




The Resilience of ASEAN 5 Company During Pandemics: Does ESG matter?

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Abstract. This paper sets out to determine the impact of Environmental, Social, and Governance (ESG) performance on the financial resilience of non-financial companies operating in ASEAN 5 (Indonesia, Malaysia, Philippines, Singapore, and Thailand) during the COVID-19 pandemic. Using data from the Thomson Reuters database and the statistical software SPSS25, a linear regression model was employed to analyze panel data. The results reveal that Malaysian companies with a high ESG score experienced a reduction in asset turnover and operating profit volatility during the pandemic. However, no significant differences were found in asset turnover and operating profit margin based on ESG score for other countries. A pillar-wise analysis of the ESG score showed that all three pillars (E, S, and G) significantly impacted the resilience of Malaysian firms' asset returns, while only pillars E and S influenced the operating profit margin. Overall, the study's findings suggest that while engaging in ESG activities may not necessarily lead to better performance during a crisis, it still holds importance for both managers and investors.

Keywords: Covid-19, ESG, Financial Performance.

1 Introduction

This research aims to examine the functionality of Environmental, Social, and Governance (ESG) practices in preserving the monetary value of non-financial organizations operating in ASEAN 5 countries during the pandemic outbreak of Covid-19, as declared by the World Health Organization [1]. In light of the ongoing COVID-19 pandemic, an increasing number of countries have resolved to introduce lockdown measures, close down establishments and educational institutions, enforce social distancing, and advise people to stay at their homes [2, 3]. This new policy was implemented to prevent the spread of the virus however it triggers global social and economic disruption [4]. It was proven that the MSCI World Index fell by 18.90% on the eighth day after WHO declared COVID-19 a global pandemic [5]. In addition, it was recorded that 143 out of 179 countries in 2020 experienced negative economic growth [3].

The COVID-19 pandemic has harmed the performance of financial companies worldwide in all sectors and developing countries experienced the most significant

impact. Several studies have noted that developing countries in Asia experienced a significant decline in market capital [6, 7] and had worse negative abnormal returns than others during the pandemic [6]. Meanwhile, Asian countries are a potential investment field with a GDP value of \$2.6 trillion and annual trade of \$2.3 trillion [7]. This phenomenon raises questions from investors about how to protect the company's financial performance from the negative impact of Covid-19, especially in ASEAN countries. Therefore, this study aims to investigate the effect of ESG performance on the resilience of firm value during the pandemic in ASEAN 5 countries.

In recent times, ESG (Environmental, Social, and Governance) activities have garnered significant attention from both investors and managers, due to their potential to act as a resilience factor. Several research papers suggest that ESG factors can help reduce risk by enhancing recovery, constructing a competitive advantage, and positively impacting stakeholder evaluation of companies [8, 9, 10]. Research conducted on 150 public companies listed in the Standard and Poor's 500 indexes documents that companies with superior ESG performance perform better financially and are valued higher in the market [9]. Several other studies have documented similar results in the United States [10] and Europe [11]. Proven ESG performance helps companies maintain stakeholder trust by answering investors' expectations and expectations about the company's sustainability [12, 13].

This study aimed to determine whether Environmental, Social and Governance (ESG) factors have played a role in maintaining the financial performance of ASEAN 5 companies during the COVID-19 pandemic. To achieve this, a panel data regression analysis was conducted on 172 companies from Indonesia, Malaysia, Philippines, Singapore, and Thailand. The financial data and ESG scores used in the analysis were obtained from the Thomson Reuters database between 2020 and 2022.

This research adds to the existing literature on the effect of implementing Environmental, Social, and Governance (ESG) policies in ASEAN 5 countries on a company's ability to maintain financial performance during the ongoing Covid-19 crisis. Prior research has examined the relationship between ESG and a company's financial performance either prior to or during the pandemic [14, 12,13] in Canada, France, Japan, the UK and the US [15]. Previous research has utilized dummy analysis to categorize companies into high and low Environmental, Social, and Governance (ESG) performance groups. However, the current study employs ESG scores sourced from the Thomson Reuters database. The findings of this study underscore the importance of ESG activities for companies, and suggest that managers and investors should give due consideration to such activities. Additionally, the study's results may serve as a valuable reference for regulators seeking to develop effective ESG implementation policies by learning from the experiences of other countries.

2 Method

This study utilizes a sample of 172 non-financial companies, selected from the Thomson Reuters DataStream database, that were registered and operating in the capital markets of the ASEAN 5 countries (Indonesia, Malaysia, Philippines, Singapore, and

Thailand) during the period 2019-2022. A purposive sampling technique was employed, with criteria such as excluding companies from the financial industry and those lacking complete data in the database. The final sample includes 35 companies from Indonesia, 44 from Malaysia, 14 from the Philippines, 43 from Singapore, and 36 from Thailand. The analysis employs a simple regression model to examine the impact of ESG performance on a company's financial resilience.

$$Resilience_{i,t} = \alpha_i + \beta_1 ESG_{i,t-1} + \beta_2 E_{i,t-1} + \beta_3 S_{i,t-1} + \beta_4 G_{i,t-1} + \beta_4 Size_{i,t-1} + \beta_5 Leverage_{i,t-1} + \beta_6 ROE_{i,t-1} + \beta_7 Year_{i,t-1} + \varepsilon_{i,t-1} \tag{1}$$

$Resilience_i$ is the toughness of a company's financial performance as measured by two metrics: changes in the value of the ratio of return on assets (ΔROA) and changes in the ratio of operating profit (ΔOPM).

3 Result and Discussion

Fig. 1 depicts the contrast between financial performance and Environmental, Social, and Governance (ESG) during the COVID-19 pandemic. The mean of all companies in ASEAN5 showed a decline in both Return on Assets (ROA) and Operating Margin (OPM) at the beginning of the pandemic (2020-2019), with ROA decreasing by -0.024 and OPM decreasing by -0.049. This was due to the suboptimal operational activities of the companies during the first period of the pandemic caused by the stringent restrictions implemented to prevent the spread of the virus.

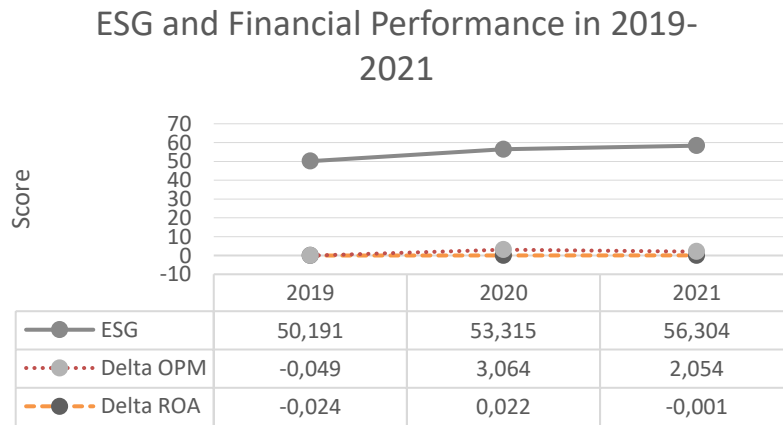


Fig. 1. A illustration of financial performance revolution and ESG during a pandemic

The ESG scores of companies in ASEAN 5 have been analyzed, with the average score recorded at 53.819. It has been noted that the intensity of ESG assessments has increased among companies during the COVID-19 period. In the year 2019, the average ESG score of ASEAN 5 companies was 50.191. The score rose to 53.315 in the initial period of the pandemic in 2020 and further increased to 56.304 in 2021.

Table 1 shows the results of regression equation 1 by using Δ ROA as a measure of the resilience of a company's financial performance.

Table 1. Δ ROA Dependent Regression Results.

	IDN	MYS	PHL	SGP	THA
Constant	2.217.327 (0.302)	623.569 (0.793)	-44.942 (0.980)	558.022 (0.295)	297.336 (0.793)
ESG	0.290 (0.219)	-1.504 (0.000)	0.141 (0.700)	0.044 (0.710)	0.012 (0.947)
E	-0.018 (0.840)	0.596 (0.000)	-0.088 (0.519)	-0.052 (0.247)	-0.063 (0.386)
S	-0.113 (0.208)	0.477 (0.000)	-0.017 (0.867)	-0.027 (0.498)	0.021 (0.711)
G	-0.083 (0.379)	0.400 (0.006)	-0.044 (0.736)	0.026 (0.599)	0.004 (0.955)
Size	-0.010 (0.319)	0.000 (0.986)	-0.002 (0.820)	-0.002 (0.331)	0.000 (0.971)
Leverage	0.033 (0.392)	0.007 (0.913)	0.090 (0.147)	0.049 (0.017)	0.051 (0.192)
ROE	-0.089 (0.000)	-0.005 (0.001)	-0.175 (0.001)	-0.145 (0.000)	-0.171 (0.000)
Control Year	YES	YES	YES	YES	YES
Observations	105	132	42	129	108

The results of the regression analysis demonstrate that the majority of coefficients in all ASEAN 5 countries are not statistically significant. However, Malaysia is the only country where a significant and negative coefficient was observed. These findings suggest that companies in Malaysia can maintain their financial performance by implementing environmental, social, and governance (ESG) initiatives. All ESG pillars have shown a significant positive effect on reducing operating profitability (ROA) during the pandemic. It is also noted that focusing solely on one of the pillars will result in further decline in ROA values. On the other hand, exercises that address all three ESG pillars in a balanced manner can help companies in Malaysia maintain financial performance during the ongoing pandemic.

Then, table 2 shows the regression results of equation 1 with Δ OPM as a measure of the resilience of a company's financial performance.

Table 2. Δ OPM Dependent Regression Results.

	IDN	MYS	PHL	SGP	THA
Constant	3.047.836 (0.226)	2.472.592 (0.534)	1.376.071 (0.758)	5.369.609 (0.431)	-1.166.569 (0.364)
ESG	0.280 (0.309)	-1.150 (0.043)	-0.371 (0.690)	0.471 (0.757)	189.952 (0.347)
E	-0.020	-0.505	0.131	-0.300	-112.232

	(0.850)	(0.029)	(0.704)	(0.600)	(0.175)
S	-0.111	0.419	0.144	-0.240	-23.823
	(0.287)	(0.045)	(0.585)	(0.641)	(0.709)
G	-0.081	0.356	0.080	0.150	-69.956
	(0.463)	(0.141)	(0.810)	(0.811)	(0.418)
Size	-0.013	-0.014	-0.008	-0.020	8.253
	(0.270)	(0.390)	(0.709)	(0.532)	(0.224)
Leverage	0.054	0.025	0.090	0.183	-85.369
	(0.233)	(0.809)	(0.561)	(0.478)	(0.058)
ROE	-0.094	-0.017	-0.249	-0.565	49.437
	(0.000)	(0.000)	(0.058)	(0.186)	(0.189)
Control Year	YES	YES	YES	YES	YES
Observations	105	132	42	129	108

The results of the regression analysis indicate that the Δ ROA as a measure is consistent with the results of the analysis in Malaysia. The analysis reveals a significant negative coefficient between ESG performance and Δ OPM in Malaysia, with pillars E and S showing significant positive results, but pillar G did not.

4 Conclusion

This study aims to examine the impact of Environmental, Social, and Governance (ESG) performance on the resilience of company financial performance in ASEAN 5 countries during the ongoing Covid-19 pandemic. By utilizing a simple regression model, this research will assess the influence of ESG performance on a company's financial resilience. Using the Thomson Reuters database, financial data and ESG scores for 172 companies in Indonesia, Malaysia, Philippines, Singapore, and Thailand were obtained. The results of this study indicate that while ESG performance can aid in maintaining financial performance in Malaysia, it has no significant impact in the other countries. Moreover, the analysis reveals that each ESG pillar has a positive correlation with a company's financial performance resilience. These findings suggest that companies must adopt a balanced approach to ESG pillars in order to maintain financial performance during a pandemic. Focusing on only one pillar may result in a further decline in financial performance during a crisis.

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