UNIVERSITI TEKNOLOGI MARA

ENVIROMENTAL, SOCIAL, AND GOVERNANCE (ESG) REPORTING AND FINANCIAL PERFORMANCE: EVIDENCE FROM SOUTHEAST ASIA

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ABSTRACT

Environmental, social and governance reporting is gaining popularity as it has been practiced by many companies worldwide. Therefore, this study aimed to examine the relationship between environmental, social, and governance reporting and financial performance in Southeast Asia. Our sample consists of 23 financial institutions from five Southeast Asia for the period 2010 to 2019. The sample will make a total observation of 230. There are five Southeast Asian countries chosen, which are Malaysia, Indonesia, Thailand, the Philippines and Singapore. Therefore, multiple linear regression has been used in this research. This study's dependent variable is financial performance, proxied by the return on equity (ROE). This study has four independent variables, which are environmental disclosure, corporate social responsibility disclosure, corporate governance disclosure, and ESG disclosure. Other than that, there are four control variables, which are the size of the firm, capitalization, liquidity, and leverage. The results show that company debt level proxy by leverage positively affects financial performance. In contrast, ESG disclosure, environmental disclosure, corporate social responsibility disclosure and corporate governance disclosure negatively affect financial performance.

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1.1 Introduction

In ASEAN, sustainable investment is becoming more common, with more than half of private equity deals currently promoting business models which help the environment and society. ESG reporting is a term used commonly in the investing sector. ESG reporting gives information on a company's production, capital utilization, environmental and natural resource policies, labour and human rights policies. Investors will become more aware of an ESG study's importance in terms of a company's operational capacity, efficiency, and risk management. ESG reporting may strengthen the standard investment and financial performance by providing relevant additional information.

ESG goals and criteria are becoming highly important to investors and industries. Based on applicable regulatory guidelines, banks are currently focusing their corporate sustainability approach and risk management adaptations on environmental and social factors. Environmental and social risk management is a relatively new concept for banks, with authorities being more aware of the risks and implications.

According Khattak (2020); (Shakil et al., 2019) sustainability activities have received a lot of attention in recent years due to increased understanding among financial system stakeholders. Banks with better financial performance can place more work to promote sustainable activities. The effect of sustainability practices on the overall success of banks is still unknown to researchers and practitioners.

1.2 Research Background

Environmental, social, and governance (ESG) investing has gained momentum in recent years due to increased demand from foreign and domestic investors. Due to companies lack of ESG transparency, they can make poor investments in high-risk sectors, causing pollution to the environment or discrimination against employees. Investors would be more able to make decisions based on overall results than only financial performance if ESG is incorporated into a company's investment decision.