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# Is Sustainability Beneficial in the Long Term? The Significance of Pre-IPO ESG Disclosure

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**ABSTRACT**

The persistent issue of long-term underperformance among firms has raised increasing concern within the capital market. **Purpose:** In response to the growing emphasis on sustainable and responsible investment (SRI), which integrates environmental, social, and governance (ESG) dimensions, we investigate whether pre-initial public offering (pre-IPO) ESG disclosure can predict firms' long-term performance. This research is motivated by the limited empirical evidence on ESG disclosure practices within the Malaysian IPO landscape, where such disclosures remain largely voluntary. **Method:** Using a sample of 100 IPOs issued between 2012 and 2019, event-time analyses are employed and observed until 2024. The cumulative and buy-hold abnormal returns are employed as the dependant variables, representing long-term performance, three years post-IPO. **Results:** The findings reveal that voluntary pre-IPO ESG disclosure has a significant impact on firms' long-term performance. However, the negative relationship suggests potential greenwashing effects consistent with prior literature. Furthermore, when examining the ESG dimensions individually, the study finds that social disclosure practices have a negative influence on firms' long-term performance. **Contributions:** This research contributes to IPO literature by offering evidence from a developing market context on how voluntary ESG disclosures prior to listing shape firms' sustainability. Strengthening ESG disclosure guidelines pre-IPO, aligning firms' disclosure with actual operational capacity, and expanding future research to Association of Southeast Asian Nations markets are essential to enhance the credibility and valuation relevance of ESG information.

***Keywords:*** IPO; initial public offering; performance; long-term; sustainability; ESG; disclosure; stock return; Malaysia

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ОРИГИНАЛЬНАЯ СТАТЬЯ

# Выгодно ли устойчивое развитие в долгосрочной перспективе? Значение раскрытия информации об ESG-факторах перед первичным публичным размещением акций

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**АННОТАЦИЯ**

Проблема низкой эффективности деятельности компаний в долгосрочной перспективе вызывает все большую обеспокоенность на рынке капитала. **Цель:** в связи с растущим вниманием к устойчивым и от-

ветственным инвестициям, которые интегрируют экологические, социальные и управленческие (ESG) аспекты, авторы исследуют, может ли раскрытие информации об ESG-факторах перед первичным публичным размещением акций (pre-IPO) предсказать долгосрочные результаты деятельности компаний. Данное исследование мотивировано ограниченными эмпирическими данными о практике раскрытия информации об ESG-факторах в рамках рынка IPO в Малайзии, где такое раскрытие информации остается в основном добровольным. **Метод:** используя выборку из 100 IPO, выпущенных в период 2012–2019 гг., проводится анализ событий во времени и наблюдение за компаниями до 2024 г. В качестве зависимых переменных использовались кумулятивная и аномальная доходности от покупки и удержания акций, отражающие долгосрочные результаты деятельности в течение трех лет после IPO. **Результаты:** полученные данные показывают, что добровольное раскрытие информации об ESG-факторах до IPO оказывает значительное влияние на долгосрочные показатели деятельности компаний. Однако отрицательная взаимосвязь указывает на потенциальные эффекты «зеленого камуфляжа», что согласуется с предыдущими исследованиями. Кроме того, при рассмотрении отдельных аспектов ESG исследование показывает, что практика раскрытия социальной информации оказывает негативное влияние на долгосрочные показатели деятельности компаний. **Вклад:** исследование вносит вклад в литературу по IPO, предоставляя данные из контекста развивающегося рынка о том, как добровольное раскрытие информации об ESG-факторах перед первичным публичным размещением акций влияет на устойчивость компаний. Усиление требований к раскрытию информации об ESG-факторах до IPO, приведение раскрытия информации компаниями в соответствие с фактическими операционными возможностями и расширение будущих исследований на рынки стран Ассоциации Юго-Восточной Азии имеют важное значение для повышения достоверности и значимости информации об ESG для оценки стоимости компаний.

***Ключевые слова:*** IPO; первичное публичное размещение акций; показатели деятельности; долгосрочный эффект; устойчивость; ESG; раскрытие информации; доходность акций; Малайзия

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## 1. Introduction

Particularly in emerging markets where information asymmetry and disclosure quality remain central challenges in capital formation [1], the long-term success of newly listed firms is a critical concern for investors, regulators, and policymakers. Initial public offerings (IPOs) represent a major milestone for firms transitioning into public capital markets. However, the post-listing period remains uncertain as firms adjust to new regulatory environments, governance expectations, and investor scrutiny. While firms attract significant market attention at the point of listing, their ability to sustain performance beyond the early trading period has become an increasingly important measure of organisational resilience and long-term value creation.

In Malaysia, the issue of post-IPO sustainability has gained prominence as the capital market evolves towards higher transparency and accountability standards.[1] Investors placing greater emphasis on non-financial information, specifically Environmental, Social, and Governance (*ESG*) disclosure, have emerged as a potential source of competitive advantage. *ESG* reporting is widely regarded as a mechanism that enhances transparency, promotes responsible business conduct, and fosters investor confidence [2, 3]. Despite these perceived benefits, the extent to which pre-IPO *ESG* disclosure contributes to firms' long-term post-IPO performance remains unclear, especially in markets where *ESG* reporting is largely voluntary and varies substantially across firms, such as Malaysia.

The increasing regulatory encouragement for sustainability practices in Malaysia, such as the Sustainability Reporting Guide (SRG) and the Malaysian Code on Corporate Governance (MCCG), highlights the growing expectation that firms should embed *ESG* considerations earlier in their corporate journey, including during the IPO stage. *ESG* disclosure enhances transparency and demonstrates a firm's alignment with regulatory expectations and the sustainability agenda [4], especially if it is voluntary. However, empirical evidence assessing whether such early disclosures translate into superior long-term performance or sustainability post-IPO remains limited.

Our study examines the 100 IPOs listed on Bursa Malaysia from 2012 to 2019, with observations

[1] Bursa Malaysia. FTSE 4Good Bursa Malaysia (F4GBM) Index. 2022. URL: https://www.bursamalaysia.com/trade/our_products_services/indices/ftse4good-bursa-malaysia-f4gbm-index

continuing until 2024. A three-year observation window is applied, utilising event study methodologies, to evaluate the influence of *ESG* disclosures on firms' long-term post-IPO performance. Contrary to expectations that *ESG* disclosures promote superior long-term performance, the results indicate that higher levels of *ESG* disclosures prior to listing reduce the likelihood of achieving sustainable performance in the long run.

When the *ESG* dimensions are examined individually, the findings suggest that selective or superficial disclosure of social initiatives may negatively affect firms' long-term performance. These findings remain consistent across both event study methodologies, reinforcing the evidence that *ESG* disclosure negatively influences firms' long-term performance. Robustness analyses further reveal an interdependence between initial and long-term performance, whereby firms exhibiting strong initial returns tend to experience subsequent underperformance.

## 2. Literature review

### 2.1. Long-term performance in the developed and developing markets

The long-term performance anomaly in IPOs refers to the persistent difference between the offer price and subsequent market value over an extended post-listing period, typically measured over one, three, or five years. Two types of long-term performance reported in past studies are the firms' underperformance and outperformance. Firms are underperforming (outperforming) if their subsequent share prices are lower (higher) than the initial trading day prices, resulting in negative (positive) returns for investors [5].

Primarily introduced by Ritter [6], long-term performance has become of interest mainly to portray investment opportunities to investors, even after three years of firms going public, and to consider the informational efficiency of an IPO market, considering that the prospectus provides timely information for investors' guidance. Loughran and Ritter [7] refer to the long-term performance anomaly as a new issue puzzle in an IPO and state that there are significant differences between the performance of firms during periods of high and low numbers of IPO listings. The long-term performance of firms is a contentious issue in past studies, as evidenced by the contradictory findings. Some studies reported that firms underperform marginally or have no abnormal performance in the long run, implying that the market is efficient because the results do not reject the market efficiency hypothesis [8, 9, 10]. Others found that firms outperform or do not underperform in the long run [11, 12]. IPO firms' long-term performance reported in past studies varies depending on the measurements, markets (developed or developing markets), or even different countries within similar market categories.

For example, a study in the United States (US) by Yip et al. [13] examined the firms' 1-year performance from 1996 to 2000 and reported –17.37 percent of underperformance using the cumulative market-adjusted return (CAR) method. On the other hand, Gompers and Lerner [8], who employ the buy-and-hold return (*BHAR*) method to examine firms' long-term performance from 1935 to 1972 (pre-Nasdaq market), report the underperformance of 3 years of –16.7 percent and 5 years of –21.00 percent. The study also highlights that firms' underperformance starts to disappear using the cumulative average abnormal return (*CAAR*) method, reporting 2 percent and –0.5 percent for 3-year and 5-year post-IPO. Other studies in the U.S., such as Jog et al. [14] and Fu et al. [15], consistently report firms' long-term underperformance at –99 percent (3 years) from 2000 to 2012 and –27.55 (3 years) and –40.71 (5 years) from 1999 to 2021, post-IPO, respectively. We discover that although past literature reports firms' long-term outperformance in the US, most past studies have proved that the long-term underperformance anomaly occurs in the US since Ritter [6]. Does this anomaly also exist in other developed markets?

A similar pattern of firms' long-term underperformance post-IPO was revealed in the U.K. market at –16.4 percent (3 years) and –47.6 percent (5 years) from 1975 to 2004 by Gregory et al. [17] and at –8.49 percent (3 years) from 1987 to 2007 by Ali [17]. While Gregory et al. [16] highlights that their findings are generally associated with firms' sizes (i.e., smaller firms underperform greater than larger firms), Ali's [17] finding is in line with Loughran and Ritter [7] that firms listed during periods of higher listing of IPOs in the market underperform severely in the long term. In contrast, Álvarez-Otero [18] recently reported that most European countries' firms outperform in the long-term post-IPO, with Hungary having the highest abnormal average return of 367.5 percent, 567.1 percent and 50.3 percent 1 year, 3 years, and 5 years post-IPO (1995 to 2013).

Past studies present various findings in the developing markets, regardless of countries. Cai et al. [19] report that the firms listed from 1997 to 2001 highly underperform by –30 percent compared to the Shanghai Share Exchange A-Share index. Contrary to this, Anderson et al. [20] report that firms listed in a new China share market (ChiNext) from 2009 to 2011 outperformed by 33.47 percent 3 years post-IPO. In India, Gupta et al. [21] find long-term outperformance (positive performance) in the first year post-IPO at 0.56 percent from 2009 to 2018. Similarly, Zakaria and Kamaludin [22] also report firms' long-term outperformance at 9.5 percent from 2000 to 2017, 3 years post-IPO in the Saudi Arabia market. This study acknowledges that developing markets mainly reported long-term performance as outperformance rather than underperformance.

In the Malaysian market, most studies also report firms' long-term outperformance. Nevertheless, the level of outperformance relies on the sample period. Paudyal et al. [23] investigated the long-term performance of 95 privatisation firms listed on the Main Board between 1984 and 1995 and discovered outperformance in the market by 8.9 percent 3 years post-IPO. However, the 3-year firms' outperformance level reported by Paudyal et al. [23] is lower than Jelic et al. [24], at 21.9 percent between 1980 and 1995. Corhay [25] and Ahmad-Zaluki et al. [26] discovered that firms in the Malaysian market outperformed the Kuala Lumpur Composite Index (KLCI) over 3 years post-IPO by combining the Main Board and Second Board IPOs, with cumulative abnormal returns of 41.7 percent and 32.6 percent, respectively.

A recent study using Malaysian IPOs showed firms' long-term underperformance post-IPO. Abdul Rahman and Che-Yahya [27] reported –31.87 percent of underperformance 3 years post-IPO from 2000 to 2014. They forwarded a concern about firms facing failure while investors are unable to secure desirable returns in the long term. The study also highlighted that although studies in Malaysia previously reported long-term outperformance, the consistent decline in the firms' initial performance in the Malaysian market could be the reason behind lower recent underperformance post-IPO (i.e.,—31.87 percent). Hence, the variability of long-term performance points to the need for this study to examine the potential factors affecting firms' long-term performance, specifically in the Malaysian market.

### 2.2. The influence of *ESG* on firms' long-term performance

In recent years, *ESG* practices have gained significant prominence in global capital markets, as investors increasingly rely on *ESG*-related disclosures when formulating their investment decisions [28]. *ESG*-integrated investment vehicles, commonly referred to as socially responsible funds, reflect the growing recognition of the interdependence between corporate governance quality, social responsibility, environmental stewardship, and long-term sustainability [29]. Firms that embed *ESG* principles within their operations and voluntarily disclose their practices are generally perceived as more transparent, which may translate into a lower cost of capital and greater long-term value creation [3]. Furthermore, adopting *ESG* frameworks is frequently associated with enhanced governance mechanisms, reduced earnings volatility, more substantial environmental commitments, and improved access to cost-efficient financing [30].

From a corporate perspective, *ESG* disclosure is a strategic instrument for legitimisation and reputation building [31]. By communicating their environmental and social initiatives, firms reinforce their alignment with societal expectations and investor interests. Sadiq et al. [32] documented a sharp increase in the number of *ESG*-disclosure firms, rising from approximately 300 in 1996 to nearly 7,000 by the end of 2014, illustrating the growing institutionalisation of sustainability disclosure as a norm for legitimacy enhancement.

To sustain these practices, Slager and Chapple [33] suggest that firms must continuously engage in three interrelated mechanisms: remaining publicly listed to maintain market accountability, interacting with *ESG* rating providers to preserve or improve their scores, and reinforcing legitimacy through consistent and transparent disclosures. Despite these benefits, the credibility and integrity of *ESG* information remain crucial determinants of investor response. Wong and Zhang [34] found that the disclosure of negative or insincere *ESG* information may diminish firm value, suggesting that investors are highly responsive to the quality of sustainability disclosure.

Transparent and credible *ESG* communication reduces information asymmetry and mitigates IPO underpricing [35, 36]. Complementing this view, Hardiningsih et al. [37] contend that stronger capital

inflows at the time of listing, driven by investor confidence in *ESG* transparency, are likely to strengthen firms' future cash flows, thereby enhancing their long-term performance potential. These arguments suggest that genuine and high-quality *ESG* disclosure can reinforce firm legitimacy, reduce financing frictions, and support sustained post-listing success.

Hypothesis 1: There is a positive influence of *ESG* disclosure on firms' long-term performance.

Hypothesis 2: There is a positive influence of environmental disclosure on firms' long-term performance.

Hypothesis 3: There is a positive influence of social disclosure on firms' long-term performance.

Hypothesis 4: There is a positive influence of governance disclosure on firms' long-term performance.

## 3. Data, measurements and methods

### 3.1. Data and sample

This study employs secondary and cross-sectional data comprising 131 IPOs listed on the Main Market (prime market for established companies) and ACE (Access, Certainty, Efficiency) Market of Bursa Malaysia between January 2012 and July 2019. Following Mohammad and Wasiuzzaman [3], 2012 marks the onset of a significant increase in *ESG*-related disclosures among Malaysian listed firms; hence, it serves as the baseline year for the sample period. Our sample ends in July 2019, as long-term performance requires a three-year observation window, ending in July 2024.

Several exclusion criteria are applied, consistent with Ong et al. [38] and Zheng and Li [39]. Specifically, we omit two financial-sector IPOs (including banks, insurance firms, real estate investment trusts, and financial services) due to their unique reporting structures. We omit twenty-two IPOs from the Leading Entrepreneur Accelerator Platform (LEAP) Market owing to limited disclosure availability and seven IPOs for exhibiting missing data, outliers, or extreme values. After applying these criteria, the final sample comprises 100 IPOs listed on Bursa Malaysia's Main and ACE Markets.

### 3.2. Variables measurement and models

We use the event-time approaches to measure firms' long-term performance. According to Abdullah et al. [40], the event-time approach performance is calculated using the abnormal return of a baseline reference relative to the event date. Abnormal returns in an event-time approach are typically quantified by utilising two distinct measures: cumulative average abnormal return (*CAAR*) and the buy-and-hold abnormal return (*BHAR*).

Define $R_{it}$ as the month $t$ actual return on a sample firm, $MR_{it}$ as the month $t$ market return (Kuala Lumpur Composite Index) for the sample firm, and $AR_{it} = R_{it} - MR_{it}$ as the abnormal return in month $t$. Then, calculate the average abnormal return for a portfolio of the sample firm for the month $t$. Cumulating across $t$ periods yields a cumulative average abnormal return (*CAAR*).

$$CAAR_{q,s} = \sum_{i=q}^{s} \overline{AAR_t}. \quad (1)$$

In contrast, the return on a buy-and-hold investment in the sample firm is less the return on a buy-and-hold investment in the market benchmark index (KLCI).

$$BHAR_{i,t} = \left[\prod_{t=T_1}^{T_2}\left(1+R_{i,t}\right)-1\right] - \left[\prod_{t=T_1}^{T_2}\left(1+MR_{i,t}\right)-1\right]. \quad (2)$$

In measuring the *ESG* disclosures, we develop the *ESG* scoring using the fourteen indicators reported in the Financial Times Stock Exchange Index (FTSE) Russell. For each firm, we apply a binary scoring approach where the presence of any of the fourteen identified *ESG* components was assigned a value of "1", and the absence was assigned "0". Following Nicolo et al. [41], we derive the overall *ESG* score by dividing the total points accumulated by a firm across all indicators by the maximum possible number of indicators under each *ESG* dimension, subsequently expressed as a percentage.

We conduct the scoring process manually based on data extracted from the firms' IPO prospectuses. AntConc software, an open-source corpus analysis program, assists with concording and analysing textual content related to firms' *ESG* initiatives. This software ensured systematic extraction and reduced the likelihood of human error or omission when compiling the *ESG* scores for each firm. Other independent variables included in this study to control the relationship between *ESG* disclosure and long-term performance include initial return (offer-to-open and offer-to-close measurements), market capitalisation (natural logarithm), age of firm (incorporation year), IPO proceeds, underwriter

reputation (market share of underwriters), insider retention, total assets, leverage, sector and KLCI performance (3 years post-IPO of each firm).

The regression models for this study are divided into two equations. As stated, we measure the long-term performance using two methods of the event study, i.e., *CAAR* and *BHAR*. Equations (3) and (4) display the equations:

$$\widehat{CAAR_i} = \hat{\alpha} + \hat{\beta}_1 ENV_i + \hat{\beta}_2 SOC_i + \\ + \hat{\beta}_3 GOV_i + \hat{\beta}_e \sum_{t=1}^{L} OIV_{i,e}) + \varepsilon_i \quad (3)$$

$$\widehat{BHAR_i} = \hat{\alpha} + \hat{\beta}_1 ENV_i + \hat{\beta}_2 SOC_i + \\ + \hat{\beta}_3 GOV_i + \hat{\beta}_e \sum_{t=1}^{L} OIV_{i,e}) + \varepsilon_i, \quad 4)$$

where:

$\widehat{CAAR_i}$ — Cumulative average abnormal return.

$\widehat{BHAR_i}$ — Buy and holding abnormal return.

$i$ — $i$th firm.

$\alpha$ — Constant term.

$\hat{\beta}$ — Coefficient of the respective independent variable.

*ENV* — Environmental disclosure which are climate change, water security, biodiversity, pollution and resources, and supply chain environment.

*SOC* — Social disclosure which are health and safety, labour standards, human rights and community, customer responsibility, and supply chain social.

*GOV* — Governance disclosure which are anti-corruption, tax transparency, risk management and corporate governance.

*OIV* — Other independent variables *L* which are initial return market capitalisation, age of firm, IPO proceeds, underwriter reputation, insider retention, total assets, leverage, sector and KLCI performance.

## 4. Results and discussion

### 4.1. Descriptive and diagnostic results

*Table 1* shows the descriptive statistics analysis of the data. *CAAR* and *BHAR* capture the long-term performance of firms post-listing three years post-IPO. The mean *CAAR* is 16.48 percent, whereas the mean *BHAR* is significantly lower at 7.46 percent, suggesting that firms, on average, generate positive abnormal returns over the long term. The median values are –1.03 percent for *CAAR* and –4.57 percent for *BHAR*, both negative, indicating that more than half of the sample firms underperform in the long run. The minimum values further highlight this trend, with *CAAR* plunging to –52.82 percent and *BHAR* to –60.50 percent, signifying severe underperformance for some firms. On the other end, the maximum values are considerably high at 159.98 percent for *CAAR* and 151.86 percent for *BHAR*, reflecting that a subset of firms substantially outperformed. The high standard deviations, 56.46 for *CAAR* and 53.62 for *BHAR*, underscore the significant dispersion and risk associated with long-term performance.

The mean of *CAAR* (16.48 percent) and *BHAR* (7.46 percent) demonstrate that firms' performance is more favourable when evaluated cumulatively rather than the buy-and-hold strategy. The negative median at –1.03 percent for *CAAR* and –4.57 percent for *BHAR* also confirm that more than half of firms in the sample underperform over the long run. This is consistent with Abbas et al. [42] reporting a median of –21 percent for firms listed from 2007 to 2015. The minimum value of –52.82 percent and –60.50 percent indicate more than 50 percent of loss for the firms' 3-year return post-IPO. The minimum values observed are more extreme as compared to Abdul Rahman and Che-Yahya [27] (–31.87 percent). The substantial negative minimum values for both *CAAR* and *BHAR* underscore the potential significant losses for firms in the years following their IPO. This indicates that a considerable proportion of firms may suffer substantial value erosion [43].

In order to meet the underlying assumptions of regression models and increase the reliability of the findings, we conduct several diagnostic tests on the data. We employ four diagnostic tests: normality, multicollinearity, heteroscedasticity, and autocorrelation. We found several non-normal distributions of the data, particularly for all data except for the *ESG* and KLCI performance data. However, Volgevang [44] discusses that the cause of non-normality is outliers and extreme values in residuals. Accordingly, Yusoff et al. [45] confirm that the violation is tolerable and will not be the main issue in cross-sectional regression models. We run several tests to remove outliers and extreme values, which include box plot, extremes function and winsorisation in Stata Software.

No severe multicollinearity issue is found in our models; however, our data suffers from a heteroscedasticity issue. Hence, we employ the Newey-West

Table 1
*Descriptive statistics of IPOs from 2012 to 2019 on Bursa Malaysia*

| Variables | Mean | Median | Minimum | Maximum | Standard Deviation |
|---|---|---|---|---|---|
| *ESG* | 40.9286 | 42.8571 | 0.0000 | 85.7143 | 16.2710 |
| *ENV* | 0.1740 | 0.2000 | 0.0000 | 0.8000 | 0.2003 |
| *SOC* | 0.3520 | 0.40000 | 0.0000 | 1.0000 | 0.2148 |
| *GOV* | 0.5875 | 0.5000 | 0.0000 | 0.7500 | 0.1643 |
| INOP | 17.45 | 13.65 | –34.96 | 90.00 | 28.58 |
| INCL | 17.37 | 10.79 | –24.31 | 113.67 | 31.38 |
| MKTCAP (Mil) | 1481.534 | 203.0250 | 31.64000 | 22787.00 | 3881.338 |
| AGE | 7.5400 | 2.0000 | 1.0000 | 41.0000 | 10.2656 |
| IPOPRO (Mil) | 295.2420 | 36.50000 | 0.0000 | 5300.000 | 904.8328 |
| USHARE | 0.0800 | 0.0570 | 0.0063 | 0.3731 | 0.0772 |
| INSRET | 69.7414 | 70.8350 | 0.0000 | 100.0000 | 16.8843 |
| TOTA ('000) | 63010.25 | 2025.500 | 9.0000 | 2100000 | 298863.6 |
| LEVERAGE | 2.0650 | 0.861 | 0.0143 | 15.0392 | 3.4887 |
| SECTOR | 0.1200 | 0.0000 | 0.0000 | 1.0000 | 0.3266 |
| MC 3YCAAR | –4.1794 | –5.82 | –23.77 | 16.810 | 8.0176 |
| MC 3YBHAR | –12.8 | –16.5 | –75 | 43.0000 | 22.9690 |

*Source:* Based on Thomson Reuters Datastream and IPO Prospectuses on Bursa Malaysia. URL: https://www.bursamalaysia.com/bm/market_information/announcements/firm_announcement?firm=5284 (accessed on 09.09.2023).

test as proposed by Yusoff et al. [45], which corrects the heteroscedasticity and autocorrelation issues in the model. The residual test is also employed to check for the endogeneity issue, which led us to conclude the absence of endogeneity evidence.

### 4.2. The influence of *ESG* on firms' long-term performance

*Tables 2 and 3* display the findings for the influence of *ESG* disclosures on firms' long-term performance, which are *ESG* (*ESG*, *ENV*, *SOC*, and *GOV*), initial return (INOP and INCL), firm-specific characteristics (MKTCAP, AGE, TOTA, LEVERAGE), issuance characteristics (IPOPRO, USHARE, INSRET, SECTOR) and KLCI performance (MC3Y*CAAR* and MC3Y*BHAR*). The models also include INOP and INCL for robustness check on the integration between favourable initial return for positive long-term performance. The division of models is based on the INOP and INCL, as both variables are unable to be regressed in the same model due to a severe multicollinearity issue.

Across the models, the results reveal a consistently negative relationship between pre-IPO *ESG* disclosure and long-term performance, indicating that firms disclosing higher levels of sustainability information prior to listing tend to experience poorer stock returns three years after the IPO. While *ESG* disclosure is traditionally viewed as a signalling tool that reduces information asymmetry, the Malaysian context suggests the opposite. In a voluntary-disclosure environment, firms may engage in symbolic reporting to satisfy perceived market expectations without undertaking substantive *ESG* practices.

Our findings suggest that the market adjusts to new information and investors reassess the firms' value based on their financial or operational performance metrics, leading to a market correction due to the untranslated improvements in firms' performance based on their *ESG* disclosure. This aligns with the argument in Abbas et al. [42], where Malaysian firms often lack the capacity to implement the reported *ESG* practices. As a result, the firms' legitimacy erodes due to the greenwashing act and the lack of meaningful *ESG* practices disclosure, which cannot translate to an enhancement of the firms' value [17]. The act of greenwashing results in misleading disclosure and could potentially harm the firm's reputation, leading to deterioration in its long-term performance.

In examining the effect of the ENV individually, the *ENV* is found to be negatively related to firms' long-term performance. This can be linked to costly environmental practices such as carbon emission management, renewable energy, and waste management, which the investments are also known to be translated in the long run, straining firms' current profitability and potentially obstructing shareholders' wealth. Firms use environmental practices disclosure to gain social acceptance and align with prevailing norms, but when these initiatives lack credibility or tangible results, it will erode investors' confidence and trust [46]. As a result, investors will perform capital withdrawal and will affect firms' long-term performance. This is consistent with Lin et al. [47]; disclosing environmental practices without substantial progress or actual implementation may become a financial and reputational liability rather than enhance firms' long-term performance. However, this finding is inconclusive due to the low p-value of *ENV*.

*SOC* also exhibits a significant and negative influence on firms' long-term performance. While social responsibility practices are perceived to be beneficial to the public, the social practices require ongoing investment in areas such as employee training, fair wages, and labour standards. For IPO firms with limited resources, these efforts can signal increased operational costs and can harm firms' long-term capital. Investors expecting outcomes and transparent disclosure may lose confidence in firms that fail to align social practices disclosure with tangible actions, particularly when the *SOC* appears to be reported due to the regulatory requirements rather than legitimate business strategies. Studies have shown that firms engaging in representative social practices disclosure, rather than authentic and measurable practices, experience reduced investor confidence and face greater scrutiny from stakeholders [42]. Ultimately, such social practices disclosure can result in firms' long-term underperformance.

Research consistently shows a negative relationship between *GOV* and firms' long-term performance. This can be attributed to several factors, including the potential for governance practices disclosure as an attempt to divert attention from underlying governance issues [48]. In these cases, the costs associated with improving governance to match reported standards can exceed the benefits, creating financial strain and further deteriorating long-term performance. However, this argument is inconclusive due to the low significance. Overall, we are unable to support all of our hypotheses (H1, H2, H3, and H4) but offer a new insight into the role of *ESG* disclosure on firms' post-IPO performance.

*Tables 2 and 3* also display the findings for the role of firms' initial return on long-term performance. The findings report a uniform negative influence of INOP and INCL on the models. Instead of the initial proposition of this study that firms with favourable initial return will have positive long-term performance, this study found that higher initial return will lead to long-term underperformance. Positive firms' initial return is found to be driven by excessive investor enthusiasm or speculative trading that can harm firms in the long run [40]. As a result, firms that are overvalued at the time of listing may face downward price corrections in the long run when investors reassess the firms' actual performance and prospects. This pattern is particularly evident in developing markets such as Malaysia, where speculative trading and investor sentiment tend to dominate price movements in the initial days of listing [1].

The persistent underperformance is also supported by previous studies such as Abdul Rahman and Che-Yahya [27], reinforcing the notion that Malaysian firms struggle to attain favourable returns in the long run. Firms' initial return serves as a market signal reflecting investor sentiment and perceived quality [49]. However, this study found that the positive initial return reflects a signal that firms benefit during high information asymmetry. As investor optimism fades and the firms' financial results materialise, the valuation may decline due to investors' capital withdrawal, leading to long-term underperformance.

Other independent variables worth highlighting their significance are MKTCAP, IPOPRO, TOTA, and MC 3Y*CAAR*, which all are found to negatively influence firms' long-term performance. MKTCAP result aligns with the argument by Lafrance [50], who posits that larger firms tend to have lower growth potential relative to smaller firms, particularly in developing economies like Malaysia. In these contexts, policy incentives and market attention often favour small-cap firms, creating an environment in which smaller firms are perceived as more dynamic and capable of rapid growth. Additionally, Nguyen and Pham [51] note that larger firms, by virtue of their maturity and established revenue

Table 2

*Multiple regression analysis of ESG and long-term performance models (Newey-west test)*

| Variables | Exp. Sign | Model 1: *CAAR – ESG* | | Model 2: *CAAR – ESG* | | Model 5: *BHAR – ESG* | | Model 6: *BHAR – ESG* | |
|---|---|---|---|---|---|---|---|---|---|
| | | Coefficient | t-stats | Coefficient | t-stats | Coefficient | t-stats | Coefficient | t-stats |
| **Main Independent Variable** | | | | | | | | | |
| *ESG* | +ve | −0.0065 | −1.9000* | −0.0056 | −1.7047* | −0.0054 | −2.0874** | −0.0063 | 2.3168** |
| **Other Independent Variables** | | | | | | | | | |
| INOP | +ve | −0.4949 | −3.1545*** | – | – | −0.4374 | −2.8739*** | – | – |
| INCL | +ve | – | – | −0.0039 | −2.9227*** | – | – | −0.0034 | −2.6498*** |
| MKTCAP | +ve | −0.1063 | −2.2863** | −0.0974 | −2.1071** | −0.0732 | −1.8759* | −0.0921 | −2.4090** |
| AGE | +ve | −0.0042 | −0.7829 | −0.0052 | −1.1007 | −0.0044 | −1.5982 | −0.0043 | −1.3768 |
| IPOPRO | +ve | −0.0147 | −1.8250* | −0.0098 | −1.3825 | −0.0007 | −2.3758** | −0.0124 | −2.0170** |
| USHARE | +ve | −0.3853 | −0.7445 | −0.0395 | −0.6106 | −0.2378 | −1.3373 | −0.0496 | −0.9215 |
| INSRET | +ve | 0.0029 | 0.6925 | 0.0019 | 0.7685 | 0.0011 | 0.4505 | 0.0016 | 0.7119 |
| TOTA | +ve | 0.7910 | 1.5840 | 0.0911 | 1.8668* | 0.0970 | 2.8151*** | 0.0901 | 2.3313** |
| LEVERAGE | −ve | −0.0082 | −0.2924 | −0.0081 | −0.8345 | 0.0088 | 0.7745 | −0.0039 | −0.4450 |
| SECTOR | −ve | 0.1075 | 0.5401 | 0.1788 | 0.8689 | 0.1185 | 0.7451 | 0.1540 | 0.8678 |
| MC 3YCAAR | +ve | −1.0149 | −2.0786** | −1.5636 | −2.4252** | – | – | – | – |
| MC 3YBHAR | +ve | – | – | – | – | −4.4900 | −0.2395 | −13.216 | −0.6109 |
| $R^2$ | | 0.1787 | | 0.1712 | | 0.2017 | | 0.1722 | |
| Adjusted $R^2$ | | 0.0760 | | 0.0677 | | 0.1019 | | 0.0687 | |
| F-statistics | | 1.7405 | | 1.6536 | | 2.0215 | | 1.6638 | |
| p-value F-statistics | | 0.0774 | | 0.0978 | | 0.0354 | | 0.0951 | |

*Source:* Based on Thomson Reuters Datastream and IPO Prospectuses on Bursa Malaysia. URL: https://www.bursamalaysia.com/bm/market_information/announcements/firm_announcement?firm=5284.

*Note:* Asterisks ***,**, and * indicate significant at 1 percent, 5 percent, and 10 percent, respectively.

streams, are perceived to have limited growth, making them less attractive to speculative investors seeking quick gains during the IPO window. This perception reduces the likelihood of larger-cap firms being subscribed as high as small-cap firms, making larger firms to experience less favourable long-term performance post-IPO.

On the other hand, firms with higher IPOPRO are found to be entailed with performance deterioration and declining shareholder value, which discourages investors from subscribing to such shares post-IPO, negatively influencing firms' long-term performances and longevity. In fact, IPOPRO especially allocated for growth may seem attractive, but the use of IPO proceeds may also lead to a lack of value generation, seen as the possibility of high cash flow volatility, leading to investors' speculation and firms' unsustainability [52]. The negative relationship between TOTA and firms' long-term performance can be related to the underutilised resources argument highlighted in Ahmad et al. [53]. Other reasoning may be due to the fact that firms with higher TOTA may also have a choice to voluntarily delist themselves from the share market. The negative relationship between KLCI performance (MC 3Y*CAAR*) and long-term performance can be explained by the raised performance benchmark for all firms during strong market performance [54]. When general indices such as the FBMKLCI returns are high, investors expect firms to match or outperform the market average. If the firms fail to deliver growth or financial results that justify their valuations, especially in comparison to other established listed firms, investors will shift their interests to more well-performing firms. The other independent variables showed inconsistent significance across different models, which suggests they may not be as robust or central for explaining the variation in *CAAR* and *BHAR*.

## 5. Conclusion

We investigate how pre-IPO Environmental, Social, and Governance (*ESG*) disclosure affects the long-run performance of firms newly listed on the Malaysian stock market. Drawing on a sample of 100 IPOs from 2012 to 2019, we employ event-time modelling to investigate whether voluntary *ESG* disclosure serves as a reliable indicator of sustainable performance following listing. Contrary to expectations, our results consistently

Table 3

*Multiple regression analysis of ENV, SOC, and GOV and long-term performance models (Newey-west test)*

| Variables | Exp. Sign | Model 3: *CAAR* — E, S, G | | Model 4: *CAAR* –E, S, G | | Model 7: *BHAR* — E, S, G | | Model 8: *BHAR* — E, S, G | |
|---|---|---|---|---|---|---|---|---|---|
| | | Coefficient | t-stats | Coefficient | t-stats | Coefficient | t-stats | Coefficient | t-stats |
| **Main Independent Variables** | | | | | | | | | |
| ENV | +ve | −0.0800 | −0.2281 | −0.1456 | −0.3906 | −0.2081 | −0.9501 | −0.3420 | −0.7764 |
| SOC | +ve | −0.3684 | −1.7253* | −0.2980 | −1.1420 | −0.3349 | −1.8044* | −0.0772 | −0.1790 |
| GOV | +ve | 0.1227 | 0.4096 | 0.1201 | 0.2182 | 0.0471 | 0.1294 | 0.9793 | 0.9059 |
| **Other Independent Variables** | | | | | | | | | |
| INOP | +ve | −0.5265 | −3.1928*** | – | – | −0.4549 | −3.2600*** | – | – |
| INCL | +ve | – | – | −0.0054 | −3.1883*** | – | – | 1.0827 | 1.6585* |
| MKTCAP | +ve | −0.0007 | −0.4071 | −0.0871 | −1.4384 | −0.0545 | −1.3046 | −0.1818 | −2.0024** |
| AGE | +ve | −0.5986 | −1.7396* | −0.0049 | −0.9214 | −0.0050 | −1.1519 | 0.0077 | 0.6961 |
| IPOPRO | +ve | −0.0008 | −1.7417* | −0.0007 | −1.9581** | −0.0007 | −1.9345* | 0.0043 | 0.3060 |
| USHARE | +ve | −0.1240 | −0.5718 | −0.2082 | −0.7140 | −0.4828 | −1.1096 | −0.3407 | −1.7021* |
| INSRET | +ve | 0.0020 | 0.8248 | 0.0023 | 0.6962 | 0.0017 | 0.7364 | 0.0077 | 1.2181 |
| TOTA | +ve | 0.0704 | 1.4798 | 0.1141 | 1.9836** | 0.0979 | 2.2187** | 0.2454 | 2.3120** |
| LEVERAGE | −ve | 0.0043 | 0.2360 | 0.0022 | 0.1442 | 0.0062 | 0.4241 | −0.0173 | −0.8789 |
| SECTOR | −ve | 0.1283 | 0.6985 | 0.2857 | 1.1482 | 0.1168 | 0.7072 | 1.0518 | 1.3030 |
| MC 3YCAAR | +ve | −1.9582 | −2.6697*** | −2.3101 | −2.5868*** | – | – | – | – |
| MC 3YBHAR | +ve | – | – | – | – | −0.0023 | −1.0048 | −0.0125 | −1.8886* |
| $R^2$ | | 0.1920 | | 0.1950 | | 0.1993 | | 0.2303 | |
| Adjusted $R^2$ | | 0.0699 | | 0.0734 | | 0.0782 | | 0.1140 | |
| F-statistics | | 1.6126 | | 1.6029 | | 1.6464 | | 1.9796 | |
| p-value F-statistics | | 0.0991 | | 0.0999 | | 0.0881 | | 0.0320 | |

*Source:* Based on Thomson Reuters Datastream and IPO Prospectuses on Bursa Malaysia. URL: https://www.bursamalaysia.com/bm/market_information/announcements/firm_announcement?firm=5284 (accessed on 09.09.2023).

*Note:* Asterisks ***, **, and * indicate significant at 1 percent, 5 percent, and 10 percent, respectively.

show that greater *ESG* disclosure in Malaysian IPOs is associated with poor long-term performance. This finding suggests that while *ESG* disclosure is intended to signal credibility and a commitment to sustainability, firms might struggle to fulfil investor expectations once listed. The observed disconnect may stem from symbolic *ESG* efforts or weak implementation, which fosters investor scepticism and undermines confidence over time. However, our analysis is constrained by the modest sample size and single-country focus.

The results further demonstrate that initial return plays a critical role in shaping long-term performance. Firms with strong first-day performance tend to experience long-run declines, supporting the argument that early sentiment-driven gains are often unsustainable. Instead of indicating quality, high initial returns appear to reflect temporary overvaluation. By focusing on a developing-market context, this study contributes to the IPO and *ESG* literature by uncovering the unintended consequences of *ESG* disclosure in settings where enforcement, stakeholder pressure, or regulatory frameworks may be less rigid. It underscores the strategic tension facing firms: the benefit of signalling through disclosure versus the risk of failing to deliver value.

Voluntary *ESG* disclosure may result in wide variation in depth, quality, and reliability. Strengthening disclosure guidelines, particularly for *ESG* statements in IPO prospectuses, may be necessary to reduce symbolic reporting and enhance the firm's sustainability. Firms preparing for listing should ensure that *ESG* claims in their prospectuses align with their actual operational capabilities and long-term strategic plans. Since we found that heavy sustainability disclosure does not necessarily predict superior long-term performance and may even indicate potential greenwashing or capacity limitations, investors should evaluate whether *ESG* claims support financial strength, governance capability, and operational readiness. We suggest that future research should extend the investigation across Association of Southeast Asian Nations markets to enable comparative insights and examine how the role of *ESG* evolves in IPO valuation and post-listing performance over time.

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