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The Impact of ESG Disclosures on Financial Performance: Evidence from ASEAN-Listed Companies

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Abstract

With increasing global emphasis on sustainability, corporate transparency in ESG practices has become a critical factor for investors and stakeholders. This study investigates the impact of Environmental, Social, and Governance (ESG) disclosures on the financial performance of listed companies in ASEAN countries. This research employs a dynamic Generalized Method of Moments (GMM) approach to address endogeneity concerns and assess the relationship between ESG disclosure and financial performance indicators such as return on assets (ROA), return on equity (ROE), and market value. Using panel data from ASEAN-listed firms over the period 2013-2022, the findings show that firms with strong historical performance tend to maintain profitability, while ESG disclosures positively influence financial outcomes by enhancing investor confidence and risk management. Larger firms benefit from economies of scale, while excessive leverage reduces profitability. Favorable macroeconomic conditions, such as GDP growth, also play a crucial role in boosting firm profitability. Policymakers should mandate ESG disclosure frameworks, incentivize sustainable practices, and provide financial support to smaller firms. Promoting responsible debt management and ensuring macroeconomic stability through favorable trade policies will also enhance firm profitability and long-term economic growth.

Keywords: Sustainability, ESG, Financial performance, ASEAN countries, Panel data

INTRODUCTION

The increasing global emphasis on sustainability has significantly influenced corporate behavior, particularly regarding transparency in environmental, social, and governance (ESG) practices. In recent years, ESG disclosures have emerged as a critical consideration for investors and stakeholders, who increasingly demand that companies demonstrate responsibility in managing their environmental impacts, social contributions, and governance practices. Research suggests that transparent ESG practices not only enhance a company's reputation but also improve its financial performance by attracting socially conscious investors, mitigating risks, and

promoting long-term sustainability (Friede et al., 2015) (Hidthiir et al., 2024). This shift toward ESG integration is especially prominent in emerging markets, where institutional pressures and the growing importance of sustainability are reshaping corporate strategies (Cheng et al., 2014) (Khan et al., 2024) (Ahmad et al., 2023).

In the context of ASEAN countries, the emphasis on ESG transparency has gained traction due to heightened awareness of sustainable development goals (SDGs) and the growing influence of global investment trends. The ASEAN region, characterized by diverse economies with varying levels of economic development, presents a unique setting to explore the impact of ESG disclosures on financial performance. While much of the previous research on ESG has focused on developed markets, there is limited empirical evidence concerning its impact on companies in emerging economies, particularly in Southeast Asia. This gap in the literature underscores the need for more focused investigations into how ESG practices influence financial outcomes in ASEAN-listed firms.

The relationship between ESG disclosures and financial performance has been the subject of considerable academic interest. Studies have shown that firms with strong ESG performance tend to benefit from enhanced investor confidence, better risk management, and stronger financial performance (Bussoli & Conte, 2018). Specifically, companies that disclose ESG information are more likely to attract investment from institutional investors who prioritize sustainability, thereby boosting their market value and profitability (Atasel et al., 2020) (Ahmad, al-Amatullah, et al., 2024). Additionally, ESG practices can contribute to a firm's competitive advantage by reducing operational risks, improving stakeholder relations, and fostering innovation (Mamun & Shaikh, 2018) (Ahmad, Hidthiir, et al., 2024). However, the strength and nature of this relationship can vary based on firm size, leverage, and external macroeconomic conditions.

The significance of this study lies in its potential to deepen the understanding of how ESG disclosures impact corporate financial performance in a rapidly growing and diverse economic region like ASEAN. As global sustainability standards and expectations rise, firms in emerging markets such as ASEAN are under increasing pressure to align with international ESG norms. This study provides critical insights into whether ESG transparency offers measurable financial benefits to companies operating in these countries, which can guide corporate governance, investment decisions, and sustainability practices. Furthermore, understanding the financial consequences of ESG disclosures in ASEAN can influence regional policymakers to design effective regulations that promote sustainable business practices, contributing to long-term economic growth and resilience.

The need for this study stems from the unique challenges faced by emerging economies in adopting and implementing ESG frameworks. Unlike their counterparts in developed markets, companies in ASEAN countries operate in a more volatile economic environment, with varying degrees of regulatory support for ESG disclosures. There is also limited empirical evidence on how ESG practices influence financial performance in this region. While prior research has primarily focused on developed markets, this study aims to address this gap by providing region-

specific insights. Moreover, considering the global shift toward sustainable finance, investors require reliable data on how ESG factors affect financial outcomes in emerging markets to make informed investment decisions. This research, by focusing on the ASEAN context, seeks to fill this knowledge gap, offering practical and policy-relevant insights.

This study aims to contribute to the existing body of literature by examining the impact of ESG disclosures on the financial performance of listed companies in the ASEAN region. Utilizing a dynamic Generalized Method of Moments (GMM) approach, the research addresses potential endogeneity concerns to accurately assess the relationship between ESG transparency and key financial performance indicators, such as return on assets (ROA), return on equity (ROE), and market value. The analysis spans the period from 2013 to 2022, covering 67 firms across five ASEAN countries: Malaysia, Indonesia, the Philippines, Singapore, and Thailand. The findings are expected to shed light on the role of firm size, leverage, and macroeconomic factors in shaping the financial outcomes of firms with varying degrees of ESG transparency. Additionally, the study will provide important policy insights for promoting sustainable corporate practices in the region.

The structure of this paper is as follows: Section 2 provides a comprehensive review of the existing literature on ESG disclosures and their impact on financial performance. Section 3 outlines the methodology and data employed in the study. In Section 4, the results are presented and analyzed, followed by a detailed discussion of the findings in Section 5. Section 6 offers policy recommendations based on the study's insights, while the conclusion is presented in Section 7.

RESEARCH METHODS

This study adopts a quantitative research design using panel data to examine the impact of ESG disclosures on the financial performance of listed companies in ASEAN's 5 countries, namely Malaysia, Indonesia, Philippines, Singapore, and Thailand. The analysis spans the period from 2013 to 2022 for 67 companies and uses key financial performance indicators, including Return on Assets (ROA), Return on Equity (ROE), and market value. The independent variable, ESG disclosure, is sourced from sustainability reports and third-party ESG ratings databases.

Data Collection

The data used in this research are gathered from two main sources: ESG disclosure scores are obtained from established databases such as Bloomberg, Refinitiv, and company-issued sustainability reports. These sources provide standardized ESG metrics, which are widely used in academic and industry research (Friede et al., 2015) (Velte, 2017). Financial performance metrics, such as ROA and ROE, are collected from publicly available financial statements and commercial databases such as Legrand et al., Eikon, and Bloomberg. These databases provide consistent and reliable financial data for listed firms (Gerged et al., 2018). The final sample includes firms with complete ESG and financial data over the study period. Missing data points are addressed using linear interpolation to preserve the integrity of the panel dataset (Papke & Wooldridge, 2023).

Model Specification

To address concerns about endogeneity, a dynamic panel model is employed using the Generalized Method of Moments (GMM) estimator. GMM is particularly suitable for this study because it corrects for potential biases from unobserved heterogeneity, autocorrelation, and simultaneity (Soegiarto et al., 2022) (Blundell & Bond, 2023). This method allows for a more accurate estimation of the relationship between ESG disclosures and financial performance, reducing the risk of biased coefficients due to omitted variables or reverse causality.

The baseline dynamic model is as follows:

$$FP_{itc} = \alpha_0 + \beta_1 FP_{itc-1} + \beta_2 ESG\ Disclosure_{itc} + \beta_3 Size_{itc} + \beta_4 LVRG_{itc} + \beta_5 GDPG_{itc} + \varepsilon_{itc}$$

In the above models, α0 stands for intercept; i represents the firm, t stands for the time, c stands for the country, and financial performance shows the performance of ROA and ROE. FP is the firm's financial performance. FPitc-1 is the one period lagged for the dependent variable i.e., FP. ESG is the nonfinancial disclosure of the firms. LVRG and AGE denote the firm-specific characteristics that might affect the performance of firms. GDPG indicates the GDP growth rate used to control for country-specific heterogeneity. ε indicates the error term in both models.

Control Variables

Firm size is measured as the logarithm of total assets; firm size is controlled as larger firms often have more resources to invest in ESG initiatives and may experience different financial outcomes (Dang et al., 2018). Leverage is measured as the ratio of total debt to total assets. Highly leveraged firms may face different financial dynamics, and leverage could influence both financial performance and ESG efforts (Jung et al., 2018). GDP Growth: Country-specific GDP growth is included as a macroeconomic control variable to account for variations in economic conditions across ASEAN nations that could influence firm performance (Papke & Wooldridge, 2023).

Estimation Procedure

The Generalized Method of Moments (GMM) estimator is implemented using the Soegiarto et al. approach, which helps mitigate potential endogeneity by using lagged values of the dependent and independent variables as instruments. First-differencing is employed to eliminate unobserved firm-specific effects (Soegiarto et al., 2022). The Hansen J-test is used to assess the validity of the instruments, and the Soegiarto et al. test is applied to check for second-order serial correlation in the residuals, ensuring the reliability of the estimates (Blundell & Bond, 2023). By employing the GMM approach, this study provides a rigorous examination of the impact of ESG disclosures on financial performance, contributing to the emerging literature on sustainable finance in developing markets. The findings will offer insights for policymakers, corporate managers, and investors on how ESG transparency may influence firm value, particularly in the ASEAN context, where ESG adoption is increasingly becoming a priority (Gerged et al., 2018).

RESULT AND DISCUSSION

Table 1 presents the descriptive statistics for the key variables used in this study. ESG disclosure scores, Return on Assets (ROA), Return on Equity (ROE), firm size (log of total assets),

leverage (debt-to-assets ratio), and country-specific GDP growth. The dataset consists of 67 firms from the ASEAN 5 countries—Malaysia, Indonesia, Philippines, Singapore, and Thailand covering the period 2013 to 2022.

Table 1.
Descriptive statistics

Variable	Mean	Std. Dev.	Min	Max
ROA	5.12	3.47	-2.78	18.45
ROE	12.30	8.14	-5.65	35.92
ESGD	62.5	10.75	34.00	88.00
Size	11.47	1.65	8.74	15.92
LVRG	0.42	0.18	0.10	0.95
GDPG	4.23	1.32	2.10	6.50

The average Return on Assets (ROA) across the sample is 5.12%, while the mean Return on Equity (ROE) is 12.30%. The average ESG disclosure score is 62.5, suggesting a moderate level of transparency in ESG practices across firms in ASEAN countries. Firm size (log of assets) shows a mean value of 11.47, and the leverage ratio averages 0.42, indicating that firms in the sample rely moderately on debt financing.

Table 2.
Correlation matrix

Variables	ROA	ROE	ESGD	Size	LVRG	GDPG
ROA	1.00					
ROE	0.71	1.00				
ESGD	0.34	0.39	1.00			
Size	0.45	0.52	0.48	1.00		
LVRG	-0.23	-0.31	0.12	0.18	1.00	
GDPG	0.25	0.20	0.16	0.11	0.05	1.00

Table 2 provides the correlation matrix of the main variables, showing the relationships between ESG disclosure, ROA, ROE, firm size, leverage, and GDP growth. The correlation matrix indicates that ESG disclosure is positively correlated with both ROA (0.34) and ROE (0.39), suggesting that firms with higher ESG transparency tend to perform better financially. Firm size also shows a positive correlation with both financial performance measures, implying that larger firms are generally more profitable. Leverage is negatively correlated with ROA (-0.23) and ROE (-0.31), indicating that highly leveraged firms tend to exhibit lower profitability.

The dynamic panel model, estimated using the Generalized Method of Moments (GMM) approach, examines the impact of ESG disclosure on financial performance (ROA and ROE). The regression results are reported in Table 3.

Table 3.
GMM Estimation Results

Variables	ROA	ROE
L.	0.321**	0.478***
ESGD	0.145***	0.182***
Size	0.089*	0.132**
LVRG	-0.156**	-0.208***
GDPG	0.071*	0.054*
Constant	2.154**	1.891**
Hansen J-test	0.731	0.645
Arellano-Bond test (AR2)	0.210	0.178
Observations	670	670
Number of Company	67	67

***p < 0.01, **p < 0.05, *p < 0.10

The results in Table 3 indicate that the lagged financial performance variables, specifically Return on Assets (ROA) and Return on Equity (ROE), exhibit significant and positive relationships with current performance. The coefficient for lagged ROA is 0.321, and for lagged ROE, it is 0.478. This suggests moderate persistence in financial performance, meaning that firms with strong financial performance in the past tend to maintain or improve their performance over time. The significance of these lagged variables highlights the importance of historical financial outcomes in predicting future performance, aligning with the understanding that financial success tends to build on itself in the absence of external disruptions.

The analysis of ESG disclosures reveals that they have a positive and significant impact on both ROA and ROE. Specifically, a 1-point increase in the ESG disclosure score is associated with a 0.145% increase in ROA and a 0.182% increase in ROE. This finding supports the growing body of literature suggesting that greater transparency in a firm's environmental, social, and governance practices can lead to enhanced financial outcomes. This could be due to improved investor confidence, better risk management, or stronger reputational advantages that come with higher ESG transparency, all of which may translate into superior financial performance.

Firm size, as measured by the logarithm of total assets, also has a positive influence on financial performance. The coefficient for ROA is 0.089, and for ROE, it is 0.132, indicating that larger firms tend to perform better financially. This can be attributed to larger firms' ability to allocate resources more efficiently, benefit from economies of scale, and absorb shocks better than smaller firms. Larger firms may also have more access to capital and be better equipped to implement ESG initiatives, contributing to their overall performance.

On the other hand, leverage, measured as the ratio of total debt to total assets, is negatively associated with financial performance. The coefficients for ROA and ROE are -0.156 and -0.208,

respectively, indicating that higher levels of debt tend to reduce profitability. This is consistent with the notion that highly leveraged firms may face higher financial risks, including the costs of servicing debt, which can erode their profitability and financial stability. Excessive leverage may also limit a firm's ability to invest in sustainable practices, which could hinder long-term financial success.

Lastly, country-specific GDP growth shows a positive correlation with financial performance. The coefficient for ROA is 0.071, and for ROE, it is 0.054. This suggests that firms operating in countries experiencing stronger economic growth tend to perform better financially. This result highlights the importance of favorable macroeconomic conditions, as economic growth generally advances higher demand for products and services, which in turn drives profitability for firms. In the context of ASEAN countries, where economic growth has been relatively strong, this factor plays a crucial role in shaping the financial performance of listed companies.

The Hansen J-test results, with p-values of 0.731 for ROA and 0.645 for ROE, indicate that the instruments used in the Generalized Method of Moments (GMM) estimation are valid. In GMM, the use of instrumental variables is crucial to address potential endogeneity issues, such as omitted variable bias or reverse causality. The Hansen J-test assesses the overall validity of these instruments by examining whether they are uncorrelated with the error term. A high p-value, as observed in both models, suggests that the null hypothesis—that the instruments are valid—cannot be rejected. In other words, the instruments are appropriately chosen and do not introduce bias into the estimation process. The validity of the instruments ensures the robustness of the GMM results, enhancing the credibility of the findings regarding the relationship between ESG disclosure and financial performance.

The Soegiarto et al. test for second-order serial correlation AR (2) provides further confirmation of the reliability of the GMM estimation. The p-values of 0.210 for ROA and 0.178 for ROE suggest that there is no evidence of second-order serial correlation in the residuals. In dynamic panel models like GMM, first-differencing is employed to eliminate unobserved firm-specific effects, but this can introduce serial correlation. The Soegiarto et al. test checks for such correlation in the differenced residuals. While first-order serial correlation AR (1) is expected due to the nature of the differencing, second-order serial correlation AR (2) would indicate a misspecification of the model. The absence of significant AR (2), as demonstrated by the p-values, confirms that the model is correctly specified and that the GMM estimations are reliable. This result reassures that the dynamic relationships between ESG disclosures and financial performance are being accurately captured, free from distortion due to serial correlation in the data.

The results of this study align with and expand upon the findings of previous research, contributing to the growing understanding of the relationship between ESG disclosures and financial performance. The significant and positive relationship observed between lagged financial performance variables (ROA and ROE) and current financial performance highlights the persistence of profitability within firms. This finding is consistent with the literature suggesting that firms with strong historical financial outcomes tend to sustain their performance over time.

Prior studies, such as those by Waddock and Graves (2018), have emphasized the path dependency of financial success, where past profitability provides a firm with the resources to continue performing well, enabling reinvestment into high-potential areas, including ESG initiatives. The coefficients for lagged ROA (0.321) and ROE (0.478) observed in this study reinforce this notion, showing moderate persistence in financial performance across ASEAN-listed firms.

The positive and significant impact of ESG disclosures on both ROA and ROE, as revealed by the results, is in line with the growing consensus in the literature that transparency in environmental, social, and governance practices can enhance financial performance. Specifically, this study finds that a 1-point increase in ESG disclosure is associated with a 0.145% rise in ROA and a 0.182% rise in ROE. These results echo the findings of Friede, Busch, and Bassen (2015), who conducted a meta-analysis demonstrating a positive relationship between ESG factors and financial performance across a wide range of studies. Similarly, Velte (2017) found that companies with higher ESG ratings tend to outperform their peers, particularly in the long run. The positive effect observed in this study could be due to several factors, including improved investor confidence, enhanced risk management, and reputational advantages. Investors are increasingly integrating ESG considerations into their investment decisions, which drives up demand for companies with higher ESG scores, potentially improving these firms' market valuations and financial outcomes.

The role of firm size in influencing financial performance is another key finding that resonates with previous research. Larger firms, as indicated by their log assets, tend to perform better financially, with coefficients of 0.089 for ROA and 0.132 for ROE in this study. This aligns with the findings of Dang, Li, and Yang (2018), who noted that larger firms benefit from economies of scale, operational efficiencies, and greater access to resources, which can enhance their financial performance. Additionally, larger firms are typically better positioned to implement comprehensive ESG strategies due to their resource availability, which may further amplify their financial success. The results of this study reinforce the idea that firm size plays a critical role in driving financial performance and highlight the unique advantages larger firms hold in terms of resource allocation and risk management.

The negative relationship between leverage and financial performance, with coefficients of -0.156 for ROA and -0.208 for ROE, is consistent with the well-established theory that higher debt levels increase financial risk and reduce profitability. This finding is supported by the work of Jung, Herbohn, and Clarkson (2021), who observed that firms with higher leverage tend to underperform due to the increased cost of servicing debt and the constraints that excessive debt places on managerial decision-making. In the context of this study, higher debt levels appear to diminish firms' ability to invest in growth opportunities, including ESG initiatives, which could otherwise enhance long-term financial performance. This highlights the importance of maintaining a balanced capital structure, particularly for firms aiming to improve their ESG disclosure and performance.

Finally, the positive correlation between country-specific GDP growth and financial performance is indicative of the broader economic environment's impact on firm profitability. The coefficients for GDP growth, 0.071 for ROA, and 0.054 for ROE suggest that firms operating in countries with higher economic growth are more likely to perform better financially. This is consistent with prior research, such as that by Gerged, Cowton, and Beddewela (2018), which highlighted the role of favorable macroeconomic conditions in enhancing corporate profitability. In ASEAN countries, where economic growth has been robust over the study period, this factor plays a pivotal role in shaping the financial performance of listed firms. Stronger economic growth typically translates into higher consumer demand, increased investment, and greater access to capital, all of which contribute to improved financial outcomes.

Policy Implications

The results suggest several key policy implications for enhancing firm performance and promoting sustainable growth. First, the positive relationship between historical financial performance (lagged ROA and ROE) and current performance highlights the need for policies that support firms in maintaining consistent financial strength over time. Policymakers could incentivize firms with stable financial track records through tax breaks or better access to financing, ensuring that strong performers continue to grow. Additionally, the significant impact of ESG disclosures on financial outcomes calls for enhanced policies mandating ESG reporting. Governments should consider introducing standardized ESG frameworks and providing incentives, such as tax benefits, to encourage firms to adopt and disclose sustainable practices, ultimately leading to improved investor confidence and risk management. The findings also point to the need for designed policies based on firm size and capital structure. Larger firms tend to benefit from economies of scale and better financial performance, while smaller firms may require additional support, such as easier access to financing or innovation incentives, to remain competitive. Furthermore, the negative impact of high leverage on profitability suggests that policymakers should promote prudent debt management by encouraging firms to reduce excessive debt levels through regulatory measures or offering incentives for debt reduction. Lastly, given the positive influence of economic growth on financial performance, governments should focus on policies that foster stable macroeconomic conditions, especially in ASEAN countries, by investing in infrastructure, innovation, and favorable trade policies to stimulate demand and profitability for firms.

CONCLUSION

This study adopted a quantitative research design using panel data to examine the impact of ESG disclosures on the financial performance of listed companies in ASEAN's 5 countries, namely Malaysia, Indonesia, Philippines, Singapore, and Thailand. The analysis spans the period from 2013 to 2022 for 67 companies and uses key financial performance indicators, including Return on Assets (ROA), Return on Equity (ROE), and market value. The findings reveal that firms with strong historical financial performance are likely to maintain or enhance their profitability over time, emphasizing the importance of past success in predicting future performance. Additionally,

the significant positive impact of ESG disclosures on both ROA and ROE highlights the growing importance of transparency in environmental, social, and governance practices. ESG transparency appears to enhance financial outcomes by improving investor confidence, risk management, and reputational strength, positioning firms for better market performance. Larger firms are found to perform better financially due to economies of scale and resource advantages, while excessive leverage negatively impacts profitability, aligning with established theories about the risks of high debt levels. Furthermore, the study's findings highlight the crucial role of favorable macroeconomic conditions, such as GDP growth, in shaping firm profitability, particularly in the ASEAN region. This emphasizes the importance of stable economic environments for corporate success.

Policymakers should consider introducing mandatory ESG disclosure frameworks across ASEAN countries. This would encourage transparency and incentivize firms to adopt sustainable practices, ensuring long-term financial and environmental sustainability. These frameworks could be supported by providing tax incentives, easier access to capital, or regulatory benefits to firms that comply with ESG standards. To level the playing field between smaller and larger firms, governments and financial institutions should offer targeted financial aid, capacity-building programs, and regulatory incentives. These measures would enhance the competitiveness of smaller firms and enable them to adopt sustainable business practices more effectively.

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