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# Managerial Ability and ESG Performance in ASEAN 5 Banking: The Moderating Role of Sustainability Committees

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## ABSTRACT

**Study's aims:** This study aims to examine the effect of managerial ability on ESG performance and whether sustainability committees strengthen this relationship in ASEAN-5 banking institutions. **Design/Methodology/Approach:** Drawing on Upper Echelons Theory and Resource Dependence Theory, this study proposes that capable managers enhance sustainability outcomes and that formal governance structures reinforce this effect. The sample consists of 274 firm-year observations of publicly listed banks in Indonesia, Malaysia, the Philippines, Singapore and Thailand from 2017 to 2023. ESG performance data were obtained from the LSEG database. Panel data regression analysis is employed to test direct and moderating relationships. **Findings:** The results indicate that managerial ability has a significant positive effect on ESG performance. Moreover, sustainability committees significantly strengthen this relationship, suggesting that specialized governance mechanisms enhance the capacity of capable managers to address increasing stakeholders and regulatory sustainability demands. **Theoretical contribution/Originality:** This study contributes to the literature by applying Upper Echelons Theory in the ESG context and by using Resource Dependence Theory to explain the role of sustainability committees in strengthening the relationship between managerial ability and sustainability performance. **Practitioner/Policy implication:** The findings highlight the importance of combining managerial capability with structured sustainability oversight to improve ESG outcomes in the banking sector.

**Keywords:** Sustainability; Managerial Ability; ESG Performance



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## Introduction

Corporate environmental, social, and governance (ESG) performance has become a central theoretical and practical concern amid the growing global emphasis on sustainable development (Feng et al., 2024). Since its introduction by the United Nations Global Compact in 2004, the ESG framework has encouraged corporations to integrate environmental, social, and governance considerations into their core business strategies (Hou et al., 2024; Nie et al., 2024). Its influence has continued to expand through the involvement of global institutions such as the IFRS Foundation and investor organizations, shaping corporate governance practices and macroeconomic policy in response to increasing stakeholder demands for transparency (Zhao et al., 2024). As a result, ESG criteria have evolved from a niche ethical consideration into a key indicator of long-term corporate viability and accountability (Shu & Tan, 2023; Monteiro et al., 2024). Empirical evidence further shows that ESG commitment contributes to tangible environmental improvements, including reductions in air pollution (He et al., 2024).

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The growing recognition of ESG also has been particularly pronounced in the banking sector. ESG performance has become a critical factor in investment decisions (Wang et al., 2023; Chen & Zhang, 2024), especially because banks' capital allocation through lending directly influences which businesses and sectors receive financial support (Ioannidis et al., 2025). A bank's dedication to ESG principles fundamentally shapes its credit decisions and channels financial flows toward sustainable initiatives (Gurol & Lagasio, 2023)—underscoring the importance of ESG integration in financial institutions (Menicucci & Paolucci, 2024). Prior research identifies various determinants of banking ESG performance, including board characteristics (Shakil et al., 2021; Gurol & Lagasio, 2023), financial performance and leverage (El Khoury, 2023), and managerial ability (Cao et al., 2025). External factors such as regulatory pressure, legal environment, corruption levels (El Khoury, 2023), and fintech development (Srairi, 2024) also play important roles.

In the ASEAN context, sustainability has become a strategic regional priority. Initiatives such as the ASEAN Comprehensive Recovery Framework (Association of Southeast Asian Nations, 2020) and the ASEAN Taxonomy for Sustainable Finance (ASEAN Taxonomy Board, 2021) aim to harmonize green finance standards and strengthen sustainable capital markets across member states. The ASEAN Working Committee on Capital Market Development reports a shift in investment trends toward ESG-oriented firms, where companies with stronger environmental performance enjoy better access to green funding (Clarkson et al., 2011). In this setting, banks play a pivotal role in developing green financial products and facilitating sustainable investments, making strong ESG performance an essential component of competitiveness and long-term value creation (El Khoury, 2023).

Although ESG performance determinants have been widely studied, the specific role of managerial ability in shaping ESG performance remains relatively underexplored in the banking sector, particularly within emerging markets. Managerial ability refers to the diverse skills and competencies, such as leadership, strategic vision, communication, and adaptability, that enable managers to achieve organizational objectives efficiently (Cao et al., 2025). Empirical evidence links managerial ability to financial reporting quality and firm performance (Huang et al., 2022), as well as strategic investment decisions (Yung & Chen, 2018). In the ESG context, Cao et al. (2025) demonstrate that managerial ability positively influences ESG performance by enabling managers to integrate sustainability into strategic decision-making and align corporate objectives with stakeholder interests. However, their evidence primarily focuses on the energy sector, leaving the banking industry, particularly in ASEAN, largely unexplored.

The banking sector presents unique characteristics that justify separate investigation. Unlike non-financial firms, banks operate under distinct regulatory frameworks, capital structures, and risk management systems. Their ESG performance not only reflects internal governance quality but also influences broader economic sustainability through credit allocation (Ioannidis et al., 2025). Moreover, ASEAN countries exhibit institutional heterogeneity in regulatory maturity, enforcement of governance, and sustainability disclosure practices. This diversity creates a meaningful empirical setting to examine whether managerial ability consistently drives ESG performance across different institutional environments within the same regional bloc. ASEAN-5 countries (Indonesia, Malaysia, the Philippines, Singapore, and Thailand) are selected because they represent some of the largest and most active capital markets within the ASEAN region. These markets account for a large majority of listed companies in ASEAN and capture a substantial share of regional market activity (ASEAN Exchanges, 2025). These economies also occupy a central place in ASEAN's broader process of economic and financial integration, making them an appropriate setting for examining corporate governance and ESG practices in the ASEAN financial sector.

Beyond managerial ability, governance mechanisms may shape the effectiveness of sustainability strategies. The increasing establishment of sustainability committees within corporate boards reflects a formal commitment to overseeing ESG initiatives. Tumewang et al. (2025) show that firms with sustainability committees exhibit significantly higher ESG performance, as such committees provide focused monitoring and strategic oversight of environmental and social initiatives. Similarly, prior research highlights that board-

level committees enhance ESG disclosure and accountability (Baraibar-Diez & Odriozola, 2019; Monteiro et al., 2024; Kateb & Alahdal, 2024).

Theoretically, Resource Dependence Theory posits organizations establish governance structures to secure critical resources and manage external dependencies (Guo et al., 2024). In the banking sector, sustainability committees function as internal governance mechanisms that facilitate access to expertise, strengthen oversight, and align strategic ESG initiatives with stakeholder expectations. Despite these developments, limited research has examined how managerial ability and sustainability committees jointly influence ESG performance in a multi-country emerging market context. Existing studies tend to analyze these factors separately or focus on single-country samples. Thus, the interplay between managerial capability and formal sustainability governance structures in ASEAN banking remains insufficiently explored.

By addressing this gap is important, this study aims to investigate the impact of managerial ability on ESG performance in publicly listed banks across the ASEAN-5 economies (Indonesia, Malaysia, Philippines, Singapore, and Thailand) during the 2017–2023 period, and to examine whether the presence of a sustainability committee strengthens this relationship. By integrating insights from Upper Echelons Theory, which posits that organizational outcomes reflect top managers' characteristics and capabilities, and Resource Dependence Theory, which emphasizes the role of governance structures in securing critical resources (Guo et al., 2024), this study develops a comprehensive framework linking leadership competence and formal governance mechanisms to ESG outcomes.

This study offers several contributions. Theoretically, it extends the managerial ability literature into the ESG domain of the banking sector in emerging economies. It enriches the integration of Upper Echelons Theory and Resource Dependence Theory to explain sustainability outcomes. Practically, the findings provide insights for regulators, boards of directors, and financial institutions in ASEAN on the importance of cultivating capable management and establishing formal sustainability committees to enhance ESG performance. In doing so, the study contributes to a deeper understanding of how leadership capability and governance structure interact to support sustainable finance development in institutionally diverse regional contexts.

## Literature Review and Hypotheses Development

### Upper Echelons Theory

Upper Echelons Theory posits that organizational outcomes are shaped by the characteristics, values, and cognitive bases of top executives, as strategic choices reflect the interpretations and judgments of those who lead the organization (Hambrick & Mason, 1984). Managers play a central role in interpreting environmental challenges, allocating resources, and determining the firm's strategic priorities. Consequently, differences in managerial capability can lead to variations in organizational strategies and performance outcomes. Highly capable managers tend to possess stronger analytical skills, broader strategic perspectives, and greater ability to manage complex organizational environments. These capabilities enable them to identify emerging opportunities and risks more effectively and to align organizational strategies with long-term objectives. In the context of sustainability performance, such capabilities become particularly important as ESG initiatives often involve long-term investments, cross-functional coordination, and the balancing of financial and non-financial objectives.

## Resource Dependence Theory

Resource Dependence Theory explains that organizations depend on external resources and must develop governance structures that help them secure these resources and manage environmental uncertainty (Guo et al. 2024). Firms therefore adopt internal mechanisms that allow them to better respond to stakeholder expectations and external pressures.

Within the sustainability context, governance structures such as board committees play an important role in facilitating the acquisition of resources, expertise, and legitimacy required for ESG implementation. By establishing dedicated governance mechanisms, organizations can better coordinate sustainability initiatives and strengthen their responsiveness to external sustainability demands. Thus, governance structures that focus specifically on sustainability issues may enhance firms' ability to effectively implement ESG strategies.

## The Effect of Managerial Ability on ESG Performance

ESG standards evaluate how firms manage ESG responsibilities and have increasingly become a critical dimension of corporate performance. Integrating ESG considerations into business operations has become particularly important in the financial services sector, where sustainability practices influence risk management, stakeholder trust, and long-term organizational stability (Rabbani et al. 2024). In banking institutions, top management represents a crucial organizational resource because managerial decisions directly influence how the firm responds to regulatory expectations, stakeholder pressures, and sustainability challenges (Rabbani et al. 2024). Managerial ability refers to the diverse set of competencies that enable executives to effectively manage organizational resources and achieve strategic objectives, including leadership capability, strategic vision, communication skills, and decision-making capacity (Cao et al. 2025).

Prior research has demonstrated that managerial ability is associated with several important organizational outcomes. For example, managers with higher ability tend to improve financial reporting quality and overall firm performance (Huang et al. 2022), as well as influence strategic investment decisions (Yung & Chen 2018). These competencies are also highly relevant in the context of ESG performance, as sustainability strategies require the ability to identify material ESG risks and opportunities, allocate resources effectively, and integrate sustainability considerations into core business operations. Empirical evidence by Cao et al. (2025) shows that managerial ability positively influences ESG performance, as capable managers are better able to align corporate strategies with stakeholder expectations and promote long-term value creation through sustainability initiatives. In the banking sector, this capability becomes particularly important because ESG practices influence not only internal operations but also lending policies and financial resource allocation across the broader economy. Drawing on Upper Echelons Theory, managerial ability can therefore be expected to shape banks' strategic orientation toward sustainability and influence their ESG performance outcomes.

**H<sub>1</sub>:** Managerial ability has a positive effect on ESG performance.

## The Moderating Effect of Sustainability Committee on the Influence of Managerial Ability on ESG Performance

The growing global emphasis on sustainability has increased the importance of governance mechanisms that oversee ESG initiatives within organizations. In the banking sector, ESG integration is particularly critical because banks influence the economy both through internal risk management practices and through financing activities that support broader economic development (Nițescu et al. 2025). As a response to increasing sustainability expectations, many organizations have established

sustainability committees within their board structures to oversee ESG strategies and initiatives. These committees play an important role in guiding sustainability policies, coordinating ESG activities across organizational units, and ensuring that sustainability objectives are integrated into corporate decision-making processes. Research by Tumewang et al. (2025) demonstrates that firms with sustainability committees tend to exhibit stronger ESG performance. The presence of such committees enhances monitoring of managerial decisions related to environmental and social issues and ensures that sustainability strategies receive sufficient attention at the board level. As a result, sustainability committees provide a governance framework that facilitates the effective implementation of ESG initiatives.

From the perspective of Resource Dependence Theory, sustainability committees can also be viewed as organizational mechanisms that help firms secure critical resources and legitimacy from external stakeholders (Guo et al. 2024). By providing expertise, strategic guidance, and oversight related to sustainability issues, these committees strengthen the organization's capacity to respond to evolving stakeholder expectations. In this context, the presence of a sustainability committee may enhance the effectiveness of managerial ability in implementing sustainability strategies. While capable managers possess the strategic competence to develop ESG initiatives, the existence of a dedicated governance structure provides the institutional support, oversight, and coordination necessary to translate managerial capability into stronger ESG outcomes. Therefore, the presence of a sustainability committee is expected to strengthen the relationship between managerial ability and ESG performance.

**H2:** the sustainability committee strengthens the positive effect of managerial ability on ESG performance.

## Method

### Sample Selection and Data Collection

This study examines publicly listed banking institutions across the ASEAN-5 economies, namely Indonesia, Malaysia, the Philippines, Singapore, and Thailand, over the period 2017–2023. The banking sector is selected because banks play a central role in financial intermediation and capital allocation, which makes their sustainability practices particularly important for broader economic development. The sample is constructed using a purposive sampling approach. *First*, the study focuses exclusively on banking institutions to ensure comparability in business models and financial structures. Banks differ substantially from non-financial firms in terms of their asset structures, regulatory environments, and revenue-generation mechanisms. These differences are particularly relevant for measuring managerial ability and ESG performance, as financial institutions rely more on financial assets and interest-based income than on physical assets and sales revenues. *Second*, firms with incomplete data for any of the variables required in the analysis during the observation period are excluded from the sample. ESG performance data, financial information, and governance variables are primarily obtained from the LSEG database. After applying these selection criteria, the final sample consists of 274 firm-year observations.

### Variable Measurement

The dependent variable in this study is ESG performance. ESG performance is measured using the ESG Combined Score obtained from the LSEG database, which represents a comprehensive assessment of a banking's ESG practices based on publicly reported information. This measure is widely used in prior research as a reliable indicator of firms' sustainability performance and transparency (Baraibar-Diez & Odriozola, 2019; Fiorillo et al., 2023; Kateb & Alahdal, 2024; Paolone et al., 2024; Ioannidis et al., 2025).

The independent variable in this study is managerial ability. Managerial ability reflects managers' capacity to efficiently utilize firm resources to generate outputs and achieve organizational objectives. Following the approach proposed by Abdesslem et al. (2022), managerial ability is measured using a two-stage procedure. In the *first stage*, firm efficiency is estimated to capture how effectively firms convert inputs into outputs. In the *second stage*, the portion of efficiency that firm characteristics cannot explain is extracted as the managerial ability score. The residual obtained from this regression represents the level of efficiency attributable to managerial capability rather than firm-specific attributes.

The moderating variable in this study is the sustainability committee. The sustainability committee represents a board-level governance mechanism responsible for overseeing sustainability strategies and ESG initiatives within the firm. Following Tumewang et al. (2025), the sustainability committee variable is coded as a dummy where it scored as one (1) if the firm has a sustainability committee and zero (0) otherwise. This operationalization captures the presence of a formal governance structure dedicated to sustainability oversight.

Several control variables are included to account for firm-specific and macroeconomic factors that may influence ESG performance. Firm size (SIZE) is measured as the natural logarithm of total assets. Larger firms tend to face greater stakeholder scrutiny and possess more resources to implement sustainability initiatives. Price-to-Book Value (PBV) is included as a proxy for market valuation and growth opportunities. Firms with higher market valuations may have stronger incentives to adopt ESG practices. Leverage (LEV) is measured as total liabilities divided by total assets. Firms with higher leverage may face financial constraints that limit investments in sustainability initiatives. Capital Intensity (CAPIN) reflects the proportion of capital investments to firm operations and may influence ESG performance by enhancing operational efficiency. In addition to firm-level variables, macroeconomic control variables are included to capture broader economic conditions. Gross Domestic Product (GDP) represents macroeconomic conditions that may influence corporate investment in sustainability practices. Inflation (INF) is included to control for macroeconomic instability that may affect firms' strategic priorities.

### Model Specification

To test the proposed hypotheses, this study employs panel data regression analysis. Panel data analysis allows the study to account for both cross-sectional and time-series variation across firms and years. The baseline regression model used to test the effect of managerial ability on ESG performance is specified as (1). Moreover, to test the moderating effect of the sustainability committee, the interaction term between managerial ability and the sustainability committee is introduced in the following model (2).

$$ESG_{it} = \beta_0 + \beta_1 MA_{it} + \beta_2 SIZE_{it} + \beta_3 PBV_{it} + \beta_4 LEV_{it} + \beta_5 CAPIN_{it} + \beta_6 GDP_t + \beta_7 INF_t + \varepsilon_{it} \dots (1)$$

$$ESG_{it} = \beta_0 + \beta_1 MA_{it} + \beta_2 SC_{it} + \beta_3 MA_{it} * SC_{it} + \beta_4 SIZE_{it} + \beta_5 PBV_{it} + \beta_6 LEV_{it} + \beta_7 CAPIN_{it} + \beta_8 GDP_t + \beta_9 INF_t + \varepsilon_{it} \dots (2)$$

To determine the most appropriate panel regression model, a series of specification tests is conducted. The Lagrange Multiplier (LM) test is first used to compare the pooled ordinary least squares model with panel data models. A significant LM statistic indicates that panel estimation is preferable. Subsequently, the Hausman test is employed to determine whether a fixed-effects or random-effects specification is more appropriate. Based on the results of these tests, the final regression model is estimated accordingly. In addition, several diagnostic tests are conducted to ensure the validity of the regression results, including tests for multicollinearity, heteroscedasticity, autocorrelation, and normality of residuals. To address potential heteroscedasticity and serial correlation, the regression models are estimated using robust standard errors.

One potential concern in this study is the possibility of endogeneity arising from reverse causality between managerial ability and ESG performance. Firms with stronger ESG performance may also exhibit higher operational efficiency, which is reflected in higher managerial ability scores. To mitigate this concern, this study employs a lagged independent variable approach by using managerial ability measured in the previous period to predict current ESG performance. This specification helps reduce simultaneity bias by ensuring that managerial ability precedes ESG outcomes in time. In addition, the regression models are estimated using firm-level clustered robust standard errors to account for potential heteroscedasticity and serial correlation in the panel data. This approach is commonly adopted in prior empirical studies examining corporate governance and sustainability relationships.

## Results

Table 1 presents the descriptive statistics for the ESG variables based on 274 firm-year observations of publicly listed banks across the ASEAN-5 economies during 2017–2023. The mean ESG score is 51.021, with a relatively large standard deviation of 27.929, indicating that ESG performance among banks in the region is not only moderate on average but also highly uneven. The wide range between the minimum value (25.666) and the maximum value (87.922) further suggests that ASEAN-5 banks are at very different stages of ESG integration, with some institutions already demonstrating relatively advanced sustainability practices while others remain considerably less developed.

**Table 1** Descriptive Statistics

Variable	Mean	Std. Deviation	Maximum	Minimum
ESG	51.021	27.919	87.922	25.666
E	42.371	30.884	94.971	2.936
S	54.130	30.907	93.876	8.505
G	50.672	30.171	96.239	20
MA	-0.008	0.123	0.816	-0.170
SC	0.760	0.427	1	0
SIZE	23.930	1.745	27.052	17.649
PBV	1.625	3.713	38.706	0
LEV	0.849	0.105	0.945	0.111
CAPIN	0.0129	0.010	0.099	0.001

Note: ESG = ESG Performance; E = Environment; S = Social; G = Governance; MA = Managerial Ability; SC = Sustainability Committee; SIZE = Firm Size; PBV = Market Valuation; LEV = Leverage; CAPIN = Capital Intensity.

A more detailed look at the ESG pillars reveals an unbalanced pattern of sustainability performance. The environmental pillar records the lowest average score (mean = 42.371), which suggests that environmental integration remains the least developed dimension among banks in the sample. This pattern is consistent with the nature of banking operations, where environmental impacts are typically indirect and are more closely tied to lending portfolios and financing decisions than to direct operational emissions. By contrast, the social pillar has the highest average score (mean = 54.130), indicating that banks appear to place relatively greater emphasis on stakeholder-related issues such as employees, customers, and community engagement. The governance pillar follows with a mean of 50.672, suggesting that governance practices are more established than environmental initiatives, although still marked by substantial variation across institutions. Overall, these descriptive patterns imply that ESG development in the ASEAN-5 banking sector remains uneven not only across banks, but also across the three underlying sustainability dimensions.

Managerial ability has a mean value of  $-0.008$  and a standard deviation of  $0.123$ , indicating that the distribution of managerial ability is centered close to zero, as expected for an efficiency-based residual measure, but still exhibits meaningful cross-bank variation. The relatively wide range, from  $-0.170$  to

0.816, suggests that managerial efficiency differs substantially across sampled banks. In practical terms, this indicates that while some management teams are able to convert organizational resources into outputs more efficiently than expected, others perform below the industry-adjusted benchmark. Such variation is important for this study because it shows that managerial ability is not uniform across ASEAN-5 banks and therefore provides sufficient empirical variation to explain differences in ESG performance.

The sustainability committee variable shows a mean value of 0.760 with a standard deviation of 0.427, indicating that approximately 76% of the sampled bank-year observations have a formal sustainability committee. The minimum and maximum values of 0 and 1 confirm that this variable is measured as a dummy indicator capturing the presence or absence of a sustainability committee. This pattern suggests that sustainability oversight has been adopted by the majority of ASEAN-5 banks, although a substantial proportion of observations still do not have such a formal governance mechanism. The variation in this variable provides an appropriate basis for examining whether the presence of a sustainability committee strengthens the effect of managerial ability on ESG performance.

The Hausman test indicates that the fixed-effects specification is more appropriate than the random-effects model ( $p < 0.05$ ), suggesting that unobserved firm-specific characteristics are correlated with the explanatory variables. Therefore, the fixed-effects estimator is adopted as the primary estimation approach to control for time-invariant heterogeneity across banks. Table 2 presents the regression results examining the relationship between managerial ability, sustainability committees, and ESG performance. All regression models are estimated using robust standard errors to address potential heteroscedasticity and serial correlation in the panel data.

**Table 2** Regression Results

Regression	Dependent: ESG	
	1	2
MA	1.654**	1.551**
SC		0.851**
MA*SC		1.216**
SIZE	0.821*	0.768
PBV	0.202**	0.203*
LEV	-2.93*	-3.09*
CAPIN	2.722	2.724
GDP	0.221	0.434
INF	1.009	1.007

Note: ESG = ESG Performance; E = Environment; S = Social; G = Governance; MA = Managerial Ability; SC = Sustainability Committee; SIZE = Firm Size; PBV = Market Valuation; LEV = Leverage; CAPIN = Capital Intensity; \*p value < 0.10; \*\*p value < 0.05.

As shown in Table 2, managerial ability has a positive and statistically significant effect on ESG performance ( $\beta = 1.654$ ), thus supporting H<sub>1</sub>. This finding indicates that banks managed by more capable executives tend to exhibit better ESG performance. Considering that the average ESG score in the sample is 51.021 with a standard deviation of 27.919, the coefficient suggests a positive, although relatively modest, economic effect. Given that managerial ability has a mean of -0.008 and a standard deviation of 0.123, a one-standard-deviation increase in managerial ability is associated with an increase of approximately 0.19 points in ESG performance. Although the magnitude is not large, this result remains meaningful because managerial ability is measured as an efficiency-based residual with a relatively narrow distribution across firms. Overall, the evidence in Table 2 suggests that managerial capability contributes positively to sustainability performance among ASEAN-5 banks.

The sustainability committee variable also exhibits a positive and statistically significant relationship with ESG performance. Given the observed variation in ESG scores across the sample, this coefficient

indicates that banks with dedicated sustainability committees tend to achieve higher ESG scores than those without such governance structures. This result suggests that formal sustainability oversight at the board level contributes to the development, coordination, and monitoring of sustainability initiatives within banking institutions.

More importantly, the interaction term between managerial ability and sustainability committee is positive and statistically significant. This finding supports H2 and indicates that the presence of a sustainability committee strengthens the positive relationship between managerial ability and ESG performance. In other words, capable managers appear to be more effective in improving ESG performance when supported by formal governance structures dedicated to sustainability oversight.

Among the control variables, firm size shows a positive association with ESG performance in both models, although it is only statistically significant in Model 1. This suggests that larger banks may face greater stakeholder scrutiny and possess more organizational resources to implement sustainability initiatives. Price-to-book value also demonstrates a positive relationship with ESG performance and remains statistically significant across the models ( $\beta = 0.202$ ,  $p < 0.05$  in Model 1;  $\beta = 0.203$ ,  $p < 0.10$  in Model 2), indicating that firms with stronger market valuations may have stronger incentives to maintain sustainability reputations. In contrast, leverage exhibits a negative association with ESG performance and is statistically significant in both models ( $\beta = -2.93$ ,  $p < 0.10$  in Model 1;  $\beta = -3.09$ ,  $p < 0.10$  in Model 2), suggesting that highly leveraged banks may face financial constraints that limit investments in sustainability initiatives. Meanwhile, capital intensity, GDP, and inflation do not show statistically significant relationships with ESG performance in either model. Overall, the regression results provide empirical evidence that both managerial capability and governance structures play important roles in shaping ESG performance in the ASEAN banking sector.

To address potential endogeneity concerns arising from reverse causality between managerial ability and ESG performance, this study also estimates an alternative specification using lagged managerial ability. Table 3 presents the results remain consistent, indicating that managerial ability measured in the previous period continues to have a positive and statistically significant association with ESG performance. This consistency suggests that the observed relationship is unlikely to be driven solely by simultaneity bias and reinforces the argument that managerial ability plays a substantive role in shaping sustainability outcomes. The use of lagged managerial ability helps reduce simultaneity concerns; however, it does not fully eliminate all potential sources of endogeneity.

**Table 3** Endogeneity Results

Regression	Dependent: ESG	
	1	2
Lagged MA	1.402**	1.318**
SC		0.812**
Lagged MA*SC		1.046**
SIZE	0.742	0.701
PBV	0.191*	0.188*
LEV	-2.84*	-2.96*
CAPIN	2.615	2.603
GDP	0.305	0.387
INF	0.944	0.936

## Discussions

The findings of this study provide several important insights into the determinants of ESG performance in the ASEAN banking sector. *First*, the positive and significant effect of managerial ability on ESG

performance suggests that sustainability performance is not determined solely by external pressures or formal compliance requirements, but is also shaped by the quality of managerial decision-making. This result is consistent with Upper Echelons Theory, which argues that organizational outcomes reflect the characteristics and capabilities of top executives (Hambrick & Mason, 1984). In the context of banking, this finding is particularly relevant because ESG implementation requires managers to make forward-looking strategic decisions under conditions of regulatory change, stakeholder scrutiny, and increasing sustainability-related risk exposure. Compared with many operational decisions, ESG-related decisions in banks involve more complex judgment because they are linked not only to internal practices, but also to lending policies, portfolio quality, reputational exposure, and long-term legitimacy.

The positive association between managerial ability and ESG performance also suggests that capable managers are better able to translate sustainability demands into workable organizational strategies. In practical terms, managerial ability may help banks identify material ESG risks, prioritize sustainability initiatives, coordinate across functional units, and allocate resources more efficiently. This interpretation aligns with prior evidence indicating that managerial ability supports better strategic decision-making and stronger ESG outcomes (Cao et al., 2025). At the same time, the economic magnitude of the coefficient should be interpreted with some caution. Although the effect is statistically significant, managerial ability in this study is measured as an efficiency-based residual with a relatively narrow distribution. Therefore, the result is better understood as evidence that managerial capability systematically matters for ESG performance, rather than as evidence of a large, immediate effect in absolute terms.

*Second*, the significant positive interaction between managerial ability and the sustainability committee indicates that managerial capability and governance structure operate as complementary rather than independent drivers of ESG performance. This is one of the study's central contributions. The result implies that capable managers are more effective in improving ESG performance when their decisions are supported by a formal governance mechanism dedicated to sustainability oversight. In other words, managerial ability may provide the strategic competence to recognize and formulate ESG initiatives, but the sustainability committee helps convert that competence into organizationally embedded action. This committee can reduce implementation frictions by strengthening monitoring, legitimizing sustainability priorities within the board, and ensuring that ESG objectives are not treated as peripheral to the bank's core strategy. Thus, the governance structure does not merely coexist with managerial capability; it appears to enhance its effectiveness.

The sustainability committee is positioned in this study as a moderating governance mechanism that may strengthen the effect of managerial ability on ESG performance. At the same time, its significant direct association with ESG performance suggests that this governance structure may function not only as a boundary condition, but also as an important organizational antecedent of ESG performance. The positive coefficient on the sustainability committee variable indicates that board-level sustainability oversight is associated with stronger ESG performance. This finding suggests that ESG performance are not only driven by managerial capacity, but also by whether sustainability is institutionalized within the banking's governance structure. A sustainability committee can contribute to ESG performance by formalizing sustainability oversight, improving communication between management and the board, increasing attention to ESG issues in strategic discussions, and creating clearer internal accountability for sustainability-related initiatives. This finding is consistent with prior studies showing that dedicated board committees are associated with stronger ESG performance and disclosure quality (Baraibar-Diez & Odriozola, 2019; Tumewang et al., 2025).

This finding is particularly relevant in the ASEAN setting. The ASEAN-5 banking sector operates in an environment characterized by considerable variation in regulatory maturity, disclosure practices, and institutional support for sustainable finance. In such a context, internal governance mechanisms may become especially important because they help compensate for uneven external enforcement and

differing national sustainability regimes. The result suggests that sustainability committees may serve as an internal stabilizing mechanism, helping capable managers implement ESG priorities more consistently across diverse institutional environments. This helps explain why the moderating effect is meaningful in a multi-country ASEAN sample, where external systems vary, and internal governance structures become more consequential.

The control variable results also add nuance to the interpretation. The positive association between PBV and ESG performance suggests that banks with stronger market valuations may face greater incentives to maintain legitimacy and investor confidence by strengthening their ESG engagement. By contrast, the negative relationship between leverage and ESG performance indicates that financial pressure may constrain banks' capacity to invest in sustainability-related initiatives. Firm size is positive but loses significance in the moderation model, suggesting that although larger banks may have more resources and visibility, size alone does not guarantee stronger ESG performance once managerial capability and governance structure are taken into account. This implies that the quality of internal leadership and oversight may matter more than organizational scale itself.

Finally, the robustness of the findings after using lagged managerial ability strengthens the credibility of the results. The lagged specification indicates that the positive relationship between managerial ability and ESG performance remains qualitatively consistent even after addressing potential simultaneity concerns. This does not eliminate endogeneity entirely, nor does it establish strict causality, but it does suggest that the main findings are unlikely to be driven solely by reverse causality. Accordingly, the evidence supports the interpretation that managerial ability represents a meaningful antecedent of ESG performance in ASEAN-5 banks, especially when reinforced by formal sustainability governance.

Overall, the discussion points to a broader implication: ESG performance in banking is not simply the product of external sustainability demands or formal governance compliance. Rather, it emerges from the interaction between managerial competence and governance arrangements that enable sustainability objectives to be translated into strategic and operational outcomes. In this sense, the study suggests that banks are more likely to achieve stronger ESG performance when they combine capable management with institutionalized sustainability oversight at the board level.

## Conclusion

This study examines whether managerial ability enhances ESG performance and whether the sustainability committee moderates this relationship among ASEAN-5 banks. The findings show that ESG performance is shaped not only by formal governance arrangements but also by the quality of managerial decision-making. Specifically, managerial ability is positively associated with ESG performance. At the same time, the presence of a sustainability committee has both a direct positive effect on ESG performance and a strengthening effect on the relationship between managerial ability and ESG performance. These results suggest that sustainability performance is more likely to improve when managerial strategic capability is supported by formal board-level oversight.

More broadly, this study highlights that ESG in banking should not be understood merely as a disclosure outcome or as a response to external pressure. Rather, it reflects the interaction between internal leadership capacity and governance infrastructure. In this sense, the evidence suggests that capable managers and sustainability committees operate as complementary organizational mechanisms in advancing sustainability performance. The use of lagged managerial ability and robust standard errors further increases confidence that simultaneity concerns do not simply drive the main findings.

From a theoretical perspective, this study contributes to ESG literature by explicitly positioning managerial ability as an important internal determinant of ESG performance. It also shows that the effect of managerial ability is more meaningful when embedded within an appropriate governance structure. From a practical

perspective, the findings imply that banks seeking to improve ESG performance should move beyond symbolic sustainability commitments. Improving ESG performance requires not only competent managers who can translate sustainability demands into strategic action, but also governance structures that can monitor, support, and institutionalize those efforts.

This study, however, is subject to several limitations. First, it focuses only on publicly listed banks in ASEAN-5, so the findings should be interpreted within the institutional and sectoral context of regional banking. Second, ESG performance is measured using LSEG data, which relies on publicly disclosed information and may not fully capture differences in the substance of sustainability practices. Future research may therefore extend this analysis to other sectors or regions, examine the individual ESG pillars separately, or explore the qualitative characteristics of sustainability committees to understand better the conditions under which such governance mechanisms become most effective.

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### **Conflict of Interest**

The authors declare no conflict of interest. The founders had no role in the design of the study, the collection, analysis, or interpretation of data, the writing of the manuscript, or the decision to publish the results.