CHAPTER V
CLOSING

5.1 Conclusion

This study investigated the link between institutional quality and corporate sustainable performance in the ASEAN-5 nations, comprising Indonesia, Malaysia, the Philippines, Singapore, and Thailand. Using a balanced panel of 217 firms and 1,085 observations from 2020 to 2024, the research analyzed how the six dimensions of the Worldwide Governance Indicators influence ESG outcomes during a period of significant regulatory transition and post-pandemic recovery.

The empirical analysis demonstrates that the aggregate institutional quality index exerts no statistically significant effect on ESG performance. This indicates that in Southeast Asia, institutional influences are dimension-specific rather than uniform. The null result for the composite index suggests that the internal diversity of the region, described in the CG Watch 2023 report as a spectrum of standards, prevents a single governance metric from capturing the complex drivers of firm-level sustainability.

Government effectiveness emerged as the only institutional dimension with a consistently positive and significant relationship with ESG performance in the fixed effects model. This highlights that bureaucratic capacity, the quality of public services, and administrative competence are the most critical institutional catalysts for sustainability in the region. Effective state apparatuses provide the necessary enforcement and monitoring scaffolding required to convert formal rules into tangible corporate actions.

Control of corruption exhibited a paradoxical negative relationship with ESG scores, suggesting the presence of a legitimacy compensation mechanism. Firms operating in environments with higher perceived corruption may strategically utilize inflated ESG disclosures as a reputational signal to offset national institutional deficits. This finding aligns with mimetic isomorphism, where firms adopt visible sustainability practices to maintain credibility with international stakeholders despite weak formal governance.

Political stability, voice and accountability, regulatory quality, and the rule of law failed to show statistically significant relationships with ESG outcomes. The lack of significance for these variables suggests that they function as slow-moving background constraints. During the 2020 to 2024 window, the limited temporal variation in these indicators meant they did not act as active drivers of short-term changes in corporate sustainability commitment.

The System GMM robustness analysis revealed that ESG performance is substantially path-dependent. The high significance of the lagged ESG coefficient indicates that current sustainability performance is primarily driven by organizational legacy and past commitment rather than immediate institutional shifts. This path dependency underscores the generational nature of institutional change as described by Vatn (2020).

Control variables consistently showed strong explanatory power across all models. Firm size and economic growth were positive predictors. Conversely, Tobin's Q demonstrated a negative relationship, suggesting that market valuation pressures in ASEAN-5 may still prioritize short-term financial returns over the long-horizon investments required for high ESG performance.

5.2 Implications

The findings of this study provide important implications for theory, practice, and policymaking. From a theoretical perspective, the results suggest that institutional quality does not always influence corporate sustainability performance uniformly across different regional and economic contexts. The mostly insignificant institutional effects found in the ASEAN-5 differ from the positive relationships commonly reported in European and OECD studies, indicating that institutional theory should be interpreted more carefully in emerging markets where governance systems and ESG regulations are still developing. In this context, coercive institutional pressure appears less effective, while firms may rely more on legitimacy and imitation strategies in responding to sustainability expectations. The negative relationship between control of corruption and ESG performance further supports the idea that firms in weaker governance environments may use ESG disclosure as a legitimacy tool rather than as a reflection of substantive sustainability improvements. These findings highlight the importance of distinguishing between actual ESG performance and strategic ESG reporting.

The study also shows strong persistence in ESG performance under the System GMM model, indicating that corporate sustainability is path dependent. ESG outcomes are shaped not only by current institutional conditions but also by organizational capabilities, stakeholder relationships, and sustainability practices developed over time. This finding implies that sustainability improvement requires long-term commitment rather than temporary policy interventions. In addition, the positive effects of firm size and economic growth confirm that financial resources and supportive macroeconomic conditions remain important for sustainability investment. Meanwhile, the negative effect of Tobin’s Q suggests that ESG activities in ASEAN emerging markets may not yet be fully reflected in firm market valuation.

From a practical perspective, the findings suggest that firms in the ASEAN-5 should not depend solely on improvements in national institutions to strengthen ESG performance. Instead, sustainability should be treated as a long-term strategic priority supported by internal capability development, organizational learning, and active stakeholder engagement. The persistence of ESG performance also indicates that firms that invest in sustainability earlier are more likely to maintain stronger ESG outcomes over time.

For policymakers and regulators, the results emphasize the importance of strengthening government effectiveness, regulatory enforcement, and policy consistency. Institutional reforms are more likely to improve ESG performance when supported by effective implementation, monitoring systems, and strong regulatory capacity. Simply introducing ESG regulations without proper enforcement mechanisms may produce limited results.

For investors and financial institutions, the findings suggest that ESG scores should be interpreted with caution, especially in countries with weaker governance environments. High ESG ratings may sometimes reflect strong disclosure practices rather than genuine sustainability performance. Therefore, investors should complement ESG ratings with broader assessments of governance quality, regulatory enforcement, and country-level institutional conditions when evaluating sustainability-related investments in the ASEAN region.

5.3 Limitations of the Study

While this study offers important empirical and theoretical insights, several limitations should be noted.First, the study is limited to firms listed in five ASEAN countries, so the findings cannot be easily generalized beyond this region. The sample is also uneven, with Thailand making up around 41 percent of the observations, which may affect the pooled results. Second, institutional quality is measured using the Worldwide Governance Indicators, which are based on perceptions and expert assessments. Since these scores are assigned at the country level, they do not capture differences within countries, such as regional, sectoral, or subnational variation in governance and enforcement. Third, the ESG scores from LSEG Workspace mainly reflect disclosure quality rather than actual sustainability outcomes. This means a high ESG score may indicate stronger reporting practices rather than better real-world performance. Fourth, the study period covers only five years, from 2020 to 2024. This relatively short window may not be enough to capture the delayed effects of institutional quality on corporate sustainability, especially given the disruptions caused by COVID-19 and the recovery period that followed. Finally, the different results obtained from Fixed Effects and System GMM for Government Effectiveness suggest that some endogeneity or omitted variable bias may still remain. Although System GMM helps reduce this problem, the reliability of the results still depends on the strength of the instruments used.

5.4 Recommendations

Based on the findings and limitations of this study, several directions for future research can be suggested. Future studies should extend the observation period beyond five years to examine the institutional quality–ESG relationship more thoroughly, especially as frameworks such as the ASEAN Taxonomy and ISSB standards become more established in national regulations. A longer panel would also allow researchers to capture lagged institutional effects that may not appear in a short time window.

Researchers should also break down ESG into its three pillars, Environmental, Social, and Governance, to see whether different dimensions of institutional quality affect each pillar differently. For example, rule of law may be more closely related to governance outcomes, while regulatory quality may have a stronger link to environmental performance.

Another useful step would be to distinguish between actual ESG performance and ESG disclosure practices. Future studies could use direct sustainability indicators, such as greenhouse gas emissions, workplace injury rates, or board diversity, alongside ESG scores. This would help show whether certain institutional effects reflect real sustainability improvements or only reporting behavior. Future research could also include more country-level variables that are especially relevant in the ASEAN context, such as foreign direct investment, trade openness, state ownership, and capital market development. These factors may shape how institutional quality influences ESG performance.

Finally, studies would benefit from adding firm-level governance variables such as board composition, ownership concentration, and the proportion of independent directors. Combining firm-level and country-level governance measures would provide a more complete picture of the institutional environment and help explain whether strong firm governance can offset weak national institutions in shaping ESG outcomes.