



## ESG Integration and Financial Performance: Evidence from Malaysia's Leading Companies

Kelvin Lee Yong Ming<sup>1\*</sup>, Yamunah Vaicondam<sup>1</sup>, Amira Mas Ayu Amir Mustafa<sup>1</sup>, Siti Nurul Munawwarah Roslan<sup>1</sup>, Shen Yi<sup>2</sup>, Komal Chopra<sup>3</sup>, Pooja Khanna<sup>4</sup>

<sup>1</sup>School of Accounting and Finance, Taylor's University, Subang Jaya, Malaysia, <sup>2</sup>School of Literature and Communication, Huainan Normal University, Huainan, China, <sup>3</sup>Symbiosis Institute of Management Studies, Symbiosis International (Deemed University), Pune, Maharashtra, India, <sup>4</sup>Mittal School of Business, Lovely Professional University, Phagwara, Punjab, India.

\*Email: [kelvinyongming.lee@taylors.edu.my](mailto:kelvinyongming.lee@taylors.edu.my)

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### ABSTRACT

This study examines the impact of environmental, social, and governance (ESG) scores on the financial performance of the leading publicly listed companies in Malaysia. Using balanced panel data from Bloomberg spanning 2015-2022, the study employs multiple regression analysis (MRA) and the generalized method of moments (GMM) to explore these relationships. The findings reveal a significant positive effect of the overall ESG score on ROA, suggesting that comprehensive ESG practices can enhance financial performance. However, individual environmental (E) and social (S) scores negatively impact ROA at a 10% significance level, indicating potential short-term costs associated with these initiatives. Corporate governance (G) scores, total assets (TA), and total debt to total assets (TDTA) ratios demonstrate a significant adverse effect on ROA. The inclusion of the global reporting initiative (GRI) standard as a control variable also adds robustness to the analysis, highlighting the role of standardized sustainability reporting in evaluating corporate performance. These insights underscore the complex interplay between ESG and companies' financial performance in Malaysia, emphasizing the importance of considering both the benefits and potential short-term costs associated with ESG initiatives. The findings of this study are crucial for policymakers, corporate managers, and investors, offering guidance on aligning sustainability goals with financial objectives to ensure long-term value creation and risk mitigation. This research contributes to the growing body of knowledge on ESG practices in emerging markets, highlighting the critical role of sustainability in today's global business environment.

**Keywords:** Environmental, Social, and Governance, Financial Performance, Sustainability, Global Reporting Initiative Guideline

**JEL Classifications:** G32, M14, Q56

## 1. INTRODUCTION

Socially responsible investment (SRI) started in the 1970s and has grown as investors began focusing on aligning their portfolio returns with their values (Tom, 2024). Subsequently, corporate social responsibility (CSR) disclosure becoming essential for nearly all the businesses. Recently, there has been an increase in awareness of the importance of sustainability and the concept of environmental, social, and governance (ESG). Investors, asset managers, and corporate leaders worldwide have begun observing

ESG issues in their investment decisions (Kell, 2018). This trend demonstrates the essentiality of this study, where the growing awareness of sustainability and ethical corporate behaviour supports long-term value creation and risk mitigation for firm performance.

ESG has become a crucial part of today's business world. Understanding how ESG affects firm performance is important for stakeholders. As an emerging country, Malaysia is still on a journey to achieve a sustainable future due to the challenges