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Research Paper

Impact of Environmental, Social, and Governance (ESG) Disclosures on Firm Value: Study of 5 ASEAN Countries

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ABSTRACT

Because stakeholders are becoming more aware of environmental, social, and governance issues, businesses today should focus on sustainability as a goal in addition to maximizing profits. This study examined 294 companies listed on the ESG Bloomberg index for four years to see how Environmental, Social, and Governance (ESG) Disclosure affects firm value in 5 ASEAN countries (2018-2021). Tobin's Q is the dependent variable, while ESG Disclosure is the independent variable. Profitability, leverage, company size, GDP, and COVID-19 were employed as the study's control variables. Although measuring ESG subcomponents separately demonstrated that the relationship between environmental and social disclosure and Tobin's Q and governance disclosure is favorable, negatively to Tobin's Q. This study has certain limitations due to the small number of businesses with ESG scores.

HIGHLIGHTS

- This paper studies the factors influencing firm value in 5 ASEAN Countries. In the course the study examines the effect of listed companies' environmental, social, and governance (ESG) disclosure on Firm Value.

Keywords: ESG Disclosure Score, Environmental, Social, Governance sustainability, firm value

By 2030, all publicly traded firms are required, according to the United Nations Sustainable Stock Market, to publish the effects of their governmental, social, and environmental factors (ESG) activities (Sustainable Stock Exchange, 2015). ESG disclosures typically vary greatly because ESG information is non-financial disclosure and does not adhere to a standard format like financial disclosures. In recent years, reporting on sustainability has grown in popularity. 2020 KPMG Survey of Sustainability Reporting findings states that 80% of the largest firms in 52 countries say their sustainability performance and the GRI standards remain the global standard for sustainability reports. In contrast to 2000, when only 48 organizations disclosed sustainability reports, thousands of organizations across more than 100 countries have made their sustainability reports public. This graph shows how the world is becoming more concerned about sustainability issues (Tempero, 2019).

ESG factors could motivate businesses to take practical environmental and social measures that are consistent with prioritizing the interests of investors. With increased interest in valuing using ESG criteria, investors need a mechanism to analyze a company's ESG performance objectively. A few ESG Rating Agencies have emerged, rating businesses globally based on their ESG performance. This ESG disclosure score is intended to assist investors in recognizing and comprehending the financial ESG risks to their company. Thus,

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quantitative information is qualitative. Businesses are rated based on publicly accessible data, including annual reports, media sources, and sustainability reports. Scores are assigned for each material topic, or "E," "S," and "G," in addition to the overall rating. Businesses with strong ESG performance are better equipped to foresee future risks and opportunities, have a stronger propensity for long-term strategic thinking, and concentrate on long-term wealth development.

As the region has grown increasingly conscious of the looming threats posed by climate change, attention to ESG practices has increased. The rise of ESG investments, which has recently spread around the globe rather quickly, is currently in Asia, particularly in ASEAN member countries. Thailand Stock Exchange ranked ninth out of 47 stock exchanges globally, the highest of all business regions, according to Corporate Knights research, Measuring Sustainability Disclosure Report in 2019. Malaysia Ordered 22, 24, 30, and 36 were the Stock Exchange, Singapore Stock Exchange, Philippines Stock Exchange, and Indonesia Stock Exchange (Darton, 2019).

Southeast Asia has been the engine of Asia's tremendous economic growth for the past few decades. Which nations in the region are members of the South East Asian Countries Association (ASEAN)? With 11 countries and a population of more than 675 million young population, ASEAN is a growing region centrally placed in Asia-Pacific. ASEAN is also an economic bloc with one of the world's fastest GDP growth rates and is quickly gaining prominence (Vinayak *et al.* 2014).

By employing ESG measurements from Bloomberg, the study intends to assess the three components of the ESG disclosure score's impact on firm values in 5 ASEAN countries and identify the key factors affecting business value. Most studies only consider one of the ESG's sub-components, not all of them. The governments of the five nations have mandated specific ESG disclosure formats, and all of their stock exchanges are participants in the Sustainable Stock Exchange Research. Researchers believe it is essential to study the ASEAN region because of its unique growth, environment, political turbulence, and cultural diversity. This region is expected to experience the same phenomenon as wealthy nations. This study adds to the body of knowledge by presenting empirical data on the link between ESG results and company value. This study also summarizes the findings of earlier studies that demonstrate how learning about the environment, society, and governance enhances firm value.

LITERATURE REVIEW

Legitimacy theory, stakeholder theory, and signal theory are the fundamental ideas utilized to create hypotheses about the impact of ESG performance on business value. According to validity theory, management can affect how the public views the business. Earlier studies conducted in the United States (Alareeni & Hamdan, 2020) have shown that environmental, social, and governance performance has an upward trend in business value. The business will try to send signals to those who read financial accounts, including prospective investors. Investors can receive a password from a firm through an ESG disclosure, which details the company's environmental, social, and governance activities. The use of ESG is seen as a type of corporate communication with all the company's parties. This legitimacy theory is a firm management system focused on taking sides, whether it be to the community, government, individuals, or other organizations, as Gray *et al.* (1996) stated. This assertion is further supported by (Braam *et al.* 2016). As a result, this will suggest that businesses will build a social compact that will eventually result in environmental and social disclosures. This signaling theory can explain voluntary disclosure(Ching *et al.* 2017). Companies voluntarily provide information when communicating sustainability performance to lessen the knowledge asymmetry between management and stakeholders. (Schneider *et al.* 2018). One example of an effort to alert its stakeholders, particularly investors, is ESG disclosure. The pressure the corporation faces from its stakeholders to act in a socially responsible manner is related to this signal. Companies hope to demonstrate their commitment to environmental ethics by disclosing information. Investors should be able to accurately assess the company's risk concerning their company's future as a result of this disclosure risk related to their company's prospects.

Earlier studies conducted in the United States

(Alareeni & Hamdan, 2020) have shown that environmental, social, and governance performance has an upward trend in business value. The business will try to send signals to those who read financial accounts, including prospective investors. Investors can receive a signal from a firm by way of an ESG disclosure, which details the company's environmental, social, and governance activities. The company will try to give investors the most accurate information possible regarding the company's state. Tobin's Q is a ratio that can gauge a company's performance and represent its value. The improved value of the firm can be impacted by an increase in the stock price of non-financial disclosure information as a signal of the company. A market reaction occurs when there are fluctuations in the price and volume of stock trading in response to business signals.

The market's response will also be positive if the company's signal or news is positive. This will affect the rise in trading activity, which raises stock prices and increases firm value. Because the corporation will gain weight from this ESG disclosure, which will reduce business risk. (Buallay, 2018). If a company has a high market value, its performance will improve. Yet, it was discovered (Statman & Glushkov, 2009) that strong ESG performance is not reflected in stock prices. Finally, the corporation anticipates that the increased expenses associated with implementing the ESG strategy would be offset by improved performance, stable income, and reduced returns. This description leads to the following hypothesis:

H_1: ESG disclosure has a positive impact on Firm Value

H_2: Environmental exposure has a positive effect on Firm Value

H_3: Social exposure has a positive impact on Firm Value

H_3: Governance disclosure has a positive effect on Firm Value

RESEARCH METHODOLOGY

A panel data regression model was employed in this study to test the research hypothesis that independent variables impacted the dependent variable.

Sample Selection

The study depends on the selected sample, which are 1224 observations from listed firms 5 ASEAN countries stock exchange: Indonesia's Bursa Efek Indonesia, Malaysia's Bursa Malaysia, the Philippines' Philippine Stock Exchange, Inc., Singapore's Singapore Exchange Limited, and Thailand's Stock Exchange for the years 2018 through 2021.

Research Instrument

The information used was all gathered from Bloomberg. ESG Disclosure is the independent variable determined by Bloomberg's ESG Score. Environmental, Social, and Governance Disclosure scores from Bloomberg are essential indexes for ASEAN-listed companies. Bloomberg's scoring system has a null disclosure core of 0 and an entire disclosure core of 100 sore of 100. Dependent variables (firm value) have been measured using market performance (TQ) (Alareeni & Hamdan, 2020) (Buallay, 2018). This study used a variety of control factors to regulate the company characteristics, including ROA, leverage, and company size, which can affect firm value (Gaur *et al.* 2014). This analysis employs the GDP Real and COVID-19 to adjust for differences in national characteristics. The macroeconomic regulating factors: Endogeneity frequently emerges in integrated report research with an economics focus. Three issues are associated with endogeneity: correlated variables, reverse causation, and simultaneity (Buallay, 2018) (Larcker & Rusticus, 2010). Since these countries differ in technological prowess, intellectual property regimes, economic growth, and location, macroeconomic parameters are considered as regulating variables to deal with these concerns. Thus, the study's control variable is gross domestic product (GDP).

Data Collection

The information used in this study, like in Table 1, is secondary because it gathered scores derived from financial statements and the Bloomberg Terminal. Public enterprises from five ASEAN countries listed on the stock exchange were utilized as samples.

Table 1: Description of the Study Variables

Variable	Definition	Description
Tobin's Q	Firm Value	According to Tobin's Q. Tobin's Q is equal to the firm's total assets I divided by the sum of its current liabilities and share capital's market value for the time (t)
ESG Disc	Firm disclosure of its governance, social, and environmental conditions	The EVN, SOC, and COG indices of firm I are all disclosed in the ESG Bloomberg index for the relevant period (t)
EVN	All of the firm (disclosure) for the period is included in the ESG Bloomberg index, including the EVN, SOC, and COG indexes (t)	The EVN Bloomberg index tracks a company's disclosure of its energy use, waste, pollution, use of natural resources, and treatment of animals over a specific time frame (t)
SOC	Public Disclosure	This SOC Bloomberg rating examines the firm's employees' health and safety as well as the disclosure of any commercial relationships, donations, and volunteer work over a year)
GOV	Governance Transparency	The firm's disclosure of its corporate governance code is measured by the GOV Bloomberg index I across the period (t)
ROA	Return on Assets	Control variable measured by net income to total assets of the company I at the time (t)
Size	Firm Size	Total company assets I as a control variable for the period (t)
FIN	Leverage your resources	Total debt to total equity of the company I as a control variable in the period (t)
GDP	GDP Real	Control variable measured by GDP Real from World Bank
Covid	Covid-19	1 for relevant covid 2020-2021 and 0 for before covid 2018-2019

Table 2: Description of the Study Variables

Description	Sample	Observation
ASEAN nations are included in the Bloomberg ESG Index.	330 companies	1320 observations
Companies with missing information male	34 companies	324 observations
Last Sample	306 companies	1224 observations

RESULTS

Descriptions Statistic

The independent, dependent, and control variables in this investigation are described statistically in Table 3, along with some general statistics. This study used 1224 observations, which is the number used in the sample. The lowest value for the firm value (Tobin's Q), the dependent variable, is 0.41, and the highest value is 17.78. The most negligible business worth was Hongkong Land Holdings, Ltd from Singapore in 2020; the highest firm value was PT Unilever Indonesia Tbk in 2018.

The lowest value of the first independent variable, the ESG Score (ESG), is 15.723, and the greatest value is 80.68. The business with the lowest score was Jardine Matheson Holdings Ltd. from Singapore in 2019. Meanwhile, the company with the highest ESG score is PTT Global Chemical PCL from Thailand in 2020, whereas the average score assessment for ESG in ASEAN is 46.454.

Table 3: Descriptive Statistics

Variable	Sample	Max	Min	Mean	SD
Tobin's Q	1224	0.411	17.678	1.504	1.410
ESG Disc	1224	15.723	80.807	46.454	10.922
ENV	1224	0.330	80.807	29.088	18.742
SOC	1224	5.925	74.214	30.329	11.616
GOV	1224	27.152	98.615	79.821	9.796
ROA	1224	-12.759	32.783	4.297	6.170
LEV	1224	0.052	441.087	82.395	74.607
SIZE	1224	5.153	20.617	11.486	3.612
GDP	1224	5.815	6.971	6.138	0.420
Covid-19	1224	0.000	1.000	0.500	0.500

The second independent variable, the ESG Environment Score (ENV), has the lowest value of 0.33; the most significant matter is 89.10. The business with the lowest rating was Muangthai Capital PCL from Thailand in 2018. Meanwhile, the industry with the best ESG rating is PTT Global

Chemical PCL from Thailand in 2020. The ESG Environmental Score's typical rating for companies in ASEAN is 29.088.

The third ESG Social Score, a variable that is not dependent (SOC), has the lowest value of 5,295, and the maximum value is 89.86. The business that received the lowest rating was Wing Tai Holding, Ltd. from Singapore in 2018. Meanwhile, the interaction with the best ESG rating is Banpu PCL from Thailand in 2021. The average score for ESG Social Score for companies in ASEAN is 30.329.

The fourth independent variable, the ESG Governance Score (GOV), has the lowest value of 27.152 and the highest value of 98.615. The company that scored the lowest score was Mandarin Oriental International Ltd from Singapore in 2018. Meanwhile, the company with the highest ESG score is Electricity Generating from Thailand in 2021. The average score for ESG Governance Score for companies in ASEAN is 79.821.

The average Governance disclosure value is 79.82and the highest among the ESG disclosure and other ESG components. It shows that the Governance disclosure level is improving in ASEAN Countries compared to Environmental and Social exposure; this is due to the obligation to carry out good corporate governance and disclose it in the report. And it could also be interpreted to mean that companies are increasingly transparent in conveying information about their management.

Factors influencing Firm Value

Five control variables were employed in this study: firm size, ROA, leverage, GDP-based effects at the country level, and COVID-19. The first model investigates the impact of overall ESG disclosure on solid value. The second model looks at how ESG Environmental disclosure compares to firm value. The third model looks at how ESG Social disclosure compares to Firm Value. The fourth model investigates the contribution of ESG Governance activities on solid matter. Table 4's descriptive analysis and regression test results indicate that, among ASEAN enterprises, The highest value is seen in the average degree of

Table 4: Regression Result

Variable		**Tobin's Q**			
Dependent	+/-	1	2	3	4
ESG Disc	+	0.003			
		(0.000)***			
ENV	+		0.002	0.009	
SOC	+		(0.000)***	(0.000)***	
GOV	+				-0.001
					(0,034)**
ROA	+	0.060	0.000	0.029	0.060
		(0,001)**	(0.001)**	(0.000)***	(0.001)**
LEV	+	0.000	0.000	0.000	0.000
		(0.184)	(0.224)	(0.461)	(0,485)
SIZE	+	-0.259	-0.264	-0.419	-0.627
		(0.000)***	(0.000)***	(0.000)***	(0.000)***
GDP	+	-0.646	-0,687	-1.532	-0,697
		(0.000)***	(0.000)***	(0.000)***	(0.000)***
Covid-19	–	-0.061	-0.055	-0.098	-0.048
		(0.000)***	(0.000)***	(0.000)***	(0.000)***
N Observations		1224	1224	1224	1224
Prob > F		0.000	0.000	0.000	0.000
R Square		91%	91%	89%	92%

*The number represents the coefficient value in the first row, and the p- p-the number in brackets means the p-valued and affects it at the national level compared to all models. The symbols *, **, and *** denote the statistical significance of the regression test results of 10%, 5%, and 1%, respectively.*

governance disclosure, followed by the intermediate level of social exposure, and the mean level of environmental exposure has a group of disclosure.

The regression analysis result showed that ESG Disclosure has a Significantly positive correlation with Tobin's Q, as evidenced by the lower-than-5% p-value (0.05). This indicates that ESG has a considerable and favorable impact on the firm's Tobin's Q.H1 is thus validated in that overall ESG Disclosure impacts business value. This demonstrates that a higher ESG Disclosure score has a favorable effect on the firm value. The value of the company is increased through more ESG transparency. This might be because yearly ESG disclosure improves the firm's performance and public perception. The outcome is consistent with earlier studies indicating a favorable relationship between firm value and ESG Disclosure (Alareeni & Hamdan, 2020), (Buallay, 2018), (Yoon *et al.* 2018), (Yu *et al.* 2018), (El Ghoul *et al.* 2017), (Bachoo *et al.* 2013). However, this result goes against prior studies that claimed no proof of a connection between ESG and business value (Velte, 2017) (Orlitzky, 2013).

Even if the ESG results revealed a strong positive impact on the firm value, dividing the ESG indicators could provide a different outcome about the link with the firm value. First, it was discovered that environmental disclosure was positively correlated with Tobin's Q. This finding suggests that the revelation of environmental practices dramatically influences the market value of a physical asset. Furthermore, ecological disclosure is essential and practical in ASEAN nations. According to (Alareeni & Hamdan, 2020) (Buallay, 2018), (Akrout & Ben Othman, 2016). This result contrasts with that of (2016), which found no connection between environmental disclosure levels and firm performance, and that of (Zeng *et al.* 2011), which found that implementing environmental management requires additional resources, which increases costs for the business and lowers firm value.

The second finding showed that social disclosure favorably affected firm value. The results demonstrate a robust positive association between social revelation and business market success as measured by Tobin's Q. This finding suggests that businesses in the ASEAN region view social responsibility as the primary factor influencing market performance. This study supports (Alareeni & Hamdan, 2020). Yet, research from (Braand Zimmer *et al.* 2006), (and Buallay, 2018) suggests that disclosing a company's CSR activities has a detrimental influence on firm value. It was discovered that the third disclosure of corporate governance has a damaging impression value, indicating corporate governance disclosure lowers Tobin's Q (healthy assets market value). This result aligns with (Giroud & Mueller, 2010) (Bauer *et al.* 2004). The findings (Alareeni & Hamdan, 2020), (Buallay, 2018), (Cheung *et al.* 2014); and (Black *et al.* 2006) that show a company with good governance has a positive impact on firm value are incongruent with this result. By implementing good corporate governance, a company could reduce shareholder conflicts and transaction abuse by interested parties, increasing profitability and firm value. At the same time, findings from (Huang *et al.* 2020) in Australian governance have a bearing Australia company value. Investors should demand that companies disclose their ESG performance as a component of their overall performance for this research. Also, the literature evaluation on the effect of ESG on business performance is anticipated to benefit from this research.

CONCLUSION

This study intends to ascertain the effect of ESG disclosure on company valuations for public companies in 5 ASEAN nations. The study's model successfully explains the connection between the dependent and independent variables. The following study conclusions are reached based on the experiments' outcomes: Companies in the ASEAN region's ESG performance, as measured by the ESG Disclosure score, significantly increase corporate value. Tobin's Q is positively correlated with environmental and social disclosure, but Tobin's Q is adversely connected with governance disclosure, according to a separate analysis of ESG subcomponents. Based on the data, it can be deduced that, generally speaking, the ASEAN region's companies will have higher firm values and better ESG performance.

In contrast, the opposite is true if their performance is poor. Currently, it is seen that the government authorities of countries in ASEAN have been moving. Establishing and implementing sustainable reporting will help the corporate community, public relations, and sustainability. This study only covers the leading ASEAN countries included in the ESG Bloomberg even though ASEAN has more than five member countries, so the results do not represent all ASEAN member countries. This conclusion is valid only for the countries studied. The findings of this study may be helpful to several parties, including the government or authorities. The study should be able to persuade businesses to perform sustainability reporting.

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