



The Impacts of Banks Financial Performance on Environmental Social Governance Disclosures: The Case of Asean Banks

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Abstract

This document's goal is to investigate the bank's kinerja keuangan dampak in the ESG. This study compares 47 banks in ASEAN between 2018 and 2022. There are eight banks in ASEAN that have implemented ESG, including those in Indonesia, Malaysia, the Philippines, Singapore, Thailand, and Vietnam. The independent variables are the liquidity, capital ratio, and quality asset. The variable depends on the ESG score. We are using Total Assets and ROA as control variables. In this study, we used a panel regression model to analyze the impact of bank lending practices on ESG in ASEAN bank-to-bank lending. There are two types of control variables used in this study: ROA and Total Aset. Aset quality does not negatively impact ESG; on the other hand, modalities have a negative impact on ESG and a positive impact on ESG. The use of ROA as a control variable indicates that aset quality has no effect on ESG, modal ratio has a negative effect on ESG, likuiditas has a positive effect on ESG, and ROA has no effect on ESG. Conversely, Total Assets is the control variable. Asset quality does not have an ESG dampening effect, modalitas has a negative ESG effect, likuiditas has a positive ESG effect, and the overall aset does not have an ESG dampening effect. This study uses the ESG score to focus only on ASEAN banks who implement ESG.

Keywords: Bank ASEAN, ESG, Financial Performance, ROA .

Introduction

The modern digital age is characterized by the prevalence of digital media as a true expression of globalization through technology and knowledge development techniques. Globalization presents great opportunities for countries to seek closer proximity and mutually beneficial cooperation. Joining ASEAN is a step towards convergence or cooperation. The establishment of ASEAN is an attempt to improve ASEAN cooperation. This is also a developmental effort to change views so that domestic debates can be held more freely for the benefit of society, without forgetting the basic principles of ASEAN. The ASEAN community is made up of three economic parts: the ASEAN Security Community (ASC), the ASEAN Economic Community (AEC), and the ASEAN Socio-Cultural Community (ASCC). Launch of the ASEAN Economic Union, one of the ASEAN communities. The decision-making ability of directors, the ability to manage financial and agency matters, and most importantly, the ability to adequately fulfill social responsibilities are factors that can

improve a bank's financial performance (1). Market investors do not appreciate banks' CSR efforts and adoption of governance practices. best company. Our findings also suggest that improved product stewardship leads to lower accounting performance, with risk assets being more profitable and financial institutions with an active market presence. means more desirable for Tighter governance frameworks to reduce bank portfolio risk, but create dangerous short-term scenarios. It appears to be more profitable for investors (2). Social, environmental, and management practices are considered important by all stakeholders. Therefore, the link between ESG disclosure and performance should be emphasized. This research contributes to the literature in a number of ways. First, we examine his rare ESG research from the past as it relates to the present (operational and financial performance) and the future (market performance). Second, it provides empirical evidence of the ESG level of ASEAN

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Bank as an advocate for sustainable development. Therefore, the results are expected to deepen our understanding of bank sustainability and, in turn, influence the sustainable development of ASEAN countries. Finally, the research will help stakeholders, investors, decision-makers, regulators, decision-makers and researchers expand their knowledge of sustainable disclosure practices relevant to current and future performance increase. The impact of ESG (Environmental, Social, and Governance) work on banking operations in Europe, America, and Asia prior to and during the COVID-19 pandemic. The ESG performance is compared to bank keuangan kinerja in three different categories. All of this has implications for the banking and investor sectors and offers an optimistic viewpoint on the implementation of the ESG principles in bank-to-bank transactions worldwide (3). This paper adds to the literature that has been written about the impact of exchange rate fluctuations on ESG bank-to-bank in ASEAN. The study highlights the gap in knowledge in the literature by examining the relationship between the financial sector's ESG policies and employees' work practices. All of this has implications for the banking and investor sectors and offers an optimal framework for the implementation of the ESG principles in ASEAN bank-to-bank transactions. This study reviews more than 2,000 empirical papers to give a thorough examination of the relationship between financial performance and ESG criteria. The aim of this research is to bridge the gaps in knowledge regarding the financial effects of ESG standards and offer a more thorough comprehension of how ESG and corporate financial performance are related (4). This essay aims to investigate how US company performance was affected by environmental, social, and governance (ESG) practices during the coronavirus outbreak. The aim of this study is to give managers a thorough understanding of her ESG practices so they can assess the relationship between her ESG compliance and business performance. The impact of his ESG performance is also investigated in the study.

Material and Methods

Financial Performance and ESG

More than two thousand empirical research have examined the connection between financial

performance and environmental, social, and governance (ESG) factors. As a result, approximately 90% of studies found a non-negative association between ESG and corporate financial performance (CFP), approximately 48% of studies used vote tallies and 63% of studies used meta-analyses showed that a positive association was established in the central correlation between ESG and CFP is estimated to be around 0.15 (4). As ESG concerns grow, financial institutions need to get involved in supporting clean manufacturing initiatives in industries other than banking. When it comes to social responsibility, our forward-looking predictions based on stakeholder theory and resource-based views have been denied (2). Before and during the COVID-19 epidemic, the effect of ESG performance on the financial performance of 333 banks across 53 nations in Europe, America and Asia. The bank's 2019 environmental performance had a negative effect on its return on equity in 2020, according to data gathered by the authors from Refinitiv's database, and none of the other ESG criteria were significant. Bank profitability in 2021 will benefit from social responsibility spending and commitments made in 2020. Furthermore, East Asian banks' superior corporate governance allowed them to attain better stock market yields and earnings per share the year before. Only in the East Asia sample, his earnings per share in 2021 will be negatively impacted by environmental performance in 2020. By examining the effect of his ESG performance on the financial performance of banks on three separate continents, this study closes a knowledge vacuum in the literature (3). The effect of environmental, social, and governance (ESG) practices on the performance of US corporations amid the COVID-19 pandemic is investigated in this study. The analysis makes use of a sizable sample of 406 US businesses that implemented ESG policies between 2016 and 2020. Businesses with good ESG policies outperformed in terms of performance measures, according to the report. This outcome demonstrates that corporate performance metrics have suffered as a result of the coronavirus outbreak. The impact of his ESG performance sub-dimensions such as governance, social, and environmental performance on market-based performance metrics is also

examined in this study. The study's findings have significant ramifications for several stakeholders, including financiers, investors, and managers. In order to help managers create plans and policies for putting their ESG practices into practice and making improvements so they can function at their best, this study offers helpful advice. The results may have an impact on trade as well because bankers and investors are looking to engage in ESG-related businesses in order to get attractive financial returns. The study's results are convincing and demonstrate a high level of confidence in the research conclusions (5). An ESG score refers to a company's performance measurement in the areas of environmental, social, and governance. It is a way of assessing a company's sustainability and ethical practices. As part of this paper, the authors compiled 2019 and 2020 ESG scores for banks based in Europe, America, and Asia and analyzed the impact of ESG performance on these banks' financial performance.

Asset Quality

Higher asset quality compared to comparable non-cooperatives focused on financing the local real economy and satisfying customers (borrowers and depositors) rather than shareholders (6). When assessing a bank's default risk, asset quality is a crucial consideration. According to earlier studies, default probabilities and asset quality reductions are positively correlated. When banks lend to riskier sectors, they incur higher impairment losses and increase the likelihood of default. Increased loan loss reserves eroded bank earnings and weakened creditworthiness. Banks expect more bad debts in the future and are increasing their impairment charges. This reduces ongoing profits and encourages bank failures. We are aware that the likelihood of a bank failing increases with credit quality (7). The ability of a bank to minimize default risk while maintaining the quality of its assets, including loans and investments, is referred to as asset quality. Asset quality is one of six metrics—along with profitability, capital risk, operational efficiency, liquidity risk, and growth—that are used to evaluate bank performance in research articles. This essay compares and evaluates Bank Mandiri Tbk Indonesia's asset quality to that of Siam Commercial Bank of Thailand and Banco de Oro Unibank of the

Philippines using ratio analysis. A bank's capacity to manage assets and reduce default risk is enhanced by higher asset quality ratios (8). The total assets of a business or organization are the totality of its assets. Total assets are utilized as a proxy for bank size in the study. The research uses the logarithm of total assets as a stand-in for bank size. Bigger banks are better run, draw in less expensive capital, and have greater resources available to them for ESG investments (9). H1: There is an influence between asset quality and ESG score.

Capital Ratio

The capital adequacy ratio (CapaDQ) is referred to as a controlling variable throughout the essay. CapaDQ is a metric that indicates adherence to regulatory capital requirements and quantifies a bank's capacity to withstand losses with a given percentage of its capital. By dividing total capital by total risk-weighted assets, it is computed. Using firm size measurements, we discovered in this paper that an increase in CapAdQ was positively connected with changes in Return on Equity (ROE) and Return on Assets (ROA) (2). The capital adequacy ratio, or capital adequacy ratio (CAR), is a metric used to assess a bank's resilience to financial risks and overall robustness. It is computed by dividing capitalization by risk-weighted assets of the bank. Capital risk is one of six metrics—along with profitability, asset quality, operational effectiveness, liquidity risk, and growth—that are used to evaluate bank performance in research papers. This essay compares and contrasts, using ratio analysis, the capital risks of Bank Mandiri Tbk Indonesia, Siam Commercial Bank of Thailand, and Banco de Oro Unibank of the Philippines. The ability of a bank to withstand losses and preserve solvency increases with capital adequacy ratio (8). Research articles use the capital adequacy ratio (CAP), which measures a bank's capital strength or solvency by comparing it to regulatory capital requirements. Since most banks lack access to risk-weighted assets, CAP is represented by the capital-to-total-assets ratio. The study demonstrates that big banks have an easier time obtaining less expensive funding and have more money available to engage in ESG initiatives (9).

H2. There is an influence between the capital ratio on the ESG score

Liquidity

The ability of a bank to fulfill its short-term obligations is gauged by its liquidity. It is computed by dividing total assets by the sum of cash balances, bank maturities, and other earning assets. The relationship between liquidity, environmental, social, and governance (ESG) factors, and bank financial performance is not thoroughly examined in this paper (2). The possibility that a bank won't have enough money to pay its bills on time is known as liquidity risk. B. Setting up financing or payments to depositors. Liquidity risk is one of six indicators—along with profitability, capital risk, asset quality, operational efficiency, and growth—that are used to evaluate bank performance in research studies. This paper uses ratio analysis to examine and evaluate the liquidity risks of Banco de Oro Unibank of the Philippines, Bank Mandiri Tbk Indonesia, and Siam Commercial Bank of Thailand. A bank's capacity to fulfill its short-term obligations and uphold financial stability increases with its liquidity ratio (8). The ability of a bank to fulfill its short-term obligations is gauged by its liquidity. Liquidity is defined by the research as the ratio of total assets to cash, maturities, and other non-earnings related assets. A greater appetite for risk is indicated by a lower liquidity ratio. The study demonstrates how big banks' numerous funding sources contribute to their poor liquidity (9).

Table 1: Results of the Chow Test

Redundant Fixed Effects Tests

Equation: Untitled

Test Cross-section fixed effects

Enrollment in local colleges, 2005

Effects Test	Statistic	D.f.	Prob.
Cross-section F	18.525007	(44,114)	0,0000
Cross-section Chi-square	339.878955	44	0,0000

Table 1 displays the chi-square value of the chi-square cross section, which is 0.000 based on the Chow test findings. There is a value below 0.05. The model selected for the Chow test was a fixed effects approach, according to the stated decision criteria. The Chow test generated the following hypotheses:

H0: Common effects model (probability value > 0.05)

H1: Fixed effects model (probability value 0.05, in which case the model chosen is a random effect.

H3: There is an influence between liquidity and ESG score

Methodology

The study's data set consists of ASEAN banks' financial performance. There are 105 banks listed. The following six ASEAN (Vietnam, Singapore, Malaysia, Philippines, Indonesia, and Thailand) nations are the only ones using ESG. As a result, 47 ASEAN banks are included in the bank data used for this study. Due to the small number of samples used, we used data from 2018 to 2022. In this case, we used the value $\alpha = 0.05$ and the correct degrees of freedom. Our data tests use a combination of cross-sectional and time-series data, so we use the EVIEWS 12SV (x64) application. Panel data regression is used in the analysis process. The first step is to determine the estimation model. This can be done using her three approaches:

Common Effects Models or Pooled Least Squares (PLS), Fixed Effects Models (FE), and Random Effects Models (RE). To select the best model, we conducted a Chow test as a first step (10).

1. If the value of the probability cross section is $F > 0.05$, the model chosen is the common effects approach.
2. If the probability cross-section value is $F < 0.05$, The fixed effects approach is the model that was selected.

Because H0's P value is less than 0.05, the fixed effects model is selected and H0 is discarded. The Hausman test, which is performed after the Chow test, is used to choose between the fixed effects approach and the common effects approach for panel data analysis. Using the Hausman test to conduct the test is the second step. Finding the radome and fixed effect models is the aim. Stochastic cross-sectional probability values serve as the foundation for decision modeling in the Hausman test (10).

1. If the random cross-section probability value is 0.05, the model chosen is a random effect.

2. If the random cross-section probability value is > 0.05 , the model chosen is a random effect.

Table 2: Hausman Test Result

Correlated Random Effects-Hausman Test

Equation: Untitled

Test cross-section random effects

Test Summary	Chi-Sq. Statistic	Chi-Sq.d.f.	Prob.
Cross-section random	3.044083	3	0.3849

The cross-section random probability is more significant than significant, according to Table 2's Hausman test results ($0.3849 > 0.05$). This leads us to the conclusion that the model that was chosen is an effects model. While the Hausman test result showed an effects model, the Chow test result showed that the selected model was a fixed effect. Since the Chow and Hausman test findings are inconsistent, a Lagrangian multiplier test

needs to be run. To determine which relationship between population and random effects is more significant, apply the Lagrangian multiplier test (10). The Lagrange Multiplier Test is a tool used to assess if a method should be used between common and random effects. The following is the theory behind the Lagrangian multiplier test:

H0: Common Effect Model

H1: Random Effect Model

Table 3: The Lagrange Multiplier Test results

Lagrange Multiplier Analysis for Stochastic Functions

Null hypothesis: Nothing happens

Alternative theories: Breusch-Pagan, which is two-sided, and all other options, which is one-sided

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	122.1964 (0.0000)	1.021201 (0.3122)	123.2176 (0.0000)
Honda	11.05425 (0.0000)	-1.010545 (0.8439)	7.101969 (0.0000)
King-Wu	11.05425 (0.0000)	-1.010545 (0.8439)	2.453521 (0.0071)
Standardized Honda	11.69500 (0.0000)	-0.743692 (0.7715)	3.408800 (0.0003)
Standardized King-Wu	11.69500 (0.0000)	-0.743692 (0.7715)	-0.120019 (0.5478)
Gourieroux, et al.	--	--	122.1964 (0.0000)

Considering Table 3, the Breusch-Pagan probability value is 0.0000, which is less than 0.05 for alpha, so we reject the null hypothesis.

Dependent variable

Use ESG scores. ESG valuation metrics typically assess various aspects of ESG that are material to a bank. For example, in relation to environmental aspects, the assessment may also include policies related to addressing carbon emissions, water supply, and climate change. Social aspects include social responsibility to society, employee diversity, protection of human rights, etc.

Governance aspects include an assessment of transparency, corporate structure, and business ethics.

Independent variable

A bank's financial performance can be measured with a number of markers that show the bank's financial performance. We leverage asset quality, capital adequacy, and liquidity.

Control Variable

We understand the impact of bank-specific variables on a bank's ESG performance. Consider total assets and ROA as control variables

Model Specifications

A panel regression model was employed in this study to examine the relationship between ASEAN banks' ESG disclosure and their banking financial performance. Time series and cross-sectional data can be combined into a single analysis thanks to the panel regression model.

Table 4: Descriptive statistics

Variable	Observations	Mean	Median	Min	Max	Std. Dev
Asset.Qua	162	3,9326	3,325	0,78	13,68	2,5769
Capital. rat	162	13,6621	12,1855	5,53	51,94	7,1341
Liquidity	162	28,2188	27,985	8,25	84,24	12,0733
ESG	162	62,7517	64,4768	21,4797	88,2837	14,0506
ROA	162	1,708	1,385	-2,05	10,79	1,11
Tot. Asset	162	17,6541	17,8651	13,7539	20,1306	1,24544

In Table 4 in assessing the financial performance of ASEAN banks, the variable "Asset. Qua" refers to the quality of the company's assets. The quality of a company's assets reflects the durability, value, and viability of the assets it holds. The average quality of corporate assets is 3,9326%, which gives an idea of how often asset quality is observed. The variable "Liquidity" refers to liquidity, The ability of a business to satisfy its immediate financial obligations is referred to as liquidity. The average liquidity of ASEAN banks is 28.2188%, representing the average liquidity observed in the dataset. The variable "Capital rat" refers to the capital ratio of ASEAN banks. The capital ratio is a metric used to evaluate a company's capital structure by comparing the amount of equity capital to the total capital of the company. The average capital ratio of the company is 13,6621%, indicating the average capital ratio's level. Total assets, which is the total value of all assets held by the company for a specific time period, is the variable that is utilized as a control. Control variable to take into consideration how business size affects the connection between financial and ESG performance. The company's average total assets are 17.6541%. The return on assets (ROA) ratio,

Result and Discussion

Descriptive statistics

Descriptive statistics and Variances of Inflation (VIF) of the variables are presented in Table 3. The mean ESG score is 62.75%, indicating that the ESG performance is above average for ASEAN banks.

which gauges how well a business uses its assets to produce profits, is denoted by the variable "ROA." The return on assets (ROA) measures how well a business uses its whole asset base to produce profits. The ASEAN banks have an average return on assets (ROA) of 1,708%. Based on the results of selecting the best model, the previous result is the best model to use, this search is a random effect. When choosing a random effects model, there is no need to test the usual assumptions. Indeed, the random effects model uses the general least squares (GLS) estimation method. The GLS technique is said to be able to overcome the phenomenon of time series autocorrelation and correlation between observations (cross-section). The GLS method produces an estimator that meets the characteristics of BLUE (Linear Unbiased Best Estimator), which is a processing method to overcome the violation of the assumptions of variable variance. change and autocorrelation. After selecting a random model with individual effects and timings, the fit test was run. The goodness-of-fit test in this study consisted of an F-statistic, a T-statistic, and a coefficient of determination (R²) test.

Table 5: Panel Data Regression Results 1

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	60.36576	4.055412	14.88524	0.0000
X1	0.493177	0.495167	0.995982	0.3208
X2	-0.773441	0.247669	-3.122875	0.0021

X3	0.262866	0.076816	3.422022	0.0008
Effects Specification				
			S.D	Rho
Cross-section random			12.72999	0.8391
Idiosyncratic random			5.575406	0.1609
Weighted Statistics				
R-squared	0.167376	Mean dependent		13.20533
Adjusted R-squared	0.151567	S.D. dependent Var		6.120817
S.E. of regression	5.7177419	Sum squared resid		5164.842
F-statistic	10.58718	Durbin-Watson stat		1.032357
Prob (F-statistic)	0.000002			
Unweighted Statistics				
R-squared	0.002450	Mean dependent var		62.75171
Sum squared resid	-31706.80	Durbin-Watson stat		0.168165

Table 5 indicates that $R^2 = 0.1516$ is the coefficient of determination (R squared). This implies that around 15.16% of the variations in ESG data between ASEAN banks may be explained by the panel regression model we employed. Put differently, the panel regression model's combination of the independent variables (asset quality, capital, and liquidity ratios) and the control variable (total assets) accounts for roughly 15.16% of the variation in ESG ratings. Other elements not covered by the model, such as external causes, firm policies, and bank-specific factors that the program is unable to quantify, may be the source of remaining variations that the model is unable to explain the analysis's variables. To find out if the independent factors have a generally significant impact on the dependent variable, the F test is used. Table 5 indicates that the f-statistic probe value is $0.000 < 0.05$, indicating that while equity ratio and liquidity have an impact on ESG, asset quality has no effect on it. According to the F-Test results, changes in ESG data based on ASEAN banks' financial performance are strongly explained by one or more independent factors. This demonstrates that the asset quality, capital ratio, and liquidity of a bank, as well as their financial performance, have a big impact on ESG communication. In conclusion, the F test findings unequivocally demonstrate that the independent factors taken as a whole have a considerable impact on the dependent variable. To completely comprehend the relationship between financial performance and financial performance of banks and ESG data, it is crucial to carry out additional analysis by examining the individual regression

coefficients, t-tests, and other interpretations of the variables. Table 5 informs us of:

1. It is known that X1 (Asset Quality) has no effect on Y (ESG) with a t-statistical value of 10.9959 and a t-statistical probability of $0.3208 > 0.05$.
2. It is known that X2 (Capital Ratio) has a negative effect on Y (ESG) with a probability t-statistic value of $0.002 < 0.05$
3. It is known that X3 (Liquidity) has a positive effect on Y (ESG) with a probability t-statistic value of $0.0008 < 0.05$.

Information: At point 1, X1 (Asset quality) is said to not affect Y (ESG) with a t-statistic value of 10.9959 and a t-statistic probability of $0.3208 > 0.05$. Some several theories and approaches can provide a better understanding. Research findings indicating that asset quality has no discernible impact on ESG performance can be supported by a number of explanations, despite the lack of a single theory that specifically claims this. The following theories are pertinent:

1. Separation thesis: According to this idea, judgments about investments and social or environmental issues are two different things. Because of this, companies will not consider ESG factors in their investment decisions because their primary goal is to maximize financial returns for shareholders. In this context, asset quality may not be directly related to ESG factors (11, 12).
2. Representative theory: This theory emphasizes the relationship between shareholders (heads) and company management (representatives). According to this theory, management tends to act to

maximize its interests. In this context, asset quality may be a primary concern of a company's management, while ESG aspects

may be overlooked if they are not considered in line with the interests of shareholders.

Table 6: ROA Control Variable Panel Data Regression Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	60.71469	3.928894	15.45338	0.0000
X1	0.468964	0.492048	0.953086	0.3420
X2	-1.000528	0.298298	-3.354124	0.0010
X3	0.285324	0.078597	3.630219	0.0004
ROA	1.318163	0.974822	1.352209	0.1783
Effects Specification				
			S.D	Rho
Cross-section random			12.12099	0.8242
Idiosyncratic random			5.597870	0.1758
Weighted Statistics				
R-squared	0.172235	Mean dependent var		13.88367
Adjusted R-squared	0.151145	S.D. dependent Var		6.187551
S.E. of regression	5.792801	Sum squared resid		5268.378
F-statistic	8.166827	Durbin-Watson stat		1.022358
Prob (F-statistic)	0.000005			
Unweighted Statistics				
R-squared	0.042607	Mean dependent var		62.75171
Sum squared resid	30430.44	Durbin-Watson stat		0.176999

By include the control variable in the research measure, a comparative test was carried out in this investigation. ROA serves as the control variable. Return on assets, or ROA, is a crucial metric in examining the connection between a company's financial performance and its environmental, social, and governance (ESG) performance. This is supported by multiple theories. The interaction between the shareholders, who are the company's owners, and the management, which is the agency running the business, is the main subject of agency theory. According to this view, return on assets (ROA) is a crucial indicator since it indicates how well a company uses its assets to produce returns for its shareholders (11).

Table 6 obtained:

1. It is known that X1 (Asset Quality) has no effect on Y (ESG) with a t-statistic value of 0.9530 and a t-statistic probability of 0.3420 > 0.05.
2. It is known that X2 (Capital Ratio) has a negative effect on Y (ESG) with a probability t-statistic value of 0.010 < 0.05

3. It is known that X3 (Liquidity) has a positive effect on Y (ESG) with a probability t-statistic value of 0.0004 < 0.05

Yet, as the statistical probability f 0.000 < 0.005 indicates, the study's independent and control factors also have an impact on the ESG score. These four variables influence the ESG score of 15.1%. While the rest is influenced by other variables Information.

At point 1, X1 (Asset quality) is said to have no effect on Y (ESG) with a t-statistic value of 0.9530 and a t-statistic probability of 0.3420 > 0.05. and the variable command used is ROA. Several theories can support research findings showing that asset quality has no significant effect on ESG by controlling for return on assets (ROA). Some related theories include:

1. Efficient market hypothesis (EMH): According to this idea, market prices accurately represent all available data. There is no direct relationship between asset quality and ESG criteria if the market properly assesses assets based on their quality. Under these circumstances, ROA may serve as a control variable that accurately measures asset quality (12).

2. The market-based view maintains that stock prices are a reflection of all information that is available to the public, including ESG factors. Although asset quality has no direct influence on ESG factors, stock price volatility, and ROA may be more influenced by market factors and other economic variables (13).
3. Theory of stakeholders: This theory emphasizes the importance of paying attention to the interests and needs of stakeholders. In this context, asset quality may be more related to internal business needs, such as operational efficiency and risk management, while ESG factors may be more related to profitability. interests of external stakeholders. ROA can be used as a control variable to remove the direct effect of ROA on ESG (14).

Table 7: Regression results of panel data control variable total assets

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-51.34799	28.25176	-1.817515	0.0710
X1	0.680856	0.477465	1.425982	0.1559
X2	-0.253705	0.266022	-0.953699	0.3417
X3	0.211734	0.074943	2.825274	0.0053
LNTA	6.078956	1.523965	3.988907	0.0001
Effects Specification				
			S.D	Rho
Cross-section random			11.84186	0.8284
Idiosyncratic random			5.390049	0.1716
Weighted Statistics				
R-squared	0.237534	Mean dependent var		13.69481
Adjusted R-squared	0.218108	S.D. dependent Var		6.168841
S.E. of regression	5.539634	Sum squared resid		4817.945
F-statistic	12.22769	Durbin-Watson stat		1.094223
Prob (F-statistic)	0.000000			
Unweighted Statistics				
R-squared	0.141223	Mean dependent var		62.75171
Sum squared resid	27295.95	Durbin-Watson stat		0.193139

In this study, a comparative test was performed by incorporating the control variable into the research measure. The control variable used is total assets. In this study, total debt balance (Tot. Assets) is used as a control variable. The purpose of using control variables is to mitigate the impact of other variables that might have an impact on how ESG performance and financial performance of the company relate to one another. The inclusion of total assets as a control variable in the study explains the effect of bank size or operating range on total assets. It is demonstrated by the correlation between financial performance and ESG performance. This is to ensure that other factors such as company size do not distort or affect the results of the analysis of these key metrics. In the benchmark test, total assets can act

as a control variable to isolate the impact of the main research variable (ESG performance) on the firm's financial performance variables. While taking into consideration other elements that influence a company's financial performance, you can gain a better and more accurate understanding of the relationship between ESG performance and financial performance by integrating total assets as a control variable in the statistical analysis.

Based on Table 7 it is obtained:

1. It is known that X1 (Asset Quality) has no effect on Y (ESG) with a t-statistic probability of $0.1559 > 0.05$.
2. It is known that X2 (Capital Ratio) has no negative effect on Y (ESG) with a probability t-statistic value of $0.3417 < 0.05$

3. It is known that X3 (Liquidity) has a positive effect on Y (ESG) with a probability t-statistic value of $0.0053 < 0.05$
4. Variable control total assets affect ESG seen from the probability t-statistic $0.001 > 0.05$

Concurrently, the ESG score is influenced by the study's independent and control factors, as indicated by the statistical likelihood of $0.000 < 0.005$. These four variables affect the ESG score by 121.8%. While the rest is influenced by other variables. At point 1, we say that X1 (Asset Quality) has no effect on Y (ESG) t-statistic probability is $0.1559 > 0.05$. and the control variable used is Total Assets. Some relevant theories in this context are:

1. Resource-based view (RBV): According to this idea, businesses can use internal resources that are precious, unique, uncommon, and irreplaceable to their advantage and obtain a competitive edge. While ESG aspects may be more directly related to profitability in this scenario, asset quality may function as an internal resource that offers a competitive advantage in terms of efficiency, productivity, or product quality, outside advantage. To exclude the direct impact of total assets on ESG in this situation, total assets can serve as a control variable (15).
2. Legitimacy theory: This theory suggests that companies strive to maintain legitimacy and support from external stakeholders by meeting social and environmental expectations. In this case, companies can focus more on maintaining legitimacy and maintaining relationships with stakeholders than on improving the quality of their assets. Controlling total assets can help eliminate the direct effect of total assets on ESG and isolate the effects of these variables (16).

Conclusion

This study looks at how financial performance affects the environmental, social, and governance (LST) disclosures made by ASEAN banks during a five-year period, from 2018 to 2022. With a t-statistical probability of $0.3208 > 0.05$ and a t-statistic value of 10.9959, this study demonstrates that asset quality has no effect on ESG. Research demonstrating that asset quality has no bearing on ESG performance can be supported by a number of arguments, notwithstanding the lack of

a single theory that specifically claims otherwise. ESG output. These are the theories: the agency theory and the separation thesis. Liquidity has a favorable impact on ESG, but capital ratio has a negative impact. Asset quality has no effect on ESG, as evidenced by a t-statistic value of 0.9530 and a t-statistic probability of $0.3420 > 0.05$. The control variable in this case is ROA. When the return on assets (ROA) is taken into account, study findings demonstrating that asset quality has no discernible impact on ESG can be supported by a number of ideas. The Efficient Market Hypothesis (EMH), Market-Based Theory, and Stakeholder Theory are a few related theories. Liquidity has a favorable impact on ESG, but capital ratio has a negative impact. Total assets are the control variable, and the t-statistical likelihood of $0.1559 > 0.05$ indicates that asset quality has no effect on ESG. Research results indicating that asset quality has no discernible effect on ESG control for total assets are consistent with a number of explanations. The notion of legitimacy and the resource-based viewpoint (RBV) are two pertinent theories in this context. Liquidity has a positive impact on ESG, capital ratio has a negative impact on ESG, and the capacity to manage total asset variability has an effect on ESG.

Abbreviations

ESG: Environmental, Social, and Governance
 ASEAN: Association of Southeast Asian Nations
 ROA: Return on Asset
 ASC: ASEAN Security Community
 AEC: ASEAN Economic Community
 ASCC: ASEAN Socio-Cultural Community
 CSR: Corporate Social Responsibility
 CFP: Corporate Financial Performance
 ROE: Return on Equity
 CAR: Capital Adequacy Ratio
 PLS: Pooled Least Squared
 FE: Fixed Effects
 RE: Random Effect
 VIF: Variances of Inflation
 GLS: General Least Squares
 EMH: Efficient Market Hypothesis
 RBV: Resource-Based Viewpoint

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Conflicts of Interest

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