profile analysis, companies in the consumer goods and services industry are the most likely to use ESG reporting compared to other industries in Malaysia. This result also indicates that consumer goods and services companies are much more likely to adopt and implement ESG reporting in their annual reports. These findings also show that, in comparison to other industries in Malaysia, the healthcare industry has the fewest companies that use ESG reporting. This also demonstrates that companies in the healthcare industry are not yet ready to incorporate ESG reporting into their annual reports.

The results empirically show that environmental practices and governance practices have a significant relationship with firm value; however, there is no significant relationship between social practices and firm value. The significant relationship implies that companies with environmental practices and governance practices perform equally well compared to insignificant relationships, which implies that companies with social practices perform equally poorly. Besides, ESG is also perceived as increasing firm value in the year 2017 and 2018 but shows a decreasing pattern in the year 2019.

However, from the analyses of the results of this study that there is no complete understanding and recognition of the relation between ESG and the market value of companies. The findings may also be of interest to corporate management who want to concentrate on improving one or more ESG reporting so they can achieve better success and, indirectly, have a higher market value than their competition. The findings also suggest an

important position for public policymakers to establish a set of realistic interventions that could be focused on stakeholders perceived ESG reporting and represent their market interest.

This study aims to raise awareness among businesses in Malaysia of ESG practices. The results have shown that the Malaysian government plays a pro-active role in ensuring that the private sector adopts ESG initiatives. Malaysia will attract more foreign investment directly or investors that value sustainability in business by promoting investment in ESG.

This awareness will subsequently promote growth in private sector investments. By focusing on the individual aspect of the ESG element, this study concludes that ESG-related disclosures may worsen business performance. In line with the stakeholder theory, ESG disclosures by companies in Malaysia could be due to demand from stakeholders. No significantly positive effect of such disclosures can be found in its infancy stage.

Subsequently, this knowledge will encourage private sector investment growth. This study concluded that ESG-related disclosures would worsen business performance by concentrating on the essential aspects of ESG. ESG disclosures by Malaysian companies could be based on demand from stakeholders, according to stakeholders' theory. In its early years, there can be no significant positive effect of such disclosures.

These findings also indicate that Malaysian companies must make a long-term commitment to improve their ability to influence stakeholders' social responsibility practises. They can't afford to be good right now. They'll be able to afford it once they've built up enough capacity (Greenwald, 2010).

The practice of social responsibility cannot directly impact economic performance, but it can improve economic performance by incorporating environmental and sustainability aspects. Through suitable activities, the organisation will build a competitive advantage.

There is a competitive advantage when a company does a good job, i.e., the company, through its corporate social responsibility activities, finds a relative cost or competitiveness advantage over its rivals (Arend, 2014). The results also showed that corporate governance practices have a significant effect on Malaysian companies' economic growth. The finding (Tarmuji, Maelah & Tarmuji, 2016) represents corporate accountability and disclosure with corporate results. An adequate governance system would provide top management with excellent assistance.

Past work has shown that the board of directors of Malaysia companies' function in the broader community is more effective (Kamardin, Latif, Mohd & Adam, 2014). Besides, the way management boards were set up, the management of companies, and how they were managed affected the organisation's output and the company. The exchange of performance data helps executives, boards, and owners of businesses to become more successful and involved in shareholders.

The explanation for this outcome may be that the high transparency of social practices information disclosure does not reflect the consistency of its information. Unless the

information itself is not clarified well, it can also lead to misunderstandings between investors, which is even worse unless the firm value is improved.

Given the increasing pressures from various stakeholders coupled with increasing significance of sustainability issues, the current study makes theoretical and practical contributions to various parties including investors, firm managers, and policymakers. From the theoretical perspective, the finding of this study supports the stakeholder's theory by indicating that firms that involve in environmental and governance practices increase their firm value. From the investors' perspective, incorporating ESG into the business strategy portrays that the boards are accountable and therefore, leads to value creation. For the firm managers, putting the ESG as part of their strategic business decision is viewed as reducing the firm's financial risk. Accordingly, it enhances the firm value and assist the firm to transform sustainability into a competitive advantage. As for the policymakers, enhanced regulatory framework with regard to ESG reporting can be introduced to encourage more corporate sustainability integration into business practices. Simultaneously, this can lead to the achievement of corporate accountability and social responsibility.

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