

ABSTRACT

This study analyzes the dynamics of Environmental, Social, and Governance (ESG) on the probability of financial distress among commercial banks in ASEAN-5 countries from 2019 to 2023. Using panel data regression on 27 banks and controlling for variables such as firm size, self-financing, market share, and core profitability, the findings indicate that ESG has a negative and significant impact on financial distress, implying that higher ESG performance reduces the likelihood of financial distress. However, when analyzed separately, each ESG component—Environmental, Social, and Governance—exhibits a positive influence on financial distress, suggesting potential short-term risks.

The non-linear analysis reveals an inverted U-shaped relationship between ESG and financial distress: initial increases in ESG elevate financial distress risk, but beyond a certain threshold, further improvements in ESG reduce that risk. Furthermore, the moderation analysis shows that corporate digitalization does not significantly alter the impact of ESG on the probability of financial distress.

Keywords: *ESG, Financial distress, Digitalization, ASEAN-5, Non-linear Regression*

