

THE INFLUENCE OF ESG ON FINANCIAL PERFORMANCE IN THE ASEAN-5 BANKING SECTOR 2020-2024 PERIOD

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Abstract

The purpose of this research is the effect of green banking and ESG on the financial performance of banks in the ASEAN-5 for the 2020-2024 period. This research is quantitative. The sampling technique used non-probability sampling with a purposive sampling method. The sample size was 25 companies during the 2020-2024 period, resulting in a total sample of 125 companies. Data collection techniques used secondary data from annual financial reports and sustainability reports. The data analysis used in this study was a multiple linear regression test using SPSS. The results of this study indicate that there is a positive and significant effect of ESG on financial performance in the ASEAN-5 banking sector for the 2020-2024 period.

Keywords: ESG, Financial Performance, ASEAN

A. INTRODUCTION

The development of the global financial system towards sustainability has undergone significant changes in recent decades. While previously understood as a normative, voluntary approach solely related to corporate social responsibility, sustainability has now evolved into a crucial part of the structural transformation of the global financial system. This change is driven by growing global concerns about the risks of climate change, environmental degradation, the energy crisis, and the economic instability arising from unsustainable industrial activity. In these conditions, financial institutions, particularly the banking sector, no longer act merely as

intermediaries for funds but also as strategic actors determining the direction of economic development through financing and investment policies.

Pressure from international investors, global regulators, and global commitments through *Paris The Agreement* and the *Sustainable Development Goals* (SDGs) are encouraging the banking industry to begin integrating sustainability principles into its business activities. One of the fastest-growing forms of implementation is *Green Banking* is a banking practice focused on environmental efficiency, reducing the operational carbon footprint, digitizing services, and increasing financing for environmentally friendly projects. As it develops, green banking practices *are also beginning to be accompanied by increased attention to ESG aspects as a sustainability framework that supports the creation of a more responsible and sustainable financial system* (Global Sustainable Investment Alliance , 2022).

On the other hand, Indonesia and the Philippines still face several fundamental obstacles, such as low *green banking literacy* among industry players, limited availability of green financing instruments, less than optimal readiness of banking institutions to adopt sustainability standards, and a lack of human resource capacity to systematically manage and identify environmental risks. This uneven level of *green banking implementation* reflects that the transformation towards a sustainable financial system in the ASEAN-5 has not been carried out uniformly and still faces significant structural challenges in its implementation. This condition makes the ASEAN-5 region a relevant and strategic research object to examine how the implementation of *green banking* and ESG principles can affect bank financial performance amidst regional economic dynamics and increasing global sustainability demands (ASEAN Capital Markets Forum, 2024).

According to Kasmir (2019), financial performance reflects a company's financial condition over a specific period, encompassing both fundraising and disbursement, typically measured by capital adequacy, liquidity, and profitability. In the banking context, this definition

is highly relevant because a bank's core activities revolve around these two primary functions. The study used *Return on Assets* (ROA) to calculate financial performance.

In 2020, banking profitability came under pressure due to the COVID-19 pandemic, which led to a slowdown in economic activity, increased credit risk, and decreased financing activity. However, from 2021 to 2024, ROA continued to recover and increase in line with improving economic conditions, increased credit demand, and a recovery in banking sector operational activity. This indicates that the financial performance of banks in the ASEAN-5 region is generally improving.

When viewed based on In each country, Indonesia showed a recovery in ROA after experiencing pressure at the beginning of the study period and then increased in subsequent years. Malaysia also showed an increasing trend in ROA during the study period. Singapore showed a relatively higher ROA level and experienced growth in line with the recovery of the banking sector. Thailand showed an increase in ROA after experiencing pressure at the beginning of the pandemic, while the Philippines also showed an increase in ROA during the study period. Although all five countries showed a trend of increasing ROA, the rate and magnitude of the increase varied.

Differences in ROA increases across ASEAN-5 countries indicate that improvements in banking profitability are not occurring at the same rate. This is not only influenced by macroeconomic conditions but can also be related to business strategy, operational efficiency, and the bank's ability to adapt to sustainability demands. Banks in Singapore and Malaysia tend to have more mature financial systems, better corporate governance, and relatively more advanced *sustainable finance developments* compared to several other developing countries in ASEAN. Conversely, several developing countries in the ASEAN region still face various challenges in increasing efficiency and developing sustainable finance practices. The transformation towards a sustainable financial system is a crucial factor in strengthening the stability and resilience of the banking sector in Southeast Asia, particularly in the face of the increasing risks of climate change (ADB, 2023). This situation suggests that differences in banking financial performance are not only related to conventional financial factors but also may be related to the bank's readiness to

manage environmental, social, and corporate governance aspects. Therefore, the differences in ROA increases across ASEAN-5 banks are an interesting phenomenon for further analysis in relation to the implementation of *Green Banking* and ESG.

Several previous studies have shown inconsistent results regarding the relationship between *green banking*, ESG, and bank financial performance. Bimantara's (2025) study on Islamic banking in Asia showed that *green banking*, ESG disclosure, and environmental performance simultaneously had a positive and significant effect on bank profitability. These results demonstrate that implementing comprehensive sustainability practices within a single model can significantly improve bank financial performance. Panjaitan's (2025) study on Indonesian banking found that although ESG had a positive and significant effect on bank profitability, these findings indicate that ESG can have a stronger impact on financial performance than testing each variable separately.

Theoretical Review

Stakeholder Theory

The stakeholder theory proposed by Freeman (1984) explains that companies cannot be viewed solely as shareholder-oriented entities, but also as part of a broader system involving various stakeholders. Stakeholder theory emphasizes that a company's success is measured not only by its profit achievement, but also by the extent to which the company is able to build harmonious relationships with its stakeholders.

Legitimacy Theory

Legitimacy theory explains that companies operate based on a social contract with society, so their operational sustainability depends heavily on the extent to which the company's activities are perceived as compliant with prevailing norms and values. According to Suchman (1995), legitimacy is the perception that an organization's actions align with the value system adopted by society. Therefore, companies will strive to adapt their activities to maintain acceptance and support from the external environment.

Signaling Theory

The signaling theory introduced by Spence (1973) explains that companies can send signals to external parties, particularly investors, to reduce information asymmetry between management and external parties. In imperfect market conditions, management has more complete information about the company's condition and prospects than investors. Therefore, companies need to convey certain information as signals to demonstrate their quality and performance. These signals can take the form of financial reports, company policies, or disclosure of relevant non-financial information (Spence, 1973).

Financial performance

Financial performance is a snapshot of a company's financial condition over a specific period, reflecting the level of management efficiency and effectiveness in managing its financial resources (Kasmir, 2016). Financial performance serves as a basis for decision-making for various parties, including management, investors, and other stakeholders. Financial performance is typically measured through financial ratio analysis, which includes profitability, liquidity, and solvency ratios. These ratios are used to evaluate a company's ability to generate profits, meet obligations, and manage resources efficiently, thus providing a comprehensive picture of the company's condition (Pratika *et al.*, 2024). This ratio is used to determine and measure a company's ability to generate profits or gains on the total assets owned by the company.

$$\text{Return on Assets} = \frac{\text{Laba Bersih}}{\text{Total Asset}} \times 100\%$$

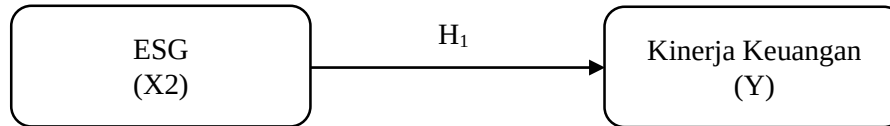
Environmental, Social, and Governance (ESG)

ESG is a set of non-financial dimensions used to evaluate a company's quality and sustainability from environmental, social, and governance perspectives. In this study, ESG was measured using the ESG Disclosure Index (ESGDI) based on the GRI Universal Standards 2021 through content analysis of sample banks' annual reports and sustainability reports (Broadstock *et al.*, 2021). The ESG performance score is the average of the assessments across each ESG pillar, reflecting a company's sustainability performance. This score is divided into three main pillars: environmental, social, and governance,

with each pillar comprising various assessment categories. The ESG score reflects the company's level of performance and effectiveness based on publicly available information. The higher the ESG score, the better the company's ESG performance (Nuraini *et al.*, 2025). In simple terms, the ESG score can be formulated as follows:

$$ESG\ Score = \frac{E + S + G}{3}$$

Conceptual framework



Gambar 1. Kerangka Bernikir

Research Hypothesis

H1: ESG has a positive effect on financial performance

B. METHOD

This study uses quantitative research methods. This research was conducted on banking sector companies in the ASEAN-5 region, namely Indonesia, Malaysia, Singapore, Thailand, and the Philippines. The research object was chosen because the banking sector has an important role in supporting economic growth as well as the implementation of sustainability principles through *Environmental, Social, and Governance* (ESG) and *green financing*. The population of this research is banking in ASEAN-5 for the 2020–2024 period consisting of 25 companies. The sampling method used was purposive sampling, which resulted in 128 research samples. Research data were obtained from Indonesia (IDX): <https://www.idx.co.id/id>, Malaysia (MYX): <https://www.bursamalaysia.com>, Singapore (SGX): <https://www.sgx.com>, Thailand (SET): <https://www.set.or.th/en/home>, Philippines (PSE): <https://www.pse.com.ph>, annual reports, sustainability reports, and the websites of each company. The data analysis used includes: classical

assumption test, multiple linear regression analysis, t-test (partial), coefficient of determination test (R^2), and mediation analysis test with the help of SPSS software.

C. RESULTS AND DISCUSSIONS

Multiple Linear Regression Analysis

According to Sugiyono (2023), multiple linear regression analysis is used to determine the influence of two or more independent variables on one dependent variable.

Table 1 Multiple Linear Regression Analysis

Variables	B	Std. Error
(Constant)	1,883	0.257
ESG	0.218	0.074

Source: Data Processed with SPSS, (2026)

Based on the results of the analysis of the multiple linear regression equation in this study as follows:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \varepsilon_1$$

$$Y = 1.883 + 0.218X_1 + \varepsilon_1$$

T-test

The t-statistical test essentially indicates the extent to which an individual explanatory/independent variable influences the variation in the dependent variable. The results of the t-test in this study are as follows:

Table 2t-Test Results

Variables	t	Sig.
(Constant)	7,329	0,000
ESG	2,945	0.003

Source: Data Processed with SPSS, (2026)

Based on the results of the t-test in table 4.8, it explains that:

- ESG variables (X_2) obtained the calculated t value $>$ t table, namely $2.945 > 1.979$ with a significance level of $0.003 < 0.05$, which indicates that there is a positive and significant influence of ESG on financial performance in the ASEAN-5 banking sector for the 2020-2024 period, so **the first hypothesis is accepted**. This shows that the higher the ESG, the better the financial performance in the ASEAN-5 banking sector for the 2020-2024 period.

Coefficient of Determination (R^2)

According to Sugiyono (2023), the coefficient of determination (R^2) is used to determine the extent to which the independent variable can explain the dependent variable. The magnitude of this contribution is called the coefficient of multiple determination, with the symbol R^2 . The results of the coefficient of determination in this study can be seen in the following table:

Table 3 Table of Determination Coefficients

R Square	Adjusted R Square	Durbin-Watson
0.685	0.681	1.932

Source: Data Processed with SPSS, (2026)

Based on the table above, the R-square value is 0.685, indicating a fairly strong influence between the independent and dependent variables. The percentage effect of *green banking* and ESG on financial performance in the ASEAN-5 banking sector for the 2020-2024 period is as follows:

$$\begin{aligned} R_y^2 \times 100\% &= 0.685 \times 100\% \\ &= 68.5\% \end{aligned}$$

The magnitude of the influence of *green banking* and ESG on financial performance in the ASEAN-5 banking sector for the 2020-2024 period by 68.5%. The remaining 31.5% is influenced by other independent variables not examined in this study.

DISCUSSIONS

ESG on Financial Performance

The second discussion in this study concerns the influence of ESG on financial performance in the ASEAN-5 banking sector for the 2020-2024 period. Based on the results of data analysis using SPSS, the results for the ESG variable are as follows: (X_2) obtained the calculated t value $>$ t table, namely $2.945 > 1.979$ with a significance level of $0.003 < 0.05$, which indicates that there is a positive and significant influence of ESG on financial performance in the ASEAN-5 banking sector for the 2020-2024 period, so **the first hypothesis is accepted**. This

shows that the higher the ESG, the better the financial performance in the ASEAN-5 banking sector for the 2020-2024 period.

ESG influences the financial performance of banks in the ASEAN-5 region, but its impact is heterogeneous (varies) depending on the specific pillars analyzed and the financial performance proxies used. Social & Governance aspects provide the most significant contribution to boosting bank financial performance. Banks with good governance and high social responsibility are considered better able to manage risks and maintain customer trust. Solid ESG implementation helps banks manage credit and operational risks more effectively, thus supporting long-term profitability.

D. CONCLUSIONS

Based on the results of the analysis and discussion regarding the influence of *green banking* and ESG on financial performance in the ASEAN-5 banking sector for the 2020-2024 period, several conclusions can be drawn that there is a positive and significant influence of ESG on financial performance in the ASEAN-5 banking sector for the 2020-2024 period .

E. SUGGESTIONS

Investors interested in investing in banking companies should look beyond traditional financial ratios like ROA or ROE to evaluate their ESG scores. *Banks with high ESG scores have been shown to be more resilient to market shocks and crisis risks.* Utilize sustainability rating data and research available on the Indonesia Stock Exchange (IDX) to assess a bank's compliance with sustainable finance regulations.

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