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The Impact of ESG Performance on Firm Value: A Study of High and Low Profile Industries in Southeast Asia

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ABSTRACT

The objective of this study is to gather empirical evidence on the relationship between environmental, social and governance performance (ESG performance) and firm value. The study also aims to identify any differences in ESG performance on firm value between high-profile and low-profile industry types. The research sample has been divided based on the type of high-profile and low-profile industry, in order to ascertain the relationship between ESG performance and firm value, with the aim of identifying any differentiating variables. The study utilises a sample comprising companies listed on the Stock Exchange of Thailand, Bursa Malaysia, Singapore Exchange, Philippine Exchange and Indonesia Stock Exchange between 2014 and 2019. The sample was selected using the purposive sampling method. The data analysis employs panel data regression analysis using the Generalised Least Squares (GLS) method. The findings of this study demonstrate that ESG performance has a positive impact on firm value. Furthermore, the ESG performance of companies in the high-profile industry type has the potential to influence the growth of firm value. This research offers insights that can inform the decision-making processes of companies seeking to implement sustainability-related programmes and operational mechanisms through ESG performance. Additionally, it provides a valuable resource for investors considering sustainability information when making investment decisions.

INTRODUCTION

Corporate development is not only related to financial aspects but also encompasses non-financial dimensions. Currently, sustainable development has emerged as a crucial developmental concept. This approach must prioritize social, economic, and environmental factors in a balanced manner, emphasizing the principle of meeting both current and future needs (Rosana, 2018). Sustainability has become an intensively implemented initiative as it represents one of the primary objectives of the Sustainable Development Goals (SDGs) (Katila et al., 2019), resulting in Environmental, Social, and Governance (ESG) performance accountability being either voluntary or mandatory across various nations. The United Nations (UN) Sustainable Stock Exchange (SSE) has outlined that by 2030, all companies capable of providing sustainability information are expected to report the impacts of their environmental and social protection implementations (SSE Initiative, 2015). This development indicates increasing market interest in the transparency of corporate environmental, social, and governance performance and management.

Corporate sustainability reporting can provide investors with essential information regarding integrating ESG performance aspects within organizations. Sustainability reporting remains voluntary in Indonesia, with approximately in 2020, 140 companies listed on the Indonesia Stock Exchange (IDX) taking the initiative to publish sustainability reports (Anisatulfitria, 2021). Preparing sustainability reports can follow internationally established standards (set by international organizations) or adhere to country-specific government standards. Currently, the Global Reporting Initiative (GRI) Standard is the predominant framework for sustainability reporting. The Financial Services Authority Regulation defines sustainability reports as public disclosure documents addressing economic, financial, social, and environmental aspects of a company's business operations.

Voluntary sustainability reporting by companies has a positive impact on stock market movements perceived by investors (Liou et al., 2023). Wei & Chengshu (2024) found that the number of institutional investors' shares in China increases along with companies' ESG performance reports. This is based on the increase in the book and market value of the company's shares when ESG performance is good. This preference stems from public trust in companies that drive value creation, where positive value creation can influence stock price movements and increase share sales. ESG performance can directly and indirectly impact companies' ongoing business activities and ongoing concern status. Companies in developed countries that disregard environmental costs will experience effects on their financial performance. Therefore, environmental costs are crucial considerations as they can influence various factors, including financial performance and investor reactions.

Currently, Southeast Asian companies have not fully integrated ESG investment into their core business strategies, creating distinct challenges in ESG performance implementation (Long & Johnstone, 2023). These challenges arise from several factors: (1) misperceptions about ESG investment, (2) limited capacity to integrate ESG investment, (3) inadequate guidelines and support from exchanges and governments, and (4) weak linkages between ESG performance and achievement of Sustainable Development Goals (SDGs). Consequently, these challenges must be addressed promptly to leverage growth potential and investment in ESG performance implementation. In Indonesia, companies engaging in ESG performance are predominantly high-profile industry types, aiming to address social and environmental community issues. This indicates that industry-type differences drive adequate ESG performance aligned with operational impacts to create positive corporate value. Matakanye et al. (2021) explains to industry in Johannesburg Stock Exchange (JSE) how they have managed to imbed ESG into their operations by aligning their business models with sustainable development. Matakanye et al. (2021) also elaborate that high-profile industry types potentially have greater sensitivity to environmental and social factors, resulting in companies receiving public scrutiny and attention due to operational activities that may significantly interface with community interests. Conversely, low-profile industry types have lower environmental sensitivity and minimal potential for community interest conflicts.

Many previous studies have discussed ESG performance. For example, several studies examine the relationship between structure ESG performance and board characteristics (Bhat et al., 2023; Güngör & Şeker, 2022). Sabbaghi (2022) examines how news impacts the uncertainty of companies with ESG performance. The study shows that small-sized companies respond slowly to news. Numerous publications have also examined how ESG performance affects firm value, where the role of CEO power is measured through CEO incentives (Abdullah et al., 2024; Ali et al., 2024). However, the relationship between ESG performance and firm value with sample differences based on indus try type (high or low profile) has not been investigated.

This follow-up study focuses on sample separation based on high-profile and low-profile industry types in the relationship between ESG performance and firm value. Therefore, it aims to investigate the impact of ESG performance on firm value more deeply through sample separation based on these industry classifications.

This research is expected to help companies implement sustainability-related programs and operational mechanisms through ESG performance, which can create positive corporate value. This study can also serve as a reference for ESG performance differences across industry types, thereby becoming useful for future policymakers in formulating ESG performance regulations for different industries. Additionally, this research aims to function as a public control mechanism for work programs related to environmental and social aspects while raising awareness about the rights that should be received from implementing such sustainability programs.

LITERATURE REVIEW

Legitimacy Theory

Community acceptance within a company's operational environment represents a fundamental aspect of corporate sustainability. Organizations that demonstrate ESG performance effectively gain societal recognition, establishing legitimacy (Olateju et al., 2021). Adequate corporate responsibility necessitates implementing well-executed ESG activities that resonate with community expectations. Legitimacy theory sees the importance of a company's alignment with societal norms and values to support its legitimacy (Cosa, 2024). This results in an alignment between the company's activities and societal expectations. Companies can do this by voluntarily taking part in ESG reporting and increasing CSR. Eliwa et al. (2021) also explains that civil society, markets and the state as a community will increase the motivation of companies to adopt ESG, which in turn will foster firm value.

Stakeholder Theory

Organizations bear comprehensive accountability obligations to diverse stakeholder groups, including investors, consumers, creditors, and society, necessitating fulfilling their respective interests (Li et al., 2018). Stakeholder theory identifies that fulfillment needs and demand from stakeholders is indicated by effective financial performance and high ESG value (Bătae et al., 2021). In relation to ESG, stakeholders' interests are closely aligned with those promoted by ESG (Yu & Xiao, 2022). This indicates that in maintaining firm value, stakeholders need to control environmental, social and governance-related factors.

The Effect of ESG Performance on Firm Value

Wong et al. (2021) examined the impact of environmental, social, and governance certification on Malaysian firms. The analysis shows that ESG certification lowers a firm's cost of capital while Tobin's Q increases significantly. Their findings substantiate the stakeholder benefits derived from implementing comprehensive ESG performance frameworks. Corporate governance information disseminated to capital market participants through systematic reporting mechanisms facilitates value creation through enhanced management monitoring, improved information production and dissemination, and strengthened investor recognition (Efunniyi et al., 2024). Aydoğmuş et al. (2022) who examined how ESG affects firm value and profitability in 5000 listed companies, found that there is a positive effect of the relationship between ESG and firm value. Although the positive effect only occurs in Social and Governance based on stakeholder theory, it is still very possible that the overall performance of ESG affects performance positively. As in previous research which shows that ESG disclosure generally has a beneficial impact on the company's financial performance, better financial efficiency, and ultimately will increase the company's value (Abdi et al., 2022; Z. Chen & Xie, 2022). Based on this theoretical foundation, we propose the following hypothesis:

H1: ESG performance demonstrates a positive effect on firm value

ESG Performance, Firm Value and Industry Type

Industry classification serves as a crucial determinant in evaluating ESG performance costs relative to community response and attention to broad operational impacts. Prior empirical studies have established positive correlations between industry type, ESG performance, and firm value creation. Chang & Lee (2022) explained that industry-type factors in a positive relationship between ESG and firm value. Companies that are in a high-profile environment, which face high bankruptcy risks and intense competitive threats, will give more impetus to stakeholders and shareholders to monitor the company, especially on their ESG performance.

Matakanye et al. (2021) indicates that high-profile industry firms attract heightened public scrutiny due to their potential for significant operational risks and societal impacts, contrasting with low-profile industries that receive comparatively less attention for operational deviations. Consequently, high-profile organizations typically demonstrate more extensive ESG performance initiatives to address potential impacts and stakeholder concerns.

Alabi et al. (2024) empirical findings demonstrate that annual reports' social and environmental responsibility disclosures significantly influence stock trading volumes for high-profile industry firms compared to their low-profile counterparts. This evidence suggests that high-profile industry classification motivates enhanced ESG performance to augment firm value, as reflected in market capitalization. This observation leads to the proposition that industry classification potentially moderates the relationship between ESG performance and firm value. Therefore, we propose our second hypothesis:

H_2: There exists a significant difference in the impact of ESG performance on firm value between high-profile and low-profile industry classifications

RESEARCH METHODS

Population and Sample

The defined population consists of all non-financial companies listed on the Stock Exchange of Thailand (SET), Malaysia Stock Exchange, Singapore Stock Exchange (SGX), Philippine Exchange (PSE), and Indonesia Stock Exchange (IDX). This research sample consists of two types of industry types: high-profile and low-profile. This study is panel research because it uses several countries in ASEAN and many years, between 2014-2019 (pre-COVID). Roberts (1992) points out that high-profile businesses include petroleum, chemical, mining, forest and paper, automobile, aviation, energy and fuel, transport and tourism, agriculture, liquor, tobacco, and media communications. While low-profile businesses include finance and banks, food, health and personal products, hotels, buildings, electricity, textiles and apparel, retailers, medical supplies, and medical equipment. The research data was taken from Thomson Reuters Eikon and Osiris services in 2021.

Operational Definitions and Data Measurement

This study employs firm value as the dependent variable, measured using Tobin's Q ratio (Huang et al., 2020). By using the Tobin'Q ratio, a higher value indicates that the company's growth is in a positive direction, which means the company's value can increase. The following is the measurement of Tobin'Q ratio:

Tobin'Q = Market value of common stock + book value of preferred stock + book value of liabilities) / Total assets

Environmental, Social, and Governance (ESG) performance is the independent variable. ESG performance values are secondary data obtained from Thomson Reuters based on the ESG Score. The Thomson Reuters database uses a 0-100 scale to measure companies' environmental, social, and governance concerns.

This study employs four control variables based on previous research (Li et al., 2018): asset growth, firm size, leverage, and profitability. The control variables are measured as follows:

Table 1
Control Variable

No	Variables	Measurement
1.	Asset growth	*Growth* = Total assets – previous year's total assets)/(Previous year's total assets)
2.	Firm size	*Size* = Ln (Total Assets)
3.	Leverage	Leverage = (Total debt)/(Total equity)
4.	Profitability	ROA = (Net Income/Sales) x 100

Data Analysis Technique

This study utilizes panel data comprising multiple periods and involving numerous research objects. The regression equation model measures the effect of ESG performance on firm value. This study employs GLS equations to test all hypotheses. The research equation is:

$$FIRMVALUEi,t = \alpha + \beta 1ESGi,t + \beta 2GROWTHi,t + \beta 3SIZEi,t + \beta 4LEVi,t + \beta 5PROFITi,t + \varepsilon$$

RESULT AND DISCUSSION

This study utilizes a population comprising all companies listed on the Stock Exchange of Thailand, Malaysia, Singapore, Philippines, and Indonesia. The data in this study is available from the Thomson Reuters and Osiris databases, covering the research period from 2014 to 2019. This study employs purposive sampling. The final sample consists of 138 companies with 787 observational data points.

Table 2
Descriptive Statistics

Variables	Obs	Mean	Std. Deviasi	Min.	Max.
Firm Value	787	1,304057	1,675464	0,058	17,042
ESG Performance	787	46,99076	19,08943	5,08	88,13
Growth	787	0,076469	0,4657124	-0,9375878	12,40397
Size (Ln total assets)	787	15,35494	1,072912	12,192	18,227
Size (in USD)	787	7.846.900	9.218.562	197.158,6	82.391.680,33
Leverage	787	2,3338065	3,280998	0	38,9329
Profitability	787	0,1481159	0,7812998	-1,493599	21,49203

The dependent variable in the form of firm value has a mean of 1.304057 and a standard deviation of 1.675464. The lowest value of the company value variable is 0, and the highest value is 17.042. The independent variable, ESG performance, has a mean of 46.99076 and a standard deviation 19.08943. The lowest value of the ESG performance variable is 5.08, and the highest is 88.13. The control variable, asset growth, has a mean of 0.076469 and a standard deviation of 0.4657124. The lowest value of the asset growth variable is -0.9375878, and the highest is 12.40397. The control variable, company size, has a mean of 15.35494 and a standard deviation of 1.072912. The lowest value of the company size variable is 12.192, and the highest is 18.227. The control variable, leverage, has a mean of 2.3338065 and a standard deviation of 3.280998. The lowest value of the variable leverage is 0, and the highest value is 38.9329. The control variable, profitability, has a mean of 0.1481159 and a standard deviation of 0.7812998. The lowest value in the firm growth variable is -1.493599, and the highest is 21.49203.

Results of Hypothesis 1 Testing

Table 3
Hypothesis 1 Test

Variables	Coefficient	Probability
ESG Performance	0,009	0,001
Asset Growth	0,313	0,417
Size	-0,727	0,000
Leverage	0,038	0,039
Profitability	2,649	0,000
Wald Chi^2	292,47	0,0000
Observations	787	

The ESG performance coefficient is 0.009 and significant at 0.001. These results indicate that hypothesis 1, which suggests that ESG performance positively affects firm value, is significantly supported. The regression results for the control variable of asset growth show a coefficient of 0.313 and a significance value of 0.417, indicating that asset growth is not supported. The firm size variable has a coefficient of -0.727 with a significance value of 0.000, indicating that firm size is not supported. The leverage variable has a coefficient value of 0.038 and a significance of 0.039, indicating that the leverage variable is significantly supported. The profitability variable shows a coefficient value of 2.649 with a significance value of 0.000, thus being supported considerably.

These findings substantiate (McWilliams et al. (2006) theoretical framework, which suggests that ESG performance enhances operational transparency and stakeholder trust, subsequently generating firm value. Companies implement ESG performance to demonstrate accountability to stakeholders. Each company's implementation of ESG performance can indicate that it is more transparent in its operations, which can increase stakeholder trust and thus create value for the company (McWilliams et al., 2006). Chen et al. (2023) further supports this relationship by showing that ESG performance contributes to increased company value.

This shows that company reputation increases because ESG performance becomes an important resource. Wong et al. (2021), examining ESG performance in Malaysian companies, shows that ESG performance lowers capital costs and significantly increases firm value. This research affirms that implementing ESG performance is an essential agenda for stakeholders as a form of commitment and a positive reputation for the company.

The result from Li et al. (2019) states that ESG performance is a form of transparency and accountability to gain stakeholder trust and increase firm value. Positive signals from society regarding ESG performance represent communication aimed at investors for information needs, thus generating investment decisions and creating firm value (Fatemi et al., 2018). Research from Yoon et al. (2018) explains that ESG performance positively influences firm value in developing countries.

Results of Hypothesis 2 Testing

Table 4
Hypothesis 2 Test

Variable	**Sample *High Profile***		**Sample *Low Profile***	
	Coefficient	**Probability**	**Coefficient**	**Probability**
ESG Performance	0,015	0,001	0,001	0,826
Asset Growth	-0,941	0,876	0,628	0,117
Size	-0,907	0,000	-0,533	0,004
Leverage	-0,020	0,392	0,148	0,000
Profitability	5,088	0,000	0.950	0,010
Wald Chi^2	241,38	0,0000	130,76	0,0000
Observations	418		369	

The ESG performance coefficient for high-profile companies is 0.015, which is significant at 0.001. These results indicate that the hypothesis suggesting ESG performance positively affects firm value in high-profile industry types is significantly supported. The regression results for asset growth show a coefficient of -0.941 and a significance value of 0.876, indicating that company asset growth is not supported. The firm size variable has a coefficient of -0.907 with a significance value 0.000, indicating that firm size is not supported. The leverage variable has a coefficient value of -0.020 and a significance of 0.392, indicating that the leverage variable is not supported. The profitability variable shows a coefficient value of 5.088 with a significance of 0.000, thus being significantly supported.

The ESG performance coefficient for low-profile companies is 0.001, significant at 0.826. These results indicate that ESG performance in low-profile industry types does not influence firm value. Thus, only ESG performance in high-profile industry types positively affects firm value. The regression results for asset growth show a coefficient of 0.628 and a significance value of 0.117, indicating that company asset growth is not supported. The firm size variable has a coefficient of -0.533 with a significance value of 0.004, indicating that firm size is not supported. The leverage variable has a coefficient value of 0.148 and a significance of 0.000, indicating that the leverage variable is significantly supported. The profitability variable shows a coefficient of 0.950 with a significance of 0.010. Thus, the profitability variable is significantly supported. These findings substantiate hypothesis 2, confirming differential ESG performance effects on firm value between industry types.

Ding et al. (2023) revealed that companies with higher carbon emissions (high-profile industries) tend to disclose more climate-related information in their annual reports. This aligns with Patten's (1991) theoretical argument that high-visibility sectors are compelled to enhance ESG performance to mitigate social criticism and conflict. Patten (1991) explains that industries with high visibility (high profile) will be driven to improve ESG performance to avoid criticism and social conflict from society.

Roberts (1992) explains that high-profile types have operational business risks that can intersect with community interests. Based on legitimacy theory, companies with business activity risks that may intersect with society need to create positive company value and, therefore, need to perform ESG performance as well as possible. This is to obtain legitimacy from society and create positive signals for investors. In America and Europe, (Gray et al., 1995) found that companies tend to create positive value for high-profile company categories to obtain societal legitimacy, encouraging companies to make more environmental and social disclosures compared to low-profile companies.

CONCLUSIONS

Increased corporate ESG performance can enhance firm value. This indicates that company stakeholders provide positive responses to corporate ESG performance. This ESG performance can be a positive signal from companies to improve operational transparency, financial accountability, reputation, and corporate sustainability responsibility. ESG performance of companies in high-profile industry types can influence the increase in firm value. Industries with high visibility (high profile) will be motivated to improve ESG performance to avoid criticism and social conflict. This indicates that ESG performance in high-profile companies aims to obtain social legitimacy to provide investors with positive signals and financial transparency.

This study covers a sample period from 2014 to 2019, thus limiting it to the pre-COVID period. Future research could conduct studies during the COVID period and post-COVID for comparison. Another limitation of this study is the limited measurement of ESG performance using the ESG Score. ESG performance measurement can use environmental, social, and governance indicators. This presents an opportunity for future research to use environmental, social, and governance indicator measurements to assess ESG performance. In addition, future research can examine the relationship between corporate innovation and ESG performance due to the rapid and complex development of technology.

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