EL MUHASABA: Jurnal Akuntansi (e-Journal)
Volume 16 , No. 2, Tahun 2025
P ISSN: 2086-1249; E ISSN: 2442-8922

The Role of ESG Factors in Shaping Financial Performance: Insights from Malaysia's Industrial Landscape

Moh. Afani[1], Fadlil Abdani[2], Muhammad Riza Hafizi[3]
Universitas Islam Negeri Maulana Malik Ibrahim Malang[1,2], Jalan Gajayana No. 50 Malang, Jawa Timur, 65144, Indonesia
Universiti Utara Malaysia[3], Sintok, Kedah Darul Aman, Malaysia

✉ Corresponding Author:
Nama Penulis: Moh. Afani
E-mail: mohafani24@gmail.com

| Submit 29 Desember 2024 | Diterima 09 Mei 2025 | Terbit 19 Juli 2025 |

Abstract

Purpose: *This study aims to analyze the effect of ESG on the financial performance of energy and materials sector companies listed on Bursa Malaysia from 2021 - 2023.*
Method: *This research uses a quantitative approach with a purposive sampling technique, and 23 companies were obtained as samples. Data was obtained from Refinitiv Eikon and financial statements, and SPSS 30.0 was used. To analyze the data. Companies that did not have complete ESG data from 2021-2023 were excluded from the analysis.*
Results: *The results of this study show that environmental performance has a significant negative effect on financial performance, social performance has no significant direct effect on financial performance, while governance has a significant positive impact on financial performance.*
Implications: *This study provides strategic recommendations for companies, investors, and regulators in managing sustainability issues to support sustainable long-term value creation.*
Novelty: *This study focuses on energy and basic materials companies listed on Bursa Malaysia, an emerging market that is still relatively rare in the ESG literature. Meanwhile, most of the previous studies focused on developed countries that have stricter ESG regulations and more mature sustainability implementation.*

Keywords*: environmental; social; governance; financial performance*

Abstrak

Tujuan: Penelitian ini bertujuan untuk menganalisis pengaruh ESG terhadap kinerja keuangan perusahaan sektor energi dan materials yang terdaftar di Bursa Malaysia selama periode 2021–2023.
Metode: Penelitian ini menggunakan pendekatan kuantitatif dengan teknik *purposive sampling* dan diperoleh 23 perusahaan sebagai sampel. Data diperoleh dari Refinitiv Eikon dan laporan keuangan serta menggunakan SPSS 30.0. untuk menganalisis data. Perusahaan yang tidak memiliki data ESG lengkap dari tahun 2021-2023 dikeluarkan dari analisis.
Hasil: Hasil penelitian ini menunjukan kinerja kinerja lingkungan memiliki pengaruh negative yang signifikan terhadap kinerja keuangan dan kinerja sosial tidak memiliki pengaruh langsung yang signifikan terhadap kinerja keuangan, sementara tata kelola memiliki dampak positif signifikan terhadap kinerja keuangan.

Implikasi: Studi ini berkontribusi untuk memberikan rekomendasi strategis bagi perusahaan, investor, dan regulator dalam mengelola isu keberlanjutan guna mendukung penciptaan nilai jangka panjang yang berkelanjutan.
Kebaruan: Penelitian ini berfokus pada perusahaan sektor energy dan *basic materials* yang terdaftar di Bursa Malaysia, sebuah pasar dari negara berkembang yang masih relatif jarang dijadikan objek kajian dalam literatur ESG. Sedangkan, sebagian besar penelitian sebelumnya berfokus pada negara maju yang memiliki regulasi ESG yang lebih ketat dan implementasi keberlanjutan yang lebih matang.

Kata kunci: lingkungan; sosial; tata kelola; kinerja keuangan

INTRODUCTION

In recent years, sustainability issues have gained increasing attention, particularly in three key areas: environmental, social, and corporate governance (ESG) (Firmansyah et al., 2023). ESG has become an essential element in modern business strategy as more and more stakeholders demand that companies not only prioritize short-term profits but also consider the social and environmental impacts of their operations. This shift reflects the transition from Shareholder Theory, which focuses on optimizing shareholder returns, to Stakeholder Theory, which places more emphasis on long-term value creation for all stakeholders (Freeman, 1984). This theory suggests that companies should manage relationships with all parties involved in their operations to maintain sustainable long-term performance and provide wider benefits to society, the environment and shareholders (Ryszawska, 2016).

Sustainability reports have become one of the main tools to demonstrate companies' commitment to sustainability (Buallay et al., 2020). The increased demand for these reports reflects the public's and investors' growing expectations for companies to disclose non-financial information relating to their social and environmental impacts. Research shows that while investments in ESG initiatives are often costly in the short term, the long-term benefits accruing to companies are far greater (Walker & Wan, 2012). These benefits include increased competitiveness, risk mitigation, strengthened reputation, and resilience in the face of crisis. With growing evidence that companies that integrate ESG into their strategies are better able to survive in the long run, the adoption of these sustainability principles is increasingly becoming a strategic necessity rather than an obligation (Branco & Rodrigues, 2006; Jain et al., 2016).

The energy and materials sector is one of the most strategic sectors in supporting global economic development (Jayadin, 2011). Both sectors are the main drivers of industrial activity, but they also face major challenges related to environmental impacts. Overexploitation of natural resources and high carbon emissions lead to ecosystem damage and climate change, which are increasingly becoming major concerns for governments, stakeholders and Society (Judijanto et al., 2023). In addition, the energy and materials sectors are also under the spotlight in terms of social management, such as human rights, corporate social

responsibility, and engagement with surrounding communities. Therefore, both sectors need to implement more effective sustainability strategies to reduce negative impacts on the environment and society and meet the increasingly high expectations of stakeholders, including regulators and consumers (Behl et al., 2022; Hart, 1995).

In the Asian region, particularly in Malaysia, the energy and materials sector faces major challenges in adopting ESG principles. The Asia-Pacific region is projected to be the largest contributor to global energy demand growth through 2040, with countries in the region accounting for nearly two-thirds of the world's energy demand growth (International Energy Agency, 2019). Despite the strategic importance of the energy and materials sector in Malaysia and other ASEAN developing countries, ESG adoption in the region still lags behind developed countries (Kurniawan & Rokhim, 2023). This is due to various barriers, such as the lack of public and corporate awareness of the importance of sustainability, the lack of uniformity in ESG policy standards, and the limited resources of many companies. Thus, despite the high demand for ESG investments, full implementation in the energy and materials sector in Malaysia still faces various challenges (Ratnasingam et al., 2023).

The COVID-19 pandemic, which hit the world in 2020, has exacerbated these challenges and added urgency to ESG adoption. Research shows that companies with solid sustainability policies are better able to withstand the negative impacts of global crises such as the pandemic (Anggun, 2022). ESG practices can act as an effective risk mitigation tool, assisting companies in managing economic and social uncertainties. During the pandemic, investors have become increasingly interested in sustainable funds, which saw record inflows in the first quarter of 2020, reflecting growing confidence in ESG-based investments. This confirms that ESG is not only important for long-term sustainability but also for risk management in the face of unexpected crisis situations (Elnahass et al., 2022).

Research on the relationship between ESG and corporate financial performance still shows mixed results. Some previous studies show a positive relationship between ESG scores and financial performance (Habib & Mourad, 2024; Husada & Handayani, 2021; Kalia & Aggarwal, 2023; Mohammad & Wasiuzzaman, 2021), while others find a negative or insignificant impact (Junius et al., 2020; Putriningtyas et al., 2024). Most of the existing research also focuses on developed countries, with little attention paid to developing country contexts (Firmansyah & Setyorini, 2023). This gap leads to the need for more specific research in countries with different economic and social characteristics, such as Malaysia. In addition, there is limited research focus on the energy and materials sector, even though this sector is deeply connected to sustainability issues and requires special attention (Tarmuji et al., 2016).

This study aims to evaluate how ESG practices affect the financial performance of companies in the energy and raw materials sector listed on the Malaysian Stock Exchange during the period 2021 to 2023. By utilizing data from Refinitiv Eikon and applying multiple linear regression analysis, this study is expected to enrich insights into the relationship between ESG and financial performance in the context of developing countries, particularly in Malaysia. From a practical perspective, the findings of this research are expected to provide strategic insights for businesses, investors, and regulatory authorities in addressing sustainability issues to support the achievement of sustainable long-term economic value.

According to stakeholder theory, the success of an organization depends heavily on its ability to manage and balance the interests of various parties involved, including employees, consumers, suppliers, the community, and investors (Freeman, 1984). Organizations that are able to meet the expectations and needs of all stakeholders have the potential to create sustainable value for all parties. This approach differs from the traditional model, which focuses solely on shareholder interests, as it encourages organizations to make more inclusive decisions by considering ethics and sustainability principles (Goswami & Bhaduri, 2023). In this context, companies are expected not only to pursue profits for shareholders but also to consider the impact of their decisions on all stakeholders, as their support is crucial for maintaining business continuity and driving long-term growth.

Stakeholder perceptions have a significant impact on a company's ESG (Environmental, Social, and Governance) efforts, as positive perceptions can enhance reputation, foster customer loyalty, and increase investor confidence, all of which contribute to competitive advantage and financial performance (Razak et al., 2023). Conversely, negative perceptions can damage a company's reputation, leading to divestment, boycotts, and lost business opportunities (Razak et al., 2023). Therefore, companies need to actively engage stakeholders to understand their concerns and expectations. Companies that prioritize ESG initiatives tend to perform better, as ESG practices influence stakeholder behaviour - driving customer satisfaction, improving employee morale and attracting socially responsible investors (Khandelwal et al., 2023; Koeswayo et al., 2024; Puriwat & Tripopsakul, 2023). Empirical evidence suggests a positive correlation between strong ESG performance and corporate success, as it drives innovation, reduces risk and improves operational efficiency, ultimately improving financial outcomes (Minoja, 2012; Narula et al., 2023). By addressing the concerns of various stakeholders, companies can build trust, increase support, and improve their reputation and financial performance.

Companies that adopt environmentally friendly practices fulfil ethical and legal obligations while improving competitiveness, stakeholder relations, and financial performance (Valentinov, 2023). Although sustainability investments

may initially strain resources, aligning environmental efforts with stakeholder expectations can drive innovation, mitigate risk and offer a competitive advantage (Tan et al., 2022; Ye & Dela, 2023). Several studies have found a positive relationship between environmental sustainability and financial success, with progressive strategies improving financial outcomes through waste reduction, cost savings, and innovation efficiency (Hart, 1995b; Naseer et al., 2023; Ramanathan, 2018). In addition, strong environmental performance reduces reputational risk and increases opportunities for customer loyalty and market expansion, especially in environmentally sensitive industries (Pineiro-Chousa et al., 2017; Vasileiou et al., 2022). Conversely, poor environmental practices can result in sanctions, reputational damage, and long-term financial losses (Matozza et al., 2019; Ventouri et al., 2023). Therefore, integrating environmental sustainability into corporate strategy is critical to achieving financial success and meeting stakeholder demands (Park & Jang, 2021; Sen & Bhattacharya, 2001). Based on this explanation, the first hypothesis developed in this study is:

H_1: Environmental performance affects financial performance

Referring to the stakeholder theory perspective, companies that are able to establish constructive relationships with their stakeholders and are committed to responsible social programs tend to achieve better financial performance, build a positive image in the public eye, and gain a competitive advantage. This is made possible by the emergence of trust and good reputation formed through the implementation of sustainable business practices (Pedrini & Ferri, 2018; Ting et al., 2020). Empirical research generally supports a positive relationship between social performance and financial outcomes, with benefits such as enhanced reputation, stakeholder satisfaction, and operational efficiency (Licandro et al., 2024). However, the impact varies across industries and regions, with consumer-facing sectors showing stronger effects (Zaiane & Ellouze, 2023), while reduced profits can occur when costs outweigh benefits (Gaio et al., 2020). Socially responsible practices, including labour standards, health and safety, and community relations, often improve employee morale, customer loyalty, and financial performance, but poor practices can risk strikes, lawsuits, and reputational damage (Dahan et al., 2023). Although some argue that social responsibility does not always result in financial benefits (McWilliams & Siegel, 2000), others argue that greater commitment can improve corporate performance through stronger relationships with stakeholders (Barnett & Salomon, 2006). Based on this explanation, the second hypothesis developed in this study is:

H_2: Social performance affects financial performance.

Corporate governance encompasses the systems and mechanisms for managing an organization, including the composition of the board of directors, policies related to executive compensation, and the protection of shareholder

rights. Effective governance improves decision-making, reduces risk and builds stakeholder trust, which often results in improved access to capital and a lower cost of capital (de Villiers & Dimes, 2021; Huo et al., 2021). On the other hand, poor governance can lead to mismanagement and financial abuse, thereby damaging shareholder trust and corporate reputation (Velte, 2023). Stakeholder-oriented governance practices, such as ethical guidelines and transparency measures, can improve firm performance by reducing agency costs and fostering trust (Dao & Phan, 2023). Previous research shows that higher governance standards result in more efficient investments and better operational performance, especially in environments with strong investor protection (Alsayegh et al., 2020). Effective corporate governance contributes positively to a company's financial performance and sustainability. A number of studies also show that the combination of good governance and the implementation of corporate social responsibility (CSR) has a significant impact on improving financial performance (Achim et al., 2016). Based on this explanation, the third hypothesis developed in this study is:

H_3: Governance performance affects financial performance.

Based on the theoretical framework and hypothesis, this research model is illustrated in Figure 1.

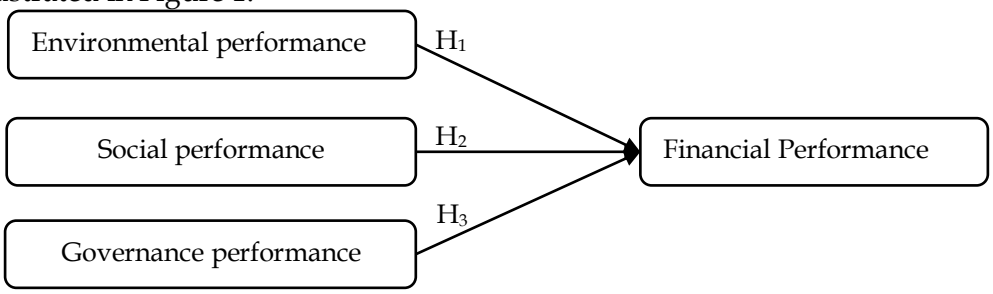

Figure 1. Conceptual Framework
Source: Processed Data (2025)

METHOD

This study took all companies engaged in the energy and materials sector and listed on the Malaysian Stock Exchange as the population. For sample selection, purposive sampling was used so that the selected analysis units were in accordance with the criteria and objectives of the study. The research focus is directed at companies that have disclosed their ESG scores for the past three years (2021-2023). This study uses data collection techniques/methods in the form of non-participant observation, where researchers only observe without being directly involved in making observations. The data analyzed includes annual financial reports of energy and materials sector companies in the capital markets of Indonesia, Malaysia, Singapore, and Thailand, as well as data from Refinitiv Eikon. Refinitiv Eikon is a comprehensive analytics platform and database that is widely used by finance, investment, and economics professionals

to obtain real-time and historical financial data. The platform also offers market insights as well as relevant analytical tools. As one of the most trusted data sources, Refinitiv Eikon provides in-depth and extensive information on global markets, including the Bursa Malaysia market.

In this study, only companies with ESG scores available in the Refinitiv Eikon database were included in the analysis. Companies with incomplete data or those that did not disclose ESG scores were excluded from the sample selection process. This study used multiple regression analysis conducted through SPSS version 30.0 software. Before conducting hypothesis testing using multiple regression, a series of preliminary tests were conducted to ensure model validity and data reliability. The series of tests conducted in this study included testing the validity and reliability of the instruments, as well as classical assumption tests consisting of normality, multicollinearity, heteroscedasticity, and analysis of the coefficient of determination. The sample selection process is comprehensively detailed in Table 1, which illustrates the stages of data selection and the criteria applied for sample selection.

Table 1. Sample selection.

Sampling Procedure	Malaysia
Energy and materials sector companies	151
Companies do not disclose annual reports 2021 - 2023	0
The company does not have complete ESG data from 2021-2023	(128)
Research sample	23
Total sample for 3 years	69

Source: Processed Data (2024)

Analysis Model

This study argues that company performance, as represented by Return on Equity (ROE), is influenced by three main aspects of ESG disclosure, namely environmental (ENV), social (SOC), and governance (GOV) aspects. The analytical model used in this study is designed as follows:

$$\mathbf{ROE_{i,t} = \alpha + \beta 1ENV + \beta 2SOC + \beta 3GOV + \ldots . E_{it}}$$

Description:

ROE = Financial Performance (ROE)
ENV = Environmental Performance
SOC = Social Performance
GOV = Governance Performance
β1,2,3,4 = Path coefficient
α = Constant
e = Residual
i = Energy and Materials Sector Company
t = Period/time

Variable operationalization and measurement

This study aims to examine the relationship between ESG performance and company performance. Company performance, as the dependent variable, is measured using the Return on Equity (ROE) indicator. Meanwhile, the independent variables consist of three main ESG dimensions, namely environmental (ENV), social (SOC), and governance (GOV) aspects. To evaluate a company's ESG performance, one of the measurement tools used is the ESG score. This score reflects the extent to which a company discloses information related to sustainability, particularly in the environmental dimension, which is part of ESG data. In the Refinitiv Eikon database, the ESG score is given on a scale of 0 to 100, where a score of 0 indicates minimal ESG disclosure and a score of 100 reflects very complete disclosure of all ESG components. The score is divided into three main pillars with the following classifications:

Table 2. ESG performance and its categories

Kinerja	Kategori Utama
Environmental (E)	Resource Use, Emissions, Innovation
Social (S)	Workforce, Human Rights, Community, Product Responsibility
Governance (G)	Management, Shareholders, Corporate Social Responsibility (CSR) Strategy

Source: Bhaskaran dkk., (2023)

To clarify the scope of the study and provide a deeper understanding of the variables used, Table 3 presents a detailed explanation of each variable.

Table 3. Operasionalisasi Variabel.

Variabel	Fungsi	Operasionalisasi Variabel
Financial Performance (ROE)	Variable Dependent	Net Income / Shareholders Equity
Environmental performance (ENV)	Variable Independent	Refinitiv eikon ESG Database – environmental Pillars
Social performance (SOC)	Variable Independent	Refinitiv eikon ESG Database – Social Pillars
Governance performance (GOV)	Variable Independent	Refinitiv eikon ESG Database – governance Pillars

Source: Processed Data (2024)

RESULTS AND DISCUSSION

Normality Test

A normality test was conducted in this study to ensure that the residual values had a near-normal distribution (Afani et al., 2024). The test used the Kolmogorov-Smirnov method via SPSS software version 30, with the results shown in Table 4.

Based on the results of the One-Sample Kolmogorov-Smirnov Test, the Asymp. Sig. (2-tailed) value for the residuals is 0.200. Since this value exceeds the significance threshold of 0.05, it can be concluded that the residuals in this model are normally distributed.

Table 4. One-Sample Kolmogorov-Smirnov Test Results

		Unstandardized Residual
N		69
Normal Parameters[a,b]	Mean	0,0000000
	Std. Deviation	6,64510071
Most Extreme Differences	Absolute	0,074
	Positive	0,063
	Negative	-0,074
Test Statistic		0,074
Asymp. Sig. (2-tailed)[c]		0,200[d]
a. Test distribution is Normal.		

Source: Processed Data (2024)

Multicollinearity Test

Multicollinearity testing is performed to ensure that there is no high correlation between independent variables in the regression model. A model is said to be free from multicollinearity if the Variance Inflation Factor (VIF) value is below 10 and the tolerance value exceeds 0.10.

Table 5. Multicollinearity Test Results

Model		Collinearity Statistics		Description
		Tolerance	VIF	
1	ENV	0,413	2,420	Free from Multicollinearity
	SOC	0,909	1,101	Free from Multicollinearity
	GOV	0,407	2,457	Free from Multicollinearity

Source: Processed Data (2024)

Based on the results of multicollinearity testing, all independent variables in the model—namely Environmental (ENV), Social (SOC), and Governance (GOV)—have tolerance values above 0.10 and VIF values below 10. Based on these criteria, it can be concluded that there is no multicollinearity among the independent variables in this research model.

Autocorrelation Test

The Durbin-Watson test is used to detect the presence of autocorrelation in the regression model. Table 6 are the results of the autocorrelation test.

Based on Table 6 of the Durbin-Watson Test results, the DW value is 1.821. With a sample size of 69 and a total of 3 independent variables, the dU value is known to be 1.7015. Based on the evaluation criteria, the DW value meets the

condition dU < DW < 4 - dU, namely 1.7015 < 1.821 < 2.2985. This indicates that the regression model does not have an autocorrelation problem.

Table 6. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	0,409[a]	0,167	0,128	6,59006	1,821

Source: Processed Data (2024)

Hypothesis Test

In this study, multiple linear regression was used to determine the partial effect of each independent variable on the dependent variable. The results of the multiple linear regression test using the t-test are presented as follows:

Table 7. Hypothesis Test Results

Model		*Unstandardized Coefficients*		*Standardized Coefficients*	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	9,434	2,568		3,674	<0,001
	ENV	-0,251	0,068	-0,641	-3,694	<0,001
	SOC	0,063	0,043	0,174	1,483	0,143
	GOV	0,183	0,065	0,492	2,813	0,006

a. Dependent Variable: ROE

Source: Processed Data (2024)

Based on the results of the hypothesis testing presented in Table 7, it can be seen that the ENV, SOC, and GOV variables have different partial effects on ROE. The environmental performance variable (ENV) shows a coefficient of -0.251 with a significance level of less than 0.001, which is less than the threshold of 0.05. This indicates that ENV has a negative and significant effect on ROE. On the other hand, the social performance variable (SOC) has a coefficient value of 0.063 and a significance value of 0.143, which exceeds the 0.05 threshold, so it can be concluded that its effect on ROE is not significant. The governance variable (GOV) obtained a coefficient of 0.183 with a significance value of 0.006, which is less than 0.05, indicating that GOV has a positive and significant effect on Return on Equity.

Effect of Environmental Performance on Financial Performance

Within the framework of stakeholder theory, investment in environmental practices is considered to enhance corporate reputation, meet stakeholder demands, and provide a competitive advantage that can potentially improve financial performance. However, this study found a significant negative relationship between environmental performance and financial performance in energy and materials sector companies in Malaysia. This is based on several factors, one of which is the trade-off theory, which states that the costs of implementing environmentally friendly practices often exceed the financial benefits in the short term (Cordeiro & Sarkis, 1997; Deng et al., 2016). Therefore,

it is important for companies to consider the long-term consequences of environmental investments on their financial performance.

The results of this study suggest that companies that focus on environmental performance may face a decline in financial returns in the short term. This decline is due to the high initial costs required to implement environmentally friendly practices, for which the financial benefits may not be immediately felt. However, in the long run, investments in environmental sustainability have the potential to provide significant benefits, such as improved brand reputation, stronger customer loyalty, and better operational cost efficiency, which ultimately affect the company's financial performance.

Previous studies have shown mixed results. Some studies, such Kim & Li (2021) and Licandro et al. (2024), found that sustainable practices provide financial benefits. In contrast, Liu & Wu (2023) and Ye & Dela (2023) reported that green measures entail high costs that may not be offset by gains in the near term. In the ASEAN context, strict regulations and low demand for green products mean that investments in sustainability often do not yield immediate returns, especially in capital-intensive sectors such as energy and materials (Earnhart, 2018; Iraldo et al., 2011). Other studies, such as those by Hassel et al. (2005) dan Walker & Wan (2012) highlight the potential long-term benefits of environmental performance, such as improved reputation, customer loyalty and operational efficiency. Furthermore, research by Elsayed & Paton (2005) shows a neutral impact on financial performance in the short term, but emphasizes that the success of green initiatives can help companies reduce environmental risks and take advantage of green market opportunities.

Effect of Social Performance on Financial Performance

Based on the analysis results, social aspects in ESG performance do not show a significant influence on the financial performance of companies in the energy and materials sectors listed in Malaysia. This finding contradicts the stakeholder principles, which state that effective relationship management with stakeholders can result in better financial performance (Bridges & Harrison, 2003; Koeswayo et al., 2024). In the Malaysian context, the benefits of social performance, such as improved customer loyalty, employee productivity, or supplier relationships, may not be directly reflected in financial metrics. Nonetheless, these results indicate the potential long-term benefits of social performance to a firm's financial sustainability (Ruf et al., 2001).

This result also contrasts with previous studies, such as Eccles et al. (2014) and Shakil et al. (2019), which found a positive correlation between corporate social responsibility (CSR) initiatives and financial performance. In their studies, CSR is thought to enhance brand reputation, community trust, and stakeholder loyalty, which ultimately drives financial performance. However, this study supports the findings of Makni et al. (2009) and Kong et al. (2020), which state

that the relationship between social and financial performance is often insignificant, especially in complex socio-cultural contexts such as in ASEAN countries, including Malaysia. Factors such as ethnic diversity, religion, and socioeconomic conditions may influence the way stakeholders assess corporate social performance so that the impact is not directly reflected in Return on Equity (ROE).

In addition, this lack of a significant relationship may be explained by the motives behind firms' involvement in the social pillar of ESG. McWilliams & Siegel (2000) mentioned that some companies engage in CSR due to external pressure or regulatory compliance rather than for financial purposes alone. Barnett & Salomon (2006) even propose that the relationship between social and financial performance may be U-shaped, where financial benefits are only seen at high levels of social investment. This underscores that social return on investment (ROI) needs to be measured not only from financial parameters but also non-financial ones, such as brand reputation or stakeholder trust, particularly in the energy and materials sector in Malaysia.

Effect of Governance Performance on Financial Performance

According to the stakeholder theory proposed by Freeman (1984), the success of an organization depends heavily on its ability to consider and balance the interests of all stakeholders. The results of this study indicate that the implementation of ethical and comprehensive corporate governance plays an important role in driving financial performance improvement. When companies in the energy and raw materials sectors prioritize the well-being of stakeholders—such as employees, consumers, suppliers, and communities—this can strengthen the company's image, reduce potential risks, and ultimately have a positive impact on financial performance. These findings underscore the urgency of integrating a stakeholder-based approach into corporate governance systems, in line with the growing global awareness of socially responsible and ethically grounded business practices.

The results of this study are in line with previous studies conducted by Arora & Sharma (2016) and Achim et al. (2016), which found that the implementation of solid corporate governance has a positive relationship with financial performance. However, these findings contradict the results of a study by Sitompul & Muslih, (2020) which concluded that corporate governance performance does not have a significant impact on a company's financial performance.

Empirically, this study extends the literature on the impact of governance on firm performance, particularly in the energy and materials sector in Malaysia. By revealing a positive and significant relationship, this study confirms that effective governance is one of the key drivers of successful financial performance. This contribution is relevant both theoretically and practically by providing a

foundation for further research, including identifying specific governance practices that are most effective in improving corporate financial performance. In addition, this study provides empirical evidence that strong governance practices can generate financial benefits, providing a strategic foothold for firms to integrate governance reforms in their long-term planning.

CONCLUSION

This study examines the relationship between ESG performance, which encompasses environmental, social, and governance aspects, and the financial performance of companies in the energy and materials sectors in Malaysia. The findings indicate that environmental performance has a significant negative impact on financial performance. On the other hand, the social dimension does not show a significant direct impact, while corporate governance has a significant positive impact on financial performance. This suggests that improving environmental and social standards alone is not enough to improve corporate performance. Meanwhile, effective governance can be one of the main factors that drive the company's financial performance. The implications of this study suggest companies strategically plan environmental initiatives to reduce the short-term negative impact on financial performance. Meanwhile, social initiatives are important to build long-term relationships with stakeholders, even though their direct impact on finance is not significant. Furthermore, strong governance should be a top priority to improve a company's financial performance and competitiveness. This study is limited to certain indicators to measure financial performance. Future research can use more financial performance indicators and explore how ESG initiatives affect financial performance in the long run. Future research is also recommended to consider other factors, such as board characteristics, government regulations and financial constraints that occur in companies.

REFERENCES

Achim, M.-V., Borlea, S.-N., & Mare, C. (2016). Corporate governance and business performance: Evidence for the Romanian economy. *Journal of Business Economics and Management*, *17*(3), Article 3. https://doi.org/10.3846/16111699.2013.834841

Afani, Moh., Atika, B. F., Cahya, R. P. A., Setyaningsih, N. D., & Murdiansyah, I. (2024). SPECIAL RELATIONSHIP TRANSACTIONS AGAINST TAX AGGRESSIVENESS IN PROPERTY COMPANIES WITH INSTITUTIONAL OWNERSHIP AS A MODERATING VARIABLE. *Jurnal Ilmiah Bisnis Dan Ekonomi Asia*, *18*(2), 148–159. https://doi.org/10.32815/jibeka.v18i2.1872

Alsayegh, M. F., Abdul Rahman, R., & Homayoun, S. (2020). Corporate Economic, Environmental, and Social Sustainability Performance Transformation through ESG Disclosure. *Sustainability*, *12*(9), Article 9. https://doi.org/10.3390/su12093910

Anggun, L. (2022). Pandemi Covid-19 Dan Implementasi Corporate Governance. *JURNAL USM LAW REVIEW*, *5*(1), 80. https://doi.org/10.26623/julr.v5i1.3989

Arora, A., & Sharma, C. (2016). Corporate governance and firm performance in developing countries: Evidence from India. *Corporate Governance*, *16*(2), 420–436. https://doi.org/10.1108/CG-01-2016-0018

Barnett, M. L., & Salomon, R. M. (2006a). Beyond dichotomy: The curvilinear relationship between social responsibility and financial performance. *Strategic Management Journal*, *27*(11), 1101–1122. https://doi.org/10.1002/smj.557

Barnett, M. L., & Salomon, R. M. (2006b). Beyond dichotomy: The curvilinear relationship between social responsibility and financial performance. *Strategic Management Journal*, *27*(11), 1101–1122. https://doi.org/10.1002/smj.557

Behl, A., Kumari, P. S. R., Makhija, H., & Sharma, D. (2022). Exploring the relationship of ESG score and firm value using cross-lagged panel analyses: Case of the Indian energy sector. *Annals of Operations Research*, *313*(1), 231–256. https://doi.org/10.1007/s10479-021-04189-8

Branco, M. C., & Rodrigues, L. L. (2006). Corporate Social Responsibility and Resource-Based Perspectives. *Journal of Business Ethics*, *69*(2), 111–132. https://doi.org/10.1007/s10551-006-9071-z

Bridges, S., & Harrison, J. K. (2003). Employee Perceptions Of Stakeholder Focus And Commitment To The Organization. *Journal of Managerial Issues*, *15*(4), 498–509.

Buallay, A., Fadel, S. M., Al-Ajmi, J. Y., & Saudagaran, S. (2020). Sustainability reporting and performance of MENA banks: Is there a trade-off? *Measuring Business Excellence*, *24*(2), 197–221. https://doi.org/10.1108/MBE-09-2018-0078

Cordeiro, J. J., & Sarkis, J. (1997). Environmental proactivism and firm performance: Evidence from security analyst earnings forecasts. *Business Strategy and the Environment*, *6*(2), 104–114. https://doi.org/10.1002/(SICI)1099-0836(199705)6:2<104::AID-BSE102>3.0.CO;2-T

Dahan, Y., Lerner, H., & Milman-Sivan, F. (2023). Shared Responsibility and Labor Rights in Global Supply Chains. *Journal of Business Ethics*, *182*(4), 1025–1040. https://doi.org/10.1007/s10551-021-04988-w

Dao, T. T. B., & Phan, M. C. (2023). Stakeholder theory, risk-taking and firm performance. *Corporate Governance: The International Journal of Business in Society*, *23*(7), 1623–1647. https://doi.org/10.1108/CG-09-2022-0366

de Villiers, C., & Dimes, R. (2021). Determinants, mechanisms and consequences of corporate governance reporting: A research framework. *Journal of Management and Governance*, *25*(1), 7–26. https://doi.org/10.1007/s10997-020-09530-0

Deng, X., Li, Z., & Gibson, J. (2016). A review on trade-off analysis of ecosystem services for sustainable land-use management. *Journal of Geographical Sciences*, *26*(7), 953–968. https://doi.org/10.1007/s11442-016-1309-9

Earnhart, D. (2018). The Effect of Corporate Environmental Performance on Corporate Financial Performance. *Annual Review of Resource Economics*,

10(Volume 10, 2018), 425–444. https://doi.org/10.1146/annurev-resource-100517-023007

Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The Impact of Corporate Sustainability on Organizational Processes and Performance. *Management Science*, *60*(11), 2835–2857. https://doi.org/10.1287/mnsc.2014.1984

Elnahass, M., Salama, A., & Trinh, V. Q. (2022). Firm valuations and board compensation: Evidence from alternative banking models. *Global Finance Journal*, *51*, 100553. https://doi.org/10.1016/j.gfj.2020.100553

Elsayed, K., & Paton, D. (2005). The impact of environmental performance on firm performance: Static and dynamic panel data evidence. *Structural Change and Economic Dynamics*, *16*(3), 395–412. https://doi.org/10.1016/j.strueco.2004.04.004

Firmansyah, A., Kharisma, A. N., & Amalia, R. (2023). Apakah Risiko ESG Berkaitan dengan Risiko Perusahaan? *ABIS: Accounting and Business Information Systems Journal*, *11*(4). https://doi.org/10.22146/abis.v11i4.87641

Firmansyah, I., & Tri Setyorini, C. (2023). GLOBAL TRENDS AND PROSPECTS FOR ENVIRONMENT, SOCIAL, AND GOVERNANCE DISCLOSURE: A BIBLIOMETRIC STUDY. *Jurnal Akuntansi*, *17*(2), 176–198. https://doi.org/10.25170/jak.v17i2.4405

Gaio, C., Henriques, R., Gaio, C., & Henriques, R. (2020). *Social Responsibility and Financial Performance: The Case of STOXX Europe Index*. IntechOpen. https://doi.org/10.5772/intechopen.93573

Goswami, S., & Bhaduri, G. (2023). Communicating Moral Responsibility: Stakeholder Capitalism, Types, and Perceptions. *Sustainability*, *15*(5), Article 5. https://doi.org/10.3390/su15054386

Habib, A. M., & Mourad, N. (2024). The Influence of Environmental, Social, and Governance (ESG) Practices on US Firms' Performance: Evidence from the Coronavirus Crisis. *Journal of the Knowledge Economy*, *15*(1), 2549–2570. https://doi.org/10.1007/s13132-023-01278-w

Hart, S. L. (1995a). A Natural-Resource-Based View of the Firm. *The Academy of Management Review*, *20*(4), 986–1014. https://doi.org/10.2307/258963

Hart, S. L. (1995b). A Natural-Resource-Based View of the Firm. *The Academy of Management Review*, *20*(4), 986–1014. https://doi.org/10.2307/258963

Hassel, L., Nilsson, H., & Nyquist, S. (2005). The value relevance of environmental performance. *European Accounting Review*, *14*(1), 41–61. https://doi.org/10.1080/0963818042000279722

Huo, X., Lin, H., Meng, Y., & Woods, P. (2021). Institutional investors and cost of capital: The moderating effect of ownership structure. *PLOS ONE*, *16*(4), e0249963. https://doi.org/10.1371/journal.pone.0249963

Husada, E. V., & Handayani, S. (2021). PENGARUH PENGUNGKAPAN ESG TERHADAP KINERJA KEUANGAN PERUSAHAAN (STUDI EMPIRIS PADA PERUSAHAAN SEKTOR KEUANGAN YANG TERDAFTAR DI BEI PERIODE 2017-2019). *Jurnal Bina Akuntansi*, *8*(2), Article 2. https://doi.org/10.52859/jba.v8i2.173

Iraldo, F., Testa, F., Melis, M., & Frey, M. (2011). A Literature Review on the Links between Environmental Regulation and Competitiveness.

Environmental Policy and Governance, *21*(3), 210–222. https://doi.org/10.1002/eet.568

Jain, A., Jain, P. K., & Rezaee, Z. (2016). Value-Relevance of Corporate Social Responsibility: Evidence from Short Selling. *Journal of Management Accounting Research*, *28*(2), 29–52. https://doi.org/10.2308/jmar-51439

Jayadin. (2011). *Analisis pengaruh makroekonomi, ihsg dan harga minyak dunia terhadap return saham energi dan pertambangan energi*. https://www.semanticscholar.org/paper/Analisis-pengaruh-makroekonomi%2C-ihsg-dan-harga-dan-Jayadin/2ac9152bcadbf870211afb7459222cdbd76fc070

Judijanto, L., Yusuf, R., & Abdillah, R. (2023). Pengaruh Faktor Lingkungan terhadap Eksplorasi Sumber Daya Alam dan Perubahan Iklim. *Jurnal Geosains West Science*, *1*(03), 134–142. https://doi.org/10.58812/jgws.v1i03.719

Junius, D., Adisurjo, A., Rijanto, Y. A., & Adelina, Y. E. (2020). THE IMPACT OF ESG PERFORMANCE TO FIRM PERFORMANCE AND MARKET VALUE. *Jurnal Aplikasi Akuntansi*, *5*(1), 21–41. https://doi.org/10.29303/jaa.v5i1.84

Kalia, D., & Aggarwal, D. (2023). Examining impact of ESG score on financial performance of healthcare companies. *Journal of Global Responsibility*, *14*(1), 155–176. https://doi.org/10.1108/JGR-05-2022-0045

Khandelwal, V., Sharma, P., & Chotia, V. (2023). ESG Disclosure and Firm Performance: An Asset-Pricing Approach. *Risks*, *11*(6), Article 6. https://doi.org/10.3390/risks11060112

Kim, S., & Li, Z. (Frank). (2021). Understanding the Impact of ESG Practices in Corporate Finance. *Sustainability*, *13*(7), Article 7. https://doi.org/10.3390/su13073746

Koeswayo, P. S., Haryanto, H., & Handoyo, S. (2024a). The impact of corporate governance, internal control and corporate reputation on employee engagement: A moderating role of leadership style. *Cogent Business & Management*. https://www.tandfonline.com/doi/abs/10.1080/23311975.2023.2296698

Koeswayo, P. S., Haryanto, H., & Handoyo, S. (2024b). The impact of corporate governance, internal control and corporate reputation on employee engagement: A moderating role of leadership style. *Cogent Business & Management*, *11*(1), 2296698. https://doi.org/10.1080/23311975.2023.2296698

Kong, Y., Antwi-Adjei, A., & Bawuah, J. (2020). A systematic review of the business case for corporate social responsibility and firm performance. *Corporate Social Responsibility and Environmental Management*, *27*(2), 444–454. https://doi.org/10.1002/csr.1838

Kurniawan, I., & Rokhim, R. (2023). Is ESG Companies' Performance Influenced by Ownership Structure? Evidence in ASEAN. *Interdisciplinary Social Studies*, *2*(9), 2397–2413. https://doi.org/10.55324/iss.v2i9.485

Licandro, O., Burguete, J. L. V., Ortigueira-Sánchez, L. C., & Correa, P. (2024a). Corporate Social Responsibility and Financial Performance: A Relationship Mediated by Stakeholder Satisfaction. *Administrative Sciences*, *14*(1), Article 1. https://doi.org/10.3390/admsci14010015

Licandro, O., Burguete, J. L. V., Ortigueira-Sánchez, L. C., & Correa, P. (2024b). Corporate Social Responsibility and Financial Performance: A Relationship Mediated by Stakeholder Satisfaction. *Administrative Sciences*, *14*(1), Article 1. https://doi.org/10.3390/admsci14010015

Liu, C., & Wu, S. S. (2023). Green finance, sustainability disclosure and economic implications. *Fulbright Review of Economics and Policy*, *3*(1), 1–24. https://doi.org/10.1108/FREP-03-2022-0021

Makni, R., Francoeur, C., & Bellavance, F. (2009). Causality Between Corporate Social Performance and Financial Performance: Evidence from Canadian Firms. *Journal of Business Ethics*, *89*(3), 409–422. https://doi.org/10.1007/s10551-008-0007-7

Matozza, F., Biscotti, A. M., & Mafrolla, E. (2019). Financial reputation repair through environmental performance: A study of restatements in polluting industries. *Sustainability Accounting, Management and Policy Journal*, *10*(5), 798–821. https://doi.org/10.1108/SAMPJ-05-2018-0134

McWilliams, A., & Siegel, D. (2000). Corporate social responsibility and financial performance: Correlation or misspecification? *Strategic Management Journal*, *21*(5), 603–609. https://doi.org/10.1002/(SICI)1097-0266(200005)21:5<603::AID-SMJ101>3.0.CO;2-3

Minoja, M. (2012). Stakeholder Management Theory, Firm Strategy, and Ambidexterity. *Journal of Business Ethics*, *109*(1), 67–82. https://doi.org/10.1007/s10551-012-1380-9

Mohammad, W. M. W., & Wasiuzzaman, S. (2021). Environmental, Social and Governance (ESG) disclosure, competitive advantage and performance of firms in Malaysia. *Cleaner Environmental Systems*, *2*, 100015. https://doi.org/10.1016/j.cesys.2021.100015

Muslih, M., & Rahadi, D. R. (2019). TATA KELOLA BERKELANJUTAN BAGI BUMN BIDANG KEUANGAN NON PUBLIK. *FIRM Journal of Management Studies*, *4*(2), 200. https://doi.org/10.33021/firm.v4i2.778

Narula, R., Rao, P., & Rao, A. A. (2023). Impact of ESG on firm value: A conceptual review of the literature. *Journal of Social and Economic Development*, *25*(1), 162–179. https://doi.org/10.1007/s40847-023-00267-8

Naseer, M. M., Hunjra, A. I., Mattoussi, F., & Amin, M. N. (2023). Unlocking the effect of corporate environmental practices in driving firms' financial performance. *Environmental Economics and Policy Studies*. https://doi.org/10.1007/s10018-023-00385-x

Park, S. R., & Jang, J. Y. (2021). The Impact of ESG Management on Investment Decision: Institutional Investors' Perceptions of Country-Specific ESG Criteria. *International Journal of Financial Studies*, *9*(3), Article 3. https://doi.org/10.3390/ijfs9030048

Pedrini, M., & Ferri, L. M. (2018). Stakeholder management: A systematic literature review. *Corporate Governance: The International Journal of Business in Society*, *19*(1), 44–59. https://doi.org/10.1108/CG-08-2017-0172

Pineiro-Chousa, J., Vizcaíno-González, M., López-Cabarcos, M. Á., & Romero-Castro, N. (2017). Managing Reputational Risk through Environmental Management and Reporting: An Options Theory Approach. *Sustainability*, *9*(3), Article 3. https://doi.org/10.3390/su9030376

Puriwat, W., & Tripopsakul, S. (2023). Sustainability Matters: Unravelling the Power of ESG in Fostering Brand Love and Loyalty across Generations and Product Involvements. *Sustainability*, *15*(15), Article 15. https://doi.org/10.3390/su151511578

Putriningtyas, I., Widiastuti, N. P. E., & Sjam, J. M. E. (2024). Environmental, Social, and Governance Disclosure as Pathway to Business Sustainability on the Mining Companies in Indonesia and America. *Jurnal Aplikasi Manajemen*, *22*(1), Article 1. https://doi.org/10.21776/ub.jam.2024.022.01.09

Ramanathan, R. (2018). Understanding Complexity: The Curvilinear Relationship Between Environmental Performance and Firm Performance. *Journal of Business Ethics*, *149*(2), 383–393. https://doi.org/10.1007/s10551-016-3088-8

Ratnasingam, J., Ab Latib, H., Choon Liat, L., Jegatheswaran, N., Othman, K., & Amir, Mohd. A. (2023). Environmental, social, and governance adoption in the Malaysian wood products and furniture industries: Awareness, adoption, and challenges. *BioResources*, *18*(1), 1436–1453. https://doi.org/10.15376/biores.18.1.1436-1453

Razak, N. A., Marmaya, N. H., Othman, M. Z., Osman, I., Kassim, S., Maskuri, F. A., & Mat Tahir, N. K. (2023). Capabilities and Reputation Risks Towards Firm Performance. *Journal of Risk and Financial Management*, *16*(2), Article 2. https://doi.org/10.3390/jrfm16020125

Ruf, B. M., Muralidhar, K., Brown, R. M., Janney, J. J., & Paul, K. (2001). An Empirical Investigation of the Relationship Between Change in Corporate Social Performance and Financial Performance: A Stakeholder Theory Perspective. *Journal of Business Ethics*, *32*(2), 143–156. https://doi.org/10.1023/A:1010786912118

Ryszawska, B. (2016). Sustainability transition needs sustainable finance. *Copernican Journal of Finance & Accounting*, *5*(1), Article 1. https://doi.org/10.12775/CJFA.2016.011

Sen, S., & Bhattacharya, C. B. (2001). Does Doing Good Always Lead to Doing Better? Consumer Reactions to Corporate Social Responsibility. *Journal of Marketing Research*, *38*(2), 225–243. https://doi.org/10.1509/jmkr.38.2.225.18838

Shakil, M. H., Mahmood, N., Tasnia, M., & Munim, Z. H. (2019). Do environmental, social and governance performance affect the financial performance of banks? A cross-country study of emerging market banks. *Management of Environmental Quality: An International Journal*, *30*(6), 1331–1344. https://doi.org/10.1108/MEQ-08-2018-0155

Sitompul, H. F., & Muslih, M. (2020, September 30). *PENGARUH TATA KELOLA PERUSAHAAN, REMUNERASI DIREKSI, DAN UKURAN PERUSAHAAN TERHADAP KINERJA PERUSAHAAN DIMODERASI OLEH KOMITE AUDIT PADA BUMN BIDANG KEUANGAN NON PUBLIK*. https://www.semanticscholar.org/paper/PENGARUH-TATA-KELOLA-PERUSAHAAN%2C-REMUNERASI-DAN-NON-Sitompul-Muslih/78e90d0b15595560267571d5e94501d4af4ce8ba

Tan, K., Siddik, A. B., Sobhani, F. A., Hamayun, M., & Masukujjaman, M. (2022). Do Environmental Strategy and Awareness Improve Firms'

Environmental and Financial Performance? The Role of Competitive Advantage. *Sustainability*, *14*(17), Article 17. https://doi.org/10.3390/su141710600

Tarmuji, I., Maelah, R., & Tarmuji, N. H. (2016). The Impact of Environmental, Social and Governance Practices (ESG) on Economic Performance: Evidence from ESG Score. *International Journal of Trade, Economics and Finance*, *7*(3), 67–74. https://doi.org/10.18178/ijtef.2016.7.3.501

Ting, I. W. K., Azizan, N. A., Bhaskaran, R. K., & Sukumaran, S. K. (2020). Corporate Social Performance and Firm Performance: Comparative Study among Developed and Emerging Market Firms. *Sustainability*, *12*(1), Article 1. https://doi.org/10.3390/su12010026

Valentinov, V. (2023). Sustainability and stakeholder theory: A processual perspective. *Kybernetes*, *52*(13), 61–77. https://doi.org/10.1108/K-05-2023-0819

Vasileiou, E., Georgantzis, N., Attanasi, G., & Llerena, P. (2022). Green innovation and financial performance: A study on Italian firms. *Research Policy*, *51*(6), 104530. https://doi.org/10.1016/j.respol.2022.104530

Velte, P. (2023). The link between corporate governance and corporate financial misconduct. A review of archival studies and implications for future research. *Management Review Quarterly*, *73*(1), 353–411. https://doi.org/10.1007/s11301-021-00244-7

Ventouri, A., Chortareas, G., & Kou, F. (2023). Firm Pollution and Reputational Risk: Where Do We Stand? In S. Carbó-Valverde & P. J. Cuadros-Solas (Eds.), *New Challenges for the Banking Industry: Searching for Balance Between Corporate Governance, Sustainability and Innovation* (pp. 119–143). Springer Nature Switzerland. https://doi.org/10.1007/978-3-031-32931-9_6

Walker, K., & Wan, F. (2012). The Harm of Symbolic Actions and Green-Washing: Corporate Actions and Communications on Environmental Performance and Their Financial Implications. *Journal of Business Ethics*, *109*(2), 227–242. https://doi.org/10.1007/s10551-011-1122-4

Ye, J., & Dela, E. (2023a). The Effect of Green Investment and Green Financing on Sustainable Business Performance of Foreign Chemical Industries Operating in Indonesia: The Mediating Role of Corporate Social Responsibility. *Sustainability*, *15*(14), Article 14. https://doi.org/10.3390/su151411218

Ye, J., & Dela, E. (2023b). The Effect of Green Investment and Green Financing on Sustainable Business Performance of Foreign Chemical Industries Operating in Indonesia: The Mediating Role of Corporate Social Responsibility. *Sustainability*, *15*(14), Article 14. https://doi.org/10.3390/su151411218

Zaiane, S., & Ellouze, D. (2023). Corporate social responsibility and firm financial performance: The moderating effects of size and industry sensitivity. *Journal of Management and Governance*, *27*(4), 1147–1187. https://doi.org/10.1007/s10997-022-09636-7