

Environmental, Social, and Governance Disclosure's Impact on Return on Equity in Asian Banks

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Abstract

Global awareness of sustainability, social responsibility and Good Corporate Governance (ESG) is increasingly driving investor attention towards sustainable business practices, including in the Asian banking sector. However, empirical findings related to the influence of ESG on financial performance still vary. This study aims to systematically analyze the effect of ESG disclosure on the financial performance of banks in the Asian region, as measured using Return on Equity (ROE). The Systematic Literature Review (SLR) method is used to synthesize relevant empirical studies on the relationship between ESG and financial performance on relevant indexed journals in the Asian banking sector. The SLR results show that most studies have found a positive and significant influence of ESG on ROE. This study contributes to strengthening the ESG literature in the Asian financial sector and provides practical implications for banks, investors, and regulators to encourage ESG integration as a strategy to improve profitability and long-term stability.

Keywords

ESG, Financial Performance, ROE, Sustainability, Banking in Asia

1. Introduction

Environmental, Social, and Governance (ESG) issues have become a major concern in the global financial services industry. Banks as financial intermediaries play a central role in driving sustainable business practices. In Asia, the adoption of ESG practices in banking is increasing along with regulatory pressure and public awareness of the importance of sustainable development. In Indonesia, for example, the Financial Services Authority has issued a regulation requiring banks to prepare sustainability reports containing ESG performance since 2019. ESG implementation is expected to increase the long-term value of the company through strengthening reputation, customer trust, and mitigating non-financial risks. For the banking sector, which is closely related to public trust, ESG performance disclosure is considered a commitment to ethical and sustainable business practices that can attract investors and customers.

However, the relationship between ESG performance and bank financial performance (e.g. ROE) is not always consistent across studies. Some studies found that ESG integration has a positive impact on bank profitability. For example, Sain and Kashiramka (2024) report that ESG disclosure significantly improves the profitability performance of banks in emerging economies, and Zhou et al. (2024) showed that ESG scores-particularly the social and governance components-were positively related to bank ROE in China during the COVID-19 crisis. Similar findings were revealed by Nathania and Ekawati (2024), where ESG scores positively affect bank ROE in several ASEAN countries. These findings are in line with stakeholder theory which states that companies that fulfill their social and environmental responsibilities will gain stakeholder support, which in turn improves long-term financial performance.

However, on the other hand, there are studies that found a negative or insignificant effect of ESG on bank performance. Alamsyah et al. (2024), for example, found that overall ESG scores had a negative but insignificant impact on ROE of Asia Pacific banks, although it had a significant negative impact on market value (Tobin's Q). Similarly, Indrasuci and Rokhim (2023) in a case study of East Asian banks reported a significant negative effect of ESG on ROE. Meanwhile, Buallay et al. (2020) found that sustainability reporting (as a proxy for ESG) has no significant effect on bank ROE in the Middle East region. These mixed results indicate that there are contextual factors and internal dynamics that affect the effectiveness of ESG in the banking sector. Some banks may face high ESG implementation costs or short-term conflicts between sustainability and profitability objectives that may not have an immediate positive impact.

Given the gap in literature and the non-uniformity of results, it is necessary to conduct a thorough review of recent studies that discuss ESG and bank performance, especially in Asia. To date, there are not many systematic studies that summarize the latest empirical findings (especially for the period 2020 - 2025) regarding the effect of ESG disclosure on bank ROE in Asia. Therefore, this study conducts a Systematic

Literature Review (SLR) to collect, evaluate, and synthesize previous research results on the impact of ESG on banking performance (ROE) in Asia. Through the SLR approach, it is expected to gain a comprehensive understanding of the patterns of findings (e.g., how many studies find positive vs. negative impacts), what factors moderate the ESG-ROE relationship, and what implications can be drawn for banking and policy.

This research is organized as follows, the Literature Review section will outline the theoretical basis and key findings from previous research related to ESG and banking performance. The Methodology section explains the SLR procedure conducted, including literature selection criteria and data sources. Next, the Results section presents the synthesized results of the literature review, followed by Discussion which discusses the interpretation of the findings and their implications. Finally, Conclusion presents the main conclusions, research limitations, and recommendations for further research and industry practice.

2. Literature Review

2.1. ESG Concept and Banking Performance

Environmental, social, and governance, or ESG, is a concept that includes three corporate sustainability pillars. The environmental pillar in banking refers to how banks handle their environmental impact (e.g., operational carbon footprint, green financing); the social pillar covers the bank's obligations to its customers, employees, and the community (e.g., financial inclusion, customer protection, CSR activities); and the governance pillar deals with open, accountable, and moral corporate management practices (e.g., board structure, shareholder rights, risk management). The public and investors are informed about the bank's performance in these three areas through ESG disclosures, which are usually included in sustainability reports or annual reports.

According to theory, including ESG into a bank's business plan can influence financial performance in several ways. The stakeholder hypothesis states that banks that actively participate in ESG practices improve their long-term financial performance by gaining the legitimacy and support of stakeholders, including investors, customers, and regulators. For example, a dedication to social responsibility and environmental sustainability can improve the bank's standing with clients and foster customer trust, which will propel economic expansion.

Additionally, ESG can function as a risk management instrument: Banks that prioritize Environmental, Social, and Governance (ESG) concerns are often more alert to potential environmental or social risks, such as credit risk in unsustainable ventures, which helps prevent future losses (Shakil et al., 2019; Almulla et al., 2025). From the viewpoint of the Resource-Based View (RBV) theory, investments in ESG programs may help companies develop distinctive skills and increase operational efficiency (e.g., by saving energy and fostering greater employee loyalty), which would ultimately improve performance metrics like return on equity (ROE).

In contrast, shareholder primacy and agency theory highlight that initiatives outside of the main financial goals might be seen as extra expenditures that lower earnings. If the benefits are not realized right away, banks that devote a large number of resources to environmental or social programs may see a temporary dip in profitability. At least in the short term, this perspective supports the idea that sustainability and profitability are at odds (Buallay et al., 2020). Additionally, some traditional investors worry that an overemphasis on ESG may take management's attention away from the main goal of profit, particularly when ESG data has not yet been demonstrated to have a clear connection to improved financial performance.

2.2. Previous Empirical Findings

Empirical research on the impact of ESG on banking performance has produced mixed results. However, recent trends—particularly studies conducted after 2020—have increasingly shown positive evidence, even though some findings still indicate negative or insignificant effects. A substantial portion of recent literature points to a positive association between strong ESG practices and bank profitability. For example, Sain and Kashiramka (2024) found that ESG disclosures significantly enhance profitability in Indian banks, suggesting that transparency in sustainability practices boosts performance. Similarly, Bui et al. (2024) reported that composite ESG scores, along with the environmental and governance pillars, positively influence ROE and ROA, while the social component remains insignificant. Nathania and Ekawati (2024), analyzing banks across Indonesia, Malaysia, Singapore, and the Philippines, also concluded that ESG scores positively affect ROE, with the relationship being stronger in state-owned banks. These findings align with theories asserting that ESG investments generate financial value through increased investor confidence and long-term operational efficiencies.

Beyond profitability, many studies emphasize the role of ESG in enhancing bank stability and reducing risk. Almulla et al. (2025), focusing on Gulf Cooperation Council (GCC) countries, demonstrated a positive correlation between ESG scores and banking stability, measured by Z-scores and ROA volatility. Likewise, Zhou et al. (2024) found that high ESG scores among Chinese banks reduced stock return volatility during crises, suggesting that ESG acts as a buffer in turbulent periods. Although stability and profitability are distinct, they are interrelated, as long-term performance and investor trust often hinge on a bank's resilience, implying that ESG indirectly supports sustainable profitability.

Nonetheless, not all literature supports a uniformly positive impact of ESG on banking performance. Alamsyah et al. (2024) reported a slight negative effect of ESG disclosure on ROE and ROA in Asia Pacific banks, noting a stronger impact only on Tobin's Q. Buallay et al. (2020) similarly found no significant effect on ROA and ROE but a decline in market value due to sustainability reporting among Middle Eastern banks. In East Asia, Indrasuci and Rokhim (2023) noted that low governance scores contributed to a significant negative impact of ESG on profitability. Gutiérrez-

Ponce and Wibowo (2023) also observed an overall negative effect of ESG on ROA and ROE among Indonesian banks, although social factors positively influenced ROA and governance negatively impacted market value. These findings suggest that ESG, when poorly implemented or prematurely adopted, may impose costs that outweigh short-term financial benefits.

Research also highlights the varying impact of individual ESG components. In a cross-country study of developing markets, Shakil et al. (2019) found that environmental and social performance positively influenced ROE, while governance had no clear effect. This may reflect the prioritization of green initiatives and financial inclusion in developing countries, where governance standards are already regulated. Conversely, Nițescu et al. (2025) found that governance has a strong positive effect on ROE and ROA in international banks, while environmental factors may negatively affect short-term profitability. Al-Ahdal et al. (2023), examining mostly non-bank firms in developing markets, showed that while environmental disclosure positively affects ROE, social and governance disclosures have a negative impact. These variations indicate that the relevance of each ESG pillar may differ across industries, regions, and metrics, with environmental and social factors often enhancing public perception, and governance acting more as a hygiene factor, whose failure is more visible than its success.

Contextual and moderating elements also shape ESG's impact on performance. For instance, Nathania and Ekawati (2024) demonstrated that ESG's positive effect on ROE is stronger in state-owned banks, likely due to regulatory emphasis on sustainability. Kampooale et al. (2024) linked board gender diversity to improved ESG performance and financial outcomes, with ESG mediating this relationship. This suggests inclusive governance can amplify ESG's value. In contrast, Al-Ahdal et al. (2023) found that CEO power does not significantly influence the ESG-performance link. At the macro level, Azmi et al. (2021) identified an inverted U-shaped relationship between ESG and bank value in emerging markets, suggesting diminishing returns from excessive ESG investment. Cantero-Saiz et al. (2025) emphasized that ESG boosts profitability in countries with strong sustainability frameworks but hinders performance in nations with weaker sustainability indices, highlighting the role of government support and regulation.

Current trends and gaps in literature further emphasize the need for context-sensitive analysis. Tumewang et al. (2024) observed that ESG research in Islamic banking is growing at 18% annually, focusing on governance, performance, and consumer attitudes, with a call for more cross-national studies and scrutiny of genuine ESG efforts. Meanwhile, da Cunha et al. (2025) conducted a systematic review showing ESG's positive impact on market, strategic, and credit performance, but inconsistent findings for pure financial indicators. Long-term financial benefits from ESG are more commonly supported, while short-term performance may decline due to initial cost burdens. Therefore, a structured review of the Asian banking sector—where ownership structures, Islamic banking models, and emerging market

dynamics play crucial roles—is essential to understand these evolving ESG-performance relationships. In sum, although most studies support a positive link between ESG and banking performance (particularly ROE), contextual factors and implementation quality significantly influence the outcomes, warranting further systematic investigation.

3. Methods

This study employs the Systematic Literature Review (SLR) method to collect and analyze academic literature relevant to the topic of the impact of Environmental, Social, and Governance (ESG) disclosure on the Return on Equity (ROE) of banks in Asia. The SLR approach was chosen because it provides a structured, transparent, and reproducible process for reviewing the literature, resulting in a comprehensive synthesis and minimal bias. The SLR procedure in this study follows the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) 2020 guidelines, which guide the entire process from identification to the inclusion of relevant studies. Through this approach, the research seeks to systematically describe the dynamics of the ESG–financial performance relationship, focusing on ROE as the primary proxy of bank profitability.

The literature search strategy utilized reputable academic journal databases, with a primary focus on Scopus due to its broad coverage and high-quality publications. The keywords used included terms such as “environmental, social, and governance disclosure,” “financial performance analysis,” “sustainability in banking,” “banking in Asia,” and “ROE analysis.” These keyword combinations were designed to capture articles that specifically examine the relationship between ESG practices and bank financial performance, particularly in the Asian context. The publication year was limited to the range of 2020 to 2025 to ensure the literature reviewed reflects recent findings. In addition to database searches, manual searches were also conducted through “backward snowballing” from the references of key articles, as well as through expert recommendations, to avoid missing important studies that may not appear through standard search methods.

The inclusion criteria were as follows: articles published in reputable academic journals (preferably Scopus Q1 or Q2 indexed), the main topic discusses ESG and banking financial performance, the research object is a bank in Asia or a cross-country study including the Asian or emerging markets region, the financial performance measurement includes ROE or other profitability indicators, and the publication is in English. The exclusion criteria included non-empirical review articles, conference proceedings not yet published in journals, studies with non-bank objects, and studies outside the Asian context without clear relevance.

The literature screening process began with the initial identification of 620 articles. After automatic filtering to remove duplicates and limit publication years, as well as quality filtering based on journal reputation, 252 articles remained for the next phase. In the screening stage, the titles and abstracts of these articles were

reviewed to assess topic relevance, resulting in the exclusion of many articles that did not directly examine the relationship between ESG and bank performance. At the eligibility stage, full-text assessments were conducted to confirm conformity with the inclusion criteria, resulting in eight core articles from the database search. Additionally, 15 supplementary articles were obtained through manual research and expert suggestions, all of which met the inclusion criteria and were highly relevant to the research topic. Thus, a total of 23 articles were included in the analysis.

After the final selection, data was extracted from each article. Key information recorded included author and year, title and source of publication, research objectives, country and sample period, research method (e.g., panel regression or event study), variables studied (particularly the definitions of ESG and performance), and the main findings related to the ESG–ROE relationship. All this data was organized into a literature matrix to facilitate cross-study comparison. The analysis was conducted qualitatively using a descriptive-comparative approach, first grouping findings based on the direction of the effect (positive, negative, or insignificant), then examining the factors that might explain result variations such as regional differences, presence of mediating or moderating variables, performance indicators used, and time period (e.g., pre- vs post-COVID-19). The findings were interpreted using relevant theoretical frameworks, such as stakeholder theory and agency theory, to evaluate consistency or anomalies. By considering each study's limitations, the synthesis does not simply aggregate results but also evaluates the quality and context of each study. The final analysis is presented in the **Results and Discussion** section, which highlights patterns of findings and provides in-depth interpretation.

4. Results

4.1. Overview of Studies Reviewed

This Systematic Literature Review (SLR) synthesizes findings from 23 empirical studies that investigate the relationship between Environmental, Social, and Governance (ESG) factors and financial performance—specifically Return on Equity (ROE) within the banking sector or related financial institutions in Asia, as well as in global contexts that include Asia. Many of these studies (approximately 15 out of 23) were published between 2021 and 2024, highlighting the recency and relevance of this topic in the post-COVID-19 financial discourse. The scope of the reviewed literature varies in terms of geographic coverage, with studies focusing on individual countries such as Indonesia, Vietnam, India, China, and Malaysia, as well as on broader regions like Southeast Asia, the Asia-Pacific, the Gulf Cooperation Council (GCC), and global cross-country analyses involving emerging markets in Asia.

All reviewed studies employ quantitative methods using secondary data sources. The predominant analytical technique is regression analysis, particularly panel data regression, though several studies apply more sophisticated econometric methods. For instance, Agnese et al. (2024) use the Generalized Method of Moments (GMM) to address endogeneity in the context of ESG controversies in European banks,

which also serves as a useful comparison for non-Asian financial systems. Almulla et al. (2025) employ quantile regression to evaluate how ESG influences financial stability metrics like the Z-score and the standard deviation of ROA (SDROA) across different levels of bank stability. The ESG variables in these studies are generally constructed using composite ESG scores sourced from rating agencies such as Bloomberg, Refinitiv, and MSCI. In other cases, ESG is measured through indices derived from sustainability and corporate responsibility reports.

Regarding financial performance, ROE and Return on Assets (ROA) are the most used indicators, providing a basis for evaluating profitability and operational efficiency. Several studies also incorporate Tobin's Q as a market-based performance measure, reflecting investor valuation relative to asset book value. Some papers expand their analysis by including risk and stability metrics—such as non-performing loans (NPLs), the Z-score, or cost of debt—to provide a broader view of bank performance beyond pure profitability. For instance, Cantero-Saiz et al. (2024) found that ESG improves asset quality, though the effect weakens with higher profitability levels, especially in non-EU banks, while EU banks show stronger ESG-related improvements in risk management. Similarly, Zhou et al. (2024) observed that ESG scores can enhance stock returns and reduce volatility, particularly during the COVID-19 crisis, with Social and Governance aspects playing a stronger role in improving ROE.

Notably, the results of the studies are mixed and context dependent. Alamsyah et al. (2024) reported an insignificant negative effect of ESG disclosure on ROE and ROA, but a significant negative impact on Tobin's Q, suggesting short-term cost implications. On the other hand, Shakil et al. (2020) found that Environmental and Social performance significantly increased ROE in emerging market banks, indicating a financial value-add from ESG initiatives. Gutiérrez-Ponce and Wibowo (2023) highlighted a nuanced impact of different ESG dimensions, where social aspects positively influenced ROA and Tobin's Q, while Governance elements had a negative effect on market value. Several studies also explored mediating or moderating effects, such as Ben Ali and Chouaibi (2024), who showed that ESG performance mediates the relationship between executive incentives and financial outcomes, and Kampoowale et al. (2024), who found that board gender diversity indirectly enhances ROE through ESG improvements. Additionally, there is growing interest in ESG's role in financial stability, as shown by Athari (2024), who observed that sovereign ESG activity impacts banking stability in an inverted U-shaped pattern—suggesting that moderate ESG investment yields benefits, while excessive focus can backfire.

This SLR reviews 23 empirical studies that examine the relationship between ESG and financial performance (specifically ROE) in the banking sector or related financial institutions in Asia (or the global context that includes Asia). Of the total 23 studies, most (around 15 studies) were published in the last 3 years (2021-2024), indicating that the topic is very current. The object of research varies, covering studies

at the individual country level (such as Indonesia, Vietnam, India, China, Malaysia), regional (Southeast Asia, Asia Pacific, GCC), to global cross-country/emerging markets involving Asian banks. All studies use quantitative secondary data, with the dominant method of analysis being regression (panel data) and some using special techniques such as GMM (Generalized Method of Moments) to address endogeneity (Agnese et al., 2024, one of the European studies that serves as an out-of-Asia comparison), or quantile regression to look at effects on risk distribution (Almulla et al., 2025). ESG variables are generally measured through composite ESG scores provided by rating agencies (Bloomberg, Refinitiv, MSCI) or through report content-based index disclosures. While financial performance is measured by various indicators, ROE and ROA are the most common metrics, followed by Tobin's Q (market value to book value) as a proxy for firm value, and some use risk/stability indicators (Z-score, NPL) as a complement.

4.2. Pattern of ESG Effect on ROE and Related Performance

Many studies (≈60-70%) report a positive effect of ESG on bank financial performance, especially in the medium-to-long term. There is strong evidence that banks with higher ESG scores tend to have higher ROE than banks with low ESG performance, all other things being equal. For example, Sain and Kashiramka (2024) found a positive elasticity between ESG scores and bank ROE, implying that improving ESG quality goes hand in hand with improving profitability. Shakil et al. (2019) also showed a significant positive relationship for environmental and social dimensions on average ROE of emerging markets banks. This increase in ROE is often attributed by researchers to reputation and trust effects - sustainably managed banks attract more deposits and investments at a lower cost of capital, resulting in increased profits. In addition, there are indications that the benefits of ESG are increasingly visible in the period after 2020 where investor attention to sustainability issues surges. Zhou et al. (2024), for example, highlighted that during the COVID-19 crisis period, banks/companies with good ESG ratings in China were able to maintain more solid performance (high ROE and stock returns) than those that ignored ESG. This indicates better resilience thanks to ESG practices.

Some studies find positive effects of ESG mainly through improving metrics other than ROE, such as stability and market value, which indirectly support ROE improvement in the long run. Almulla et al. (2025) found ESG contributed to a decrease in the risk ratio (SDROA) and an increase in the Z-score of GCC banks, meaning banks became more stable and efficient, conditions that usually precede stronger profitability. Bhaskaran et al. (2023) reports a positive impact of ESG investments on banks' market value (Tobin's Q) while observing a negative correlation between ESG investments and short-term ROA. The implication of Bhaskaran's findings is that the stock market rewards sustainability initiatives by raising bank valuations, even though accounting ESG costs may depress profits momentarily. The increased market value may in turn make it easier for banks to

raise capital at a lower cost, potentially increasing ROE later. Thus, although ROE did not increase immediately in each study, other indicators positively influenced by ESG (stability, valuation) support the argument of long-term financial gains from ESG.

About 30-40% of studies report insignificant or negative effects, especially in the short term or in specific contexts. Not all banks experience immediate financial benefits from ESG. Alamsyah et al. (2024) and Buallay et al. (2020), both found no significant effect of ESG on ROE. Indrasuci & Rokhim (2023) even concluded a negative impact of ESG on the profitability of East Asian banks. While Gutiérrez-Ponce and Wibowo (2023) noted that the aggregate ESG score negatively impacted the ROE of five major Indonesian banks, despite the positive social component. Common reasons cited for such results are the high cost of ESG implementation and the time lag before benefits are realized. Banks often need to invest in green technology, HR training, compliance systems, and social activities - all of which weigh on earnings in the short term. If the research horizon is relatively short or the observation period coincides with the initial phase of ESG implementation, it is natural that the financial impact is not yet positive. In addition, in some Asian countries, market incentives for ESG are still weak, so banks that excel in ESG may not necessarily be rewarded with increased revenue or reduced cost of capital. Buallay et al. (2020) conjecture a trade-off, where banks must choose their focus between achieving financial vs. sustainability targets, at least until ESG is fully integrated into the business model.

The variation in results between studies is also influenced by differences in the financial performance measures used and the ESG dimensions emphasized. While the focus of this review is ROE, many studies measure performance with multiple indicators. Some studies that report “no significant effect of ESG on performance” often refer to ROA/ROE, but when looking at other indicators such as Tobin's Q or NIM (Net Interest Margin), there is an effect. For example, Alamsyah et al. (2024) found ESG has a significant negative effect on Tobin's Q, although it is not significant to ROE. Nițescu et al. (2025) reported that ESG combined decreased NIM and short-term market value, but some ESG sub-indicators (such as number of trained employees, job satisfaction) increased productivity and operating profit. This suggests that depending on which performance indicators are looked at, the conclusion of the ESG-performance relationship may differ. Market indicators tend to directly capture investor sentiment towards ESG (which can be positive or negative), whereas accounting indicators such as ROE may only be affected after internal processes have taken place.

The role of each ESG pillar on ROE has also been observed to differ in several studies. Shakil et al. (2019) emphasized the strength of environmental and social aspects in emerging markets banks, where both significantly increase ROE, but governance aspects do not. This could be because many banks in emerging markets already have minimum governance regulated by regulators, so the variation in

governance scores between banks is less pronounced. In contrast, environmental (such as green financing) and social (SME lending, social responsibility) initiatives are differentiators that the market values. Indrasuci and Rokhim (2023) found that the governance pillar has a significant negative effect on ROA, while the environmental pillar is positive on stock returns, indicating that there may be suboptimal governance quality or governance efforts that are formal compliance but not effective in improving performance. Gutiérrez-Ponce & Wibowo (2023) also showed that social aspects contributed positively to the ROA of Indonesian banks, perhaps related to reputation enhancement through social programs or financial inclusion, while environmental and governance aspects were not significant. Thus, not all ESG components have a uniform impact - some are more critical than others depending on what issues are most relevant in a particular business environment.

4.3. Specific Findings and Specific Contexts

Non-linearity and Optimum Point: Azmi et al. (2021) found an inverted U-shaped relationship between ESG scores and bank value. That is, initially an increase in ESG is followed by an increase in performance (value), but after passing the optimum point, additional ESG investment decreases firm value. This confirms that there is an optimal level of ESG investment; too little risk falling behind (under-investment), but too much can over-invest (diminishing returns). For ROE, this may mean that banks need to balance ESG spending so that the marginal financial benefit is positive.

Influence of Macro Conditions: Cantero-Saiz et al. (2025) assert that a country's sustainability conditions affect the effectiveness of a bank's ESG. Their study shows that in developing countries with low national sustainability indices, banks' ESG can have a negative impact on profitability (perhaps because markets and stakeholders are not yet supportive, so ESG efforts do not generate profits). But in high-sustainability countries, the ESG impact becomes positive. This is relevant for the heterogeneous Asian region - countries like Japan, Singapore may already be at the "high sustainability" stage where ESG yields positive results, whereas early stage developing countries may not see the benefits of ESG without ecosystem support.

Islamic Banking and Specialized Governance: Several studies highlighting the context of Islamic banks in Asia. Mukhibad et al. (2024) found that disclosure of sustainability performance (economic, social, environmental, sharia) in aggregate has no significant effect on profitability or customer loyalty in the short term, but disclosure of sharia compliance and environmental performance can increase customer loyalty and reduce the cost of debt. This suggests that in Islamic banks, religious (sharia governance) and environmental aspects play an important role in customer trust, which in turn can drive long-term profitability (ROE increases via loyalty). Wasim and Zafar (2024) through a review of sharia governance literature corroborated that good sharia governance positively affects the performance and reputation of Islamic banks, although the direct link to ROE requires further

empirical evidence. Therefore, in the Asian context where there are many Islamic banks, the Islamic governance dimension can be considered as an additional element of ESG (part of “S” or “G”) that affects performance.

Aspects of Internal Governance: Kampoowale et al. (2024) reveal the role of gender on the board: gender diversity (BGD) on the board statistically increases ROA, ROE, and Tobin's Q, both directly and through the mediation of ESG performance. This means that banks with more diverse boards tend to be more successful in ESG initiatives and that it drives performance. This finding is unique as it shows the internal mechanism by which ESG can be improved (by improving board structure), while strengthening the argument that ESG is not a single factor but rather part of the ecosystem of good corporate governance.

In summary, the results of the 23 studies in this SLR can be summarized: the majority support the hypothesis that “ESG disclosure has a positive effect on ROE and bank performance”, especially noting that the positive effect is more pronounced in the long run and in favorable environments. Some studies found negative or no effect, providing the perspective that “the short-term costs of ESG may depress profitability, especially without stakeholder support or if ESG is not optimally implemented”. In addition, there are important nuances such as the different contributions of ESG pillars and the role of moderating factors (ownership, corporate culture, country context). The next section will further discuss the implications of these findings, along with the underlying theoretical explanations.

5. Discussion

However, deeper discussion is needed to understand why and when ESG has a positive impact, and why in some cases the impact is negative or minimal. One important point is the difference in results between the short-term and the long-term. Several studies, such as Alamsyah et al. (2024) and Nițescu et al. (2025), reveal a negative impact of ESG on short-term indicators like Tobin's Q and Net Interest Margin (NIM), suggesting that immediate profitability or market valuation may decline due to the costs associated with ESG adoption. However, longer-term studies indicate a positive effect, supporting the view that ESG benefits take time to materialize. For instance, implementing green credit policies or educational CSR programs may not yield immediate returns, but over a period of 2–3 years, the positive effects can be seen in customer loyalty and reduced bad debts in sustainable sectors. This implies that bank management and investors must adopt a patient and forward-looking perspective when evaluating ESG performance. The tendency to demand instant results may cause ESG initiatives to be abandoned prematurely, preventing them from delivering long-term benefits that outweigh their initial costs.

Another key aspect is the market context and institutional support. The contrast in ESG impact across different countries—as shown by Cantero-Saiz et al. (2025)—demonstrates that the external environment plays a significant role. In countries like Singapore and Japan, where government policies actively support sustainability and

investors value ESG, banks that lead in ESG adoption are rewarded through mechanisms such as green funding access or stock price gains (Krisciukaityte et al., 2023). In contrast, in countries with limited institutional support—where ESG reporting regulations are weak and investor awareness is low—banks that invest in ESG may not receive comparable rewards and might even incur competitive disadvantages due to higher compliance costs. This explains findings like those from Indrasuci and Rokhim (2023), which showed negative ESG impacts in East Asia, possibly because the market had not yet evolved to reward ESG efforts. Therefore, collaboration between regulators, investors, and financial institutions is essential. Regulatory bodies can introduce incentives such as tax relief or reduced Risk-Weighted Assets (RWA) for ESG-friendly loans, institutional investors can prioritize green portfolios, and banking associations can foster knowledge sharing. Without such an ecosystem, it is difficult for banks to fully capture the benefits of ESG initiatives on their own (Rahman et al., 2024).

Internally, the quality of ESG implementation is equally crucial. ESG may fail to improve performance if it is limited to superficial disclosures without substantive change. Tumewang et al. (2024) highlight the risk of greenwashing, where institutions report ESG efforts for image purposes rather than taking real action. In such scenarios, it is expected that financial performance will not improve, since ESG exists only on paper. Therefore, ensuring that ESG scores genuinely reflect performance rather than just compliance is vital. Banks that seriously enhance environmental risk management, employee and customer welfare, and corporate governance are more likely to experience financial gains (Rahmasari, 2024). This underscores the need for ESG evaluation metrics that emphasize outcomes and real impacts rather than merely the quantity of disclosures. Future research should consider moving beyond disclosure-based measures to focus on actual ESG outputs.

Regarding the three ESG dimensions, studies show mixed but insightful findings about which elements most influence bank performance in Asia. Environmental and social factors often appear more prominent than governance. This is likely because governance practices in many Asian countries are already under regulatory oversight, creating less variability among banks. In contrast, environmental and social issues—such as climate change, energy transition, financial inclusion, and MSME financing—are more dynamic and can differentiate banks. This suggests that banks should adopt a balanced approach rather than focusing solely on one ESG pillar. A bank that has strong governance but lacks meaningful environmental or social initiatives may fail to realize the full benefits of ESG, and vice versa. Nițescu et al. (2025) provide an example where strong governance contributes to profit increases, while environmental efforts can reduce short-term returns. This indicates the need for an integrated ESG strategy—one that uses governance as a foundation for efficiency and control while gradually scaling up environmental and social investments to the point where they generate financial returns.

Company-specific internal factors also affect how ESG influences bank performance. Ownership structure, for example, matters. State-owned banks tend to have a greater mandate for public accountability and sustainability, making ESG a more effective driver of performance, as shown by Nathania and Ekawati (2024). In contrast, privately owned banks may respond more to market incentives before fully committing to ESG. Leadership characteristics are another important factor. Kampoowale et al. (2024) found that progressive leadership—characterized by gender diversity, independence, and expertise in sustainability—helps translate ESG initiatives into improved financial outcomes. Conversely, if senior management lacks belief in the long-term value of ESG, efforts are likely to be half-hearted and yield minimal results. Visionary leadership with a long-term outlook is thus critical. Many successful Asian banks are those led by leaders who innovate in green financial products and resist the temptation to chase only short-term profitability.

From a theoretical standpoint, the findings of this SLR align with Stakeholder Theory and Resource-Based View, both of which view ESG capability as a source of competitive advantage. However, negative results in certain studies also reflect Agency Theory concerns, where managers might engage in inefficient ESG spending or where investor attitudes remain traditional (Falah, 2024). The non-linear findings from Azmi et al. (2021) enrich this theoretical conversation by introducing the idea of an optimal ESG investment level—where excessive spending no longer generates value—thereby integrating Shareholder Value Theory with Stakeholder Theory. Regulators, therefore, should guide banks toward this optimal ESG point by penalizing poor ESG performers and rewarding those who strike the right balance. Overregulation or pushing ESG beyond its financial viability may cause unintended harm (Shabir et al., 2024).

For policymakers and banking regulators in Asia, the implications are multifaceted. First, while it is important to continue encouraging ESG transparency and disclosure standards, this should be accompanied by tangible incentives so that financial returns from ESG efforts are more immediate. For instance, financial authorities like the OJK or central banks could reduce capital requirements for banks with high ESG ratings, accelerating their ROE improvements. Second, improving ESG literacy among investors and customers is essential to ensure that market forces reward banks pursuing sustainability. Third, it is necessary to identify strategic areas for industry-wide collaborations such as joint financing of renewable energy projects that require significant capital and risk-sharing. By fostering collaboration, banks can participate in ESG activities without compromising financial prudence, ultimately enhancing both sustainability and profitability.

6. Conclusion

This study concludes that ESG disclosure and performance generally have a positive impact on Return on Equity (ROE) and financial performance of banks in Asia, especially when viewed over the long term and under adequate supporting

conditions. Of the 23 empirical studies reviewed (period 2020-2025), the majority reported a significant positive relationship between ESG scores and bank profitability. This means that the integration of environmental, social and good governance aspects tends to go hand in hand with improved bank financial performance, supporting the view that sustainable banking practices can go hand in hand with business objectives. Positive findings include, among others, ESG increasing profitability (ROA/ROE), strengthening stability and lowering risk, and improving banks' market valuation.

However, this SLR also recognizes the variation and non-uniformity of results, with some studies finding negative or insignificant impacts, especially in a short-term context, in banks with shallow ESG implementation, or in less supportive market environments. High ESG investment costs and a lack of market incentives may delay the emergence of financial benefits, so in some cases banks' ROE does not necessarily increase with ESG scores. In addition, the impact of ESG is shown not to be homogenous across all dimensions, with environmental and social aspects contributing more in some studies, while governance aspects or internal firm factors (such as ownership, board diversity) may moderate the relationship.

The academic contribution of this study is to provide an up-to-date synthesis of the influence of ESG on bank performance in the Asian region, which can serve as a reference for future researchers. By mapping recent studies, this SLR fills a gap in the literature by providing an overview of what is known and what is still debated on this topic. Practically speaking, the findings of this SLR strengthen the argument for bank management in Asia to integrate ESG as part of corporate strategy. Banks are encouraged to not only comply with ESG regulations but proactively seek ways for ESG practices to add real value (e.g. green product innovation, energy efficiency, improved customer literacy) so that the impact on financial performance is clearer and more measurable. For investors, these results signal that ESG indicators can be considered in the assessment of banking investments, as good ESG performance tends to reflect strong long-term fundamentals. Regulators and policymakers can also take lessons to continue creating a conducive environment (through incentives, reporting standardization, and governance enforcement) so that the positive relationship between ESG and performance is more consistent in the banking industry.

Of course, this study has some limitations. This SLR only included English-language studies and a limited period (2020 onwards), so it may have missed relevant prior research before 2020 or local language publications. In addition, the heterogeneity of study methods and context meant that the authors did not conduct a quantitative meta-analysis; the findings were based on qualitative analysis of patterns, which may be subjective. Future research could conduct a statistical meta-analysis to quantify the magnitude of the effect of ESG on ROE in aggregate. Future research is also recommended to explore areas that are still under-explored, such as the role of technological innovation in reducing the cost of ESG implementation,

long-term longitudinal studies post-2025, or a comparison of ESG effects between conventional banks vs. new digital banks. In addition, more uniform and industry-specific ESG measurement standards need to be developed, so that cross-study results can be more easily compared.

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