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THE RELATIONSHIP BETWEEN (ESG) DISCLOSURE AND FIRM VALUE: THE MODERATING ROLE OF PROFITABILITY IN MALAYSIA'S ENERGY SECTOR

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Abstract:

This study aims to analyze the relationship between environmental, social, and governance (ESG) disclosure and firm value with profitability (ROE) as the moderating variable. The sample of this study is 20 energy sector companies listed on Bursa Malaysia Main Market. This study adopts quantitative research design using panel data for the financial year of 2022-2024, resulting 60 firm-year observations. The data were analyzed using SPSS and EViews statistical software. The results of this study show that environmental, social, and governance disclosure has a positive but insignificant impact on firm value. Additionally, the Return on Equity (ROE) does not strengthen the relationship between ESG disclosure and firm value. These findings suggest that investors in Malaysia's energy sector are not considering ESG practices as the basis of decision-making for investment, but rather as additional practices and reporting. Thus, the implication of this study indicates that regulators, such as Bursa Malaysia should strengthen the ESG-related regulations and educate investors on the importance of sustainability practices and investments. For companies, they are advised to enhance transparency of ESG practices, including informing the positive impact of it in their report. Moreover, the findings imply that the stakeholder and signalling theories may not fully explain the occurrence of observed in this study.

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Keyword:

ESG Disclosure, Firm Value, Profitability, ROE, Signaling Theory, Stakeholder Theory.



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Introduction

Sustainability is the main focus of global economic activity today (Harahap et al., 2024). As a result, companies are now required to not only be profit-driven, but more importantly, must conduct their business with complete responsibility to the environment, society, and governance (Disurya et al., 2025). Such accountability as this one can be demonstrated in terms of Environmental, Social, and Governance (ESG) disclosure to allow the general public the use of sustainability principles by the business practices by those operating the businesses (Ningwati et al., 2022).

Globally, investors and regulators place growing importance on transparency in ESG data, which is viewed as being critical for investment decision and the market perception of firm value (Krueger et al., 2024). Malaysia's ESG disclosure regulations have only been tightened, with both regulators and stock exchanges increasing the bar of reporting expectations on the capitalized companies that have listed. The new requirement in Bursa Malaysia now mandates a full sustainability statement in annual reports produced by all public companies that must include common ESG measurements, climate-related data and multi-year performance data (London Reporting Academy, 2025).

This issue is particularly acute in the energy industry, which has high environmental exposure but also regulatory and governance risk. Companies in this industry face higher pressure to demonstrate credible ESG activities, so the disclosure of ESG information plays an increasingly important role in market valuation (Dorothy & Endri, 2024).

Although the issue of ESG has received increased attention, the relationship between ESG disclosure and corporate value is still a matter of debate (Duan et al., 2023). Some studies have validated the positive and significant effects of ESG disclosure on firm value whereas the others show the opposite insignificant and negative effects (Aditya & Hasnawati, 2025). These contradictions suggest that moderating effects are required, with profitability performance being highlighted as one of the important moderators indicating that profitability performance and efficiency in producing profits and expressed by various indicators such as Return on Equity (ROE) (Suprpto et al., 2025).

Therefore, this research aims to fill the gap by analyzing the role of profitability in moderating the relationship between environmental, social, and governance disclosure on firm value. The research focuses on companies listed on Bursa Malaysia, particularly the energy sector that has

a high level of environmental and governance risk. The purpose of this study is to test the influence of financial performance as a moderating variable, whether to strengthen or weaken the relationship between ESG disclosure and company value.

Literature Review

The literature review will discuss five topics, namely Environmental, Social, and Governance (ESG) disclosure, firm value, profitability, stakeholder theory, and signaling theory. The literature review is used as the foundation of this study.

Definition of Environmental, Social, and Governance (ESG) Disclosure

Environmental, Social, and Governance (ESG) disclosure is the extent to which firms disclose information on their environmental performance, social responsibilities, and governance practices to external stakeholders (Apiday, 2024). Moreover, according to Ningwati et al. (2022), ESG disclosure represents a firm's articulation of its performance in alignment with ESG principles, whereby companies are expected to show good corporate governance by integrating the foundational values of people, planet, and profit in their operational activities. Therefore, ESG disclosure refers to a company's formal reporting of its environmental, social, and governance practices and performance. It's a reflection of company's broader commitment to people, planet, and profit.

In empirical studies, ESG disclosure is typically measured using the Global Reporting Initiative (GRI) Index obtained from sustainability reports. In Malaysia, Bursa Malaysia requires Main Market and ACE Market listed companies to report their sustainability practices by disclosing the prescribed Common Sustainability Matters and related indicators (Christopher & Lee Ong, 2022). Together, these disclosures provide a comprehensive view for stakeholders to assess a firm's performance in managing risks and opportunities related to sustainability that traditional financial indicators do not capture (Sulemana et al., 2025).

An increasing number of studies indicate that good ESG disclosure can increase corporate value by reducing information asymmetry, creating stakeholder trust, and signaling long-term strategic orientation. Ayem et al. (2024), who conducted research on 450 firm-year observations of companies consistently listed in the LQ45 Index, found that ESG disclosure has a positive and significant effect on firm value. This means that companies with better sustainability reporting will be positively assessed by the market. This view is also supported by Zheng, Y. et al. (2025), who found a positive and significant relation between ESG performance and firm value among A-share listed manufacturing firms in China.

On the other hand, Oktadewi & Diantini (2025), examined mining companies listed on IDX and reported that ESG performance has a negative and significant effect on firm value indicating that investors in the mining industry consider ESG activities as increasing operational costs rather than creating values. In a similar way, Marpaung et al. (2025) studied listed banks across 18 countries over the period 2009-2023, reported that ESG disclosure does not contribute positively to the firm valuation.

Together, the mixed findings suggest that the impact of ESG disclosure on firm value is inconclusive, depending on industry, regulatory environment, and market expectations. This inconsistency highlights the importance of considering firm-specific factors such as

profitability performance that may affect or moderate the extent to which ESG disclosure is valued by the market.

H1: There is a positive and significant relationship between environmental, social, and governance (ESG) disclosure and firm value.

Definition of Firm Value

According to Sartono (2010) in Financial Management Theory and Application, firm value is the market price of a company as a going concern, which is higher than the value of the company if it is liquidated because of the value created and managerial effectiveness. In line with this understanding, Putri et al. (2023) state that firm value is the total assessment of the market about the value of a company, which shows the company's performance and the company's future prospects. It is a key construct in corporate finance as it measures how well a firm deploys its resources to generate long-term economic benefits for shareholders (Rumasukun & Nochh, 2024). Therefore, firm value may be seen as the market's overall assessment of a company's ability to generate sustainable economic benefits, not only from its present financial health, but also from the ability of its management and its future performance. Market-based measures like Tobin's Q or Price-to-Book Value (PBV) are frequently used by scholars to assess firm value because they capture investor expectations, risk perceptions, and the firm's capacity to produce sustainable returns (Harjanto, 2024). The firm value of the company is higher if the market believes that the company is able to maintain a competitive advantage, control the risk well, and produce high financial performance (Nurhayati et al., 2021).

Firm value is determined by financial fundamentals, governance structures, industry characteristics, and non-financial disclosures (Moolkham, 2025). Based on this view, the study by Gudimella et al. (2025) suggests that the total value of the firm is more closely examined by investors when the firms operate in environmentally and socially sensitive sectors. This has prompted researchers to investigate whether sustainability disclosures, such as ESG transparency, can enhance market confidence and lower information asymmetry.

Nevertheless, the empirical evidence remains mixed. Siwei & Chalermkiat (2023) found a positive and significant effect of ESG transparency on firm value based on a sample of listed energy companies in China. Similarly, Dwimayanti et al. (2023) found that companies with better ESG disclosure always have a higher market valuation among non-financial firms in Indonesia.

On the other hand, several researchers provide evidence for the opposite effect. Yudiansyah & Burhany (2025), analyzing food and beverage companies listed on the IDX, stated that ESG disclosure has a negative and significant effect on firm value, signaling that investors may recognize sustainability activities as imposing additional costs rather than creating economic benefits. Similarly, Hutaaruk et al. (2025), examined Indonesian banking sector between 2020 and 2023, found that environmental, social, and governance disclosures do not significantly affect firm value, which suggest that ESG transparency has not yet become a valuation driver in the banking industry.

The mixed results of these studies suggest that the relationship between ESG disclosure and firm value is far from uniform and may depend on the sector dynamics, the expectations of

investors, and the underlying financial capacity of firms to absorb the costs of sustainability initiatives. This inconsistency needs for further empirical investigation, especially on the internal factors, such as profitability performance, that may influence or moderate the extent to which ESG disclosure leads to an increase in firm's value.

Definition of Profitability

Profitability performance is the reflection of firm's capability to generate earnings from the resources assigned to it and is widely recognized as a key indicator of financial strength (Arunkumar, 2025). In empirical studies, profitability can be quantified mainly by different financial ratios, such as Return on Equity (ROE), an essential measure indicating the productivity of the firm is capable of making profits on its assets and equity (Pratiwi & Armaniah, 2025). High ROE is a direct reflection of the of the firm's ability to producing value for its shareholders through profitable operations (Fatila & Syahril, 2022). This is the main reason underlined by Suprpto et al. (2025), profitability is a signal of management effectiveness and long-term value generation, which affects investors' views and market valuation.

From the perspective of ESG disclosure, profitability is considered to be an important variable in determining firms' value from their sustainability (Mauren & Syarif, 2025). Firms with higher profitability are more able to finance sustainability initiatives, internalize compliance costs, and prove to be credible in the long run sustainability stakeholders, with effective ESG-oriented practices (Anisa & Panuntun, 2025). It is also suggested that investors are more likely to prefer high-profit ESG disclosures from high-margin organizations which can embed sustainability into a strategic action without sacrificing financial performance (Mohammad & Wasiuzzaman, 2021). At the other end, firms with low profitability may struggle to translate ESG initiatives into market benefits, as investors may perceive sustainability expenditure as financially burdensome or misaligned with the business's limited resources (Gelb et al., 2023). Empirical evidence adds credence to the relevance of profitability as a moderator of the ESG and firm value relationship. Ayem et al. (2025), examining 450 firm-year observations from LQ45 companies, discovered that profitability significantly strengthens the impact of ESG disclosure on firm value. Similarly, the findings of Indrawan et al. (2025) who employed 126 firm-year observations of mining firms listed on the IDX in 2020-2022, found that ROE is the positive moderator of the ESG-firm value relationship. Their results indicate that firms with higher profitability experience greater valuation benefits from ESG activities, as they possess stronger financial capacity to carry out and maintain environmentally and socially responsible practices. These studies collectively demonstrate that profitability may serve be a major conditioning factor for an enhanced efficiency of ESG disclosure in creating firm value.

H2: Profitability positively moderates the relationship between ESG disclosure and firm value.

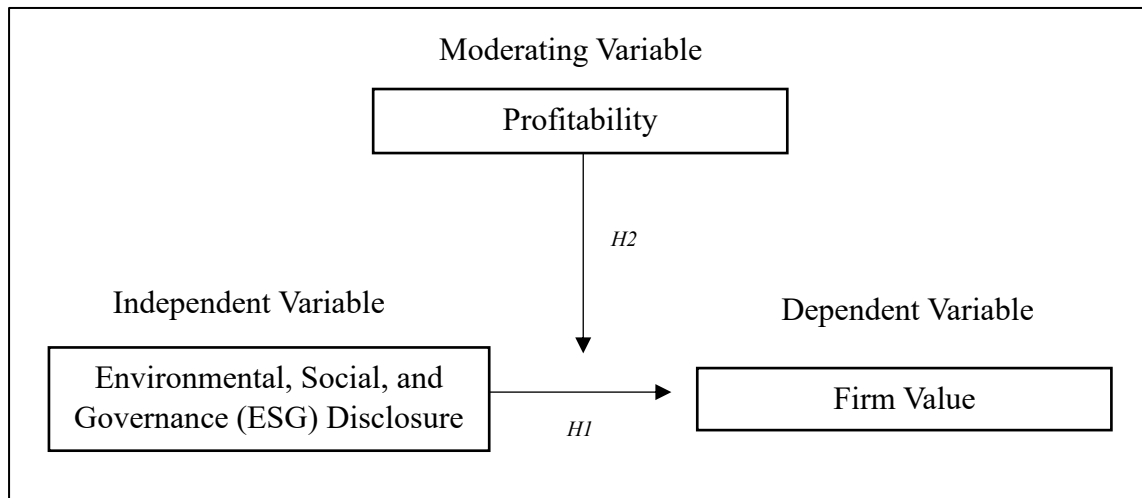


Figure 1: Conceptual Framework

Stakeholder Theory

According to the Stakeholder Theory, the success of a firm in the long run will depend on how it fulfills the expectations of various groups of stakeholders such as investors, employees, customers, regulators and the communities it serves (Freeman, 1984, as discussed in Wang, 2024). In this context, Environmental, Social, and Governance (ESG) disclosure is the means in which organizations convey an image of accountability, transparency and ethical responsibilities to stakeholders who are becoming increasingly conscious of responsible and sustainable business. Through offering reliable information on ESG, the firm may reduce the information asymmetry, earn the trust of the stakeholder, and increase its legitimacy in the eyes of the markets (Alessa et al., 2024).

The empirical evidence grounded in Stakeholder Theory has supported the positive link between ESG disclosure and firm value. Siwei & Chalermkiat (2023), studying listed energy firms in China, reported a positive and significant effect of ESG disclosure on firm value, suggesting that investors are willing to reward firms who react to stakeholder expectations. Profitability is an aspect relevant in this theoretical viewpoint since firms with superior financial performance have more tools to respond to stakeholder demands in terms of sustainability, thereby enhancing the positive relationship of ESG disclosure toward firm value (Zheng, C. et al., 2025).

Signalling Theory

Signaling theory explains how organizations use clear and visible information to communicate their unobservable qualities and helps decision makers assess their actual quality or credibility (Connelly et al., 2025). In this context, ESG disclosure is a way for firms to signal their commitment to sustainability, risk management ability, and long-term strategic intent. In this regard, if these disclosures are seen to be credible the investors treat them as proof of managerial competence and future value creation, thus affecting the firm valuation (Kurniawan et al., 2025).

The credibility of ESG disclosure as a signal is related to a firm's financial capability. More profitable firms are able to absorb the cost of sustainability initiatives more effectively, thus having stronger ESG disclosures making them harder to imitate by the weaker firms (Steigenberger, 2025). The view is also supported by empirical evidence. Rahmah et al. (2024), stated that profitability enhances market reaction to ESG disclosure as it increases the credibility, and the study conducted by Perdana et al. (2023), has shown that ESG performance and financial performance contribute positively to firm value among banks in ASEAN countries. These results suggest that profitability supports the credibility of ESG disclosure as a signal, resulting in better valuation outcomes.

Methodology

Research Design

This study is a quantitative research design using panel data regression analysis which integrates cross-sectional data (across firms) and time-series data (across periods) to capture inter-firm and intra-firm variations for the financial year of 2022-2024.

Population and Sample

The population of this study consists of 36 companies listed in the energy sector on the Bursa Malaysia Main Market. The sample is chosen using purposive sampling, which is suitable for research requiring firms with full ESG disclosure and financial data during a specific period. The sample includes firms that satisfy the following criteria, including firms that are constantly featured in Bursa Malaysia 2022-2024, release annual reports and sustainability reports for each year during the 2022-2024 period, provide complete ESG disclosure information that can be measured using the GRI Index or Bursa Indicator Index, and provide all financial data needed to compute firm value (Tobin's Q) and profitability (ROE).

The unit of analysis is firm-year observation that enables the study to capture differences across companies and across the three years of the post-pandemic period. This period is particularly relevant as firms began to normalize operations post COVID-19 and react to tightened ESG reporting expectations in Malaysia. After applying these criteria, 20 companies were selected as the sample of this study, resulting in 60 firm-year observations.

Data Collection

The data were obtained from publicly available corporate documents issued on the Bursa Malaysia website and individual company websites. ESG disclosure data are obtained directly from sustainability reports, utilizing the Global Reporting Initiative (GRI) Index or Bursa Indicator Index, both of which provide a systematic checklist for evaluating the extent of environmental, social, and governance information reported by enterprises.

Firm value, calculated based on Tobin's Q, is computed using market information such as market capitalization, total liabilities, and total assets reported in the firms' annual reports. Meanwhile, profitability data, measured using Return on Equity (ROE), are obtained from firms audited financial reports, especially from statements of financial position and statements of profit or loss.

Variable Measurement

ESG disclosure is measured applying the Global Reporting Initiative (GRI) Index or an indicator-based disclosure index developed from Bursa Malaysia's prescribed Common Sustainability Matters and related indicators. The ESG Index is calculated using the following formula:

$$ESG\ Index = \frac{Total\ ESG\ items\ disclosed}{Total\ ESG\ items\ required}$$

A higher ESG index score indicates a company has better sustainability practices, better risk management, and higher compliance with responsible governance standards (Zhu, 2025). The dependent variable, firm value, is measured by Tobin's Q, which is the ratio of a firm's market value to the substitute cost of the firm's assets and is an indicator of the firm's expected future value creation. Tobin's Q is defined as:

$$Tobin's\ Q = \frac{Market\ Value\ of\ Equity + Total\ Liabilities}{Total\ Assets}$$

A Tobin's Q higher than one means that the market values the assets higher than their substitute cost, suggesting strong growth potential and efficient value creation, while a value lower than one indicates undervaluation or less efficient asset usage (Tharavanij, 2024).

Profitability is measured by Return on Equity (ROE). The return on equity measures the return obtained on the capital invested by equity and indicates how effective a firm is in using shareholders' equity to generate profits (Furhamn, 2024). ROE is calculated as:

$$ROE = \frac{Net\ Income}{Shareholders' Equity}$$

The ratio shows how good a company is at converting investors' capital into earnings. In the moderating analysis, the interaction term of ROE and ESG disclosure is used to test the conditional effect of ROE on firm value.

Data Analysis and Model Specification

Data were analyzed utilizing SPSS and EViews statistical software. The estimation models considered are pooled OLS, fixed effects, and random effects. The selection of the best model is conducted through the Hausman test and Breuch-Pagan Lagrange.

To examine the relationship between ESG disclosure, profitability, and firm value, this study develops two panel regression models. The first model estimates the direct effect of ESG disclosure on firm value, while the second model incorporates the interaction term between ESG disclosure and ROE to test the moderating effect of profitability. Firm size and leverage act as control variables.

Model 1: Direct Effect Model

$$FV_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 FSIZE_{it} + \beta_3 LEV_{it} + \varepsilon_{it}$$

Model 2: Moderating Effect

$$FV_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 ROE_{it} + \beta_3 (ESG_{it} \times ROE) + \beta_4 FSIZE_{it} + \beta_5 LEV_{it} + \varepsilon_{it}$$

Where FV represents firm value, ESG represents ESG disclosure, ROE represents profitability measured by return on equity, $ESG \times ROE$ represents the interaction term between ESG to test the moderating effect if ROE, FSIZE represents firm size, and LEV represents leverage. Firm size (FSIZE) and leverage (LEV) act as control variables.

Results and Discussion

Descriptive Analysis

Based on the results of data processing using SPSS IBM, the descriptive analysis test in this study can be seen in the table:

Table 1: Summary of Descriptive Statistics

Variable	Minimum	Maximum	Mean	Std. Deviation
FIRMVALUE	.2615	2.7507	1.119865	.5766005
ESG	.3182	1.0000	.814702	.1952602
FIRMSIZE	18.9044	23.1851	20.981980	1.2511888
LEVERAGE	.0158	.9015	.436054	.2053485
ROE	-.6978	.3205	.031704	.1734065
ESG_ROE	-.0767	.2872	.005562	.0439958

Source: SPSS IBM

Correlation

Table 2 presents the correlation matrix among the study variables. This analysis is used to identify the direction and strength of the relationship between the independent, dependent, moderating, and control variables.

Table 2: Pearson Correlation

Variables	FV	ESG	FS	LEV	ROE	ESG_ROE
FIRMVALUE	1.000					
ESG	-0.117	1.000				
FIRMSIZE	-0.217**	0.195*	1.000			
LEVERAGE	0.173*	-0.013	0.031	1.000		

ROE	0.226**	0.167	-0.184*	-0.448***	1.000
ESG ROE	-0.097	-0.252**	-0.011	0.176	-0.384***

*p < 0.10, **p < 0.05, ***p < 0.01

Source: SPSS IBM

Regression

Based on the Hausman test, it shows Chi-square statistic of 11.01 and probability value of 0.0512. The p-value is slightly higher than the significance level of 0.05. Therefore, the null hypothesis cannot be rejected. Thus, the Random Effect Model (REM) was more appropriate and was selected as the final estimation model for this research.

In addition, Breusch-Pagan Lagrange Multiplier test shows the probability value of Breusch-Pagan cross-section test is 0.0000 which is less than the significance level of 0.05. Hence, the null hypothesis is rejected, and Random Effect Model is found to be more appropriate for the study.

The Random Effect Model was estimated assuming that the individual effects are random and uncorrelated with the independent variables.

Table 3: Random Effect Model (REM)

Test	Coefficient	Std. Error	t-Statistic	Prob.
C	5.506258	1.666102	3.304875	0.0017
ESG	0.014310	0.247049	0.057926	0.9540
ROE	0.428385	0.864233	0.495682	0.6221
ESG_ROE	-0.436514	1.071093	-0.407541	0.6852
FIRMSIZE	-0.222001	0.079108	-2.806303	0.0070
LEVERAGE	0.663929	0.371114	1.789017	0.0792

Weighted Statistics

Indicator	Value
R-Square	0.163769
Adjusted R-squared	0.086340
F-statistic	2.115085
Prob(F-statistic)	0.077553
Durbin-Watson Stat	1.537190

Source: EViews Statistical Software

Table 3 above shows ESG disclosure has a positive not insignificant correlation with firm value (coefficient: 0.0143, $p > 0.05$), suggesting that ESG disclosure does not have a significant effect on firm value energy firms in Malaysia.

Similarly, the profitability (ROE) shows a positive yet insignificant relationship with firm value (coefficient: 0.4284, $p > 0.05$). In addition, the interaction variable between ESG disclosure and profitability (ESG_ROE) has a negative and insignificant coefficient (coefficient: -0.4365, $p > 0.05$), indicating that profitability does not significantly moderate the relationship between ESG disclosure and firm value.

Furthermore, firm size negatively and significantly affects the firm value (coefficient = -0.2220, $p < 0.01$), suggesting that larger firms tend to experience a reduce firm value during the period of observation. Conversely, leverage has a positive and significant relationship with firm value at the 10% level (coefficient = 0.6639, $p < 0.10$), implying that firms with higher leverage tend to have higher market valuation.

ESG Disclosure and Firm Value

The results revealed that the effect of ESG disclosure on the firm value is insignificant in the context of energy firms listed at Bursa Malaysia. The result of the Random Effect Model (REM) shows that the coefficient of ESG disclosure is positive, but the probability value is not significant ($p > 0.05$). This means that the higher ESG disclosure does not necessarily increase firm value. Thus Hypothesis 1 is not supported.

The findings imply that investors in the Malaysian energy sector may consider more important on operational stability, industry conditions, and short-term financial considerations instead of sustainability disclosure in term of assessing company value. Additionally, in the energy sector, ESG practices may still be perceived as compliance-oriented activities rather than as strategic initiatives that directly create firm value.

From the Stakeholder Theory perspective, companies should enhance firm value by meeting stakeholder expectations through ESG practices. Likewise, Signaling Theory explains that ESG disclosure can signal reliable information regarding company quality and future sustainability. However, the insignificant result indicates that the ESG information disclosed by the sampled companies may not be strong enough to affect the investor perception and market valuation yet.

This finding align with the study conducted by Negara et al. (2024), examining listed companies in Indonesia found that ESG disclosure has a positive but insignificant impact on firm. The research suggests that investors may not yet consider ESG disclosure as a main factor in determining company value. Similarly, with the study by Rastogi et al. (2024) also reported the linear relationship between ESG and firm value among Indian firms was insignificant. Their study shows that the market may require a longer period to recognize the benefits of ESG practices, particularly in emerging markets where investors still emphasize more on financial and industry-related factors.

Profitability (ROE) and Firm Value

The results reveal that profitability (ROE) has a positive but insignificant influence the firm value. This suggests that firms with higher profitability are more valued by the market, but the effect is not statistically significant. Therefore, profitability alone may not explain the variations in the value of the firm among the companies sampled.

The insignificant relationship may be explained by the fact that, investors in the energy sector are affected not only by profitability, but also by the fluctuation of commodity price, operational risk, market uncertainty, and broader industry conditions. Thus, high profitability does not necessarily mean a higher valuation on the market.

In Signaling Theory, profitability is considered as an important signal of company performance and future prospects. However, the results suggest that the profitability performance of the sampled companies may not yet provide a sufficiently strong signal to significantly affect investor decisions.

This finding is consistent with the study conducted by Irawan et al. (2022), suggested that profitability (ROE), has a positive but insignificant impact on firm value among state-owned infrastructure companies in Indonesian. The study indicates that higher profitability does not always directly increase market valuation because investors may also view other factors such as industry conditions and company risk.

The Moderating Effect of Profitability on the Relationship between ESG Disclosure and Firm Value

The moderating analysis suggests that the interaction variable between ESG disclosure and profitability (ESG_ROE) has a negative and insignificant coefficient. This implies that profitability does not moderate the relationship between ESG disclosure and firm value. Thus, Hypothesis 2 is not supported.

This result suggests that even highly profitable firms do not gain more in terms of firm value from ESG disclosure activities. While investors may still see ESG disclosure and profitability as two distinct issues rather than as a factor that amplifies the effect of ESG practices on firm value.

In the Malaysian energy sector, the insignificant moderating role of ROE may be explained by the fact that investors tend to place greater emphasis on sector-specific factors, such as commodity price volatility, regulatory pressure, capital intensity, operational risk, and energy market uncertainty, rather than ESG disclosure alone. Although profitable firms may have greater financial capacity to support sustainability initiatives, profitability does not necessarily make ESG disclosure more valuable in the eyes of investors if the disclosure is perceived as compliance-oriented rather than strategically value-creating. Additionally, the benefits of ESG practices are often long-term, while ROE reflects short-term financial performance. Therefore, profitability may not be strong enough to immediately strengthen the relationship between ESG disclosure and firm value.

Stakeholder Theory and Signaling Theory perspective, describe that profitable firms are usually thought to have more resources to carry out sustainability initiatives and to send stronger positive signals to investors. Nevertheless, the findings suggest that the ESG disclosure practices of the sampled firms may not be comprehensive and consistent to the extent that could enhance the confidence of investors, despite the relatively high profitability.

This result is consistent with the research of Sulistyawati & Ratmono (2023), found that the profitability has no effect on the relationship between ESG and firm value in Indonesian companies. The study shows that the investors may still regard the ESG-related expenses as a redundant cost, which may reduce the firm's profitability and value.

Firm Size and Firm Value

The findings show a significant negative relationship between firm size and firm value. This indicates that the market valuation of the larger companies is less than the small firms in the Malaysian energy sector.

A further explanation is that bigger companies are more complex operationally, have higher agency costs and slower decision processes which can impact negatively on efficiency and investor perception. Additionally, managing sustainability practices across broader operations might also present additional challenges and costs for large firms.

In the view of Stakeholder Theory, bigger companies are generally expected to gain greater public attention and stakeholder pressure in regard to ESG practices. However, the findings shows that company size alone does not guarantee higher firm value within Malaysia's energy sector.

These findings align with a previous research by Miranda et al. (2026), which found that firm size had a significant negative relationship with firm value among manufacturing industries listed on Indonesian Stock Exchange. The study indicates that larger companies tend to have more complex organizational structures, which may rise agency problems and lead to higher information asymmetry between management and shareholder, also higher monitoring costs.

Leverage and Firm Value

The results reveal that leverage has a positive and significant relationship with firm value. This shows that companies with higher leverage tend to have higher firm value.

This finding could be explained by the nature of the energy sector, which is usually capital intensive and often uses debt financing to support operational and expansion activities. In such a case, investors may view debt as a signal that the company can fund growth and continue to run the business.

According to Signaling Theory, higher leverage can be a good signal of company's confidence in its future growth prospects and operational performance. The positive relationship suggests that investors are likely to perceive leverage as an efficient financing stratagem that can create value for the firm. This is particularly so in capital intensive sectors such as the energy sector in Malaysia.

This result is consistent with the study conducted by Chandra et al. (2022), which found that leverage positively and significantly affect the firm value among Indonesian Stock Exchange-listed companies. The study suggests that the use of debt can provide additional capital to support business operation and expansion, as well as help reduce agency cost.

Implication of the Study

Theoretical Implication

The result that state ESG disclosure has no significant impact on firm value contradicts established frameworks such as Stakeholder Theory and Signaling Theory, particularly within Malaysia's energy sector. This implies that, contrary to Stakeholder Theory, ESG practices in this context fail to bolster stakeholder trust enough to drive firm value. Similarly, regarding Signaling Theory, ESG disclosures and profitability may not yet serve as a credible positive signal to investors concerning the company's competence in value creation and long-term sustainability.

Implication For Companies

This study advice companies, especially energy sector in Malaysia to enhance transparency of ESG practices, including informing the positive impact of it in the report. This is intended to enable investors and stakeholders to perceive ESG practices as a positive investment rather than merely a cost that reduces profits. As a result, companies with sound ESG practices and transparent disclosures will be better positioned to attract investors and enhance corporate value in the future.

Implication For Regulators

These results indicate that regulators, such as Bursa Malaysia should strengthen the ESG-related regulations. Additionally, it is important to educate investors on the sustainability practices and investments. This aims to ensure investors view the ESG disclosure not just as additional reporting, but rather as a basis of decision-making.

Conclusion

In conclusion, the research aims to analyze the relationship between environmental, social, and governance (ESG) disclosure and firm value, also determine the moderating role of profitability, measured by Return on Equity (ROE) among the energy sector companies that are listed on Bursa Malaysia Main Market. The results show that environmental, social, and governance disclosure has a positive but insignificant impact on firm value. Additionally, the Return on Equity does not strengthen the relationship between ESG disclosure and firm value. The limitation of this study, such as limit on variable and time period can be enhanced by the future researches by adding other variables, including liquidity and economic condition, and extend the period of time. Future studies may also apply alternative methodologies such as interview or mixed method for better understanding on ESG and firm value. This research provides a perspective on the ESG issues. Although the ESG practices and ESG reporting have become global attention, investors in some areas, specifically in Malaysia's energy sector, still not consider it as the basis of decision-making for investment, but just as additional practices

and reporting. This issue should be treated to create sustainable businesses and life, starting from strengthen the regulations.

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