CHAPTER V
CLOSING

5.1 Conclusion

This study aimed to examine the effect of ESG performance measured by environmental, social, and governance on firm performance as measured by financial metrics such as Return on Assets (ROA), Return on Equity (ROE), Tobin's Q (TQ), and Market-to-book ratio (MBR) in environmentally sensitive industries across ASEAN-5 countries. The study focused on seven industrial sectors: industrials, basic materials, consumer cyclicals, consumer non-cyclicals, utilities, real estate, and energy over a five-year period from 2019 to 2023. The results of the analysis as discussed provide key insights into the relationship between ESG performance and firm performance in business strategy to achieve sustainable performance.

The findings indicate that the financial performance of businesses in the ASEAN-5 nations is positively impacted by the ESG Combined Score (ESGC). Strong financial performance and higher market value are indicated by companies that adopt stronger environmental, social, and governance (ESG) standards, as seen by higher Return on Assets (ROA) and Tobin's Q (TQ). The results demonstrate that incorporating sustainable practices into corporate governance, risk management, and operations enhances a company's long-term viability and competitiveness. The study also shows that the environmental pillars of ESG has a significant impact on financial performance, particularly in sectors that rely heavily on environmental regulation, such as energy, basic materials and utilities. Companies that successfully reduce their environmental impact through resource efficiency, emissions reduction, and compliance with environmental standards tend to gain higher profitability and market appreciation. However, this study found that ESG practices have no significant effect on Return on Equity (ROE) and Market-to-book ratio (MBR), which may be due to other factors in capital structure or different investor perceptions in the region. These findings provide implications that strengthening the environmental and sustainable governance pillars can be an important strategy to improve the financial performance and competitiveness of companies.

This study found that the environmental pillar of ESG has an influence on Return on Equity (ROE). However, the effect does not directly reflect an increase in corporate profitability as measured by ROE, Tobin's Q, and Market-to-book ratio (MBR). This suggests that while a company's efforts to improve resource efficiency, reduce emissions or comply with environmental regulations may affect certain aspects of shareholders' equity, they may not improve market perceptions or overall profitability. The absence of a significant impact on Tobin's Q and MBR may indicate that markets in the ASEAN-5 region do not yet fully value environmental initiatives or that the implementation of the Environmental Pillar is not yet mature enough to significantly affect firms' market value. Thus, while the Environmental Pillar is important, more comprehensive integration and synergies with social and governance aspects are needed to improve companies' overall profitability and competitiveness.

The research findings show that the Social Pillar of ESG has no direct effect on the company's stock value as reflected through the Market-to-book ratio (MBR). This may be due to the fact that the market has not yet fully appreciated the contribution of social aspects, such as diversity, labor relations, or corporate social responsibility, in the assessment of short-term stock value. Nonetheless, the Social Pillar is shown to affect firm profitability, as measured through Return on Assets (ROA), Return on Equity (ROE), and Tobin's Q (TQ). The positive effect of social pillars on ROA, ROE, and TQ indicates that companies that implement good social practices, such as employee welfare, strong relationships with the community, and involvement in social activities, tend to have better operational performance. This suggests that better management of human resources and external relations can improve a company's operational efficiency and competitiveness. Thus, although not directly affecting market value, the implementation of good social practices can improve the long-term financial performance of the company.

This study shows that the governance pillars of ESG has a positive impact on the financial performance of companies in ASEAN-5 countries. Companies with good governance, such as transparency, accountability, and effective decision-making structures, tend to have higher Return on Equity (ROE) and Tobin's Q (TQ). This indicates that good governance practices can increase investor confidence, strengthen shareholders' equity and create higher market value. However, the findings also show that the Governance Pillar has no significant impact on Return on Assets (ROA) and Market-to-book ratio (MBR). The absence of influence on ROA suggests that good governance does not necessarily have a direct impact on the efficient use of corporate assets. Similarly, the lack of influence on MBR indicates that the market may not have fully reflected the quality of governance in the valuation of the book compared to the market value of the company. Overall, these results confirm the importance of good governance in creating shareholder confidence and market competitiveness, although its impact is not always reflected in all financial metrics.

5.2 Implication

This research has implications for future (long-term) company value on ESG (Environmental, Social, Governance) performance. Through this research is expected to leave benefits for companies, investors, researchers or academics, and the government. For companies, this research can be a reference for designing and developing sustainable business strategies. By understanding the importance of ESG, companies can prepare themselves to face long-term business challenges, increase competitiveness, and build a positive image in the eyes of the public and other stakeholders. For Investors, this research provides additional insights in making investment decisions. Investors can better understand the importance of evaluating a company's ESG performance as an indicator of long-term business development potential, in addition to only considering short-term financial performance. For Researchers or Academics, this research serves as a relevant reference for further studies on the impact of ESG on company performance, both at the local and regional levels. This opens opportunities to expand the literature on sustainability in the business sector. For the government, the results of this study can be the basis for strengthening policies and regulations related to disclosure of environmental and social responsibility. The government is expected to impose strict sanctions on companies that do not comply with sustainability standards, thus encouraging companies to be more aware and responsible in their operations.

5.3 Research Limitation

After conducting the research, there are several limitations in this study, namely:

1. This study only focuses on environmentally sensitive industries in seven specific sectors, thus excluding companies in other sectors that may also have a significant relationship between ESG and firm performance. This limits the generalizability of the findings to broader industries or sectors that are less impacted by regulation or ESG issues.
2. This research was only conducted in ASEAN-5 countries, which may have different regulations, policies, and ESG awareness levels compared to other regions of the world. Therefore, the results of this study may not be fully generalizable to countries outside the ASEAN-5 or to industries that are not included in the seven sectors studied.
3. Not all companies environmentally sensitive industries in the ASEAN-5 region reported ESG data consistently or completely during the study period, namely 2019-2023. This is due to the different levels of awareness and compliance with ESG reporting standards in each country, as well as the lack of regulations requiring ESG reporting in some regions.
4. This research is limited to emerging market countries in ASEAN, specifically Indonesia, the Philippines, Malaysia, and Thailand, and does not include all ASEAN countries. As a result, the findings cannot be generalized to all emerging markets within the ASEAN region.

5.4 Suggestion

Based on the limitations of the above research, the researcher suggests that:

1. Future research can include other companies listed in other emerging market in other grouping country so that research can be generalized.

2. Future researchers can use ESG performance data in a different year (t-1) from the observation period, because it is assumed that ESG performance will affect company performance after the disclosure of ESG performance made by the company throughout the observation period (t).

3. In the future there will be a significant increase and research can be carried out by grouping or sorting based on certain sectors so that it can be seen how the results of each sector differ and how the future steps that must be prepared by each company.