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EVALUATING THE IMPACT OF MANDATORY ESG DISCLOSURES ON FIRM VALUE: EVIDENCE FROM MALAWI STOCK EXCHANGE LISTED COMPANIES

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1. ABSTRACT

This paper investigates the financial impact of mandatory Environmental, Social, and Governance (ESG) disclosures on firm value among companies listed on the Malawi Stock Exchange (MSE). The study employed the quantitative research design and utilized content analysis and panel data regression to measures the correlation between ESG compliance scores and corporate valuation indicators, specifically Tobin's Q and Market-to-Book (MTB) ratios. Grounded in signaling theory, the research evaluates whether transparent sustainability practices, aligned with Malawi Vision 2063 (MW2063), enhance market confidence and therefore affect the firm value. Preliminary findings suggest that while financial performance remains a primary driver, ESG disclosure quality acts as an emerging determinant of long-term value creation. The study provides empirical evidence to support regulators and corporate boards in strengthening disclosure policies.

KEYWORDS: Environmental, Social, and Governance (ESG), Tobin's Q, Market-to-Book (MTB), Malawi Vision 2063 (MW2063), Malawi Stock Exchange (MSE) and General Reporting Initiative (GRI)

2. INTRODUCTION

The increasing emphasis on environmental, social, and governance (ESG) reporting has transformed the way firms are evaluated by investors, regulators, and other stakeholders. Beyond traditional financial indicators, sustainability disclosure is increasingly viewed as an important source of information that signals corporate transparency, accountability, and long-term value creation. As countries adopt mandatory ESG reporting requirements, understanding whether these disclosures translate into higher firm value has become an important research issue, particularly in emerging markets.

3. Background of the Study

Environmental, Social, and Governance (ESG) reporting has become an integral part of corporate reporting as investors, regulators, and other stakeholders increasingly require information on firms' environmental, social, and governance practices in addition to financial performance. This shift reflects the growing recognition that sustainable business practices contribute to long-term value creation and improved corporate accountability (Ullah, 2021; Aydogmus et al., 2022).

To improve the consistency and comparability of sustainability reporting, international frameworks such as the Global Reporting Initiative (GRI) Standards and the IFRS Sustainability Disclosure Standards (IFRS S1 and S2) have been developed to guide organizations in reporting sustainability-related information (Global Reporting Initiative [GRI], 2023; IFRS Foundation, 2023). These frameworks seek to enhance transparency, reduce information asymmetry, and support informed investment decisions.

In emerging economies, ESG disclosure is increasingly viewed as a strategic tool for improving investor confidence and attracting long-term investment (International Finance Corporation [IFC], 2021). In Malawi, the Malawi Stock Exchange (MSE) introduced mandatory ESG reporting guidelines based on the GRI framework, requiring listed companies to include sustainability disclosures from the 2024 financial year (Malawi Stock Exchange, 2024). This reform aligns with Malawi Vision 2063 by promoting transparency, accountability, and sustainable capital market development.

Despite the growing adoption of ESG reporting, evidence on its effect on firm value remains mixed. While some studies report that high-quality ESG disclosure enhances investor confidence and market valuation (Aydogmus et al., 2022; Alabi, 2026), others argue that compliance costs may outweigh short-term financial benefits, particularly in emerging markets (Darko Ban et al., 2025; EUDL, 2023). Moreover, there is limited empirical evidence on the relationship between mandatory ESG disclosures and firm value among companies listed on the Malawi Stock Exchange. This study addresses this gap by examining whether ESG disclosure quality influences firm value.

4. OBJECTIVES

General Objective

To evaluate the impact of mandatory ESG disclosures on the valuation of companies listed on the Malawi Stock Exchange (MSE).

Specific Objectives

- To analyze the relationship between ESG disclosure quality and market-based valuation metrics (Tobin's Q and MTB).
- To systematically evaluate and grade the sustainability reporting practices of listed companies.
- To provide policy recommendations for enhancing transparency in Malawian capital markets.

5. Literature Review and Problem Analysis

5.1. Theoretical framework

This study uses "Signaling Theory" as its main framework. The theory states that when there is an information gap between companies and its investors, high-quality ESG reporting serves as a signal that management is running the company efficiently and managing risks well (Aydogmus et al., 2022). Theoretically, by lowering the firm's perceived risk through compliance with regulatory frameworks like the General Reporting initiatives (GRI) introduced by the Malawi stock Exchange (MSE), companies can reduce their cost of capital and increase their market value. This is often measured by higher Tobin's Q and Market-to-Book (MTB) ratios (Msomi, 2025). However, this theory is debated; EUDL, (2023), argue that in emerging markets, the high cost of complying with Global Reporting Initiative (GRI) standards may outweigh the benefits, especially if investors are only focused on short-term dividends (EUDL, 2023).

Corporate finance currently faces a challenge. They need to balance maximising shareholder profit with the growing need to report on broader sustainability issues. For the Malawi Stock Exchange (MSE), this shift is highlighted by the introduction of mandatory Environmental, Social, and Governance (ESG) reporting in 2023 which became mandatory in financial statements starting from financial year ending 2024. Review of prior literature has shown conflicting results. For example, Alabi,2026 has alluded to the significance of ESG disclosure quality as a vital metric for assessing investor confidence and long-term sustainability. On the other hand, Darko Ban et. al (2025) concluded that ESG implementation has no impact on profitability in the short term. Hussain et al. (2018) and Li (2024), both concluded that ESG ratings do not affect a company's financial performance

The MSE offers a unique environment for this research. Unlike developed markets where ESG data is integrated into automated trading, the Malawian market relies heavily on traditional financial metrics. There is a clear need to understand if mandatory disclosure actually helps create value in line with the Malawi Vision 2063 (MW2063) agenda, or if it is simply a task companies perform to meet regulatory requirements. This study addresses this gap by analyzing how ESG quality affects firm value for companies listed on the MSE between 2020 and 2025.

6. METHODOLOGY

This study employs a quantitative research design to evaluate the financial impact of mandatory Environmental, Social, and Governance (ESG) disclosures on companies listed on the Malawi Stock Exchange (MSE).

6.1 Study Design

The research uses a panel data regression approach. This method is chosen because it allows for the analysis of multiple companies over a multi-year period (2020–2025), effectively capturing changes in both firm value and disclosure quality over time.

6.2 Data Sources and collection

The data is gathered through a content analysis of corporate annual reports and extracted audited financial statements form Malawi Stock Exchange resource portal.

A customized ESG Disclosure Index, based on Global Reporting Initiative (GRI) standards, is used to grade the quality of each company's reporting.

6.3Data Analysis

Regression was used to determine the relationship between the ESG scores and three key valuation indicators: Tobin’s Q, Net Asset Value (NAV) and the Market-to-Book (MTB) ratio.

7. FINDINGS/RESULTS

The analysis of financial performance and ESG disclosure trends for companies listed on the Malawi Stock Exchange (MSE), focusing on the following randomly selected companies: airtel Malawi, MPICO, National bank of Malawi and Illovo sugar company over the period 2020–2025 reveals distinct patterns in corporate valuation and reporting maturity. The findings are summarized below:

7.1 ESG Compliance Maturity

As detailed in the ESG Compliance Maturity Matrix, reporting practices vary across the sector. Airtel Malawi, Illovo Sugar, and National Bank of Malawi (NBM) currently maintain a maturity score of 3, reflecting "GRI-informed" or policy-based disclosures, while MPICO occupies a nascent stage with a score of 2.

ESG Compliance Maturity Matrix: Malawi Operations (2020–2025)

Company	Reporting Scope	GRI Alignment	Maturity Score (1-5)	Primary ESG Focus
Airtel Malawi	Local (MSE)	Selective / Indirect	3	Community investment, digital inclusion, governance
Illovo Sugar	Local (MSE)	Partial / Industry	3	Out grower support, water, energy, labor
NBM	Local (MSE)	Policy / Risk-based	3	Credit risk, social impact, financial inclusion
MPICO	Local (MSE)	Nascent	2	Governance, operational efficiency

7.2 Valuation Performance (Tobin's Q)

Valuation divergence is evident across the sample. Airtel Malawi demonstrated the highest market-driven valuation relative to its physical assets, maintaining a mean Tobin's Q of 3.82, which indicates strong market expectations for intangible value. Conversely, MPICO recorded the lowest mean Tobin's Q at 0.60, suggesting limited market premium relative to its asset base.

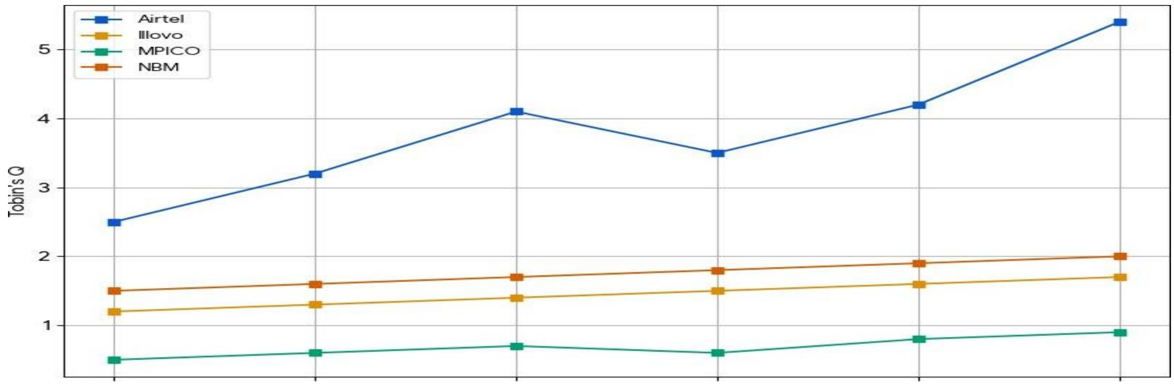

Figure 1Tobin's Q.

7.3 Asset Growth (NAV)

In terms of tangible asset expansion, National Bank of Malawi (NBM) exhibited substantial growth in Net Asset Value (NAV), with a mean of MK384.33 billion. This performance highlights that for established financial institutions, firm value remains firmly anchored in consistent underlying asset growth.

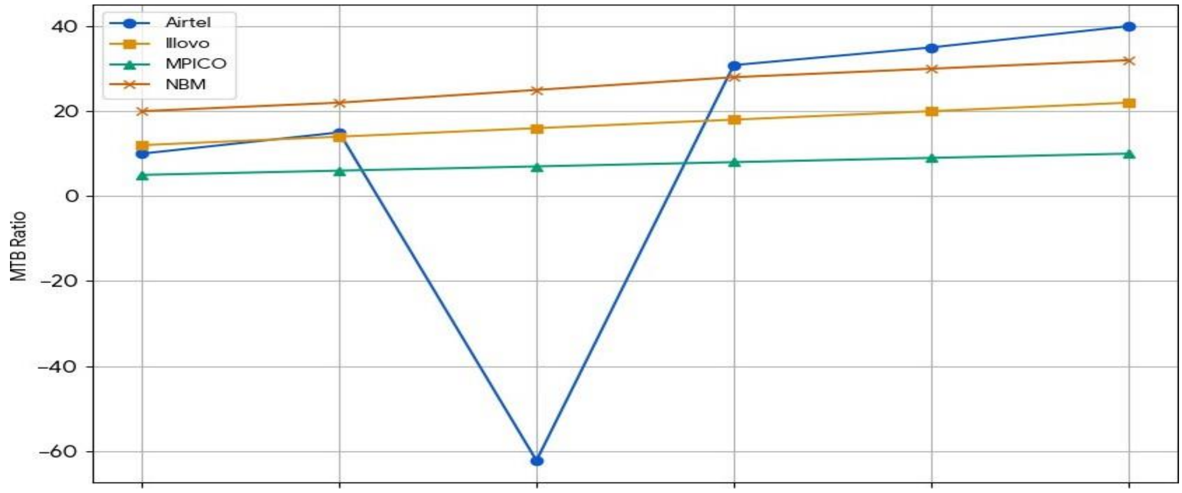

Figure 2 NAV Figures.

7.4 Market Volatility (MTB Ratio)

Analysis of the Market-to-Book (MTB) ratio highlights significant market volatility for high-growth firms. Airtel experienced extreme fluctuations, notably shifting from a negative MTB ratio of -62.26 in 2022 to a recovery of 30.84 in 2023. This volatility contrasts with the relatively more stable trajectory observed in firms like Illovo Sugar

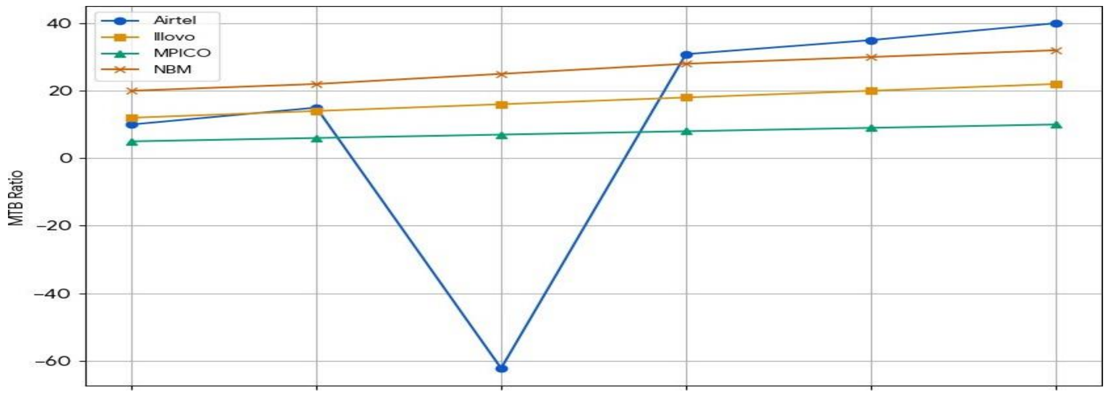

Figure 3 MTB ratios.

8. DISCUSSION

The empirical results derived have revealed that value drivers on the Malawi Stock Exchange (MSE) are not uniform. This suggests a complex interplay between traditional financial metrics and intangible market expectations. The observed divergence in valuation metrics, specifically in Tobin's Q and the Market-to-Book (MTB) ratio has highlights how different business models are priced within the Malawian capital market.

Interpretation of Valuation Divergence

The substantial growth in Net Asset Value (NAV) observed in the National Bank of Malawi (NBM) (mean MK384.33 billion) confirms that for mature financial institutions, firm value remains strongly anchored in tangible asset expansion. Conversely, the high mean Tobin's Q observed for Airtel Malawi (3.82) suggests that investors price the firm primarily based on service-oriented business models and future intangible growth potential rather than current book value. This performance gap is further reflected in the comparative mean metrics, where Airtel maintains a significantly higher valuation premium compared to entities like MPICO (mean Tobin's Q of 0.60), whose valuation remains low relative to its physical asset base.

Comparison with Existing Literature

These findings echo Aydogmus et al. (2022) regarding the efficacy of sustainability reporting as a bridge for attracting institutional investors. However, the extreme volatility in Airtel's MTB ratio such as the shift from -62.26 in 2022 to 30.84 in 2023 highlights the risks identified by Ma (2025) where they observed that in emerging markets with lower liquidity, the "pricing" of information can be inconsistent. While firms like Illovo Sugar maintain more stable trajectories, the broader data suggests that the market is still learning to value ESG disclosures, leading to the observed inconsistencies.

Implications of Findings

The evidence indicates that for high-profile firms, aligning transparency with the Malawi Vision 2063 (MW2063) framework could be a critical tool for attracting foreign portfolio investment. Valuation anomalies across the sample suggest that market pricing is increasingly influenced by factors beyond tangible assets, supporting the hypothesis that high-quality ESG disclosure as measured by the maturity scores in the compliance matrix is an emerging determinant of investor confidence. Ultimately, this study suggests that as mandatory reporting becomes entrenched, firms that successfully signal their sustainability performance will likely see a reduction in information asymmetry and, consequently, an improvement in their long-term market valuation.

9. CONCLUSION

This paper concludes that while traditional financial metrics remain the primary drivers of firm value, ESG disclosure quality is an increasingly significant determinant of market valuation. Ultimately, mandatory ESG disclosure is a strategic necessity that aligns with the Malawi Vision 2063 agenda, helping to modernise the capital market.

10. Recommendations

10.1 Practical Recommendations

Listed companies should integrate ESG metrics into core strategic planning to better communicate long-term value and adopt standardized sustainability reporting frameworks (such as GRI) to ensure consistency.

10.2 Policy Recommendations

The MSE regulatory body should develop a centralized ESG digital dashboard to increase the accessibility of sustainability data and provide targeted guidance on sector-specific reporting.

10.3 Future Research

Future studies should expand this analysis to include the impact of ESG disclosures on small and medium-sized enterprises (SMEs) in Malawi.

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