THE EFFECT OF ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) DISCLOSURE AND SHARIAH-COMPLIANCE ON FIRM PERFORMANCE AMONG LISTED FIRMS IN MALAYSIA

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ABSTRACT

This study aims to examine the effect of environmental, social, and governance (ESG) disclosure and Shariah-compliance status on firm performance and if the relationship between ESG disclosure and firm performance is moderated by Shariah-compliance status. Data on ESG disclosure and firm performance from 2020-2023 were sourced from Eikon DataStream. Shariah compliance status was hand-collected from the Securities Commission Malaysia's website. This study employs a regression model to test the hypotheses. We identify a significant positive relationship between ESG disclosure and Shariah-compliance status on firm performance. Additionally, the results also found that Shariah-compliance status strengthens the positive relationship between ESG disclosure and firm performance. Our study contributes to the understanding of stakeholders, authorities, decision-makers, and academics regarding how ESG disclosure affects a firm's performance. These results also gave investors more insight into the importance of ESG considerations when making investment decisions for Sharia-compliance firms. The results, which corroborate the link between ESG disclosure and improved firm performance, ought to motivate managers to invest in ESG practices.

Keywords: *Environmental, Social, and Governance (ESG), firm performance, Shariah-compliance*

1.0 INTRODUCTION

Recently, there has been rising public disapproval regarding the adverse impacts of firms on both the environment and society at large (Whetman, 2017). Criticism from the public would result in the firm's bad reputation or brand boycott, ultimately affecting third parties like markets and shareholders. Historically, investors have shown predominant concern with the amount of returns generated from an investment, and they often have concerns about how those returns have been produced. However, investor interest has increased towards the risks related to various non-financial variables, including environment, social responsibility, effective governance, and the environment in particular (Aydogmus et al., 2022). Thus, other than making a profit, firms are under pressure to intensify their efforts and concentrate on non-financial components of their business. These issues have increased the urgency of Environmental, Social, and Governance (ESG) disclosure to be prepared by the firms.

Firms are now prioritising sustainable development goals (SDG) and ESG issues. The United Nations has set forth the SDG as a global goal, while ESG is a rating system that firms use to assess their ESG credentials, which is essential to their stakeholders, especially investors. ESG disclosure is one of the ways for firms to demonstrate their commitment and responsiveness towards environmental stewardship, social responsibility, and ethical governance practices (Cho & Patten, 2007; Tilba, 2022). This supports the legitimacy theory, suggesting a positive effect between firm performance and ESG quality. Firms can improve their access to capital by attracting socially responsible investors, indirectly enhancing their reputation and brand value. With these, firm performance will be improved over the long term.

The relationship between ESG and firm performance has been widely discussed in academic literature (Tarmuji et al., 2016; Minutolo et al., 2019). In addition to perspectives on ESG disclosure, ethical ideals are also drawn from religion. According to Longenecker et al. (2004), religion has typically been shown to be a possible source of moral behaviour for corporate firms. Shariah-compliance basis and ESG disclosure are complementary investment strategies with several shared principles, including being accountable to society and the environment, even though both principles were established in different historical and cultural settings (Muhammad et al., 2022).

This study aims to achieve three objectives. Firstly, examine the effect of ESG disclosure on publicly listed firm performance in Malaysia. Secondly, to identify the effect of Shariah-compliance status and publicly listed firm performance in Malaysia, and lastly, to examine the moderating effect of Shariah-compliance status on ESG disclosure and publicly listed firm performance in Malaysia. Our main contribution is to provide new evidence concerning the combined effect of ESG and Shariah compliance status on firms' performance among publicly listed firms in Malaysia. One advantage of researching a single market in Malaysia is that it is a regulated environment where all the firms operate under the same rules and regulations and have similar market conditions.

2.0 LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

2.1 Underpinning Theories

The Stakeholder theory built by Freeman (1984) suggests that a firm's real success lies in satisfying all its stakeholders, not just shareholders. Firms must accommodate the demands and desires of their stakeholders to maintain positive relationships with all of them. According to Freeman (1984), stakeholders include individuals or groups with an interest or are affected by the firm's activities. Making the ESG disclosure available to stakeholders effectively keeps relationships strong and will cultivate sustainable business models (Narula et al., 2024). It is anticipated that satisfying these information needs will enable the firms to build positive relationships with stakeholders (Adhima, 2013). As a result of this disclosure, stakeholders will have more faith in the business, which will help it perform better financially (Agustina et al., 2020).

Legitimacy theory is predicated on the idea that firms always work to ensure that their operations comply with the laws and societal norms that are in place (Deegan, 2000). According to Dowling and Pfeffer (1975), firms strive to achieve congruence between their values or behaviours and societal norms. They wish to ensure that the firm they own and operate is a genuine and lawful organisation. The legitimacy theory implies that society has performance standards for businesses. If businesses can live up to the community's expectations, they will be deemed to have conducted their activities by societal rules and norms (Sahida et al., 2020). As a kind of corporate responsibility towards society, firms are obligated to consider the rights of the community as a whole, including social, environmental and governance rights. This indicates that the firms will provide reports voluntarily to demonstrate that their business activities align with the expectations of the community at large. Thus, the firm with ESG disclosure would attract a broad range of investors who prioritise sustainability and social responsibility. Hence, this can increase capital flow and enhance firm performance (Fu & Li, 2023).

2.2 ESG Disclosure and Firm Performance

ESG framework has been integrated into business development strategies and operational management procedures. The relationship between ESG and firm performance has been widely discussed in academic literature (Tarmuji et al., 2016; Minutolo et al., 2019). ESG disclosure by firms can improve information transparency and lower financing costs by addressing agency issues and information asymmetry (Fatemi et al., 2015). This is consistent with stakeholder theory, where sustainable stakeholder relationships can be built to achieve sustainability and enhance a firm's performance through ESG practices.

Stakeholder theory is a conceptual framework that assists in understanding the connections between an organisation and all the individuals or groups interested in its activities (Alsayegh et al., 2020). Stakeholder theory suggests that organisations should prioritise the interests and welfare of all stakeholders, such as shareholders, employees, customers, suppliers, communities, and the environment, rather than solely focusing on maximising shareholder value as traditional business models do.

According to a previous study by Cho and Patten (2007), ESG disclosure is one way for firms to demonstrate their commitment and responsiveness towards environmental stewardship, social responsibility, and ethical governance practices. Based on a recent study by Fu and Li (2023), firms that include ESG concepts in their plans typically draw in a larger pool of investors that place a high value on social responsibility and sustainability, which would improve firm performance over the long term. In addition, ESG practices can mitigate legal, regulatory, and reputational expenses that could negatively impact a firm's financial performance by helping it manage environmental and social risks more effectively and efficiently (Chang & Lee, 2022). ESG standards can also help with cost control, staff retention, and innovation, resulting in longer-term growth possibilities that are more sustainable. This study is consistent with the study done by Pulino et al. (2022), where their findings reported that customers do value and recognise the importance of the environmental and social initiatives that the company promotes, which directly leads to increased revenue.

A recent study by Zhou et al. (2023) discovered that firms with higher ESG performance typically execute more sustainably and innovatively. Due to innovation performance, products are created and built to allow for recycling, reuse, and decomposition. Furthermore, green technology innovation makes businesses more able to satisfy consumers with recently developed items, boosting their ability to compete in the global market. This would contribute to lowering energy usage and production costs while improving firm productivity and performance. This is also consistent with the study done by Chang and Lee (2022), where they found that performance will improve when firms increase their investment in sustainable development.

Conversely, some studies found that ESG disclosure is unimportant for the financial performance metric. Oprean-Stan et al. (2020) explained that a firm that discloses information on sustainability aspects can decrease its market performance. King and Lenox (2002) also provided a possible reason for this, arguing that information about sustainability can take two years to influence financial performance. Besides, the majority of businesses today deal with problems, including low capacity and expensive ESG procedures, which significantly reduce their intrinsic incentive to fulfil ESG commitments (Cong et al., 2023).

However, more firms are incorporating ESG practices in their business policies to reinforce their relationship with society and employees (Lee & Isa, 2022). According to the stakeholder theory, ESG practices should benefit all parties involved, including customers and employees, as demonstrated by better stakeholder behaviour (Fauver et al., 2018). Stakeholder theory-based research provides evidence that socially and environmentally conscious firms can strengthen their bonds with diverse stakeholders and enhance their overall performance (Alareeni & Hamdan, 2020; Wan-Hussin et al., 2021; Wong et al., 2021). According to Wong et al. (2021), ESG practices boost firms' value, as determined by Tobin's Q and reduce the cost of capital.

Based on the above discussion, we feel that the argument for the positive impact of ESG practices on performance is more compelling than its competing view. Following the stakeholder and legitimacy theory, we expect ESG disclosure to improve financial performance. Hence, we test the following hypothesis:

H1. ESG disclosure positively affects firm performance among listed firms in Malaysia.

2.3 Shariah-Compliance and Firm Performance

Shariah is the core religious concept of Islam. It is a form of Islamic law that establishes rules that Muslims must abide by relating to their spiritual, mental, and bodily conduct. Shariah law includes moral and ethical guidelines in addition to legal ones. It classifies all human behaviour into five categories: required, advised, allowed, discouraged, and prohibited. It is forbidden to engage in high-risk investments, prostitution, gambling, or the giving and receiving of interest (riba) (Hanafi & Hanafi, 2022). Muslims must abide by Shariah law in all aspects of their lives, including business dealings.

Within the context of a Shariah-compliance status, the process incorporates religious principles and laws enforced by outside organisations. Islamic beliefs expressly forbid businesses from engaging in contentious or uncertain business ventures, such as manufacturing or selling alcoholic beverages, running casinos, engaging in operations related to pork or other illegal ventures, or taking undue risks. Additionally, firms are screened based on qualitative factors such as how the general public views their adherence to Islamic principles, firm practices that comply with Shariah, and financial ratio benchmarks. The prohibitions encourage moral behaviour that improves human welfare (Alsaadi, 2021).

In Malaysia, firms requiring verification for a Shariah certificate must provide the Shariah Advisory Council (SAC) with a report by a specific date. The stock list of firms that comply with and do not comply with Shariah is subject to periodic review and update by SAC. According to the Securities Commission of Malaysia (2023), to ascertain the Shariah status of the listed securities, the SAC uses a two-tier quantitative technique that employs financial ratio standards and business activity benchmarks. Under the financial ratio benchmarks, the technique will assess riba and riba-related components included in a firm’s financial situation statements. SAC will consider two financial ratios: cash over total assets and debt over total assets. While under the business activity benchmark technique, the SAC of the Securities Commission of Malaysia (SC) assesses the degree to which mixed contributions from permissible and non-permissible activities towards turnover and profit before tax are made by businesses whose operations include both permitted and non-permissible activities. The SC SAC uses benchmarks based on Ijtihad-Shariah-based reasoning. Subsequently, if the security's financial ratios and business activities fall below these benchmarks, they will be categorised as Shariah-compliance (Securities Commission Malaysia, 2023).

Legitimacy theory posits that firms maintain their legitimacy by conforming to societal norms, values, and expectations. The Shariah-compliance status of firms is crucial for maintaining legitimacy among stakeholders, including investors, customers, suppliers, employees, and regulatory bodies. By adhering to Shariah principles, Shariah-compliance firms uphold their legitimacy within Muslim communities and the broader society (Deegan & Blomquist, 2006). In addition, to perspectives on ESG disclosure, ethical ideals are also drawn from religion. Research has demonstrated that religion significantly impacts firm governance and behaviour (Du et al., 2015; Gupta et al., 2022; Kim & Daniel, 2016; Murphy & Smolarski, 2020; Nakpodia et al., 2020).

Anwer et al. (2021) discovered that Shariah-compliance firms typically have reduced development prospects, but bigger stock repurchases and dividends to shareholders as a result of their internal funding and higher profitability, as demonstrated by retained earnings. According to Alnori and Bugshan (2023), shariah-compliance firms depend less on outside capital to avoid expensive and restricted financing. Thus, they maintain ample cash reserves to avoid transaction fees, which enhances their performance (Alnori & Bugshan, 2023; Guizani & Abdalkrim, 2021).

According to a study conducted in the Gulf, firms that adhere to Shariah pay more dividends than their non-compliant counterparts (Farooq & Tbeur, 2013). Shariah-compliance firms yield higher returns than shares that are not compliant (Foo & Weng, 2014). According to Habib and Islam (2014), the Malaysian Islamic index outperforms the conventional index. At the same time, Shariah and regular indexes perform similarly in the Indian stock market (Dharani & Natarajan, 2011). However, due to a lack of evidence from the Malaysia perspective and inconclusive findings on the effect of shariah compliance status on firm performance, this study proposed the following hypothesis:

H2: Shariah-compliance status has a positive relationship with firm performance among listed firms in Malaysia.

2.4 ESG Disclosure, Shariah-Compliance and Firm Performance

Shariah-compliance basis and ESG disclosure are complementary investment strategies that have several shared principles, including being accountable to society and the environment, even though both principles were established in different historical and cultural settings (Muhammad et al., 2022). The existence of Shariah-compliance status will strengthen the positive relationship between ESG disclosure and firm performance. This aligns with the Shariah-compliance status of firms that integrate sustainability principles into their operations, reflecting the broader Islamic ethical framework that emphasises social responsibility and accountability.

Firms that fulfil both screens are, therefore, extensively ethical as they fulfilled both the inclusion of the ethical initiatives criteria and the exclusion of the non-ethical stocks criteria. However, despite the great interest in the Islamic market, there has not been much research on combination screening (Lee & Isa, 2022). Thus, with the current interest in Islamic market research and firms' ESG practices, it would be exciting and beneficial to conduct ESG studies towards firms' performance and whether Shariah-compliance firm status would interfere with the relationship.

A study by Khattak et al. 2020 demonstrates that ESG disclosure improves financial performance for shariah-compliance firms. They argued that consumers like businesses that follow Shariah and have sustainable operations. A plausible explanation for the disparity in the impact could be that firms adhering to shariah adhere to stringent screening standards and meet specific activity levels, hence reaping higher advantages (Azmi et al., 2019). Conversely, Agustin (2023) discovers the benefits of integrating ESG and Shariah screening processes to build proficient risk-adjusted portfolio returns, especially during exogenous shocks, such as the Global Financial Crisis. He added that Shariah compliance screening can improve ESG performance as they have much in common. Besides, Ariff et al. (2023) also found that the positive association between ESG performance and cash holdings was more significant for Shariah-compliance firms compared to non-Shariah compliance firms.

According to Lee (2019), investors can confidently choose to invest in firms that participate in ESG initiatives and are not just morally upright but also excellent corporate citizens. With this information at hand, firms' managers would be well advised to actively participate in ESG initiatives while simultaneously deliberately striving for Shariah compliance. Accordingly, the following hypothesis was developed:

H3: Shariah-compliance status moderates the relationship between ESG disclosure and firm performance.

2.5 Conceptual Framework

The main objectives of the study are threefold; first, to examine the effect of ESG disclosure and publicly listed firm performance in Malaysia; second, to identify the effect of Shariah-compliance status and publicly listed firm performance in Malaysia, and third, to examine the moderating effect of Shariah-compliance status on ESG disclosure and public listed firm performance in Malaysia. To meet these objectives, below is the proposed concept for this study.

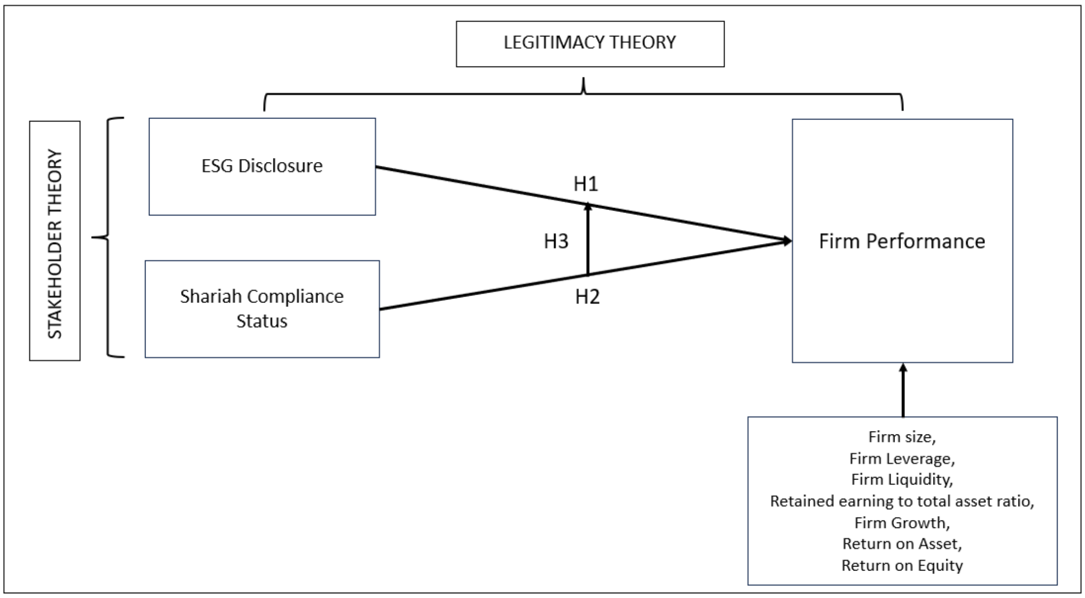

Fig.1 *Conceptual Framework (source by author)*

Figure 1 visualises the conceptual framework of this study. The independent variables are ESG Disclosure and Shariah-compliance status. The dependent variable is firm performance (Tobin's Q). The control variables are firm size, firm leverage, firm liquidity, retained earnings to total assets ratio, firm growth, return on asset and return on equity.

3.0 DATA AND METHODOLOGY

3.1 Data

The population in this study are publicly listed firms from Main Market Bursa Malaysia. This study excluded the firms under the Banking and Financial Institution Act (BAFIA) due to high volatility and different regulations. Besides that, firms under Initial Public Offering (IPO), firms with insufficient data and extreme outliers were also excluded. The final sample of this study consists of 331 firms (812 firm-year observations) from 2020 to 2023.

The financial data and ESG scores were collected from Eikon DataStream. Meanwhile, data on the Shariah compliance status was hand-collected from the Securities Commission Malaysia.

3.2 Measurement of Variables

Firm performance was measured based on market valuation, which is proxied using Tobin's Q. Tobin's Q is an indicator that has been used the most in prior research to measure firm performance (Lee & Isa, 2022; Soa & Tran, 2019). This study measured Tobin's Q by the ratio of market capitalization plus total liabilities over total assets. The primary data on the ESG scores were extracted from the Eikon DataStream. The ESG scores were the cumulative scores from ESG divided by 100. The ESG scores cover the following categories and their respective components:

- Environmental pillar, measures a firm's impact on living and non-living natural systems, as well as complete ecosystems;
- Social pillar, measures a company's capacity to generate trust and loyalty with its workforce, customers and society, through its use of best management practices; and
- Governance pillar, measures a firm's systems and processes, which ensure that its board members and executives act in the best interests of its long-term shareholders.

In addition, Shariah-compliance status was measured by a dummy variable of 1 if the firm had Shariah-compliance status, a value of 0 otherwise.

This study controls financial characteristics that may influence the main findings. The control variable includes firm size, calculated by the natural logarithm of total assets; firm leverage, calculated using the ratio of total debts to total assets; firm liquidity, which is measured using the ratio of current assets to current liabilities; RE/TA, which is computed as retained profit scaled by total asset; firm growth, calculated using ratio of current revenue minus last year revenue over last year revenue; Return on Asset (ROA), measured using ratio of net income over total assets; and Return on Equity (ROE), which calculated by dividing net income over total equity. All variables and definitions used in this study are listed in Table 1.

Table 1. Variable description

Variable	Definition
Dependent variable	
TOBINSQ	Market value plus total debt to total assets
Independent/Moderating variables	
ESG	The environmental, social and governance scores from the Eikon database divided by 100
SCS	A dummy variable that takes value 1 for a Shariah-compliance firm identified based on Shariah-Compliance Status, 0 otherwise
Control Variables	Natural logarithm of total assets
FSIZE	The ratio of total debts to total assets
FLEX	The ratio of current assets to current liabilities
FLIQ	The ratio of retained earnings to total assets
RE/TA	Change of annual net sales over the past year sales
FGROWTH	The ratio of net income to total assets
ROA	The ratio of net income to total shareholder equity
ROE	Return on equity

The regression model used for testing the developed hypotheses is as follows:

$$TOBINSQ_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 SCS_{it} + \beta_3 ESG*SCS_{it} + \beta_k FIRMSVARS_{it} + \varepsilon \qquad (1)$$

Where TOBINSQ represents firm performance, ESG is the ESG score, SCS represents Shariah-compliance status, ESG*SCS represents the moderating effect between ESG and Shariah-compliance status, FIRMVARS are control variables, i and t denoting firm i at the end of year t.

3.3 Data Analysis Procedures

This study analysed the data using STATA software. The data of this study comprises panel data analysis as it is composed of cross-sectional and time series data. Then, the final sample of this study examined 812 listed firms in the Main Market from 2020-2023 using unbalanced panel data. Unbalance panel data was used due to the insufficient data on the ESG. The descriptive analysis was conducted to observe the characteristics of the variables. Then, the Pearson correlation analysis was conducted to observe the early relationship between all the variables and to identify any multicollinearity issues in the analysis Finally, the multiple regression analysis was conducted to answer the research questions and to test the hypothesis.

4.0 RESULTS AND DISCUSSION

4.1 Descriptive Analysis

Table 2 reports the descriptive statistics for all the variables. The results in Panel A of Table 2 show the proxy of the dependent variable. The results show that the average market-based performance proxied by Tobin's Q was 1.631, ranging from 0.28 to 15.481. The independent variables were reported in Panel B of Table 2. The mean value of the ESG score for the publicly listed Malaysian firms is 0.417, with a total score ranging from 0.049 to 0.914. The findings revealed that the average score of the ESG among publicly listed firms is still below 50%. The mean value for SCS was 0.840, indicating that 84% of the samples were Shariah-compliance firms.

The control variables are reported in Panel C of Table 2. The average firm size (FSIZE) was 9.313, with a range size ranging from 7.744 to 11.314. The average value for firm leverage (FLEV) was 0.448, and the average firm liquidity (FLIQ), measured by current ratios, was 2.667. The mean for the ratio of retained earnings and total assets was 0.204, with values ranging from -2.132 to 0.839, and the average firm growth was 0.130, with a range from -1.00 to 5.551. The negative value was due to the drop in the reported revenue for the current year compared to the last year. ROA and ROE have mean values of 0.058 and -0.057.

Table 2: Descriptive Statistics

	Min	Max	Mean	Median	SD
PANEL A					
TOBINSQ	0.28	15.481	1.631	1.102	1.556
PANEL B					
ESG	0.049	0.914	0.417	0.395	0.18
SCS	0.00	1.00	0.840	1.00	0.367
PANEL C					
FSIZE	7.744	11.314	9.313	9.195	0.691
FLEV	0.009	1.308	0.448	0.441	0.219
FLIQ	0.078	46.513	2.667	1.883	3.109
RE/TA	-2.132	0.839	0.204	0.22	0.305
FGROWTH	-1.00	5.551	0.130	0.075	0.502
ROA	-0.612	13.574	0.058	0.036	0.486
ROE	-116.698	4.849	-0.057	0.069	4.112

Note: Tobin's Q is the ratio of market capitalisation plus total liability over the total assets; ESG is the total score of environment, social, and governance divided by 100; SCS is a dummy variable that takes a value of 1 if the firms under the Shariah-compliance status, and a value of 0 otherwise; FSIZE is the natural algorithm of total assets; FLIQ is the ratio of current assets over current liabilities; FLEV is a ratio of total debts to total assets; RE/TA is a ratio of retained earnings to total assets; FGROWTH is the ratio of current revenue minus last year revenue over last year revenue; ROA is the ratio of net income over total assets; ROE is the ratio of net income over total equity.

4.2 Correlation Analysis

Table 3 reports the correlation analysis of the variables. The results showed that independent variables of ESG and SCS were positively correlated with the TOBINSQ at 1% and 10%, respectively. The results provided an early signal that the ESG score and Shariah-compliance status of firms increased the firm performance. The control variables of firm size (FSIZE) negatively correlated with the TOBINSQ at 1%. However, the firm growth (FGROWTH) and return on assets (ROA) positively correlate with TOBINSQ at 5%. The findings provide an early signal that firm growth and profitability improved the firm's performance. Other variables show that the correlation value is below 0.6 and indicates that no multicollinearity was suspected in this study as it is below the threshold value of 0.8.

Table 3: Pearson Correlation Analysis

Variables	1	2	3	4	5	6	7	8	9	10
(1) TOBINSQ	1.000									
(2) ESG	.140***	1.000								
(3) SCS	.064*	-.062*	1.000							
(4) FSIZE	-.168***	.528***	-.170***	1.000						
(5) FLEV	-.004	.189***	-.226***	.418***	1.000					
(6) FLIQ	.033	-.158***	.110***	-.307***	-.554***	1.000				
(7) RETA	.062*	.014	.173***	-.008	-.568***	.309***	1.000			
(8) FGROWTH	.071**	-.055*	.005	-.006	.082**	-.093***	-.031	1.000		
(9) ROA	.071**	-.010	.009	-.008	.047	.001	.053*	.012	1.000	
(10) ROE	.031	.049	-.019	.001	-.100***	.021	.046	.038	-.966***	1.000

Note: Asterisks denote statistical significance at the 1% (***), 5% (**), or 10% (*) levels, respectively. TOBINSQ is the ratio of market capitalisation plus total liability over the total assets; ESG is the total score of environment, social, and governance divided by 100; SCS is a dummy variable that takes a value of 1 if the firm is under Shariah-compliance status, and a value of 0 otherwise; FSIZE is the natural algorithm of total assets; FLIQ is the ratio of current assets over current liabilities; FLEV is a ratio of *total debts to total assets; RE/TA is a ratio of retained earnings to total assets; FGROWTH is the ratio of current revenue minus last year revenue over last year revenue; ROA is the ratio of net income over total assets; ROE is the ratio of net income over total equity.*

4.3 Empirical Regression Results

Table 4 presents the regression results on the effects of ESG disclosure and Shariah-compliance status on firm performance and moderating effects of Shariah-compliance status on ESG disclosure and firm performance. Column (1) shows the results for individual ESG scores and Shariah-compliance status on firm performance, while Column (2) shows the results for Shariah-compliance status as a moderating variable. Significant coefficients of independent and moderating variables were found in both regressions.

The results demonstrated that ESG showed a positive and significant relationship with Tobin's Q at the significant level of 1%. The results reveal that firms that invest and disclose on the ESG can improve their firm performance. Furthermore, Malaysian firms that disclose their ESG efforts can produce long-term performance throughout the investigation. Our results corroborate prior studies by Siegrist et al. (2020), who found that a firm's disclosure of its sustainability initiatives can facilitate the effective management of its resources and raise its market value. ESG offers solutions to societal problems and enables businesses to operate successfully (Porter et al., 2019). This finding is consistent with stakeholder theory, where sustainable stakeholder relationships can be built to achieve sustainability and enhance a firm's performance through ESG practices. Therefore, this finding supports our hypothesis (H1) that ESG disclosure positively affects firm performance among listed firms in Malaysia.

The coefficient for Shariah-compliance status and firm performance was also significantly positive. This finding implies that Shariah-compliance firms show better market-based performance. This study aligns with the prior study by Jaballah et al. (2018), which found that as Shariah stocks adhere to Islamic teachings, investors have favourable perceptions of them. In a similar tone, Hati et al. (2023) also found that Shariah-compliance firms have much higher firm value in terms of brand equity than firms that are not Shariah-compliance. They also look at brand equity in sectors of the economy that are more conscious of halal and non-halal issues. Consumers and the general public place greater importance on the halal status of the consumer goods industry (which includes food and beverage products, pharmaceuticals, medications, and cosmetics) than they do on other industries. The study demonstrates that the market reacts favourably to Shariah-compliance firms, particularly when those firms have strong financial and operational results. Thus, the more valuable the brand equity, the better the firm's price, market share, and profitability. Our findings align with legitimacy theory, which posits that firms maintain legitimacy by conforming to societal norms, values, and expectations. The Shariah-compliance status of firms is crucial for maintaining legitimacy among stakeholders. Therefore, the results conclude that these findings support hypothesis 2 (H2), which proposes that Shariah-compliance status has a positive relationship with firm performance among listed firms in Malaysia.

Table 4 in column 2 shows the results of the joint effect of ESG and Shariah-compliance status (ESG*SCS). The result showed that the coefficient for ESG*SCS was positive and significant at 10%. This finding reveals that Shariah-compliance status (SCS) strengthens the positive relationship between ESG disclosure (ESG) and firm performance. This showed that Shariah compliance basis and ESG disclosure are complementary investment strategies with several shared principles, including being accountable to society and the environment (Muhammad et al., 2022). Our findings support hypothesis 3 (H3), which proposes that Shariah compliance status moderates the relationship between ESG disclosure and firm performance.

For control variables, both results showed that FLEV, ROA and ROE were positively associated with TOBINSQ. Meanwhile, FSIZE and FGROWTH were negatively associated with TOBINSQ. The result is consistent with Demiraj et al. (2023), who found a negative relationship between firm size and firm performance. No relationship was found between FLIQ and RETA with TOBINSQ.

Table 4: Regression Result

TOBINSQ	(1)	(2)
Intercept	6.797	7.277
	8.54***	8.48***
ESG	2.033	1.243
	6.33***	2.01**
SCS	0.328	-0.114
	2.41**	-0.35
ESG*SCS	-	1.012
		1.49*
FSIZE	-0.783	-0.799
	-8.38***	-8.50***
FLEV	1.568	1.596
	4.64***	4.72***
FLIQ	0.02	0.021
	1.08	1.15
RETA	0.05	0.042
	0.23	0.19
FGROWTH	-0.021	-0.028
	-0.21	-0.028
ROA	4.696	4.729
	10.88***	10.95***
ROE	0.552	0.555
	10.79***	10.85***
Adj.R2	0.248	0.248
N	812	812
F-stat	26.391	26.391

*Notes: The numbers in parenthesis are t-statistic values. *, ** and *** denote significance at the 10, 5 and 1% levels, respectively (one-tailed test). TOBINSQ is the ratio of market capitalisation plus total liability over the total assets; ESG is the total score of environment, social, and governance divided by 100; SCS is a dummy variable that takes a value of 1 if the firm is under Shariah-compliance status, and a value of 0 otherwise; FSIZE is the natural algorithm of total assets; FLIQ is the ratio of current assets over current liabilities; FLEV is a ratio of total debts to total assets; RE/TA is a ratio of retained earnings to total assets; FGROWTH is the ratio of current revenue minus last year revenue over last year revenue; ROA is the ratio of net income over total assets; ROE is the ratio of net income over total equity.*

5.0 CONCLUSION

Environmental, Social, and Governance (ESG) are crucial to sustainable corporate development. The ESG investment and disclosure are essential indicators of a firm's social responsibility towards its stakeholders, including people and the planet. We utilised unbalanced panel data of 812 publicly listed firms from 2020 to 2023 to examine the effects of ESG disclosure, and shariah compliance status on firm performance. Our findings demonstrate that the ESG disclosure and the shariah compliance status positively affect firm performance. This reveals that ESG disclosure by firms and shariah compliance status can improve market-based performance (Tobin’s Q).

Furthermore, we examine the moderating effect of Shariah compliance status on ESG disclosure and firm performance. We found that Shariah-compliance status strengthens the positive effect of ESG and firm performance. The findings provide that firms with Shariah compliance status further improve the positive effect of ESG and firm performance.

This study supports stakeholder and legitimacy theories on a firm's ESG disclosure. Given that ESG investment would increase performance, this research is positive and suggests firms should take their involvement in activities that meet the demands of all stakeholders seriously. Second, there are advantages to having Shariah compliance status and ESG screens; Shariah-compliance firms perform better than conventional ones, especially regarding increased ESG engagement levels. Therefore, Shariah-compliance firms may commit more to ESG to draw in funds from ethical and Muslim investors. As for the practical implications for authorities, they should strengthen the guidance and supervision of ESG practices and information disclosure to promote sustainable economic development.

Our findings should be interpreted cautiously, which could benefit future research. Firstly, this study only considers a sample size from Malaysian publicly listed firms that disclose ESG; hence, the findings cannot be generalised to reflect all types and sizes of firms in Malaysia. The effects of ESG disclosure on firm performance should also extend to non-listed firms. Secondly, the data are captured by Eikon DataStream. Further studies may consider other databases with ESG scores that can capture firms' ESG activities. According to Lee and Isa (2023), Eikon DataStream exclusively considers firms that are part of the FTSE4Good index, which is comprised of major Bursa Malaysian firms that engage in ESG activities. Future research on ESG issues should aim to improve the reliability of the results by increasing the sample size. Notwithstanding the limitations mentioned above, this study will serve as an impulsion for other research that aims to collect more diverse data through the use of a range of research methods and firm kinds.

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