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The Environmental, Social, and Governance (ESG) impact on the Private Investment Policies: A Qualitative Multi-Case Study of Malaysia's Private Equity and Venture Capital Industry

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Abstract

The study aims to understand how Malaysia's Private Equity and Venture Capital (PEVC) industry navigates the ESG phenomenon's challenges. ESG is considered complex and filled with ambiguity, making it difficult to make an informed decision to integrate into practice. This paper explores the underpinning corporate governance theory that fuses institutional and stakeholder theory to study the impact on private investment policies that lead to a deeper understanding of investment selection and investment portfolio design.

As an explorative inquiry, this paper uses a qualitative multi-case study to understand the industry executives and leaders by engaging the Malaysia Venture Capital Association as the population under study. This study proposes to address the following research objectives. Firstly, to understand how PEVC firms manage the complexity and ambiguity of ESG criteria. Secondly, it comprehends how PEVC firms use ESG criteria as a risk mitigation process for ESG investment portfolio design and rationalizes how PEVC firms select investee ventures with ESG criteria.

Keywords: *Environmental, Social and Governance (ESG), Private Investment Policies, Investment Portfolio Design, Investee Selection Criteria, and Malaysia Private Equity & Venture Capital Industry*

1.0 Introduction

The ESG acronym (Environmental, Social, and Governance) was only known to the corporate and investment community since the inception of the Principle for Responsible Investment (PRI) in 2005. A breakthrough event with the top one hundred global investment managers, asset owners, and financial service providers' commitment to supporting United Nations' Sustainable Development Goals (SDGs) through financial resource allocation to kickstart multiple global initiates. PRI has enrolled more than 4,000 members of the financial fraternity (Malaysia, 2022b).

In Malaysia, the ESG phenomenon shapes the corporate and investment ecosystem. The key evidence is that Malaysia Sovereign Funds such as Khazanah Nasional Berhad, KWAP, and the EPF (Employee Provident Funds) have also signed on to become part of the PRI movement. Today Malaysia is also part of the International Network of Financial Centers for Sustainability (FC4S) which propels the nation's financial policies to align with the UN's SDGs and Paris Agreement. This multiple participation aims to enhance Malaysia as a destination for sustainable finance with capacities to engage local institutions, establish communications, provide policy reform and become the catalyst in this domain (Malaysia, 2022b).

The Malaysian financial ecosystem is ready to adopt ESG in the financial markets and national policies. The observable setback is the inactive participation of PEVC industry players in fully embracing ESG criteria and practices in their operations (Teng, 2022).

The study explores how the industry is prepared to navigate the ESG phenomenon, particularly how they intend to integrate ESG criteria into their strategic operations. Tracking from the PEVC industry

shows lackluster attitudes toward ESG due to the complex nature of enforcement and disclosure of ESG practices in the capital market (Bernama, 2022; Ismai et al., 2020; Wong et al., 2021).

The other observable trends are a lack of investee ventures that focus on sustainable business models and solutions ready to address climate change impact. Also, Malaysian investors have yet to be interested in investing in ESG investment portfolios. However, all these are guesses, limited scientific proof, and indeed, limited academic research on the PEVC industry compared to publicly listed corporations through the capital market evaluation (Atan et al., 2016; Mohammad & Wasiuzzaman, 2021; Sadiq et al., 2020).

This study will approach from a qualitative dimension to explore the phenomenal impact on the investment industry, involving multi-actors and forces. It studies how the PEVC responds to institutional and stakeholder pressures. It does not intend to focus on financial modeling for investment but rather is understanding the industry's executive in addressing the challenge from managerial and practitioner perspectives (Berg et al., 2021; Thahira & Mita, 2021).

2.0 Literature Review

2.1 Corporate Governance Theory

ESG is not a theory but is considered an ethical pillar for the UN (2004) and PRI (2006). Thus far, ESG has been used interchangeably with Sustainable Development Goals (SDGs) and Corporate Social responsibility (CSR); recently, it is with Sustainability Responsibility Investment (SRI) for investment. Today, ESG is considered a global phenomenon that shapes responsible investment and corporate governance (Billio et al., 2020; Matos, 2020).

Over the last decades, the theocratical evolution, agency theory, institutional theory, stakeholder theory, stewardship theory, resource dependency theory, political theory, ethics theory, and transactional cost theory have been contesting as the basis for corporate governance theory. In practice, such complexity will hamper smooth governance integration to operationalize business. Only two theories are selected from the PEVC perspective, reflecting how the industry functions. The institutional and stakeholder theories are more robust to uphold corporate governance perspectives as developed over the last decades (Abdullah & Valentine, 2009; Clarke, 2004; Hashim & Devi, 2008; Sadou et al., 2017).

Researchers recognize stakeholder theory as the force that impacts organizational behavior and holds leaders and managers accountable for their actions. This theory has a multi-dimensional effect on organizational-wide cultural DNA, best practices, improvement, and product innovation. On a broader scale, it will allocate capital for philanthropic causes that benefit the local community and the environmental agenda. The PEVC dramatically influences the firm responses, resource allocation, and active listening to stakeholders. Trust buildings empower transparency through ESG disclosure for the public and investors community (Freeman et al., 2020; Hagelberg, 2020; Jones et al., 2018; Karyani & Maulina, 2021; Morrison, 2021).

The institutional theory derives its influence from a macro level and significantly impacts the industry and economy-wide of any sovereign nation. It is apparent when different national ministries of finance and their central banks begin introducing financial policies aligned with ESG taxonomy. It has profoundly impacted the global financial values chain and pressured global investment actors to address environmental and social crises. At the local level, even PEVC players have danced to the demand that addresses emerging millennial investors seeking SRI that incorporate strong ESG principles and values (Y. Chang, 2019; Durrani & Volz, 2020; Scott, 2004; Vadasi et al., 2019).

2.2 ESG Metrics

Since the inception of ESG in 2005, the sustainability rating industry has grown with the demand for the sustainability investment portfolio. Eight rating agencies use different evaluation methods and track different data points. Overall, the rating agency track ESG materiality against corporate performance and media reporting.

The ESG metrics establish the criteria for value benchmarking with detailed data points on the Environment dimension (energy consumption, wastage generation, carbon emission), Social dimension (diversity policies, inclusion policies, social contribution), and governance dimension (Regulatory compliance, meeting external stakeholder demands, anti-corruption practices, board diversity construct) (Henisz et al., 2019).

Billio et al. (2020) uncovered that ESG metrics from different rating agencies differ by definition and measurement metrics. However, this would lead to different outcomes in ESG compliance and performance in the financial indexes. Three critical deviations are characteristics, standards, and attributes in identifying ESG metrics. Walter (2020) concurs that the complex and confusing scenario arose with differing rating agencies' ESG metrics. It will challenge investment decision-making and stifle speed in planning an ESG investment portfolio. He stresses that the ESG metrics are ideal for monitoring stakeholder and institutional theory in shaping PEVC industry ESG practices.

The significant contribution by the ESG metrics, which uses as risk indicators on the investment selections and performance assessment. Especially in assessing the risk level against multiple stakeholders and monitoring any deviation from the corporate commitment towards ESG practices. Another key finding is that ESGs are inadequate to address the target of SDGs, as there is an apparent deviation in the benchmarking construct (Di Tommaso & Thornton, 2020; Liang et al., 2021).

2.3 ESG Impact on the Private Investment Policies

The PEVC industry is a subset of the financial ecosystem that intertwines with the economic values chain of a nation. Hence, it will shape by regulatory and global forces that impact its financial resources and supplies. In Malaysia, there are no different dynamics and fluid within the networks of global financial systems. The ESG phenomenon dynamics are felt locally by businesses and financial institutions that respond to the global forces. These perspectives also confirm the essence of institutional theory interplay at the macro-level (Evander & MacArthur, 2021; Leins, 2020; Thahira & Mita, 2021; Tykvova, 2017).

At the industry level, PEVC actors are the receiver of ESG impact and concurrently play a catalyst in pushing the ESG practices agenda, which is more prominent with private ventures still in their infancy. The supply of capital and advisory to venture founders and their core teams, especially in ESG adoption and compliance commitment. Many a time, it shapes even strategic choices like types of projects undertaken, business model redefinitions, corporate positioning, and even suitable to the level of the organizational structures and workforce hiring criteria that align with the ESG agenda (Amankwah-Amoah et al., 2019; Cecilie & Falch, 2016; Crifo & Forget, 2012; Hoellermann, 2020; Zaccone & Pedrini, 2020).

The PEVC actors' motivation is access to a more considerable pull of investors, expanding fund size, and improving investment performance. The private company under the investment by PEVC is part of the board steering committee that governs its strategic mission and delivers shareholder critical outcomes. Meanwhile, this contextual understanding affirms that stakeholder theory functions at the meso-level and agency theory at the micro-level (Amankwah-Amoah et al., 2019; Cecilie & Falch, 2016; Crifo & Forget, 2012; Hoellermann, 2020; Zaccone & Pedrini, 2020).

The Malaysia PEVC industry has an additional layer of influence as a Muslim-majority nation that has adopted the Islamic finance system, which governs by the Shariah legal structure for Sukuk (Islamic Bond), Islamic Banks, Funds Facilities, and Islamic Asset and Wealth Management. It agreed that the Shariah financial practices had a long tradition as the foundations of good governance that enforce corporate behavior in nonparticipation in sinful business ventures and activities such as gambling, prostitution, and vice. The financial community and regulators argue that the Shariah system aligns with ESG values (Angelica & Utama, 2020; Mahomed, 2017; Miskam et al., 2019; Mustafida & Fauziah, 2021; Suryomurti, 2018; Tasnia et al., 2021; Volz, U., Böhnke, L., Knierim, K. Richert, Roeber, G., Eidt, 2015; Zahri et al., 2020).

While ESG as an investment theme has become mainstream consideration, mainly as a non-financial parameter, numerous emerging obstacles occur in investment decisions. Cornell (2020a) argues that institutional investors hold on to shareholders' values paradigm instead of embracing stakeholders' values. It is influenced by the fundamental of corporate finance that prioritizes investment performance.

The obstacles further enhance when ESG alignment with investment performance is still not fully understood and not well-researched by academics. Hence, the ability to untangle the complexity of ESG within an integrated economy context will benefit investment decisions.

Tomo and Landi (2016) concur that adopting ESG pillars as non-financial parameters is not mere window decoration for corporate disclosure. It demands a paradigm shift in investment decision-making with the adoption of an ethical and responsibility mindset. Moreover, ensuring their investment initiative delivers tangible results with measurable sustainability. According to Paredes-Gazquez et al. (2014) findings from Spanish experiences, the perceptions of ESG complexity in aiding investment decisions are both barriers and drivers. Barriers because ESG criteria are not fully understood, and dynamics from ongoing marketplace changes. As institutional investors, drivers demand ESG transparency, steering away from green washing stigma on their investment portfolio. Hence, "asset managers, analysts, and investee companies" are encouraged to improve their ESG valuation capability, embedded in their investment and strategic decision-making.

Within the PEVC industry, there is an acute demand for professional efficacy to manage funds and deliver judiciary responsibility. This call for updates on investment decision-making and professional efficacy levels when dealing with ESG governance and risk mitigation capability. Taris et al. (2010) highlighted that self-efficacy deals with individual capabilities to deliver task-specific quality outcomes with minimum supervisory and professional efficacy to establish the measurability of such work. Meanwhile, De Beer (2021) provides an updated definition that professional efficacy origins from professional accomplishment, with self-reflective capacities on one's competencies and productivity. However, such professional values are not attainable overnight. Instead, the fund managers must participate in professional knowledge and skills training. At times involvement in a rigorous higher degree of education process helps increase their investment competencies with ESG embedded.

Eyre (2021) argues that professional efficacy is required to support philanthropic investment activity, whether purely for charitable purposes or investment that stresses sustainability impact. This call for expedience and effectiveness in ensuring the details and accuracy to support decision-making, especially in due diligence investigation and investment analysis. Although much of the process is cognitive, professional judgment is required at every step.

Sayyad et al. (2020) reminded us that professional efficacy is not merely lip service but must deliver tangible values. Based on 11 years of research from 744 mutual funds in India. The study uncovers that fund managers' active participation (seeking optimal return opportunity) delivers high yield versus fund managers that perform passive investment (buy and hold). Hence, the professional efficacy of fund managers is required to address the dynamic changes of funds movement in the capital market. Riyazahmed (2021) concurs that fund managers' professional efficacy plays a pivotal role in the investment risk mitigation process. It captured through India's 4220 mutual funds with an analysis of the Sharpe and information ratios. Fund managers that incorporated ESG as risk parameters delivered higher yields than those that did not.

Surprisingly, idiosyncratic risk boosts mutual fund performance, whereas market risk does not. Size, age, expenditures, and fund management competence represent idiosyncratic risk. In another context, the professional efficacy of fund managers can separate winners or losers in the investment realm. Mutual fund market and idiosyncratic risk depend on asset type, and Equity-type asset classes are vulnerable to both systematic and idiosyncratic risk. However, research suggests that only systematic risk is significant in mutual fund selection as fund diversification reduces idiosyncratic risk. The study examines whether idiosyncratic risk moderates the link between market risk and mutual fund performance using PLS-SEM, which captures 150 significant, mid, and small-size Malaysian domestic equities mutual funds (Murugesu & Sakaran, 2019).

Antoncic et al. (2020) argue that in the investment policies set, the capability to sense ESG challenges as part of the non-financial risk has become an advantage for investment portfolio development. This call for better data analysis about non-financial metrics, more so in addressing the alignment of alpha generations and ESG indicators. The evidence from the MSCI ESG rating between 2013 and 2018 confirms that ESG inclusion aligns with better performance.

It also signifies the importance of ESG metrics deliverables in line with the SDGs agenda. However, it is not short of challenges, especially concerning ESG rating and data quality (Huang et al. 2021). Cort and Esty (2020) indicate that mainstream investors seek clarity and comparability on ESG issues, such as sustainability data standardization. While ESG reporting requirements have increased openness, more effort remains to comprehend better and create ESG data standards that support helpful decision-making.

In et al. (2019) reinforce that ESG data analysis is highly multifaceted and context-dependent. In contrast, adopting new data technology has boosted accessibility, availability, and openness**.** There is still lacking ESG data quality evaluation. Hence, it is crucial to assimilate six ESG data quality dimensions: reliability, granularity, freshness, and comprehensiveness. Also supplemented by actionability, and scarcity, to support investment decision-making. Meanwhile, investment decision primarily consists of the following variables: risk, performance, cost, construction, commitment, and influence, which is dynamic and reflective of the market sentiment.

2.4 ESG Impact on Investment Portfolio Design

One of the direct impacts of ESG on PEVC practices is on the investment portfolio design that benchmarks against ESG indexes performance and rating agency monitoring. The challenge faced by PEVC is that if their investment portfolio consists of private ventures without public domain information. The PEVC practitioner would look at a multi-dimension representation of ESG investment criteria (Brandon et al., 2021; Gary, 2018; Long & Johnstone, 2021).

The first dimension articulates common ESG metrics and standards taxonomy with measurable values as the yardstick to select and integrate such equity into their portfolio constructions and fund allocation with other asset classes. The second dimension would still be the fundamental financial and business valuations. The third dimension would be the types of business activities and business models aligned with the ESG agenda, where clean tech, environmental solutions, and social impact businesses receive the higher valuation. The fourth dimension is the growth possibilities of the ESG portfolio across the long-term duration and its global expansionary (Brandon et al., 2021; Cunha et al., 2020; Gary, 2018; Long & Johnstone, 2021)

The key motivation for PEVC in adopting ESG values for their investment portfolio largely shapes the evidence from the global ESG indexes of better performance and higher valuation for ESG private ventures. However, the PEVC firm has to acknowledge that there are elements of greenwashing in ESG disclosure globally, an area requiring attention to minimize the gaps and adequately address investors' confidence. The second challenges are professional efficacy level in understanding ESG metrics and translating them into investment portfolios where there is conflicting ESG rating consensus. The third challenge is that portfolio managers must acknowledge that ESG ventures and equity will expose to external risk, just like any conventional equity. An opportunistic avenue that the PEVC association to address collectively (Brandon et al., 2021; Gary, 2018; Long & Johnstone, 2021; Schumacher et al., 2020)

2.5 ESG Impact on Investee Selection

Acknowledging that ESG impacts investee selection for the PEVC industry, however, this area is most relevant for Venture Capital (VC) firms in picking their winning new ventures. Traditionally, VCs invest based on their core team expertise and the predefined business and project types domain. The PE firm's selection agenda is directed at high-growth enterprises or mergers and acquisition targets that either fall into their ESG portfolio definition or have assets for credit leverage. In hindsight of the climate change impact challenges (Antarciuc & Zhu, 2018; Schoenmaker & Schramade, 2019),

The fundamental of investee selection is still the same as a conventional equity investment. Standard business performance valuation with financial and business operation dimensions still precedes decision-making. However, to assemble ESG align investee ventures need to add the dimension of ESG metrics, ventures with a sustainability focus, business models with sustainability definition, and matching to current market demand on the types of sustainable solutions or innovations (Antarciuc & Zhu, 2018; Ginsberg & Marcus, 2018; Pizzi & Corbo, 2020; Telander & Ullbors, 2021; Visser, 2021).

One of the most critical decision factors is investee selections based on the leadership and managerial core teams. The people factors will determine the investee team's capacity to make the transformation or execute the challenging business milestones to meet the target performance and generate the ROI for shareholders, indirectly leading to the overall portfolio performance. VC needs to ensure their investee team has the ability and commitment to grow their business beyond their borders, most profoundly to tap into the global market with demand for sustainable solutions and clean energy innovation. VC fund managers task with mentoring and ensuring the business deliverables aligns with ESG metrics and definitions, also making sure that all aspect of the investee business with positive ESG brand values (Liu & Jiang, 2019; Prat, 2020; Sinkovics et al., 2021; Stefan Schaltegger, 2018).

3.0 Research Gaps

3.1 Corporate Governance Gap

Corporate Governance Theory by itself is not well defined and has multiple sub-theory, an area that requires further investigation to crystalize the application within PEVC contextual scenario. However, the theory can address the relationship of PEVC with stakeholders and institutional factors. Another weakness is that the majority of the studies are on corporations that have differing firm demographic in comparison to private enterprises (ACCA, 2022; Billio et al., 2020; Clarke, 2004; Hashim & Devi, 2008; Matos, 2020; Nicholls, 2010; Sadou et al., 2017; Solomon, 2020; Yaşar, 2021).

Institutional factors from global perspectives generated multiple phenomena with no clear demarcation. However, when taken as a dynamic observation, ESG is closely associated with business enterprises and the financial ecosystem. It consists of SDG, CSR, SRI, and PRI, emphasizing ESG, and is considered independent factors within the corporate governance theory interrelationship. It exerts global and local governance pressure on the corporation and only has indirect influence as a private establishment that forms a trajectory toward public corporation as the benchmark (Andres et al., 2022; Baker Boulton, Braga-Alves, et al., 2021; Y. Chang, 2019b; Crifo et al., 2015; Durrani & Volz, 2020; Evander & MacArthur, 2021; Geczy et al., 2021; Guney et al., 2019; Leins, 2020; Liang & Renneboog, 2020; Lorenzetti, 2021; Mittal et al., 2021; Nicholls, 2010; Scott, 2004; Thahira & Mita, 2021; Tykvova, 2017; Vadasi et al., 2019)

ESG rating and criteria, although it has established a transparent measurable pillar, due to its diverse nature with multiple rating agencies and ESG indexes. Differing purposes and methodologies have caused confusion and complexity in the investment and business community. Thus far, PEVC has adopted ESG as part of their checklist to incorporate into their practices, and not been fully adopted by PEVC players in the industry. This decision is highly dependent on general partners and their team's exposure and efficacy in ESG know-how. Thus far, there has been limited literature identifying Shariah principles from Islamic Finance as the guidance for ESG governance implementation in Malaysia. However, this has been integrated into the Malaysia stock-market index but requires further study to confirm and establish validation (Andres et al., 2022; Ángeles et al., 2018; Baker, Boulton, Braga-Alves, et al., 2021; Berg et al., 2022; Bikmetova et al., 2022; Billio, Costola, & Pelizzon, 2021; Carolina et al., 2016; Christensen et al., 2021; Cooperman, 2013; Di Tommaso & Thornton, 2020; Dorfleitner et al., 2015; Drempetic et al., 2019; Fathihani et al., 2021; Garel & Petit-romec, 2021; Gutterman, 2020; Hafner et al., 2020; Hangl, 2014; Henisz et al., 2019; Hoon et al., 2013; Kimbu et al., 2020; Labella et al., 2019; Lambooy & Levashova, 2011; Liang et al., 2021; Lopez et al., 2020b; Pástor et al., 2021; Wu & Hu, 2019).

The stakeholder identification from the current works of literature are Financial Institutions, Media, Employees, Customers, Suppliers, Local Communities, NGOs, and Research Institutions. However, this attribute is dynamic and will change according to the external pressures in the global and local context. The literature has established the importance of stakeholders but lacks studies on how their shape PEVC function and decisions, but it does indicate the need to manage stakeholder expectations (Camilleri, 2019; Herringer et al., 2016; Iizuka & Hane, 2021; Liang & Renneboog, 2020; Petry et al., 2019; Steiauf & Schäfer, 2014; Turnbull, 2019; Wu & Hu, 2019; Yaşar, 2021).

In summary, the research gaps indicate that PEVC planning to integrate ESG practices within their firm has to consider the interaction, dynamic relationships, and balancing decisions to accommodate

stakeholders and institutional actors. The PEVC has immense authority and legitimacy to channel funds and nurture ESG practices with investees.

Table 1: Corporate Governance Theory Gap

Authors	Debates & Issues	Research Gap
ACCA, 2022; Billio et al., 2020; Clarke, 2004; Hashim & Devi, 2008; Matos, 2020; Nicholls, 2010; Sadou et al., 2017; Solomon, 2020; Yaşar, 2021	Corporate Governance Theory	Corporate Governance Theory by itself is not well defined, as it has supporting multiple sub-theory, an area that requires further investigation to crystalize the application within a specific context. However, the theory can support addressing the relationship of PEVC with stakeholders and institutional factors, and it is an agency factor that intertwines with the other two factors. The limitation of the theory is on a corporation listed with the capital market, and it indicates the firmographic of size, capital, and duration of the operation.
Andres et al., 2022; Baker, Boulton, Braga-alves, et al., 2021; Chang, 2019; Crifo et al., 2015; Durrani & Volz, 2020; Evander & MacArthur, 2016; Geczy et al., 2021; Guney et al., 2019; Leins, 2020; Liang & Renneboog, 2020; Lorenzetti, 2021; Mittal et al., 2021; Nicholls, 2010; Scott, 2004; Thahira & Mita, 2021; Tykvova, 2017; Vadasi et al., 2019	Institutional Factors	• Institutional factors from global perspectives shape phenomena that do not all have clear demarcation. However, when taken as a dynamic observation, ESG is the phenomenon closely associated with the business entity, consisting of SDG, CSR, SRI, PRI & ESG. • Institutional factors are the independent factors within the corporate governance theory interrelationship. It exerts both global and local governance pressure on a corporation, and it does not have a direct impact on private enterprise. It indirectly influences private establishments to form a trajectory toward public corporations as the benchmark.
Andres et al., 2022; Ángeles et al., 2018; Avetisyan & Hockerts, 2017; Baker, Boulton, Braga-Alves, et al., 2021; Berg et al., 2022; Bikmetova et al., 2022; Billio, Costola, & Pelizzon, 2021; Carolina et al., 2016; Christensen et al., 2021; Cooperman, 2013; Di Tommaso & Thornton, 2020; Dorfleitner et al., 2015; Drempetic et al., 2019; Fathihani et al., 2021; Garel & Petit-romec, 2021; Gutterman, 2020; Hafner et al., 2020; Hangl, 2014; Henisz et al., 2019; Hoon et al., 2013; Kimbu et al., 2020; Labella et al., 2019; Lambooy & Levashova, 2011; Liang et al., 2021; Lopez et al., 2020b; Pástor et al., 2021; Wu & Hu, 2019	ESG Criteria	• ESG rating & Criteria, although it has established a transparent measurable pillar, due to its diverse nature with multiple rating agencies and ESG indexes with different purposes and methodologies, has caused confusion and complexity in the investment and business community. • Thus far, PEVC has adopted ESG as part of their checklist to incorporate into their practices. However, it is not adopted by all PEVCs in the industry, which is highly dependent on general partners/team exposure and efficacy. • There has been limited literature that identifies Shariah principles from Islamic Finance as the guidance for ESG governance implementation; in Malaysia, integrated into the stock-market index, however, is limited literature to confirm and establish validation.
Camilleri, 2019; Herringer et al., 2016; Iizuka & Hane, 2021; Liang & Renneboog, 2020; Petry et al., 2019; Steiauf & Schäfer, 2014; Turnbull, 2019; Wu & Hu, 2019; Yaşar, 2021	Stakeholder Factors	• The current literature identifies Financial Institutions, Media, Employees, Customers, Suppliers & Local Communities, NGOs & Research Institutions. However, this attribute is dynamic and will change according to the external pressures in the global/local context. • The literature has established the importance of stakeholders but lacks studies on how their shape PEVC function and decisions; however, it does indicate the need to manage stakeholder expectations.

Source: Researcher's Summary

3.2 Investment Portfolio Design Research Gap

A large body of literature on investment management followed Modern Portfolio Theory (MPT), based on quantitative capital market monitoring and not reflecting PEVC private venture environment. Thus far, in ESG portfolio design, the adoption of negative and positive screening is the dominant practice.

Investee screening protocol may need further study (Amir & Serafeim, 2018; Andersen, 2020; Caplan et al., 2013; Cornell, 2020b; Elfvengren, 2022; Esty & Karpilow, 2019; Hua et al., 2015; Landier & Lovo, 2020).

Besides seeing ESG as a governance practice, it is considered a risk mitigation process for ESG portfolio construction. However, a specific study on PEVC adoption is still lacking. Most of the literature stress ESG performance for a listed corporation but does not focus on SME Start-up or PEVC business environment (Kotsantonis & Serafeim, 2016; Pollard et al., 2017; Prelipcean & Boscoianu, 2020).

The research gap that exists with portfolio investment design would need to incorporate the consideration of ESG metrics and criteria and how to integrate into the portfolio construction with sufficient risk mitigation attributes with the investor's fiduciary responsibility embedded.

Table 2: Investment Portfolio Design Research Gap

Authors	Debates & Issues	Research Gap
Andersen 2020, Landier & Lovo 2020, Cornell 2020, Esty & Karpilow, Hua et al. 2015, Elfvengren 2022	Portfolio Theory	MPT, driven by quantitative tracking from the capital market, did not reflect on PEVC private venture design.
Caplan et al. 2013, Cornell 2020, Amir & Serafeim	Negative Screening/Positive Screening	Adopting negative and positive screening is the only means that PEVC has to emulate, but further study on screening investees is a lone stand study.
Pollard et al. 2017, Prelipcean & Boscoianu 2020	Risk Premium & Risk Mitigation	Risk premium setting is another aspect that PEVC can adopt, but still no sufficient study on this dimension.
Kotsantonis & Serafeim 2016	Performance	Among the literature, most track ESG performance on listed corporations but did not identify for SME/Start-up or within the PEVC environment.

Source: Researcher's Summary

3.3 Investee Selection Research Gap

There are generally nine agendas on the high-priority consideration for investee selection. 1. Alignment of Investee team expertise versus PEVC internal team expertise, 2. Predefine business or project domain and industry, 3. ESG leverage for credit facilities or grants, 4. ESG as investment criteria, 5. ESG tax incentives (if available), 6. Financial performance, 7. Operating and Marketing capabilities, 8. Business Model and Strategy establishment, and 9. Exit possibility with IPO exit or equity buyout (Antarciuc & Zhu, 2018; Ginsberg & Marcus, 2018; Pizzi & Corbo, 2020; Prat, 2020; Schoenmaker & Schramade, 2019; Sinkovics et al., 2021; Schaltegger, 2018; Telander & Ullbors, 2021; Visser, 2021).

Formal due diligence is typical among PEVCs, either insource or outsourced, and tends to depend on a formal document such as a business plan and management accounting (Akomea-Frimpong et al., 2022; Bengo et al., 2021; Cumming & Zambelli, 2015; Kelly, 2021; Ravi et al., 2019; Soliman, 2019). Private companies and start-ups do not have advanced MIS and limited public data. PEVC evaluation considers the investee team's business model and go-to-market capability (Avard et al., 2022; Hasheminejad et al., 2021). There are two primary considerations: the managerial and leadership capability of the founder and their team expert domain, secondly on the team's ability to hedge against the dynamic changes and risk from the marketplace (Carolina et al., 2016; Cooperman, 2013; Cordes et al., 2017; Estapé-Dubreuil et al., 2016; Granz, 2020; Leece et al., 2013; Mcwade, 2012; Nicholls, 2010; Teti et al., 2015).

PE chose to focus on SME and High Growth Enterprise as the exit opportunity is higher and generated intense competition to attain this cluster of investees. VC is working to identify early growth prospects; their exit depends on following a series of fund providers (Akomea-Frimpong et al., 2022; Durst & Gerstlberger, 2021; Estapé-Dubreuil et al., 2016; Léautier, 2016; Mcwade, 2012). PEVC selects environmental impact-related projects or high technology that support climate issues. Alternatively,

Biotechnology has a social impact (Geronikolaou & Papadopoulos, 2009; Soliman, 2019; Zinecker & Bolf, 2014).

Table 3: Investee Selection Research Gap

Authors	Debates & Issues	Research Gap
Antarciuc & Zhu 2018, Schoenmaker & Schramade 2019, Ginsberg & Marcus 2018, Pizzi & Corbo 2020, Telander & Ullbors 2021, Visser 2021, Liu & liang 2019, Prat 2020, Sinkovics et al. 2021, Stefan Schaltegger 2018	Selection agenda	In the literature survey, there are identification of investee selection concerns, 1. Alignment of Investee team expertise versus PEVC internal team expertise 2. Predefine business or project domain/industry 3. ESG leverage for credit facilities or grants 4. ESG as investment criteria 5. ESG tax incentives (if available) 6. Financial performance 7. Operating and Marketing capabilities 8. Business Model & Strategy Establishment 9. Exit possibility with IPO exit or equity buyout However, no consensus has been established by the industry
Rave et al. 2019, Soliman 2019, Akomea-frimpong at al. 2022, Kelly 2021, Cumming & Zambelli 2015, Bengo 2021,	Formal Documents, financial performance & Due diligence	Formal due diligence is typical among PEVC, either insource or outsource. Moreover, tend to depend on a formal document such as a business plan and management accounting, as private companies/start-ups do not have advanced MIS in place and publish public domain data.
Hashemipeias et al. 2021, Acard et al. 2021,	Business Model & Go-To-Market Strategy	PEVC evaluation takes into consideration the business model and go-to-market capability of the investee team
Cooperman 2013, Nichols 2010, Mcwade 2012, Carolina 2016, Teti et al. 2015, Estape-dubreuil et al. 2016, Cordes et al. 2017, Leece et al. 2013, Granz 2020	Investee capability	There are two primary considerations the managerial and leadership capability of the founder and their team expert domain. Secondly on, the team's ability to deal with dynamic changes and risks from the marketplace
Mcwade 2012, Estape-dubreuil et al. 2016, Leautier 2016, Akomena-frimpong et al. 2022, Durst & Gerstlberger 2021,	SME & High Growth Enterprise	PE tends to focus on SME and High Growth enterprises as the exit opportunity is better. There is competition to attain this cluster of investees. VC tend to identify early growth prospect; their exit depends on the following series of fund providers.
Soliman 2019, Zinecker & Bolf 2014, Geronikolaou & Papadopoulos 2009,	Project & Venture Types	PEVC selects projects related to environmental impact or high technology supporting climate issues. Alternatively, Biotechnology has a social impact and preliminary study in these areas.
Li et al. 2014, McAlpine 2016, Luukkonen et al. 2013	Selection Approach	Western society (developed economy) and Asian society (developing economy) have different investee selection approaches. For a western society, that is more formal and highly dependent on documentation. Whereas the Asian PEVC prefers informal networking and personal contact to access potential investees, it also provides the opportunity for preliminary valuation before the formal setting falls—highly influenced by Hofstede's Cultural Power Distance Theory. More study requires.

Source: Researcher's Summary

As a suspect, western society (developed economy) and Asian society (developing economy) have different investee selection approach. For a western society that is more formal and highly dependent on documentation, whereas the Asian PEVC prefers informal networking and personal contact to access potential investees, it also provides the opportunity for preliminary valuation before the formal setting falls

in place. Hofstede's cultural power distance theory significantly influences this area (Li et al., 2014; Luukkonen et al., 2013; McAlpine, 2016).

Investee selection for PEVC is an area with limited research, especially in the Asian business environment. Hence, it is considered a research gap for academic and managerial practice dimensions and an extended gap between formal and informal investee selection.

4.0 Conceptual Framework

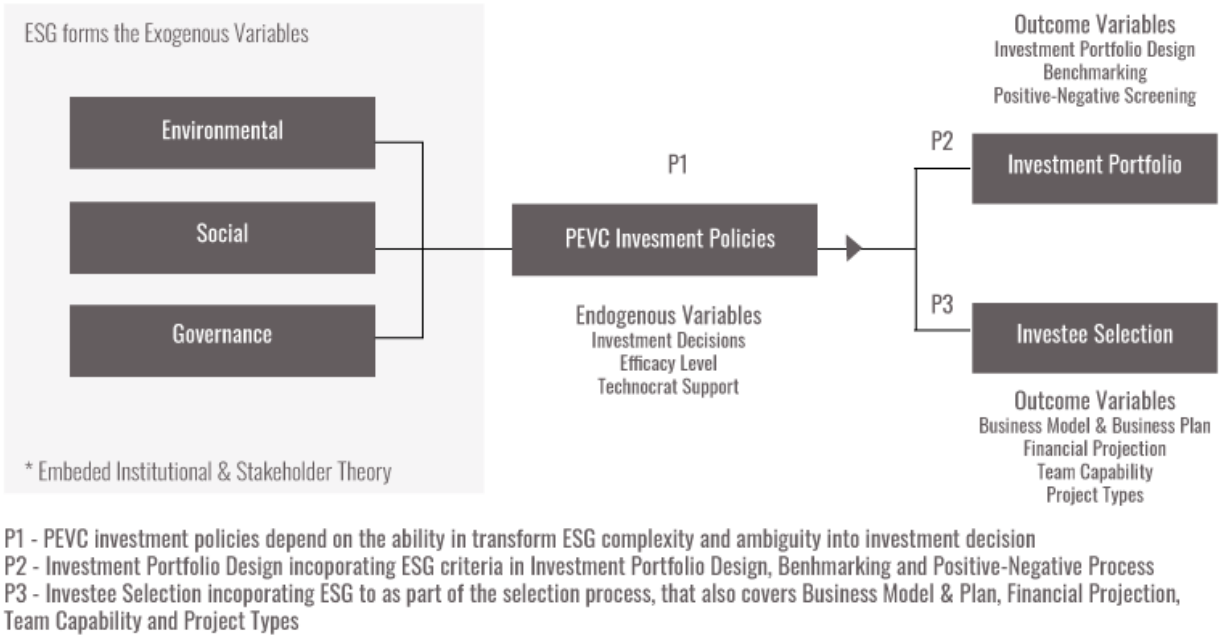


Figure 1: Proposed Conceptual Framework

The framework showcases the ESG phenomenon as the governance pressure, which embeds institutional and stakeholder theories. Through the literature survey, it is clear that stakeholder and institutional forces impact the creation of ESG principles that shape investment policy development (Baxter & Jack, 2015; Hollweck, 2016; Yin, 2011).

The PEVC schematic (Figure 1) highlights Proposition 1 (P1), which denotes that PEVC investment policies depend on the ability to transform ESG complexity and ambiguity into the investment decision. Hence Investment Policies as the Endogenous Variables (ENV) where the team efficacy level supports the investment decision and their technocrat insight (Hearn et al., 2015; Lopez et al., 2020b; Nemoto & Morgan, 2020; Ramos-Romanow, 2020).

While ESG forms the Exogenous Variables (EXV), it illustrates that the ESG factors are embedded with institutional and stakeholder pressure. Meanwhile, in practice, ESG pillars are adapted from ESG rating as the benchmark for investee selection and investment portfolio design. This study stresses PEVC decision-making, generally looking into how the industry responds to ESG pressures. Where else, Investment Portfolio and Investee Selection become outcome attributes (OA) (Bebchuk & Hirst, 2019; Grant & Osanloo, 2014; Madhani, 2017; Zattoni et al., 2013).

The second proposition (P2) would see the effective investment portfolio construct incorporating ESG criteria into the portfolio design, benchmarking, and positive-negative screening. On the third proposition (P3), ESG criteria assist investee selections with nine consideration factors (Baxter & Jack, 2015; Evander & MacArthur, 2021; Scheuplein, 2021).

As part of the explorative research process, the current conceptual framework will evolve with the responses of the PEVC's executive interviews. Their insights, opinion, and wisdom will be used to validate the frameworks, factors, and attributes. Hence, the framework will be enhanced further to establish a workable approach, principle, and best practices (John W. Creswell, 2018; Rashid et al., 2019; Yin, 2016).

5.1 Key Research Objectives

RO1: To understand how PEVC firms manage the complexity and ambiguity of ESG criteria.

RO2: To comprehend how PEVC firms use ESG criteria as a risk mitigation process for ESG investment portfolio design.

RO3: To rationalize how PEVC firm selects investee ventures with ESG criteria.

5.2 Adapted to Research Questions

RQ1: How does the PEVC firm manage the complexity and ambiguity of ESG criteria?

RQ2: How does the PEVC firm use ESG criteria as a risk mitigation process for ESG investment portfolio design?

RQ3: How does the PEVC firm select investee ventures with ESG criteria?

5.3 Scope and Limitation

The Malaysia PEVC industry is relatively small compared to a developed economy, based on preliminary engagement with the Malaysia Venture Capital Association Members (www.mvca.org.my), with only 25 members. Hence, the investigation focuses on engaging executives or owners of the PEVC firm. It is a small population study to understand the ESG phenomenon's impact on their establishment (Malaysia, 2022a).

Due to time constraints with busy executives and the research duration available for data collection within the project, the other limitation is anticipating having only about four weeks to engage the PEVC industry executive for an in-depth interview. In the body of literature, less than ten articles investigate the impact of ESG on the PEVC industry and span across 15 years. There is no study conducted within Malaysia on ESG's impact on Malaysia's PEVC industry (Ismai et al., 2020; Kweh et al., 2017; Sadiq et al., 2020; Tarmuji et al., 2016; Wasiuzzaman & Wan Mohammad, 2020; Wong et al., 2021).

5.4 Problem Statement and Significant Contribution

The ESG phenomenon fills with complexity and ambiguity. The challenge is navigating this wave, where the private equity and venture capital firm can translate the risk into opportunities. It is especially significant when PEVC must embrace ESG criteria for strategic and operational decisions, especially investment portfolio design, selection, and investor communication.

What are the significant contributions of this study?

(a) Firstly, the study on the ESG phenomenon's impact on Malaysia's PEVC industry is limited, focusing much on publicly listed corporation ESG performance. This study will provide industry-based practical knowledge (framework) to guide executive and professional managers in managing ESG challenges.

(b) Secondly, the challenge of adopting ESG practices is the diverse and conflicting ESG evaluation standards, making it complicated to design an investment portfolio. This study aims to curate the industry's best practices in designing ESG investments.
(c) Thirdly, while acknowledging that PEVC is the catalyst in shaping the adoption of ESG within their investee, there is no agreed consensus to lead the investee venture. This study aims to discover industry best practices for investee selection criteria.
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6.0 Research Methodology

A few key characteristics induce the utilization of a qualitative case study approach in addressing the ESG phenomenon's presence in the Malaysian PEVC industry. This study uses a constructivist paradigm with induction perspectives (Dudovskiy, 2018) that see the worldview from its natural state (Saunders, 2009). More than one answer to the proposition or research questions, especially drawing insights from the executive informed and sensitive towards the ESG and stakeholders' pressure (Baxter & Jack, 2015).

The qualitative study takes an interpretative approach when contextual insights are more relevant to explaining how to deal with ESG challenges filled with complexity and ambiguity (Creswell, 2018). Its highly dependent on the researcher's role in interpreting the participant's articulation of their reality (Merriam, 2009).

This study explicitly looks into the ESG phenomenon's presence with new practices or knowledge construct deemed beneficial if adopted (Berg et al., 2021; Manita et al., 2018; Thahira & Mita, 2021). However, as for the investment community, Malaysia might have different perspectives, unlike the western economy. Hence, the study is exploratory to understand the phenomenon (Dudovskiy, 2018).

Dudovskiy (2018) argues that explorative research can assess the industry's current challenges; it does not provide a conclusive outcome. Instead, it is to recognize the challenges ahead and develop a complementary research approach to address them objectively. It is best to use a semi-structures interview question to capture the phenomenon's ambiguity and contextual essence to capture insights.

6.1 Research Design

Why are qualitative multi-case study methodology chosen? Firstly, in dealing with the presence of the ESG phenomenon, the challenge is to establish a problem-solution approach that is robust and reliable. In this study, the key suspect is that the investment community has differing opinions, mainly due to limitations of the local business environment, cultural dimension, and reality setting. Hence, it is good to draw the evidence and insights not from one organization but rather from multiple organizations to have an industry-based perspectives (Creswell, 2007; Creswell, 2018; Yin, 2011).

Secondly, the Malaysia PEVC industry is relatively small and still in its infancy, with a mere one hundred twenty-eight (128) firms. It makes it impossible even to perform a pilot quantitative study. Third, the unique demography of the Muslim majority, similar to Indonesia's Islamic financial system, has created a highly contextual financial ecosystem to accommodate ESG practices. Lastly, the real challenges are that limited ESG articles are studying on PEVC industry, even less for Malaysia collectively. These various attributes make it challenging to perform quantitative or mixed methods research (Creswell, 2007; Creswell, 2018; Yin, 2011).

The advantages of employing multi-case studies, as a collective sum of studies, can be used as a guide for generalization with deep contextual perspectives. Using empirical and secondary data for content analysis is rich mixed-media content such as digital video, white papers, corporate websites, and investment prospectus. It allows the triangulation of the study, reducing the friction on biased views and delivering a trustworthy outcome (Creswell, 2014; Yin, 2016).

6.2 Research Orientation

This research orientation combines empirical data through semi-structure interview question and secondary data extraction on stakeholders and institutional content from the public domain and media. The empirical data – is directed at MVCA members (PEVC executive and owner). The intent is to capture insights and opinions in dealing with ESG challenges, complexity, and ambiguity. Meanwhile, the secondary data from various stakeholders and institutional organizations through the public domain and media. This study primarily performs content, framework, and reflection analysis to explore the insights and practices within the industry.

7.0 Summary

This paper begins with a Malaysia PEVC industry overview to crystalize the context of the ESG phenomenon challenges sweeping the private investment industry. A brief discussion on the interrelationship between ESG and SRI forms the foundation understating before the in-depth discussion on corporate governance theory. Flank by ESG with embedded institutional and stakeholder factors. It also incorporates exogenous, endogenous, and outcome variables to grasp why the conceptual framework is established.

The core discussions revolve around how PEVC respond to ESG demand through integrative thinking and strategic action plan. It shapes investment portfolio development and critical roles in investee selections and nurturing to deliver ESG fulfillment.

This paper introduces the conceptual framework, guiding the execution of the explorative research through a qualitative approach. The aim is to extract insight from PEVC's executive thought level and opinion in dealing with ESG challenges.

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