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Title

ASSESSING THE ROLE OF ESG REPORTING ON INVESTMENT DECISIONS IN THE MANUFACTURING SECTOR: A CASE STUDY OF SALIMA SUGAR

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ABSTRACT

Environmental, Social, and Governance (ESG) reporting has become increasingly relevant in shaping investor decisions globally. In Malawi, however, the adoption and influence of ESG reporting in the manufacturing sector remain underexplored. This study investigates the role of ESG reporting in investment decisions at Salima Sugar Company, a key agro-processing firm in Malawi. Using a mixed-methods approach, data were collected from 40 respondents, including company management, employees, institutional investors, regulatory authorities, and ESG consultants. Structured questionnaires and semi-structured interviews were employed to gather quantitative and qualitative data. Findings indicate that environmental disclosures at Salima Sugar positively influence investor confidence and perceptions of long-term sustainability, with the majority of participants acknowledging transparent reporting practices. Social reporting initiatives, including corporate social responsibility and community engagement programs, enhance trust in the company and contribute to perceptions of stability and long-term value. Governance reporting structures, including a hybrid model of board and management oversight, were found to attract and sustain responsible investments. Key challenges hindering effective ESG reporting include limited regulatory guidelines, insufficient internal expertise, high costs of data collection, low investor demand, and weak leadership commitment. The study concludes that ESG reporting is critical for aligning investor expectations and promoting responsible investment but requires improved regulatory frameworks, capacity building, and strategic leadership engagement to maximize impact. Recommendations include strengthening ESG transparency, investing in digital reporting tools, and aligning ESG practices with investor needs and sustainable development priorities.

Keywords: ESG reporting, investment decisions, manufacturing sector, Salima Sugar, Malawi, sustainable finance, corporate governance.

INTRODUCTION

Environmental, Social, and Governance (ESG) reporting has emerged as a fundamental aspect of investment evaluation, especially in sectors with significant environmental and social responsibilities, such as manufacturing. Globally, investors increasingly integrate ESG considerations into their risk assessments and decision-making processes, viewing them as indicators of long-term profitability and corporate resilience. Despite international trends toward ESG integration, there is limited evidence on its influence on investment decisions in Malawi's manufacturing sector. Understanding this relationship is crucial, particularly for firms like Salima Sugar, whose operations carry substantial environmental and social footprints.

The global shift toward sustainable investing is driven by growing awareness of environmental degradation, social inequities, and governance failures. Studies indicate that a majority of institutional investors now systematically incorporate ESG factors into their investment strategies, recognizing their role in firm valuation and risk mitigation. However, in Africa, ESG adoption remains uneven due to regulatory gaps, capacity limitations, and insufficient investor pressure. Malawi faces similar challenges, with manufacturing companies encountering sustainability issues ranging from water resource management to labor compliance and carbon emission reduction. By focusing on Salima Sugar, this study seeks to evaluate how ESG disclosures influence investor perceptions and decisions within Malawi's unique economic and regulatory environment.

Despite recognition of ESG reporting's importance, many Malawian manufacturing firms, including Salima Sugar, lack standardized ESG frameworks. According to the Malawi Stock Exchange (2022), only a minority of listed companies provide consistent ESG disclosures, with mere 30% of firms publishing public ESG information. This deficiency raises critical questions about whether ESG reporting meaningfully informs investment decisions locally. Understanding this dynamic can help firms harness ESG practices strategically to attract responsible investment and enhance corporate governance.

RESEARCH OBJECTIVES

The main objective of the study is to examine the role of ESG reporting in investment decisions within the Malawian manufacturing sector, using Salima Sugar as a case study. Specific objectives include:

- Examining the extent of environmental reporting and practices and their influence on investor confidence.
- Evaluating social reporting initiatives and their impact on investor perceptions and decision-making.
- Assessing governance reporting structures and their effect on attracting responsible investments.
- Identifying challenges hindering effective ESG reporting in the manufacturing sector.
- Recommending strategies to strengthen ESG transparency and align reporting with investor and sustainable development priorities.

RESEARCH QUESTIONS

The study addresses the following research questions:

- To what extent are environmental reporting practices adopted at Salima Sugar, and how do they influence investor confidence?
- How do social reporting initiatives impact investor perceptions and decision-making?
- What role does governance reporting play in attracting and sustaining responsible investments?
- What challenges hinder effective ESG reporting in Malawi's manufacturing sector?
- What strategies can enhance ESG transparency and credibility to attract responsible investment?

LITERATURE REVIEW

Definition of Key Terms

Environmental, Social, and Governance (ESG): A set of criteria used to evaluate a company's environmental stewardship, social responsibility, and governance practices.

Investment Decision-Making: The process through which investors evaluate potential investments based on financial performance, risk assessment, and increasingly, non-financial factors such as ESG disclosures.

Manufacturing Sector: Industries involved in transforming raw materials into finished products, including agro-processing firms like Salima Sugar.

Sustainability Reporting: Disclosure of ESG practices and performance, emphasizing long-term ecological and social viability.

Theoretical Framework

The study is grounded in Stakeholder Theory, Legitimacy Theory, and Signaling Theory. Stakeholder Theory posits that businesses are accountable to a broad array of stakeholders, and transparent ESG disclosures foster trust and reduce information asymmetry. Legitimacy Theory suggests that ESG reporting helps companies align their operations with societal expectations. Signaling Theory emphasizes that ESG disclosures serve as credible signals of a firm's ethical orientation and risk management capabilities, influencing investor confidence.

Conceptual Framework

ESG reporting is positioned as the independent variable, influencing investment decisions through mediating factors such as investor perception, while regulatory environment and organizational capacity act as moderating variables. The framework hypothesizes that robust ESG reporting enhances investor confidence and promotes responsible investment in manufacturing firms.

Empirical Review

Environmental Reporting: Credible environmental disclosures, such as reporting on emissions, resource use, and waste management, reduce perceived investment risks and enhance investor confidence. Studies indicate that African firms, including Malawian manufacturers, still lag in systematic environmental reporting.

Social Reporting: Social disclosures on employee welfare, community engagement, and corporate social responsibility (CSR) improve stakeholder trust and perception of long-term stability. Evidence suggests that companies prioritizing social initiatives achieve stronger reputations and enhanced investor confidence.

Governance Reporting: Effective governance, including board composition, leadership accountability, and compliance mechanisms, underpins ESG credibility. Transparent governance attracts responsible investment, while weak governance diminishes the impact of environmental and social reporting.

Challenges to ESG Reporting: Key barriers include inadequate regulatory frameworks, limited internal capacity, high reporting costs, low investor demand, and weak leadership commitment. These factors reduce reporting consistency and transparency, limiting the utility of ESG disclosures for investment decisions.

Strategies for Enhancing ESG Reporting: Sector-specific frameworks, digital reporting tools, capacity building, and alignment with investor needs are recommended. Firms such as Salima Sugar can leverage these strategies to improve ESG transparency and attract responsible investment.

METHODOLOGY

A mixed-methods approach was adopted. The study population consisted of 40 respondents, including Salima Sugar staff, investors, regulatory officials, and ESG consultants. Purposive and stratified sampling techniques ensured representation of stakeholders with relevant expertise. Primary data were collected using structured questionnaires and semi-structured interviews. A pilot study with eight participants validated the research instruments. Quantitative data were analyzed using descriptive and inferential statistics, including chi-square tests. Qualitative data were analyzed thematically to capture participants' perceptions and experiences. Ethical considerations included informed consent, confidentiality, voluntary participation, and secure data management.

RESULTS AND DISCUSSION

Sample Characteristics

The sample comprised diverse stakeholders involved in ESG reporting and investment decision-making. Respondents were predominantly between 26–45 years of age and exhibited varying levels of educational attainment, reflecting a mix of management, investor, and regulatory perspectives.

Environmental Reporting

Respondents indicated that Salima Sugar has adopted environmental reporting practices, disclosing information on emissions, resource management, and sustainability initiatives. A majority acknowledged that environmental reporting enhances confidence in the firm's long-term sustainability and reduces perceived investment risks. While most participants reported that environmental disclosures align with investor expectations, a minority suggested further improvements to enhance transparency and stakeholder engagement.

Social Reporting

Social disclosures, including CSR initiatives and community engagement, were widely recognized as enhancing investor trust. Respondents highlighted that these initiatives positively influence perceptions of Salima Sugar's stability and long-term value. Investors considered social responsibility a critical factor in decision-making, emphasizing the importance of continuous engagement with employees and communities to reinforce corporate reputation.

Governance Reporting

Salima Sugar employs a hybrid governance model, integrating board oversight with management execution. Respondents viewed board composition and clear reporting lines as strengths, supporting robust governance practices. Effective governance reporting was reported to attract and sustain responsible investments, with investors emphasizing a balanced approach that considers financial performance, sustainability, and governance. Continuous improvements in transparency, disclosure, and stakeholder engagement were recommended to align with best practices and investor expectations.

Challenges to ESG Reporting

Participants identified several barriers to effective ESG reporting:

- Inadequate regulatory guidelines limiting standardization of disclosures.
- Limited internal expertise and technical capacity.
- High costs associated with data collection and verification.
- Low investor demand discouraging prioritization of ESG reporting.
- Weak leadership commitment in the manufacturing sector.

Addressing these challenges is essential to enhance the credibility and impact of ESG reporting in Malawi.

CONCLUSION

ESG reporting at Salima Sugar is critical in shaping investor perceptions and promoting responsible investment. Environmental and social disclosures enhance confidence in sustainability and corporate stability, while robust governance structures support transparency and accountability. However, challenges related to regulation, technical capacity, cost, investor engagement, and leadership commitment limit the effectiveness of ESG reporting.

The study recommends strengthening ESG frameworks, building internal technical capacity, adopting digital reporting tools, and fostering stakeholder engagement. Aligning ESG practices with investor expectations and sustainable development priorities can improve investment inflows and corporate reputation. Further research should explore cost-effective mechanisms to scale ESG adoption across Malawi’s manufacturing sector.

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