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Abdullah, N.A.I.N.^{a b}, Haron, R.^b

ESG Practices and Firm Risk: Evidence from Malaysia

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^a Faculty of Accountancy, Universiti Teknologi MARA (UiTM), Selangor, Malaysia

^b Institute of Islamic Banking and Finance, IIUM, Kuala Lumpur, Malaysia

Abstract

This study examines the effect of environmental, social, and governance (ESG) practices on firm risk in Malaysia. Prior research has primarily focused on countries with more developed ESG awareness, and minimal studies have investigated the interaction between ESG and Shariah-compliant firms. Therefore, these two combined effects are mostly unknown and worth researching. This paper aims to fill this gap by assessing whether Shariah-compliant firms can obtain a more significant risk-mitigating impact for greater ESG scores for nonfinancial firms. This study employed a panel data analysis base on a sample of listed firms from 2008 to 2021. This study finds a significant positive relationship between ESG performance and systematic risk in all samples and non-Shariah-compliant sample firms. This implies that ESG activities are not viewed as a value driver affecting the firm's systematic risk in Malaysian firms but rather a resource that could be better allocated to other value-added activities. Based on the findings, we argue that listed firms in Malaysia (both Shariah and non-Shariah compliant) still lack sufficient investment in ESG activities. The lack of association between ESG scores and firm risk indicates that higher ESG performances do not reduce a firm's risk in Malaysia. We recommend that they improve their overall ESG scores and increase their awareness of the future benefits that ESG activities may offer. © 2023, The Author(s), under exclusive license to Springer Nature Switzerland AG.

Author Keywords

ESG practice; Firm risk; Sustainability reporting

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Correspondence Address

Abdullah N.A.I.N.; Faculty of Accountancy, Malaysia

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