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ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) PERFORMANCE AND CORPORATE VALUE: UNPACKING THE MODERATING EFFECT OF COMPANY SIZE

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ABSTRACT

Introduction: This study endeavours to analyse the effect of environmental, social, and governance (ESG) performance on corporate value and determines whether company size can affect this outcome.
Methods: This quantitative research was conducted across five Southeast Asian (ASEAN) countries over four periods, from 2020 to 2023. The sample comprises 361 companies, selected using a purposive sampling technique, resulting in a total of 1,444 observations. The study employs moderated regression analysis (MRA) of panel data.
Results: The findings reveal that ESG performance unfavourably affects corporate value. However, company size mitigates this unfavourable effect, as evidenced by its substantial favourable moderating role. Further analysis at the country level shows consistent results in Indonesia, Malaysia, and Thailand. In contrast, ESG performance does not substantially affect corporate value in Singapore and the Philippines, nor does company size have a notable moderating effect.
Conclusion and suggestion: This study underscores the significance of integrating ESG policies into corporate strategies, especially for larger corporations. Smaller firms may need to focus on cost-effective initiatives or seek support to scale their ESG efforts. For policymakers, the study underscores the necessity of enhancing support through transparency, fiscal incentives, and regulations to promote ESG awareness and implementation, particularly in countries where the effect of ESG is limited.

INTRODUCTION

Companies are established to generate profits, enrich their owners, and maximise their value, as reflected in their share price (Irnawati, 2021). High corporate value is considered advantageous. Thus, companies must endeavour to maintain and improve their worth in the immediate and extended periods. Implementing sustainable practices is essential to ensure the sustained benefits of the company's existence. However, neglecting business sustainability can result in weakened operations and reduced stakeholder welfare.

The performance of global indices, particularly in Southeast Asia, highlights the challenges companies face in maintaining their value amidst fluctuating market conditions. Over the past five years, global index performance in five ASEAN countries has been relatively low. According to IDX yearly statistics (2024), Singapore's market showed a growth of 17.79%, while Indonesia's grew by 11.86%. In contrast, Malaysia's market only increased by 1.36%, and both Thailand and the Philippines experienced negative growth, at -11.28% and -16.75%, respectively. These figures indicate a need for companies in these regions to adopt more robust strategies, including sustainable practices, to augment their resilience and long-term viability in increasingly volatile markets. The emphasis on sustainability is not only a pathway to improve corporate value but also a response to the growing demand for responsible business practices that align with global environmental and social goals.

As economic and social systems have rapidly evolved in recent decades, there has been a growing emphasis on ESG practices among companies, investors, stakeholders, and academics (Bagh et al., 2024). Sound ESG practices are believed to bolster a company's reputation, attract sustainability-focused investors, and ultimately enhance corporate value. A PwC (2022) report predicts that institutional investments centred on ESG will surge by 84%, reaching US$33.9 trillion by 2026. This growth is anticipated to represent 21.5% of assets under management. This is because adopting ESG practices can mitigate risks related to ESG issues (Mondal et al., 2022). Consequently, companies that follow ESG principles can build a sustainable business (Yang et al., 2020), as these three elements are critical to assess the economic sustainability of an industry (Yu et al., 2020).

ESG serves as a metric for the sustainability and ethical effect of investments in companies. It expands the definition of corporate performance and serves as an effective strategy for attracting external capital and fostering sustainable growth (Deng et al., 2023; Ning & Zhang, 2023; Wang et al., 2023). Although not mandatory in some countries, the deployment of ESG can improve a company's financial position by promoting efficiency and enhancing the credibility of its management (Raghavan, 2022). Given the growing global awareness of ecological and social issues, alongside the emphasis on robust corporate governance, it is becoming ever more critical for companies to measure and report their ESG performance to maintain their competitiveness and market value. As a new business evaluation approach, ESG factors are increasingly being integrated into investment decision-making and research. Numerous regulators and national stock

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exchanges have implemented policies and regulations enforcing ESG disclosure for publicly traded companies, either on a voluntary or mandatory basis (Duan et al., 2023). This draws attention to the significance of ESG practices for businesses.

Research on the ESG–corporate value relationship has been ongoing, yet prior findings remain inconclusive. Some studies indicate a favourable relationship between ESG performance and corporate value (Alareeni & Hamdan, 2020; Chang & Lee, 2022; Veeravel et al., 2024), proposing that strong ESG performance correlates with enhanced financial results and higher market valuations. This is due to positive investor and stakeholder perceptions, seeing strong ESG performers as lower risk and more long-term sustainable. However, other studies reveal an unfavourable relationship (Firmansyah et al., 2023; Prayogo et al., 2023; Shaikh, 2021), where ESG implementation increases corporate costs. Furthermore, the connection between ESG performance and corporate value is inconsistent (Alhawaj et al., 2023; Atan et al., 2018) and may vary by industry sector, geographical region, and company size.

Company size is a key factor in the success of sustainability practices (Ferrat et al., 2023). Large and small companies may encounter different challenges and opportunities when implementing ESG practices. Bigger companies generally have more capabilities and resources to adopt and report ESG initiatives and may face greater regulatory pressures and stakeholder demands (Drempetic et al., 2020). Thus, they are generally more proficient at disclosing ESG efforts than smaller corporations (Yadav & Jain, 2023). Conversely, smaller firms may encounter resource and capacity constraints but can be more flexible and innovative in their ESG approach. Existing research on the moderating effect of company size in the ESG performance-corporate value relationship continues to reveal complexities, with inconclusive findings on whether larger companies achieve greater value than smaller ones (Zaiane & Ellouze, 2023).

This present research examines the effect of ESG performance on corporate value, focusing on the moderating role of company size. It seeks to enhance understanding of how ESG practices affect corporate value across companies of varying sizes. By examining the interaction between ESG performance and company size, the research provides meaningful insights for managers and policymakers in formulating strategies to improve corporate value through sustainable practices. Additionally, by analysing the moderating effect of company size, this study adds empirical depth to the ESG performance–corporate value discourse.

LITERATURE REVIEW

Stakeholder Theory

Stakeholder theory was introduced in 1984 by Freeman, and has significantly influenced corporate management and business ethics. It serves as the foundation for developing corporate sustainability practices, actualised through ESG programmes and sustainability reports (Velte, 2017). Freeman et al. (2018) highlight the importance of ethical and moral considerations in corporate decision-making. This theory advocates for businesses to acknowledge and respond to a wide range of stakeholder demands and strive to meet their expectations fairly (Burritt & Christ, 2023). One of the primary demands from stakeholders is information transparency, which is deemed crucial (Al Amosh & Mansor, 2021; Zamil et al., 2023). Consequently, business disclosure standards are closely linked to stakeholder pressure and are regarded as voluntary actions that strengthen company-stakeholder relationships.

Stakeholders' focus on ESG disclosure practices is a critical factor directly affecting company performance (Zhao et al., 2018). While sustainability activities such as social and environmental initiatives may incur costs, stakeholder satisfaction offers long-term value by attracting investors and consumers. From a stakeholder perspective, fostering good relationships enhances a company's financial performance (Yoon & Chung, 2018). Voluntary commitments, including sustainability programmes, can bolster a business's reputation and increase stakeholder trust, fostering positive attitudes among consumers, society, and investors. Ultimately, this leads to increased profitability and corporate value in a sustainable manner (Ikram et al., 2020; Korkmaz & Nur, 2023).

Legitimacy Theory

Legitimacy theory emphasises that corporate actions must align with the values and objectives of the broader public (Al Amosh & Khatib, 2023). This theory serves as a framework for understanding corporate behaviour, prompting companies to engage in disclosure activities by sharing more information with the public. Legitimacy theory is primarily a tool to explain corporate accountability levels rather than to generate legitimacy itself (Patten, 2020). Addressing sustainability issues and disclosing relevant information can bridge the gap between stakeholders and companies, thereby reducing the legitimacy gap (Bae et al., 2018). The theory relies on society's awareness of conferring legitimacy to an entity, making the management of sustainability agendas essential. Supporting these agendas strengthens a company's legitimacy and its approval within society.

In contemporary contexts, the social effect of corporate activities is growing, intensifying the demand for corporate accountability concerning social and environmental issues (Al Amosh & Khatib, 2023). This pressure compels companies to increasingly disclose information through sustainability reports. Concerns about maintaining legitimacy drive sustainability disclosures, which in turn heighten stakeholder attention towards the company (Patten, 2020). Consequently, this heightened interaction between the entity and its stakeholders can create value and enhance company performance.

Previous Study and Hypothesis

In line with stakeholder theory, corporate contributions to its stakeholders foster the investment commitments these stakeholders make to the company (Shah & Guild, 2022). In essence, a company is only able to achieve favourable value if it meets its stakeholders' demands. The ESG framework offers a holistic approach for companies to fulfil these objectives. Proactive ESG management yields several benefits, such as enhancing relationships with stakeholders (Duan et al., 2023). Rahat & Nguyen (2024) also argue that companies emphasizing ESG principles are more likely to realise favourable value.

Effective ESG disclosure can reduce a company's capital costs (Kumawat & Patel, 2022) and facilitate access to funding (Su et al., 2024). This broader access to funding positively affects the company's valuation by enabling the acquisition of financial resources, which in turn supports business growth and strategy development (Rojo-Suárez & Alonso-Conde, 2023). High levels of ESG disclosure are perceived favourably by stakeholders, fostering greater trust (Bansal et al., 2021). Consequently, ESG factors can enhance competitiveness, thereby increasing corporate value (Behl et al., 2022).

Despite extensive study into the connection between ESG performance and corporate value, findings remain inconsistent. Some studies report a favourable effect of ESG performance on corporate value (Ahmad et al., 2021; Al Amosh & Khatib, 2023; Alareeni & Hamdan, 2020; Chang & Lee, 2022; Veeravel et al., 2024). Companies that disclose more ESG information tend to be more accepted by society, fostering a positive image among stakeholders and enhancing corporate legitimacy. ESG can serve as a risk mitigation strategy, offering competitive advantages and supporting sustainable management strategies.

Conversely, other studies indicate an unfavourable connection between ESG performance and corporate value (Boulhaga et al., 2023; Dihardjo & Hersugondo, 2023; Firmansyah et al., 2023; Prayogo et al., 2023; Shaikh, 2021). This suggests that active ESG disclosure may not be valued by investors, possibly due to the perception that ESG activities incur substantial costs, thus affecting profitability and, ultimately, corporate value. Such scenarios may arise in companies newly implementing ESG disclosures, where the process is seen as inefficient, similar to some cases in Saudi Arabia, where substantial short-term investments in ESG could be financially detrimental (Firmansyah et al., 2023). Additionally, some studies have found no substantial effect of ESG performance on corporate value (Alhawaj et al., 2023; Atan et al., 2018), possibly due to the belief that non-financial corporate goals are not an effective strategy.

H1. ESG performance affects corporate value.

Analysing ESG performance based on company size is considered to enhance effectiveness, as company size can indicate the level of ESG implementation. Larger companies may be more advanced in their ESG disclosure efforts compared to smaller firms. This is supported by Alareeni & Hamdan (2020), who suggest that ESG performance appears more favourable in asset-rich companies. Thus, company size is believed to amplify the effect of ESG performance on corporate value (Ahmad et al., 2021; Prayogo et al., 2023). Consistent with these findings, research has shown that company size can favourably moderate the connection between ESG performance and corporate value (Bissoondoyal-Bheenick et al., 2023; D'Amato & Falivena, 2020; Dihardjo & Hersugondo, 2023). This indicates that larger companies, with greater resources, can invest more effectively in ESG initiatives, potentially boosting corporate value.

Additionally, research examining the role of company size in moderating the ESG performance-corporate value relationship yields varying outcomes, depending on the industry's sensitivity to environmental issues. Company size favourably moderates the effect of ESG performance on corporate value in industries sensitive to environmental concerns, while moderation is unfavourable in industries less affected by these issues (Zaiane & Ellouze, 2023).

H2. Company size moderates the effect of ESG performance on corporate value.

The conceptual model below represents how company size moderates the link between ESG practices and corporate value (refer to Figure 1).

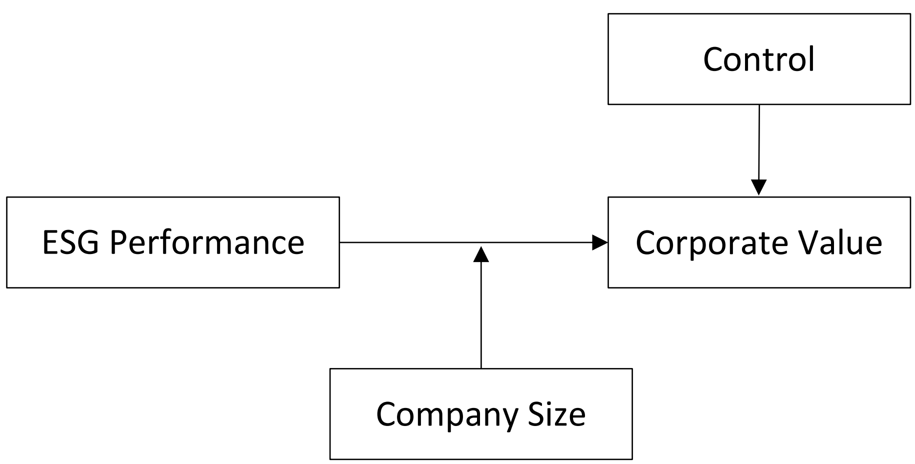

Figure 1. Conceptual model of research variables

RESEARCH METHODS

This research employs a quantitative approach, aimed at precisely measuring an object. The descriptive method provides an overview of the object and variables under study, while the causal method tests the relationships between these variables.

Table 1 displays the operationalisation of variables in this study. The variables examined include corporate value, ESG performance, and company size. Control variables, such as leverage, company age, profitability, and dividend policy, are also included.

Table 1. Operational variables

Variables	Indicator	Description	Scale
Dependent			
Corporate value	Tobin's Q (TQ)	A ratio that measures the total market value plus debt of a company compared to the cost of replacing its assets.	Ratio
Independent			
ESG Performance	Refinitiv's ESG Scores (ESG)	Metrics to assess a company's sustainability performance.	Ratio
Moderator			
Company size	Natural logarithm of total assets (Size)	A scale to measure a company based on the size of its assets.	Ratio
Controls			
Leverage	Debt to Assets Ratio (DAR)	A financial metric that indicates the percentage of a company's total assets funded by debt.	Ratio
Company Age	Company Age (Age)	The length of time a company has been in operation, determined from its inception year to the given period.	Nominal
Profitability	Return on Assets (ROA)	A financial metric that assesses a company's efficiency in generating profit relative to its total assets.	Ratio
Dividend Policy	Dividend Yield (DY)	A ratio that shows how much annual dividend a company pays to its shareholders compared to its share price.	Ratio

The research uses secondary data sourced from Refinitiv Eikon, spanning the period from 2020 to 2023. The study focuses on companies within the ASEAN region, specifically from Indonesia, Malaysia, Singapore, the Philippines, and Thailand. The sample was selected using a non-probability, purposive sampling approach. The inclusion criteria required companies to engage in ESG practices consistently and have received scores from Refinitiv Eikon during the 2020-2023 period. A total of 361 companies met these criteria, resulting in 1,444 data points based on observations over four years.

Moderated Regression Analysis (MRA) was applied in this study, following the methodology outlined by Sharma et al. (1981). MRA integrates moderating variables to explore how the effect of the antecedent variable on the consequent variable is modified, determining whether the moderating variable amplifies, diminishes, or alters the direction of this effect (Hayes, 2022). Pearson correlation analysis was performed to test for multicollinearity, ensuring that the antecedent variable in the model are not intercorrelated. The regression analysis was performed using EViews software version 12. The equation models are as follows.

$TQ = a + b_1ESG + c + e$ .... (1)
$TQ = a + b_1ESG + b_2Size + c + e$ .... (2)
$TQ = a + b_1ESG + b_2Size + b_3ESG*Size + c + e$ .... (3)

RESULT AND ANALYSIS

Descriptive Statistics

The purpose of descriptive statistics is to provide a general summary of each variable object under this study. Table 2 summarises the descriptive statistics of the variables examined in this study.

Table 2. Descriptive Statistics

Variables	Obs.	Mean	Median	Max	Min	Std. Dev.
TQ	1,444	1.535	1.094	14.647	0.308	1.384
ESG	1,444	53.849	54.653	91.921	2.268	17.080
SIZE	1,444	8.106	8.072	13.236	2.891	1.640
DAR	1,444	0.522	0.496	1.615	0.002	0.222
AGE	1,444	45.273	38.000	189.000	2.000	31.958
ROA	1,444	0.046	0.034	0.854	−0.675	0.082
DY	1,444	3.508	2.862	54.403	0.000	3.813

Referring to Table 2, the mean of the corporate value (TQ) variable is 1.535 with a median of 1.094, indicating that most companies have a market value that is slightly higher than their book value. The maximum TQ value reaches 14,647, while the minimum value is 0,308, with a standard deviation of 1,384, reflecting considerable variation in the company's market value. The ESG performance has a mean of 53.849 and a median of 54.653, indicating that most firms have moderate ESG scores, with a range from 2.268 to 91.921 and a standard deviation of 17.080, signalling significant differences in ESG practices among firms. Company size (SIZE) has a mean of 8.106 and a median of 8.072, with a maximum value of 13.236 and a minimum of 2.891, and a standard deviation of 1.640, indicating a relatively stable distribution of company size.

Moderated Regression Analysis

Before conducting the regression analysis, multicollinearity was tested. Pearson correlation was used to assess whether there was a multicollinearity issue, with the criterion that the correlation value must be below 0.8 to avoid being categorised as multicollinear. In Table 3, the correlation values between variables are below 0.8, indicating that the relationship between the independent variables in the research model is free from multicollinearity issues. Once it was confirmed that there were no multicollinearity problems in the model, the next step was to test the regression model.

Table 3. Pearson Correlation

	TQ	ESG	SIZE	DAR	AGE	ROA	DY
TQ	**1.000**						
ESG	0.065**	**1.000**					
SIZE	−0.304***	0.389***	**1.000**				
DAR	−0.052**	0.183***	0.468***	**1.000**			
AGE	−0.025	0.171***	0.242***	0.142***	**1.000**		
ROA	0.431***	−0.018	−0.247***	−0.297***	−0.007	**1.000**	
DY	−0.116***	0.029	−0.021	−0.095***	−0.021	0.220***	**1.000**

Notes: *, **, and *** denote show significance levels of less than 0.10, 0.05, and 0.01, respectively
Source(s): Data processed by Eviews 12

The selection of the optimal panel data regression model involved preliminary tests, such as the Chow, Hausman, and Lagrange Multiplier (LM) tests. The output from the Chow and Hausman tests indicated that the Fixed Effects Model (FEM) is the most appropriate estimation technique, as shown in Table 4.

Table 4. Model Selection

1		2		3	
Chow Test		**Chow Test**		**Chow Test**	
Prob > F	0.000	Prob > F	0.000	Prob > F	0.000
H0: CEM		H0: CEM		H0: CEM	
H1: FEM		H1: FEM		H1: FEM	
Hausman Test		**Hausman Test**		**Hausman Test**	
Prob > F	0.000	Prob > F	0.000	Prob > F	0.000
H0: REM		H0: REM		H0: REM	
H1: FEM		H1: FEM		H1: FEM	
LM Test		**LM Test**		**LM Test**	
Prob > F	-	Prob > F	-	Prob > F	-
H0: CEM		H0: CEM		H0: CEM	
H1: REM		H1: REM		H1: REM	

Source(s): Data processed by Eviews 12

After determining that the best model is the FEM, the next step is to perform regression testing to analyse the moderation regression model. The findings from the model test are illustrated in Table 5. ESG performance has a substantial unfavourable effect on corporate value (p-value < 0.01), as shown in models 1, 2, and 3. This result supports the proposed hypothesis, confirming that H1 is accepted. Company size also has unfavourable effect on corporate value (p-value < 0.01), as shown in models 2 and 3. Furthermore, the interplay between company size and ESG performance is found to have a substantial favourable effect on corporate value (p-value < 0.01), as shown in model 3. This indicates that company size performs a role in favourably moderating the effect of

ESG performance on corporate value. This result supports the hypothesis, confirming that H2 is accepted. In this context, company size acts as a quasi-moderator, both influencing corporate value and moderating the ESG performance–corporate value relationship.

Table 5. Moderated Regression Analysis

	1	2	3
ESG	−0.008*** (−3.041)	−0.008*** (−3.038)	−0.055*** (−5.001)
SIZE		−0.673*** (−6.917)	−0.971*** (−8.242)
ESG*SIZE			0.006*** (4.406)
DAR	0.883*** (3.409)	1.206*** (4.675)	1.137*** (4.438)
AGE	−0.089*** (−6.794)	−0.073*** (−5.601)	−0.072*** (−5.597)
ROA	1.906*** (8.279)	2.018*** (8.931)	1.927*** (8.566)
DY	−0.015*** (−3.069)	−0.010** (−2.018)	−0.009* (−1.885)
R^2	0.909	0.913	0.915
F−stat (Prob)	29.633 (0.000)	30.967 (0.000)	31.463 (0.000)

Notes: *, **, and *** denote show significance levels of less than 0.10, 0.05, and 0.01, respectively
Source(s): Data processed by Eviews 12

Robustness Test

A robustness test was performed using the Generalised Method of Moment Two-Stage Least Square (GMM-2SLS) method, along with lagging the dependent variable.

Table 6. GMM-2SLS Model Analysis

	1	2	3
TQ(-1)	0.063** (2.209)	0.071*** (2.612)	0.067** (2.499)
ESG	−0.004 (−1.593)	−0.004* (−1.667)	−0.058*** (−4.570)
SIZE		−0.870*** (−8.189)	−1.235*** (−9.158)
ESG*SIZE			0.007*** (4.312)
DAR	0.342 (1.188)	0.946*** (3.312)	0.907*** (3.213)
AGE	−0.093*** (−6.113)	−0.074*** (−5.059)	−0.073*** (−4.100)
ROA	1.300*** (5.430)	1.336*** (5.829)	1.253*** (5.517)
DY	−0.009* (−1.868)	−0.006 (−1.243)	−0.006 (−1.168)
Obs.	1,083	1,083	1,083
R^2	0.946	0.951	0.952

Notes: *, **, and *** denote show significance levels of less than 0.10, 0.05, and 0.01, respectively
Source(s): Data processed by Eviews 12

The robustness checks yield results that align with those of the main model, both in terms of significance and direction of effect. ESG performance has a substantial unfavourable effect on corporate value. Company size consistently has a substantial negative impact on corporate value. Additionally, the interaction of ESG performance with company size has a substantial favourable effect on corporate value, indicating that company size moderates the connection between ESG performance and corporate value.

Thus, it can be concluded that the results of this study exhibit strong robustness across different conditions, including varying estimation methods.

Table 7. Moderated Regression Analysis Across ASEAN Countries

Countries	Variables	1	2	3
Indonesia	ESG	−0.016* (−1.733)	−0.009 (−1.022)	−0.176*** (−3.763)
	SIZE		−0.966*** (−3.274)	−1.740*** (−4.912)
	ESG*SIZE			0.020*** (3.626)
	DAR	0.340 (0.432)	0.548 (0.718)	0.556 (0.761)
	AGE	−0.175*** (−3.655)	−0.139*** (−2.917)	−0.137*** (−2.998)
	ROA	4.230*** (4.106)	4.745*** (4.709)	3.763*** (3.754)
	DY	0.001 (0.113)	0.002 (0.153)	0.004 (0.412)
Malaysia	ESG	−0.010 (−1.217)	−0.015 (−1.884)	−0.083*** (−2.606)
	SIZE		−1.015*** (−4.450)	−1.500*** (−4.761)
	ESG*SIZE			0.009** (2.209)
	DAR	2.117*** (3.437)	2.035*** (3.444)	2.020*** (3.448)
	AGE	−0.123*** (−3.160)	−0.102*** (−2.690)	−0.097** (−2.577)
	ROA	1.854*** (3.683)	2.434*** (4.869)	2.397*** (4.837)
	DY	−0.044*** (−3.010)	−0.042*** (−2.956)	−0.041*** (−2.962)
Singapore	ESG	−0.002 (−1.035)	−0.000 (−0.015)	−0.014 (−1.243)
	SIZE		−0.616*** (−7.680)	−0.684*** (−7.091)
	ESG*SIZE			0.002 (1.257)
	DAR	0.244 (0.939)	0.856*** (3.447)	0.829*** (3.332)
	AGE	−0.034*** (−3.714)	−0.021** (−2.498)	−0.022*** (−2.639)
	ROA	0.965*** (3.764)	1.165*** (4.995)	1.131*** (4.826)
	DY	−0.019*** (−3.641)	−0.018*** (−3.715)	−0.017*** (−3.545)
Philippines	ESG	0.001 (0.592)	0.002 (0.671)	−0.002 (−0.081)
	SIZE		−0.243 (−1.310)	−0.258 (−1.229)
	ESG*SIZE			0.000 (0.157)
	DAR	1.628*** (3.355)	1.726*** (3.532)	1.705*** (3.341)
	AGE	−0.060*** (−4.755)	−0.053*** (−3.908)	−0.054*** (3.808)
	ROA	2.383*** (3.166)	2.408*** (3.213)	2.434*** (3.154)
	DY	0.006 (0.524)	0.006 (0.529)	0.006 (0.527)
Thailand	ESG	−0.007 (−1.556)	−0.007 (−1.585)	−0.048** (−2.461)
	SIZE		−0.431** (−2.274)	−0.703*** (−3.097)
	ESG*SIZE			0.006** (2.151)
	DAR	0.060 (0.121)	0.353 (0.697)	0.279 (0.551)
	AGE	−0.098*** (−3.997)	−0.087*** (−3.480)	−0.082*** (−3.288)
	ROA	1.424*** (3.400)	1.409*** (3.381)	1.310*** (3.141)
	DY	−0.013 (−1.474)	−0.007 (−0.745)	−0.006 (−0.688)

Notes: *, **, and *** denote show significance levels of less than 0.10, 0.05, and 0.01, respectively
Source(s): Data processed by Eviews 12

Additional Analysis

More specifically, this study examines each country in the ASEAN region. Table 7 displays the moderated regression outputs for each country. The results of the moderation regression testing in each ASEAN country show consistency with the main model. ESG performance has a substantial unfavourable effect on corporate value in Indonesia, Malaysia, and Thailand. Company size also has a substantial unfavourable effect on corporate value in each country, except in the Philippines, where the effect is not substantial. Additionally, the interaction between company size and ESG performance has a substantial favourable effect on corporate value in Indonesia, Malaysia, and Thailand. In these three countries, company size functions as a quasi-moderator, acting as both an independent and moderator variable. In contrast, in Singapore, company size only functions as an independent variable and does not act as a moderator.

DISCUSSION

Effect of ESG Performance on Corporate Value

Empirical evidence demonstrates that in the ASEAN countries, ESG performance has a substantial unfavourable effect on corporate value. Referring to model 1, the substantial effect is based on the p-value below 0.01. The coefficient value of -0.008 reflects that the direction of the relationship formed is negative or opposite. In addition, the coefficient value also means that every increase in ESG performance by 1 will be followed by a decline in corporate value by 0.008 times.

This finding aligns with studies by, Dihardjo & Hersugondo (2023), Firmansyah et al. (2023), Prayogo et al. (2023), and Shaikh (2021), which also reported that ESG performance unfavourably affects corporate value. In stakeholder theory, efforts to meet the demands of various stakeholders often come with additional costs and can divide the company's focus, leading to reduced operational efficiency and a decrease in corporate value. Legitimacy theory explains that fulfilling societal norms and expectations through ESG policies may lead to operational disruptions and high adaptation costs. These two theories help explain why ESG implementation, although essential for long-run sustainability and social legitimacy, might temporarily reduce corporate value.

Company Size as a Moderator in the ESG Performance–Corporate Value Relationship

The interaction between company size and ESG performance has a substantial favourable effect on corporate value. Referring to model 3, the substantial effect is based on the p-value below 0.01. The coefficient value of 0.006 reflects that the direction of the relationship formed is positive or unidirectional. In addition, the coefficient value also means that every increase in the interaction value of ESG performance and company size by 1 will be followed by a rise in company value by 0.006 times.

Regarding this finding, the unfavourable effect of ESG performance on corporate value can be mitigated in larger corporations. The research supports this finding by showing that company size can favourably moderate the effect of ESG performance on corporate value, which is consistent with research from Bissoondoyal-Bheenick et al. (2023), Dihardjo & Hersugondo (2023) and D'Amato & Falivena (2020). Large companies typically possess more resources to implement ESG practices effectively, reducing the unfavourable effect on corporate value. These companies usually have better access to advanced technology, more qualified management, and the ability to adopt higher ESG standards. Additionally, they are better equipped to absorb the additional costs associated with ESG policies, such as investments in green technology or employee training for socially responsible practices. The favourable effect of ESG performance on corporate value in large companies corroborates stakeholder theory, as stakeholders are more likely to view the implementation of ESG initiatives positively, thereby increasing the value they attribute to the company. Furthermore, the findings also align with legitimacy theory, as large companies implementing ESG practices can more easily gain social legitimacy.

Additional discussion on findings in each ASEAN country

The results of additional analyses examining the effect of ESG performance and company size on corporate value across several Southeast Asian countries show variation. In Indonesia, Malaysia, and Thailand, ESG performance has a substantial unfavourable effect on corporate value. This may stem from limited market acceptance, challenges in transparency, and varying degrees of regulatory support for ESG initiatives. For instance, in Indonesia, the implementation of the ASEAN Corporate Governance Scorecard (ACGS) is relatively new and voluntary, leading to minimal sustainability reporting among companies. This weak corporate governance framework affects investor protection and, consequently, sustainability disclosures (Husnaint & Basuki, 2020).

Similarly, in Malaysia and Thailand, while there are mandates for ESG disclosures, the depth and quality of these reports vary. Malaysia's Securities Commission has introduced the Sustainability Reporting Guide, which encourages ESG disclosures; however, its effectiveness depends on enforcement and corporate commitment. Thailand mandates the disclosure of ESG information in annual reports; however, the consistency and comprehensiveness of these disclosures can significantly influence investor perception and firm valuation (Vardhanabindu, 2024). The negative impact of company size on corporate value in these countries suggests that larger firms may face challenges in generating proportional added value relative to their size, possibly due to increased scrutiny and higher expectations for ESG performance.

Interestingly, the interaction between company size and ESG performance shows a substantial favourable effect on corporate value in Indonesia, Malaysia, and Thailand. This implies that larger firms with strong ESG performance are better recognized by the market, potentially due to their capacity to absorb the costs associated with ESG initiatives and leverage economies of scale. A study examining ESG disclosures in five ASEAN countries supports this, indicating that ESG performance positively influences company value, with larger firms more likely to benefit due to their resources and visibility (Muninggar & Pangestuti, 2024).

In contrast, the Philippines exhibits a different dynamic. Company size does not show a significant effect on corporate value, which may be attributed to unique market structures or economic factors. The Securities and Exchange Commission (SEC) of the Philippines encourages voluntary ESG disclosures, aligning with international frameworks like the Global Reporting Initiative (GRI). Still, the voluntary nature may lead to inconsistent reporting practices (Vardhanabindu, 2024; de Forges, 2024).

Singapore, on the other hand, demonstrates a more integrated approach to ESG. The Singapore Exchange (SGX) mandates sustainability reporting, requiring listed companies to adhere to the Global Reporting Initiative (GRI) standards or provide explanations for non-compliance. This regulatory environment fosters a culture in which ESG practices are integral to corporate value, and company size functions as an independent variable that does not significantly moderate the ESG-performance relationship (Vardhanabindu, 2024; de Forges, 2024).

CONCLUSION

This study is designed to analyse the effect of ESG performance on corporate value, alongside an examination of company size as a moderating factor. The results indicate that ESG performance has an unfavourable effect on corporate value in Southeast Asia (ASEAN). However, this unfavourable effect can be mitigated in companies with large assets, as the tests reveal that company size favourably moderates the connection between ESG performance and corporate value. This leads to the conclusion that ESG practices in larger companies substantially contribute to increasing corporate value. Large companies are more likely to meet stakeholders' expectations for ESG practices and have attained social legitimacy in the process. Additionally, tests were conducted on individual countries within ASEAN, yielding consistent results in Indonesia, Malaysia, and Singapore. Conversely, the results from the Philippines and Thailand show that there is no substantial evidence to propose that ESG performance affects corporate value, nor does company size have a substantial moderating role in these countries. These findings may be attributed to differences in local characteristics, particularly concerning policies specific to each country.

The conclusions drawn from this study carry important implications for corporate management and policymakers. For firm management, especially in large firms, these results highlight the importance of integrating ESG policies into corporate strategies. Given that the unfavourable effect of ESG performance on corporate value can be minimised through company size, managers must ensure that ESG practices are implemented effectively and efficiently. In contrast, managers of smaller firms may need to adopt alternative strategies, focusing on cost-effective ESG initiatives or seeking external support to scale their ESG efforts. For policymakers, the findings suggest the need to provide greater support to companies in adopting ESG policies, particularly in countries where ESG has not yet shown a substantial effect. Government policies that promote transparency, offer fiscal incentives, and provide regulations that support ESG practices can help increase awareness and implementation among companies.

This study focuses on ESG in a general sense, without exploring the specific components (Environmental, Social, and Governance), which may affect corporate value differently. Further research may examine the individual effect of each ESG dimension by analysing them separately, offering a more detailed analysis across industries and regions. The study is also limited to the ASEAN region, which may not be generalisable to other areas with varying economic and regulatory conditions. Broadening the research to include other regions, such as Europe or North America, could provide valuable cross-regional insights. While firm size is analysed as a moderating factor, the study does not extend its scope to other potential moderators, such as industry sector or governance framework. Future studies could include these factors to acquire a comprehensive understanding of the ESG–corporate value nexus.

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