CHAPTER V

CLOSING

5.1 Conclusion

This study aims to determine the effect of Environmental, Social, and Governance (ESG) performance on Firm financial performance of Southeast Asia manufacturing companies. Firm financial performance is measured by three indicators, namely ROA, ROE, and Tobin's Q. There are also three control variables in this study, namely Firm Size, Firm Leverage, and Country Variables. Based on the above objectives, this study uses quantitative analysis conducted on companies listed on the Stock Exchange of each country in six countries in Southeast Asia during the period 2019-2023. During that period, 62 companies met the criteria as samples for this study. Based on the results of the panel data regression analysis, the results of this study are as follows.

1. Environmental practices have a marginally positive effect on ROA and a significant positive impact on ROE, indicating slight profitability improvements and enhanced investor confidence in six countries in Southeast Asia manufacturing companies. However, EP shows no significant impact on Tobin’s Q, reflecting limited market valuation benefits in six countries in Southeast Asia. The results of this study are in line with studies conducted by Naeem et al. (2022), Chininga et al. (2023), Alareeni and Hamdan (2020), Shaikh (2022), and El Khoury et al. (2021). This shows that H1, which states that environmental practices have a positive and significant impact on Firm financial performance, is accepted.

2. Social practices have no significant effect on both ROA and ROE, suggesting limited short-term profitability impacts. However, SP positively affects Tobin's Q, indicating improved market valuation through better reputation and investor confidence. The results of this study are in line with studies conducted by Lee and Isa (2023), Alareeni and Hamdan (2020), Buallay (2019), and Chininga et al. (2023). This shows that H2, which states that social practices have a positive and significant impact on Firm financial performance, is accepted.
3. Governance practices significantly improve ROA and ROE, reflecting better resource utilization and shareholder returns. However, GP has no significant impact on Tobin's Q, suggesting that market valuation is influenced by other external factors. The results of this study are in line with studies conducted by Lee and Isa (2023), Alareeni and Hamdan (2020), and El Khoury et al. (2021). This shows that H3, which states that governance practices have a positive and significant impact on Firm financial performance, is accepted.
4. The findings of this study reveal that Environmental, Social, and Governance (ESG) practices have a positive and significant impact on firm financial performance in six Southeast Asian countries. This suggests that countries with higher ESG scores can be attractive investment destinations. Among these countries, Thailand and Malaysia have the highest ESG scores, indicating stronger sustainability commitments that

contribute to better financial performance. Thus, investors should consider ESG factors when making investment decisions in the region.

5.2 Implication

Based on the results of the research that has been conducted, the implications of this research are as follows:

1. Theoretical Benefits

   This study explores the impact of ESG practices on manufacturing firms' financial performance in the Southeast Asia countries. It aims to expand our knowledge and offer new perspectives on how sustainability efforts affect business performance in six countries in Southeast Asia manufacturing landscape. By examining this relationship, the research hopes to close the gap between theory and practice in real life. The findings could potentially reshape our understanding of sustainable business strategies in this region's rapidly evolving economic environment.

2. Practical Benefits

   e. For researchers or students

      This research is expected to provide additional knowledge and as a reference material for researchers or students related to the factors that influence firm financial performance, especially regarding Environmental, Social, and Governance (ESG) practices of firm financial performance.

f. For companies

The results of this study are expected to provide valuable insight for other companies to consider ESG practices in their business, as it can potentially enhance their financial performance.

g. For further researches

This research is useful as a reference to continue future research that is much broader and deeper to obtain better results.

h. For investor

This study offers valuable insights for anyone interested in investing in manufacturing companies across the six countries in Southeast Asia region. Through this study, investors can gain a clearer understanding of the potential risks regarding ESG issues and the benefits of ESG practices. This study provides additional information to help investors make decisions about where to put their money. Based on the results of this study, Thailand and Malaysia are recommended investment destinations for investors, because these two countries show the highest ESG scores compared to other Southeast Asian countries.

5.3 Limitation

This study has limitations that are expected to be improved in subsequent studies that raise the same topic. The limitations of this study are as follows.

1. The results of the R^2 test show that the model is only able to explain a small part of the variation in the company's financial performance (ROA 10.37%, ROE 19.99%, and Tobin's Q 21.52%). This indicates that most of the variation in financial performance is influenced by other factors outside the model, which are not covered in this study.
2. The study only includes three ESG variables (Environmental, Social, and Governance) and three control variables (Firm Size, Firm Leverage, and Country Variables). Other important factors, such as market conditions, technological innovation, or business strategy, are not included in the analysis, so other potential significant influences are not revealed.
3. The study only focuses on manufacturing companies of six countries in Southeast Asia during the period 2019–2023.
4. The study uses country variables as dummy to differentiate six countries in Southeast Asia. However, these variables do not have a significant impact on the research results, limiting the ability to capture specific differences between countries.

5.4 Recommendation and Suggestion

The recommendations and suggestions for future research are as follows:

1. This study shows that the independent variables (EP, SP, GP, FS, FL, and country dummy variables) only explain a small part of the variation in financial performance (ROA, ROE, and Tobin's Q). Therefore, future research can expand the scope of independent variables, such as

technological innovation, operational efficiency, investment in human resources, or external factors such as government policies and market conditions.

2. This study only focuses on manufacturing companies. Future research can include other industries, such as services, finance, or energy, to see if the relationship between ESG and financial performance differs in different sectors.
3. The study period (2019-2023) is relatively short. Future research can use data with a longer period to capture long-term trends and reduce the influence of short-term fluctuations.
4. The results show that the country dummy variables are mostly insignificant, except for Vietnam in Tobin's Q. Future research can further explore country-specific factors (e.g., local regulations, ESG adoption rates, or economic characteristics) that may affect the relationship between ESG and financial performance.
5. This study uses a linear approach. Future research could explore non-linear relationships or use moderating variables (such as the level of market competition or stakeholder pressure) to see how certain variables impact the relationship between ESG and financial performance.