UNIVERSITI TEKNOLOGI MARA

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) DISCLOSURE AND FIRM PERFORMANCE: A CASE STUDY OF MALAYSIAN PLANTATION LISTED COMPANIES

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ABSTRACT

Nowadays, Bursa Malaysia is actively seeking registered companies in Malaysia to report their Environmental, Social, and Governance (ESG) information for public especially after Bursa Malaysia has introduced the Simplified ESG disclosure guideline to help the Small, and Medium Enterprise (SME) in disclosing the ESG information. With this introduction, it makes the listed companies triggered to disclose their ESG information. Institutional theory states that when there is pressure on the companies, they will follow the stipulated Bursa Requirements by disclosing the ESG information in more details especially plantation companies since this sector is more exposed to the ESG issues as compared to the other sectors. The objective of this research is to examine the relationship between ESG disclosure and firm performance of plantation listed companies in Malaysia for each individual ESG pillars. This research uses stratified sampling in choosing the sample which are main listed companies on Bursa Malaysia and Shariah compliance. In total, 32 plantation companies meet the requirement of the sample and ESG data are collected from the annual report. Every company is observed for five years from 2018 to 2022. This research uses 30 indicators in measuring the disclosure of information for Environmental Disclosure (ED), Social Disclosure (SD), and Governance Disclosure (GD). In measuring the firm performance, this research uses Return on Equity (ROE), Earnings Before Interest and Taxation (EBIT), and Tobin's Q (TQ). The results show that ED has significant relationship with ROE and TQ, but insignificant relationships with EBIT. SD has significant relationship with ROE and EBIT, but insignificant relationships with TQ. All proxies used have insignificant relationship with GD. The findings of this research help to uncover how plantation companies respond to sustainability-related institutional pressures, offering insights into the alignment between corporate practices and societal expectations.

Keywords: Environmental, Social and Governance Disclosure (ESG), Return on Equity (ROE), Earnings Before Interest and Taxation (EBIT), Tobin's Q (TQ), Plantation Companies

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CHAPTER ONE
INTRODUCTION

1.1 Introduction

Globally, the concern about Environmental, Social, and Governance (hereafter ESG) gained traction in recent years as business have realized the importance of taking account all aspects of environmental, social, and governance in their business operations. ESG implementation is not a new concept as today's business consider the impact their products and services have on people and the environment. The General Secretary of the International Trade Union Confederation (ITUC), Sharan Burrow said that there is no equity without rights to decent work and social protection, no social justice without a shift in governance and ambition, and, ultimately, no peace for the peoples of the world without the guarantees of sustainability. Even so, according to Worlds Benchmarking Alliance in 2022, only 2,000 worldwide firms declared their sustainability goals. This is because they considered that disclosing the ESG activities does not affect their profitability and share price. With the mentality of not disclosing ESG causing no harm, it is better to not disclose it to the public.

Malaysian companies face distinct possibilities and circumstances amidst the ESG global issues. Adopting ESG principles is now a must for a company looking to succeed in the long run, be resilient, and have a good social impact (Fallan Shayan et al., 2022). In the era of integrated reporting, it is crucial for every public listed company to disclose non-financial information to the public, particularly to their stakeholders. This transparency is essential as stakeholders seek a deeper understanding of the companies' plans. Furthermore, the disclosure of non-financial information, such as ESG factors, not only satisfies stakeholder curiosity but also positions companies to be more competitive within their sectors and industries. Although ESG brings positivity and benefit to the companies, reported in the Malaymail on 17th February 2022 stated that ignoring ESG disclosure will deprive their equity and debt financing. Mentioned by the Bursa Malaysia Chairman, Tan Sri Abdul Wahid Omar companies that ignoring this disclosure will have difficulty in recruiting talents to carry on their business.

ESG is described as a company's duty to enhance equity and social welfare in addition to ensuring long-term, sustainable wealth for stakeholders (Chen et al., 2023; Vaghefi, 2023; Wan Mohammad & Wasiuzzaman, 2021). According to Aydoğmuş et al. (2022), the companies with ESG disclosure will generate high revenue, especially for the manufacturing companies. Although the ESG disclosure seems to be hard to measure, it is still important for