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(AIJBES)**www.gaexcellence.com/aijbess**DO ESG SCORE MATTER FOR FIRM PERFORMANCE?
EVIDENCE FROM MALAYSIAN ACE MARKET FIRMS**Farah Alias^{1*}, Rabia Bashir ², Santhia Barathy Parithy Thasan³¹Department of Accounting and Finance, Management and Science University farah_alias@msu.edu.my <https://orcid.org/0000-0001-7920-5153>²Department of Accounting and Finance, Management and Science University rabia_bashir@msu.edu.my <https://orcid.org/0000-0003-4672-076X>³Department of Accounting and Finance, Management and Science University santhiabarathy99@gmail.com.my <https://orcid.org/0009-0005-2501-4622>

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Abstract:

This study examines the extent to which Environmental, Social, and Governance performance shapes firm performance among companies listed on Malaysia's ACE Market. The study is motivated by the growing role of ESG in corporate decision-making, investment evaluation and sustainable value creation. ROE is used to capture firm performance, while ESG performance is represented by Environmental Score, Social Score, Governance Score and Total ESG Score. The natural logarithm of total assets was included as measure for firm size and sales growth as controls variables. The analysis uses data from 122 Malaysian ACE Market firms covering 2018 to 2025, resulting in 976 firm-year observations. Data were collected from Refinitiv LSEG. The models are estimated using Panel Corrected Standard Errors to address heteroscedasticity and contemporaneous correlation. The descriptive findings indicated that ESG performance of Malaysian ACE Market companies is moderate, where the governance performance received the highest mean score and environmental performance the lowest score. Regression results indicate a negative significant impact son ROE of environmental performance. This could reflect a short-term increase in costs associated with the implementation of environmental activities before financial benefits is realized. The social and governance performance indicated positive and significant impact on ROE. This suggests that higher engagement with stakeholders, corporate reputation, corporate governance and managerial discipline increase performance for firms. There is also a positive influence of ESG performance on ROE. These findings add to the ESG literature and

provide useful implications to managers, investor and policymaker, which enhance ESG and business performance.

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ESG, Firm Performance, ACE market



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Introduction

ESG has become a strategic key factor, as businesses are expected to fulfil financial goals along with other responsibility with regards to the environment, society, and governance. It represents the level of sustainability, uncertainty management and value creation for the future in the firm. The result of good ESG performance could positively impact a firm's reputation, reduce uncertainty and increase stakeholder confidence (Zhang, 2025; Aydoğmuş et al., 2022). Based on the perspective of stakeholder theory, firms that respond to shareholder's, employee's, customer's, local's and regulator's expectation could develop sustainable competitive advantage and enhance performance (Freeman, 1984; Kay et al., 2020). Companies with higher ESG scores may deliver better financial performance, increase investors' confidence and drive sustainable economic growth, supporting SDG 8.

The number of listed companies that are incorporating ESG practices is still increasing in Malaysia; however, it is still difficult to obtain implementation of the ESG practices in the Company's action. The issues that are troubling the Malaysian companies are quality of disclosure, environmental responsibility, social responsiveness, transparency of corporate governance, environmental awareness, and integration of sustainability in the business process (Mohamed & Wahab, 2019; Lim & Yeo, 2021). In certain companies, ESG is still considered as a compliance tool rather than a long-term value creation initiative, which can restrict the financial gains from exercise of sustainability measures (Lee & Isa, 2023, Alyasa- Gan et al. 2024). Energy consumption, waste management, and carbon emissions are sustainability aspects that are relevant for companies in industries that are more sensitive to environmental risks and, in the short term, can be beneficial in terms of reputation or costly in terms of cost (Rahman et al., 2024; Handoyo & Anas, 2024). In addition, social and governance (labor relations, workforce diversity, managerial accountability, ethical conduct and disclosure quality) matters are critical to enhance investor confidence and boost corporate performance

(Tsang et al., 2023; Wang, 2024). The Malaysian environment, therefore, is a suitable context in which to consider the impact of ESG on firm performance in the form of improving transparency and stakeholder trust and governance quality.

Previous research has mixed findings concerning whether ESG influences firm performance. The prior research shows a positive relationship between ESG and firm performance including firm value and profitability, others show non, weak or inconsistent relationship. Aydomu et al. (2022) and Zhang (2025) found that overall ESG performance has a positive relationship with firm value and profitability while the individual dimensions may affect firm performance differently. Besides, ESG performance has been proven to have a positive relationship on accounting and market-based firm performance such as ROA, ROE, and Tobin's Q in Thailand (Abubakr et al., 2026). Alternatively, others argue that undertaking activities involving sustainability and CSR can result in increased costs of operations and lower immediate profits and thus, suggest that the ESG-performance relation may be context-dependent.

Malaysia provides a relevant setting for examining the ESG-performance relationship because listed firms continue to face challenges related to ESG awareness, sustainability disclosure, governance practices, environmental responsibility and social responsiveness. Given these issues, this study focuses on Malaysian ACE Market listed companies, which represent emerging and growth-oriented firms where ESG adoption is becoming increasingly important to investors, regulators and stakeholders. The scope of this study covers 122 Malaysian ACE Market companies over the period 2018 to 2025. The aim of the study is to examine whether ESG performance influences firm performance, measured by Return on Equity, by considering both the individual ESG dimensions and the aggregate ESG score. This approach is important because environmental, social and governance practices may not affect firm performance in the same way. Therefore, this study addresses the following research question: How do environmental, social, governance and aggregate ESG performance affect firm performance among Malaysian ACE Market listed companies?

Theoretical Literature and Hypotheses Development

Over last few years, ESG have risen in prominence as a suitable framework in the assessment of sustainable corporate performance and firm long-run growth. Such increasing emphasis on the importance of considering social and environmental factors alongside profits, is driven by mounting stakeholders' pressure (Aydomu et al. 2022; Zhang 2025). Different from conventional accounting indicators, ESG incorporates more diversified dimension of firm behavior which would have an impact on firm competitiveness, legitimacy and long-term value. Well-established practices of ESG might help firms achieve higher operational efficiency, improve risk management, gain stronger reputation and construct favorable stakeholder relationship which in turn can be related to better accounting and market performance (Sandberg et al. 2023; Chen et al. 2023, Ahmad et al.2022). Higher ESG performance by the firms may lead to lower perceived risk by investors and financial market; thus enhances their access to external finance and lowers the capital costs of these firms (Bin Hithir et al., 2025). This is supported by meta-analysis which suggests the significance of ESG to the firm's performance. The meta-analysis of 2,000 over empirical studies was done by Friede et al. (2015) and majority of relationships are either positive or negative. Likewise, Whelan et al. (2021) concludes that a substantial number of empirical research confirm the positive financial impact of ESG activities. Yet, it remains debatable because the

implementation of ESG initiatives might lead to increased costs of operation especially when firms have committed huge amounts of funds to environmental and social programs prior to receiving financial returns from such initiatives (Barnett, 2007; Brammer et al., 2006). Thus, the ESG-performance link is empirically inconclusive and there is a need for further research in an particular institutional settings like Malaysia.

Agency Theory and Stakeholder Theory

Stakeholder theory is one of the most frequently used theory for explaining the relationship between ESG and performance since it argues that the firm creates sustainable value by satisfying the interests of many stakeholders instead of simply focusing on shareholders (Freeman, 1984). Under the perspective of stakeholder theory, organisations who practice ESG initiatives can increase customer loyalty, gain employees' engagement, build suppliers' relationships and attract investors' confidence, then achieve long-term organisational performance (Tsang et al., 2023). Information asymmetry theory states and divergence of interests, agency theory also sheds lights on the concept of ESG practices in organisations (Lim and Yeo, 2021). Sustainability reporting and ESG disclosure could mitigate agency problems through providing more transparency, increasing accountability and allowing the shareholders to oversee managerial activities more efficiently (Mohamed and Wahab, 2019). In addition, according to signalling theory, engaging in ESG activities may act as a positive signal to investors about organisation quality, ethical conduct and future growth potential, thus reduce information asymmetry and increase investor confidence (Spence, 1973).

Environmental Performance and Firm Performance

Environmental sustainability involves the organisational practice of reducing the adverse effects of an organisation on the environment by optimising resource consumption, decreasing emission levels and adopting environmentally sustainable practices. The environmental practices could create value for the firms by reducing cost, increasing energy efficiency, and improving the reputation of organisation among environmentally conscious stakeholders (Rahman, 2020). Prior empirical studies show that environmental initiative implemented firms usually achieve better financial performance as environmentally sustainable practices enhance stakeholder trust and market competitiveness (Zhao et al., 2018; Dalal and Thaker, 2019). Others, on the contrary, claim that investments in environment entail high costs of implementation that could impinge negatively on profitability in the short run (Bahaaeddin Ahmed Alareeni and Hamdan, 2020). Considering the above arguments, the firm's performance could be impact by environmental sustainability.

H1: Environmental score increases firm performance.

Social Performance and Firm Performance

Social performance concerns organisational obligations towards various stakeholders through programs related to employee welfare, diversity, inclusion and community development. Stakeholder theory shows that organisations that are engaged in social responsibility can build better relationships with stakeholders and lower their organisational risks (Godfrey, 2009). Past research have demonstrated that social activities can positively influence customer satisfaction, employee productivity and corporate image and eventually improve organisational financial performance (Bouslah et al., 2013). However, some researchers have contended that social

initiatives might generate increased operating costs initially and consequently adverse effects in early stages of adoption (Vanden and Thorburn, 2011). Despite mixed findings, social responsibility remains an important factor influencing organisational outcomes.

H2: Social score increases firm performance.

Governance Performance and Firm Performance

Governance is an organisational structure and a mechanism used to monitor the managers that they must be transparent and responsible. Good governance mechanisms limit the agency conflicts, the quality of decision makings which will bring better organisational performance. Research shows that the quality of governance has a positive effect on firm value and profitability as firms with stronger governance experience reduced agency costs and increased confidence from investors (Klapper and Love, 2004; Bauer et al., 2010). Effective governance mechanisms also impact on risk management and lead to better utilization of organisational resources (Nollet et al., 2016). Therefore, governance mechanisms are expected to contribute positively to firm performance.

H3: Governance score increases firm performance.

Aggregate ESG Performance and Firm Performance

Aggregate ESG score assesses the overall impact of environmental, social and governance factors on the firms' overall stance to sustainability and profitability. In contrast to an individual ESG dimension, combined ESG score evaluates the firms' effectiveness of embedding sustainability within corporate strategy. The overall higher ESG scores among firms are more likely to lead higher profits and market value due to a greater engagement with various stakeholders, less exposure to risk, better firm reputation and higher investor confidence (Aydomu et al., 2022; Naeem et al., 2022). This finding is supported by findings of multi-country research and the researchers found that the company value and performance will improve due to better ESG performance and the ESG resources are the competitive resource in long term value creation (Bhaskaran et al., 2020; De Lucia et al., 2020). Nevertheless, the effect of aggregate ESG performance may vary across countries, sectors and firm characteristics because ESG implementation depends on institutional quality, disclosure practices, regulatory pressure and managerial commitment. Hence, although several studies document mixed findings, aggregate ESG performance is increasingly viewed as an important mechanism through which firms can strengthen competitiveness, reduce uncertainty and support sustainable financial performance.

H4: Aggregate ESG performance positively affects firm performance

Methodology

Sample

This study investigates the impact of ESG practices on firm performance for a panel of listed companies on the Malaysian ACE Market. Data set includes 122 firms over the years 2018-2025 thus yielding 8 firms years data. Data is obtained from Refinitiv LSEG (an economic database widely used for both financial and ESG data). ACE Market is chosen as it comprises rapid growing and emerging companies in Malaysia and that ESG practice is of increasing interest among investors, regulators and all relevant stakeholders. The study uses both

disaggregated and aggregate ESG measures. The disaggregated ESG indicators comprise the Environmental Score, Social Score and Governance Score, while the Total ESG Score captures the combined performance of the three ESG dimensions. The Environmental Score reflects firms' environmental management practices, including emissions control, resource use and environmental innovation. The Social Score captures firms' engagement with employees, customers, human rights, community involvement and product responsibility. The Governance Score represents the quality of corporate governance practices. Firm performance is the dependent variable and is measured using Return on Equity (ROE). ROE is appropriate for this study because it reflects the extent to which firms generate profit from shareholders' equity and is widely used as an accounting-based indicator of financial performance. Therefore, the selected variables allow this study to assess whether individual ESG dimensions and overall ESG performance contribute to firm profitability among Malaysian ACE Market listed firms.

Table 1: Variable Definition

Variable name (Abbreviation)	Measurement
Firm Performance (ROE)	<i>Net Income / Total Equity</i>
Environmental Score (E)	<i>Environmental pillar score</i>
Social Score (S)	<i>Social pillar score</i>
Governance Score (G)	<i>Governance pillar score</i>
Total ESG Score (ESG)	<i>Aggregate ESG score</i>
Firm Size (FS)	<i>Natural logarithm of Total Assets</i>
Sales Growth (SG)	<i>Current Year Sales – Previous Year Sales</i> <i>Previous Year Sales</i>

Model Specification

In this study, Panel Corrected Standard Errors (PCSE) is applied to estimate the regression models. When errors in panel data are subject to heteroscedasticity and contemporaneous correlation across firms, the application of PCSE is justifiable. Beck and Katz (1995) show that PCSE offers improved standard errors for time-series cross-section data, especially where there is potential correlation of disturbances across panels. Hence in this study, PCSE is used as the estimation technique to improve the statistical inference.

The baseline model is specified as follows:

Model 1:

$$ROE_{it} = \beta_0 + \beta_1 E_{it} + \beta_2 S_{it} + \beta_3 G_{it} + \beta_4 FS_{it} + \beta_5 SG_{it} + \varepsilon_{it}$$

Model 2:

$$ROE_{it} = \beta_0 + \beta_1 ESG_{it} + \beta_2 FS_{it} + \beta_3 SG_{it} + \varepsilon_{it}$$

Where, ROE is the measure of firm performance, E is the measure of environmental score, S is the measure of social score, G is the measure of governance score, ESG is the measure of total ESG score, FS is the measure of firm size, SG is the measure of sales growth, 0 is the intercept term, 1 to 3 are the estimated coefficients, i is the index for the firm, t is the index for

year and is the error term. The use of two separate models in this paper, enables the study to determine whether the individual effect exists between each dimension of ESG and firm performance while the aggregate ESG model explores the aggregate influence of ESG on firm performance. Based on the specification above, the application of PCSE estimates the results on whether or not, the ESG-related practices have a significant effect on firm performance in the Malaysian ACE Market.

Results And Discussion

Descriptive Statistics

Variable	N	Mean	p50	Min	Max	SD	Skewness	Kurtosis
ROE	976	0.594	0.601	0.094	0.975	0.230	-0.268	2.311
E	976	28.709	24.550	0.000	94.340	18.843	0.859	3.225
S	976	38.910	36.685	4.080	97.440	16.200	0.806	3.376
G	976	44.780	47.005	11.030	83.900	15.337	0.073	2.061
ESG	976	37.153	35.595	14.730	91.640	14.135	0.907	3.821
FS	976	13.305	13.218	9.016	17.282	1.348	0.408	3.597
SG	976	0.047	0.026	-0.416	0.712	0.259	0.623	3.466

Table 1 summarises the distributional characteristics of the study variables based on 976 firm-year observations. The dependent variable Return on Equity (ROE) has an average value of 0.594 and a median of 0.601. This suggests that the firms included in the sample generally had positive accounting-based performance. The maximum and minimum values for the ROE are 0.975 and 0.094, respectively. The values of standard deviation 0.230 shows that the variation of the data in terms of profitability is moderate. The skewness value for ROE is -0.268, shows the distribution of variable is negative and Kurtosis value of 2.311 shows the distribution is nearly normal. As far as three different dimensions of ESG are concerned, the mean value for E is 28.709. The low value of mean suggests that in comparison to other dimensions of social and governance, the performance of E is lower. The S dimension of ESG has mean value of 38.910 which indicates that these sample firms did relatively well in social dimension of performance. The mean value of G dimension of 44.780 is the highest among all the three dimension of ESG and shows that the performance in G is better than in E and S dimensions. The mean value for Total ESG Score (ESG) is 37.153, reflects the relative strength in overall ESG performance is moderate. The substantial variation in ESG values shows the difference in ESG adoption among the sample firms. The descriptive statistics for control variables show the mean value of FS (Company Size) as 13.305. The mean value of SG (Sales Growth) is 0.047 shows that the average sales growth for sample firms during the study period is positive. The SG variable ranges from -0.416 to 0.712 which shows that some firms under performance while some firms underperformed during the study period. The descriptive results summarized that overall performance of firms listed on Malaysian ACE Market in terms of ESG is moderate with G dimension performing better than other two dimensions and E dimension underperforming in comparison with other dimensions of ESG. Descriptive analysis has their own importance and benefits because it has the ability to provide the initial understanding of distribution, measures of central tendency and dispersion, variability among data before conducting the regression analysis (Gujarati and Porter, 2009; Wooldridge, 2016).

Multicollinearity

	ROE	E	S	G	ESGT	FS	SG
ROE	1						
E	-0.030	1					
S	-0.004	0.846	1				
G	0.058	0.369	0.209	1			
ESGT	0.009	0.938	0.899	0.553	1		
FS	-0.316	0.231	0.187	0.079	0.202	1	
SG	0.027	0.076	0.059	0.027	0.067	0.052	1

The correlation matrix is used to assess whether high associations among explanatory variables may affect the regression estimates. The multicollinearity occurs when two or more exogenous variables are highly correlated, resulting in large standard errors and inconsistent coefficient estimates (Gujarati and Porter, 2009). The correlation coefficient between E and S is 0.846, which implies a positive high correlation between those two dimensions of the firms' ESG performance. That is, the firms with better environmental performance tend to have better social performance. The high correlations between E and ESGT are expected because the total ESG score is constructed from the individual ESG pillars. However, this does not create a serious multicollinearity problem in the present study because the individual ESG dimensions and the total ESG score are estimated in separate regression models. Therefore, E, S, G, and ESGT are not included together in the same model. The G score shows moderate correlations with E, S, and ESGT, with values of 0.369, 0.209 and 0.553, respectively. These values are below the commonly used threshold of concern and therefore do not suggest serious multicollinearity. The control variables also show low correlations with the ESG variables. FS has the following correlations: 0.079 with G, 0.072 with E, etc., whereas SG has very weak correlations with all ESG variables. The correlation coefficient between size of a firm and ROE is 0.316 which signifies a weak negative correlation and between sales growth and ROE is 0.027 which indicates a very weak positive correlation. In summary, the findings show that multicollinearity is not a problem for this research, given that separate regressions are estimated for each ESG dimension and the total ESG score.

Regression Results And Discussion

Variables	Model 1	Model 2
E	-0.002** (0.008)	
S	0.002*** (0.004)	
G	0.002*** (0.000)	
ESGT		0.001*** (0.000)
FS	-0.040*** (0.000)	-0.042*** (0.000)
SG	-0.009	-0.010

	(0.195)	(0.178)
Constant	1.023***	1.113***
	(0.000)	(0.000)
R-squared	0.0511	0.0439
Adjusted R-squared	0.046	0.041

Model 1 tests the impact of environmental, social and governance score on firm performance (ROE), while controlling for the effect of firm size and sales growth. The model has an R-squared value of 0.0511 and an adjusted R-squared value of 0.0462. This means that E scores explain 5.11% of the variance of ROE. Despite the low explanatory power, this is usual for the profitability ratio studies at firm level where several other factors internal and external influence a company profit. The environmental score is negatively and significantly correlated with ROE (coeff. = -0.002, $p = 0.008$). It indicates that Malaysian ACE Market firms that are environmentally active tend to have lower profitability. This may be because there are costs of emissions control, energy efficiency, waste management and reporting system prior to generating positive effects (Handoyo and Anas, 2024; Chen et al., 2023). As a result, the effect of environmental score negative on ROE is more significant for small, growth companies. This lends support to the argument that companies have borne the costs of social responsibility activities prior to enjoying the financial benefits. Social score has significant positive impact on ROE (coeff. = 0.002, $p = 0.004$). It reveals that Malaysian ACE Market companies with socially active have tends to result in higher performance. This positive relationship is in accordance with stakeholder theory that more social activities will increase financial performance through positive externalities to employee, customer and stakeholder relation, corporate image and reputation. Governance score has positive significant influence on ROE (coeff. = 0.002, $p = 0.000$). It indicates that Malaysian ACE Market firms with high governance would also contribute to good financial performance. This positive correlation suggests that firm efficiency would be positively correlated to the corporate governance, while agency costs would be negatively correlated to the corporate governance. This is because when efficiency is maximized, it limits the firm's manager of the managerial moral hazard problem (Zheng et al., 2025). For control variables, larger firms are found to report lower ROE (coeff. = -0.040, $p = 0.000$) and possibly inefficient or incur higher fixed costs, thus reporting lower ROE. Sales growth is found to be negative and insignificant (coeff. = -0.009, $p = 0.195$). Overall, the model shows that whereas environmental dimension negatively affects ROE, social and governance dimensions positively affect ROE. This indicates that Malaysian ACE Market firms have potentially stronger positive financial returns from their social and governance practices than environmental practices.

Model 2 estimates the effect of ESGT on ROE while accounting for the influence of FS and SG. The result from the regression analysis indicates that aggregate ESG score in firms has a positive and significant effect on ROE. It is observed that the coefficient for the aggregate ESG score is 0.001 and the significance level is 0.000. This signifies that higher aggregate ESG score is positively related with higher firm profitability indicating that ESG practices can have positive implications on firms. The positive impact of aggregate ESG score on the firm performance indicates that these combined practices provide some kind of competitive advantages that ultimately result in higher performance. This result is in line with previous ESG literature which suggests that the higher ESG performance could lead to increased firm value by attracting stronger stakeholder commitment, stronger risk management and improved

operational efficiency and investor confidence (Zhang, 2025; Abubakr et al., 2026). The positive association between firm performance and aggregate ESG score also affirms stakeholder theory which postulates that those firms that takes into consideration the needs and interests of their key stakeholders such as shareholders, employees, customers, government agencies and community in their strategic planning would be more likely to create sustainable value in the long run as well as higher financial performance. The result is consistent with those of Aydoğmuş et al. (2022) who revealed that the overall ESG performance is positively associated with firm value and profitability which imply that the participation of an ESG can bring about financial benefits to the firms. Regarding control variables, the overall FS has a negative and a significant effect on ROE (coefficient is -0.042; p-value=0.000). That is, the larger ACE Market firms in the sample will tend to report lower ROE compared to smaller firms. One explanation is that larger firms may suffer from higher operation costs, complex organisational structure, or lower returns on investment in shareholders' equity. The relationship of SG with ROE is also negative but statistically insignificant (coefficient=-0.010; p-value=0.178). Shows that the growth of sales has little contribution on explaining firm performance with this model. The R² value of this model is 0.0439 and the adjusted R² value is 0.0409. Although explanatory power is modest, it is still acceptable in firm-level financial studies because profitability is influenced by many other internal and external factors, including capital structure, managerial efficiency, industry conditions and macroeconomic factors. Overall, Model 2 confirms that aggregate ESG performance positively contributes to firm performance among Malaysian ACE Market companies. This result implies that ESG should not only be treated as a compliance requirement but also as a strategic mechanism for improving corporate profitability. Therefore, the result supports hypothesis that aggregate ESG performance has a positive effect on firm performance.

Conclusion

This study examined the effect of ESG performance on the performance of Malaysian ACE Market listed firms. The study adopted the panel data of 122 companies during the year 2018 until 2025 and explored the effect of three individual ESG components; environmental score, social score and governance score and the overall ESG score on firm performance proxied by Return on Equity (ROE). The study utilized the data obtained from Refinitiv LSEG and employed the Panel Corrected Standard Errors to overcome the existence of heteroscedasticity and cross-sectional dependence in the panel data. The results have mixed support for the individual ESG dimensions. Firstly, the negative and significant coefficient of the environmental score on the ROE indicates that among ACE Market firms, environmental activities do not generate profitability benefits in the short-term, although they may result in future financial gains. This could be because investment in energy efficiency and emission reduction, waste management and environmental reporting require expenditure which is a short-term pain on profitability. On the other hand, the social score is positive and statistically significant. This shows the positive effects of social capital on the firm like building stronger stakeholder relationships, employee engagement, trust from customers and corporate reputation. The governance score is statistically significant and positive implying that better governance leads to better firm performance due to increased accountability, transparency, monitoring and managerial discipline. As expected, the aggregate ESG score model yields a positive and significant result for the effect of ESG on ROE. This further confirms the benefits of incorporating ESG in the business strategies of firms as it is shown to be a strategic activity rather than a compliance activity that can also influence the value and sustainability of the firm

positively. This further substantiates the existing literature that firms which engages in ESG activities perform better due to investor confidence, lower risk, corporate image and stakeholder confidence (Aydoğmuş et al., 2022; Zhang, 2025).

The control variables also produced some interesting results. Firm size is found to be negatively significantly related with ROE, suggesting that the larger ACE Market firms could have higher operating costs, less efficiency or slower growth in profitability. However, sales growth is statistically insignificant, indicating that expanding sales does not necessarily bring about higher ROE for these firms. Overall, this study contributes to the current ESG and firm performance literature by providing evidence from the Malaysian ACE Market, an area where ESG research is still somewhat sparse. The findings suggest that managers should strengthen social and governance dimensions since these seem to bring about more immediate financial gains. Simultaneously, environmental strategies should be implemented in a way that capitalizes on its long-term benefits without causing excessive short-term costs. For regulators and policymakers, this study suggests that support mechanisms should be in place to encourage smaller and growth-oriented firms to adopt ESG practices, perhaps through defined reporting standards, incentives and training programmes. This study has some limitations. Firstly, only ACE Market companies are studied and hence the findings may not be generalisable to all listed Malaysian companies. Secondly, firm performance is only proxied by ROE, future research may consider ROA, Tobin's Q or stock returns. Thirdly, the ESG scores are derived from Refinitiv LSEG database and other sources of data could be tested for consistency and accuracy. Future research may also investigate industry effects, non-linear ESG effects or moderator variables such as firm size, ownership concentration and corporate governance practices.

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