

DETERMINANTS OF CORPORATE SUSTAINABILITY: ANALYZING GOVERNANCE, FINANCIAL CAPACITY, AND STATE OWNERSHIP AS DRIVERS OF ESG PERFORMANCE IN MALAYSIA

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Abstract: *The paper explores the fundamental structural drivers of environmental, social, and governance (ESG) performance within leading blue-chip companies on the FTSE Bursa Malaysia KLCI. Among evolving regulatory standards, such as the National Sustainability Reporting Framework (NSRF) and the implementation of mandatory IFRS S1 and S2 disclosures, the study uses the composite ESG Score as its central dependent variable. Grounded in stakeholder, legitimacy, resource dependency, and agency theories, the research assesses how internal governance characteristics (board size, independence, and gender diversity) and financial capacity metrics (firm size, profitability, and leverage) influence ESG outcomes. State ownership is examined as a key moderator in the relationship between corporate governance and ESG performance to account for Malaysia's distinct market structure. Employing a multi-year, archival panel data methodology, the study aligns institutional ESG ratings with audited financial records. The paper leads the academic focus in emerging markets away from the financial impacts of ESG activities, emphasizing instead the foundational structural factors that drive ESG engagement in the first place.*

Keywords: *Internal Governance, State Ownership, Financial Capacity, ESG Performance*

Introduction

The global corporate finance landscape has transitioned from a singular focus on profit maximization to a multi-stakeholder model anchored in Environmental, Social, and Governance (ESG) criteria. No longer a voluntary ethical initiative, ESG performance now serves as a primary benchmark for global institutional asset allocation (Tang et al., 2026) and acts as a critical indicator of managerial quality, risk mitigation, and structural resilience in emerging markets.

In Malaysia, this transition is highly institutionalized. Bursa Malaysia has spearheaded regional sustainable finance through initiatives like the FTSE4Good Bursa Malaysia (F4GBM) Index, backed by increasingly stringent enforcement. Large-cap public listed companies exceeding RM2 billion in market capitalization now face mandatory climate-first disclosures under IFRS S1 and IFRS S2 frameworks. Simultaneously, the introduction of a national carbon tax imposes direct financial consequences for high carbon intensity, cementing sustainability as a core strategic variable rather than a public relations exercise.

As the primary conduit for foreign direct investment and institutional capital, the 30 largest companies comprising the FTSE Bursa Malaysia Kuala Lumpur Composite Index (FBM KLCI) are central to this shift. While previous literature predominantly examines the downstream financial consequences of ESG scores (Demiraj et al., 2023; Moolkham, 2025), a persistent empirical gap exists regarding the internal corporate ecosystems and structural antecedents that produce these ratings. To address this, the current study employs a pure secondary data framework to investigate the foundational drivers that determine the ESG performance of Malaysia's elite corporations.

Problem Statement

Despite the implementation of rigorous disclosure mandates by Bursa Malaysia, unexplained variance and divergence persist in the ESG scores of FBM KLCI companies. Some blue-chip entities consistently outperform their peers across the environment, social, and governance pillars, while others struggle with compliance deficiencies, data omissions, and lower composite ratings (Birindelli, et.al., 2018). This variance highlights a core issue that some of the companies do not fully understand the internal structural mechanisms and financial constraints that dictate a company's capacity to build an effective ESG framework.

Prior research on ESG determinants often suffers from a lack of generalizability due to mixed geographical scopes, or relies heavily on perceptual primary questionnaires, which fail to map against institutional rating metrics. Furthermore, existing models fail to account for the unique market architecture of Malaysia, which is characterized by a high concentration of Government-Linked Investment Companies (GLICs) and State-Owned Enterprises (SOEs).

As shown in broader regional studies, state ownership can heavily moderate corporate strategies, acting either as an accelerator of national sustainability agendas or as a bureaucratic constraint (Al-tahat et al., 2025). Without an empirical framework that maps objective corporate governance structures and financial capacity metrics against external ESG ratings, regulators cannot optimize compliance policies, and investors cannot accurately project the ESG risk trajectories of their portfolios.

The research objectives of the study are:

- i. To investigate the relationship between internal governance characteristics (board independence, and board gender diversity) and the ESG performance of FBM KLCI listed companies.
- ii. To evaluate the impact of financial capacity (firm size, profitability, and financial leverage) on the ESG performance among FBM KLCI listed companies.
- iii. To examine the moderating effect of state ownership on the relationship between internal governance characteristics and ESG performance within the Malaysian capital market.

Literature Review

Theoretical Foundations of ESG Determinants

The theoretical foundations of Environmental, Social, and Governance (ESG) determinants are inherently multidisciplinary, drawing upon various frameworks to explain why and how organizations commit to sustainable practices. A review of the literature shows that scholars primarily use institutional theory, stakeholder theory, agency theory, the resource-based view (RBV), and upper echelons theory to explain the complex internal and external drivers of corporate ESG performance. Collectively, these theoretical lenses provide a robust foundation for understanding the dynamic interplay between regulatory environments, board governance, leadership characteristics, and broader societal expectations.

Institutional and stakeholder theories frequently serve as the primary macro-level frameworks for examining external pressures on corporate sustainability behavior. Shin et al. (2026) integrate stakeholder and institutional theories to demonstrate how different types of national institutions—specifically formal, informal, and financial market institutions—differentially shape distinct components of corporate ESG performance across multiple countries. The role of external mandates is further highlighted by Tran (2026), who utilizes institutional theory to clarify the moderating role of coercive institutional pressure on ESG strategies in emerging economies. Furthermore, Pereira et al. (2024) emphasize the relevance of legitimacy theory in tandem with stakeholder and institutional theories when assessing organizational accountability and economic performance within Portuguese hospital entities following changes in public accounting standards. These theories posit that organizations adopt ESG practices not merely for financial return, but to align with external norms, satisfy diverse stakeholder demands, and maintain societal legitimacy.

In contrast, agency theory provides a micro-level perspective focused on internal corporate governance mechanisms and the resolution of conflicts between divergent corporate actors. Abdelwahed et al. (2026) apply agency theory to investigate the negative impacts of ownership concentration on ESG performance within French companies, suggesting that dominant shareholders may limit sustainability engagements due to Type II agency conflicts where personal benefits are prioritized over long-term social objectives. The authors find that the presence of corporate social responsibility (CSR) committees can mitigate these adverse effects, thereby enhancing ESG accountability. Similarly, Marheni et al. (2026) analyze governance drivers such as board independence and CEO duality through an institutional and governance lens, illustrating that robust internal mechanisms and board diversity are vital for superior sustainability outcomes, especially within rigorously regulated environments.

Beyond compliance and conflict resolution, strategic management theories such as the Resource-Based View (RBV), Dynamic Capabilities Theory, and Upper Echelons Theory explain how firms proactively leverage internal resources and leadership to drive ESG transformation. Liu et al. (2026) utilize RBV and Dynamic Capabilities Theory alongside stakeholder models to trace how Chinese logistics enterprises evolve from digital-driven and policy-oriented models toward holistic, ESG-led responsible transformations. Meanwhile, Tran (2026) pioneers the integration of upper echelons theory with institutional frameworks to demonstrate that top management's inherent commitment to ESG is a primary driver of green financial performance, though this relationship's efficacy is bounded by industry characteristics and firm size.

The academic exploration of corporate environmental, social, and governance (ESG) performance has evolved from a marginal branch of ethical management into a core tenant of modern financial economics. Studies must move beyond a singular theoretical window to understand the underlying mechanisms that drive or constrain a firm's capacity to achieve premium institutional ESG ratings. The unique capital market structure of Malaysia, particularly within the blue-chip FBM KLCI environment, requires a theoretical triangulation combining Institutional Theory, Legitimacy Theory, Resource Dependency Theory (RDT), and Agency Theory.

Institutional Theory

Institutional theory serves as the dominant lens for explaining corporate behavior in emerging markets where regulatory environments are in a state of rapid transformation. Organizations are not merely profit-maximizing engines operating in a vacuum; instead, they alter their internal structures to conform to the prevailing norms, rules, and expectations of their institutional framework to ensure social survival and long-term legitimacy (Yaakub, 2025).

DiMaggio & Powell (1983) identify three distinct institutional forces that dictate this structural adaptation: coercive, mimetic, and normative pressures, which are Coercive Pressures, Mimetic Pressures and Normative Pressures. In Malaysia, coercive pressures are highly visible, driven by strict top-down regulatory actions by the Securities Commission Malaysia and Bursa Malaysia. Milestones like the 2015 Sustainability Reporting Framework, the updated Malaysian Code on Corporate Governance (MCCG) 2021, and the rollout of the Bursa ESG Reporting Platform (BERP) represent coercive mechanisms that legally mandate or strongly push listed firms to align with international disclosure benchmarks. Mimetic pressures occur when firms operate in environments marked by high uncertainty or structural transition. FBM KLCI firms systematically mirror the successful ESG compliance strategies of their elite sector peers, standardizing reporting across the index to protect their market share and capture foreign direct investment. On the other hand, normative pressures are driven by professional networks, industry associations, and evolving business expectations. As sustainable investing becomes institutionalized, asset managers and accounting professionals naturally infuse ESG oversight into standard board-level operating procedures (Lei & Yu, 2024; Pinheiro et.al., 2024; Wang et.al., 2023).

Legitimacy Theory & Resource Dependency Theory (RDT)

Legitimacy theory argues that corporations operate under an implicit social contract with the broader community (Del Gesso, & Lodhi, 2025). When public awareness of climate intensity and governance shortfalls increases, firms expand their sustainability commitments as an active reputation management mechanism to maintain their social license to operate (Li, et.al., 2026).

This is especially crucial for highly visible, large-cap companies that face intense regulatory and public oversight (Siyahhan, & Loucou, 2026).

Concurrently, Resource Dependency Theory positions the corporate board as a strategic bridge designed to secure critical external resources and manage environmental uncertainties (Quan, et.al., 2025; Lewellyn & Muller-Kahle, 2024). In emerging markets where the state retains significant economic control, building political or institutional linkages through board appointments or state equity stakes is an adaptive strategy (Yaakub, 2025). Politically connected or state-influenced firms improve their ESG disclosures to align with the government's socioeconomic mandates, thereby securing favorable access to capital, low-interest state financing, and essential regulatory approvals.

Agency Theory

From an internal monitoring perspective, according to Salman (2024), Agency Theory addresses the inherent conflicts of interest between corporate managers (agents) and fragmented shareholders (principals). Traditional agency models argue that managers may engage in short-term profit extraction or display resistance to long-term, capital-intensive projects like green retrofitting (Mao, et.al., 2024; Liu, et.al., 2025). The firm controls managerial self-interest by deploying robust governance mechanisms such as independent oversight committees, highly transparent reporting, and cognitive board diversity. This structural alignment ensures that corporate leaders direct organizational resources toward long-term value creation, reducing compliance risks and structurally lifting the composite ESG score (Mao, et.al., 2024).

The literature highlights that no single theory adequately captures the myriad determinants of ESG performance. Instead, contemporary research relies on a synthesis of institutional, stakeholder, agency, and strategic capabilities frameworks to provide a comprehensive understanding. By navigating external regulatory pressures, managing internal agency conflicts, and leveraging dynamic leadership capabilities, firms develop sophisticated ESG strategies that satisfy both broad societal mandates and core financial imperatives.

Internal Governance Characteristics

Corporate governance forms one of the pillars of ESG, but literature increasingly establishes that robust internal governance acts as the foundational driver for the environmental and social pillars as well (Menicucci & Paolucci, 2026). Under Agency Theory, effective board oversight reduces managerial short-termism, encouraging long-term investments in carbon mitigation and human capital development.

The interplay between internal governance characteristics, financial capacity, and environmental, social, and governance (ESG) performance represents a critical nexus in contemporary corporate strategy. Recent literature indicates that internal governance structures—such as board composition, internal control quality, and management characteristics—are foundational in driving organizational sustainability efforts (Ho et al., 2026; Guan et al., 2026). Furthermore, a firm's financial capacity and capital allocation strategies serve as both determinants of, and constraints upon, the successful implementation of these governance mandates (Iona et al., 2026; Zhao et al., 2026).

Internal governance characteristics are central to shaping corporate sustainability behaviors and outcomes. Within board-level governance, various structural attributes exert heterogeneous effects across the individual dimensions of ESG performance (Ho et al., 2026). For example,

larger boards and directors with longer tenure and higher educational attainment are frequently associated with superior overall ESG performance (Ho et al., 2026). However, traits such as board independence, female director representation, and specific professional expertise yield mixed impacts depending on whether environmental, social, or governance metrics are being evaluated (Ho et al., 2026). Board attributes are also vital for translating environmental management strategies into financial success. Functional engagement, such as gender diversity and meeting frequency, significantly bolsters the effectiveness of environmental strategies, while board independence only functions effectively when supported by relevant environmental expertise (Angsoyiri et al., 2025). Beyond the board, internal control quality serves as a strategic enabler of sustainable value creation. Strong internal controls significantly enhance corporate sustainability performance, which in turn moderates and strengthens the relationship between internal control quality and overall financial performance (Guan et al., 2026).

The execution of these internal governance strategies, however, is heavily influenced by a firm's financial capacity and specific financial characteristics. The adoption of robust ESG practices often requires substantial resource allocation, generating complex interactions with financial conservatism. Firms with strong ESG commitments particularly in the environmental and social dimensions, exhibit a lower likelihood of adopting high-cash or combined high-cash/low-leverage strategies, suggesting that companies with high ESG engagement allocate more financial resources toward sustainability initiatives and thus reduce excess cash holdings (Iona et al., 2026). Similarly, a firm's profitability and size act as key financial characteristics influencing sustainability commitments. Profitability and firm size have direct positive relationships with ESG performance, yet higher ownership concentration often correlates negatively with ESG outcomes (Xie et al., 2025). Interestingly, in certain developing market contexts, profitability demonstrates a statistically negative association with ESG disclosure, implying that a stringent profit orientation might overshadow the allocation of capacity toward sustainability reporting (Pertiwi et al., 2026). Conversely, larger and older firms consistently leverage their enhanced financial and operational capacities to provide more extensive sustainability transparency (Pertiwi et al., 2026).

The nature of a firm's capital base dictates its capacity to invest in long-term green initiatives. A stable form of funding acts as a critical driver for green technological innovation (Zhao et al., 2026). This capital enhances overall ESG performance, with stable equity exerting a particularly strong positive influence on the governance dimension (Zhao et al., 2026). The efficacy of this financial resource is further amplified by internal governance characteristics, such as managerial green cognition (Zhao et al., 2026). In summary, while robust internal governance architectures establish the strategic mandate for ESG engagement, a firm's financial capacity and capital allocation determine the practical realization of these sustainability goals. Future corporate strategies must balance these interacting forces to align financial prudence with comprehensive ESG implementation.

Board Independence

Board independence refers to independent directors facing fewer conflicts of interest and being highly sensitive to regulatory compliance and public legitimacy (Shi, et.al., 2024). Boards with higher percentages of independent directors are better positioned to enforce transparency and allocate capital toward sustainable investments (Pinheiro et.al., 2024; Birindelli, et.al., 2018). The presence of a formal, dedicated sustainability committee is one of the most explicit indicators of an institutionalized ESG strategy (Shu, et. al., 2024). When sustainability oversight is fragmented across general operations or bundled broadly into an overextended

audit committee, ESG strategies tend to become reactive compliance exercises (Lin & Guan, 2024).

Empirical evidence from Malaysian public listed firms demonstrates that a dedicated sustainability committee exerts a consistently strong and statistically significant positive effect on official ESG scores (Mahyuddin & Azmeen, 2025). This committee acts as a localized node of specialized governance, establishing formal accountability pipelines, monitoring environmental compliance, and translating abstract regulatory frameworks (such as IFRS S1 and S2) into concrete asset-allocation decisions.

H₁: Board independence has a significant positive relationship with the ESG performance.

Board Gender Diversity

Board gender diversity is discussed as diverse boards bring broader stakeholder perspectives to executive discussions. Empirical literature suggests that gender-diverse boards exhibit greater empathy toward corporate social responsibility, resulting in superior ESG risk management and disclosure quality (Al-Shaer, et.al., 2026; Romano, et.al., 2020). Board gender diversity has evolved from an indicator of social equity into a proven determinant of corporate disclosure quality and operational oversight (Menicucci & Paolucci, 2024). From an upper-tier perspective, female directors bring distinct ethical frameworks, risk sensitivities, and collaborative communication styles to boardroom deliberations (Zhu & Chen, 2025).

Panel regression analyses tracking Malaysian firms over multi-year horizons confirm that board gender diversity is significantly and positively associated with higher ESG scores (Mahyuddin & Azmeen, 2025). The strength of this relationship increases when analyzing comprehensive, market-wide samples. Female directors are empirically shown to display higher sensitivity toward broader stakeholder commitments, active community engagement, and environmental conservation, directly elevating the firm's external scores on the social and environmental fronts (Odriozola, et.al., 2024).

H₂: Gender diversity has a significant positive relationship with the ESG performance.

Financial Capacity Determinants

According to Legitimacy Theory, larger and highly visible companies face intense public and regulatory scrutiny, prompting them to invest heavily in ESG initiatives to maintain their social license to operate (Sharma & Panday, 2020; Joshi & Joshi, 2024).

Firm Size

Firm size refers to large-cap corporations that possess economies of scale and specialized sustainability teams capable of navigating complex data frameworks like the Centralised Sustainability Intelligence (CSI) platform (Sharma & Panday, 2020). Navigating modern digital reporting ecosystems such as Bursa Malaysia's Centralised Sustainability Intelligence (CSI) platform requires deep technical capacity and advanced data metrics. Larger firms can easily absorb these high operational overheads, establishing dedicated ESG departments and securing independent, external data assurance to lock in premium ratings (Yaakub, 2025).

H₃: Firm size has a significant positive relationship with the ESG performance.

Profitability as an Institutional Compliance Driver

Profitability (ROA/ROE) indicates that implementing advanced green technologies and achieving comprehensive compliance requires substantial capital. Highly profitable firms have the surplus cash flow to absorb these structural costs without compromising shareholder returns (Chen et al., 2024). The relationship between a firm's profitability (proxied via Return on Assets or ROA) and its sustainability performance presents a unique paradigm in emerging markets. Implementing carbon mitigation technologies, redesigning supply chains, and executing fair-wage structural transformations are capital-intensive strategies. Profit-rich organizations possess the cash flow buffers needed to invest in these long-term green initiatives (D'Amato, et. al., 2024; Brogi, & Lagasio, 2019).

However, Mansor et al. (2025) stated that comprehensive fixed-effects panel data modeling within Malaysia reveals that ESG scores do not demonstrate a statistically significant relationship with subsequent financial performance indicators (such as Tobin's Q, market value, or short-term ROA). This key finding indicates that ESG integration among elite Malaysian firms is currently driven primarily by institutional alignment, coercive regulatory pressures, and legitimacy seeking, rather than by direct, short-term financial motivations (Mahyuddin & Azmeen, 2025). Companies invest in ESG because compliance secures their institutional survival and preserves investor relations, not because it yields immediate cash profits (Joshi & Joshi, 2024).

H₄: Profitability has a significant positive relationship with the ESG performance.

Financial Leverage Constraints

Capital structure acts as a primary constraint on a firm's sustainability agenda. Under finance theory, a highly leveraged firm faces intense monitoring from debt covenants and must prioritize short-term cash flow preservation to service interest obligations (Sharma & Panday, 2020). ESG investments typically feature extended payback periods, and highly leveraged managers are structurally discouraged from allocating limited capital to non-financial initiatives. High debt ratios compress a firm's strategic flexibility, directly undercutting its capacity to execute comprehensive ESG programs (Li & Wang, 2026). Conversely, highly indebted firms face structural constraints, which refer to financial leverage. High interest obligations restrict capital expenditure, forcing managers to prioritize short-term debt servicing over long-term ESG performance (Detthamrong, et.al., 2026).

H₅: Financial leverage has a negative relationship with the ESG performance.

The Moderating Role of State Ownership

The corporate landscape in Malaysia, cannot be accurately modelled without accounting for government-linked equity structures. According to Al-tahat et al. (2025), state ownership significantly alters the dynamics between board composition and sustainability outcomes. In political cost and institutional theories, state-owned enterprises are expected to serve as exemplars of national policy.

In Malaysia's unique corporate ecosystem, substantial direct and indirect government equity significantly reshapes standard internal oversight mechanisms across the market. While traditional governance attributes like board independence function to limit self-interest, this relationship is heavily amplified by political linkages (Yaakub, 2025). Grounded in institutional and legitimacy frameworks, state ownership serves as a powerful regulatory catalyst. This

pressures independent directors to proactively translate compliance mandates into measurable, benchmarked ESG scores rather than passive text disclosures to safeguard public trust (Qian, & Yang, 2023).

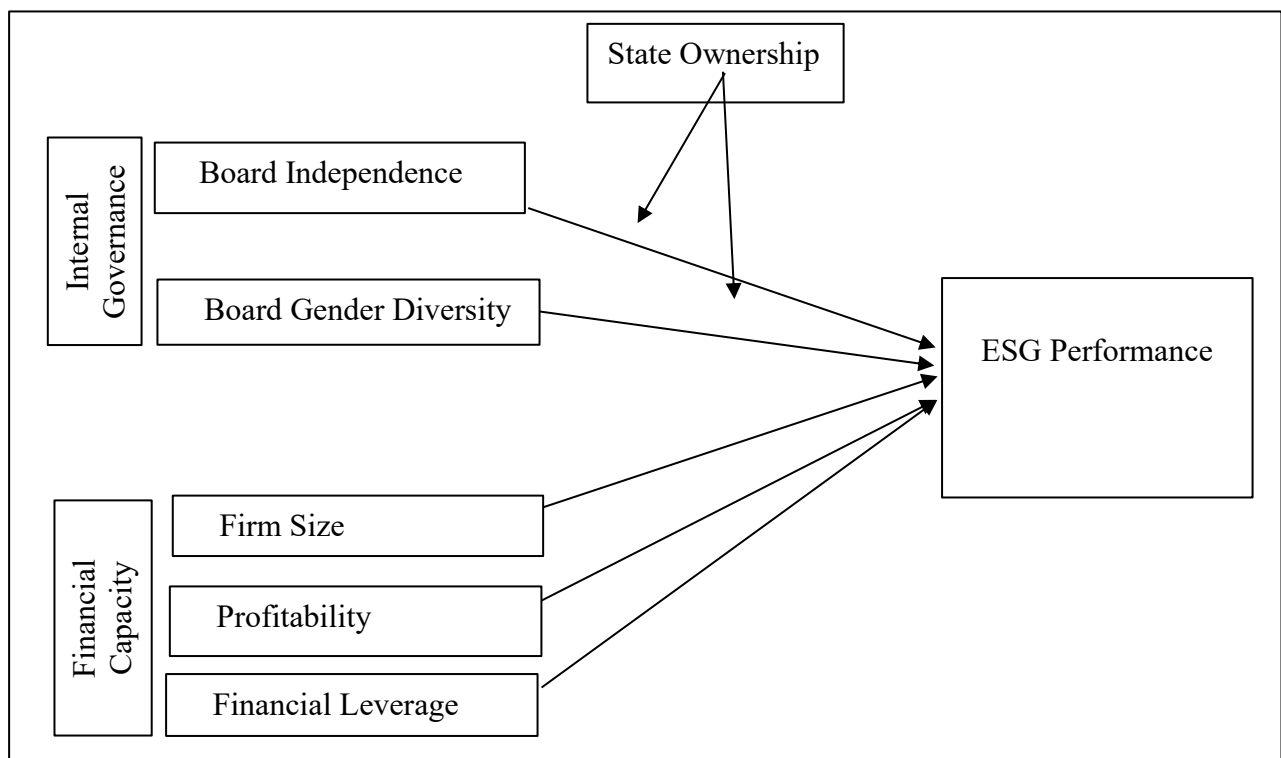
H₆: State ownership significantly moderates the relationship between board independence and ESG performance among FBM KLCI companies.

Hassani & Bahini (2022) indicate that corporate board gender diversity significantly drives superior ESG performance scores across Malaysian public-listed firms. However, within the highly concentrated institutional landscape of the FBM KLCI, this relationship is heavily moderated by direct or indirect state equity. This state influence empowers female directors to champion concrete, measurable sustainability outcomes over symbolic, boilerplate disclosures, structurally lifting composite ESG scores (Hu, et.al., 2025).

H₇: State ownership significantly moderates the relationship between board gender diversity and ESG performance among FBM KLCI companies.

Conceptual Framework

Below is the proposed conceptual framework for this study.



Model Specification

To test this conceptual framework, the study will execute a fixed-effects or random-effects panel regression model, structured as follows:

$$ESG_Score_{it} = \beta_0 + \beta_1(BI_{it}) + \beta_2(BGD_{it}) + \beta_3(Size_{it}) + \beta_4(Prof_{it}) + \beta_5(Lev_{it}) + \beta_6(SO_{it}) + \beta_7(BI_{it} \times SO_{it}) + \beta_8(BGD_{it} \times SO_{it}) + \mu_i + \delta_t + \varepsilon_{it}$$

Where:

- BI_{it} (**Board Independence**): The proportion or percentage of independent directors on the board.
- BGD_{it} (**Board Gender Diversity**): The percentage of female directors on the board.
- $Size_{it}$ (**Firm Size**): Firm size, measured as the natural logarithm of total assets.
- $Prof_{it}$ (**Profitability**): Firm profitability, proxied by Return on Assets (ROA).
- Lev_{it} (**Financial Leverage**): The capital structure risk, measured as the ratio of total debt to total assets (or total equity).
- SO_{it} (**State Ownership**): The percentage of equity shareholdings held directly or indirectly by the government, GLICs, or state-backed institutional funds.
- $BI_{it} \times SO_{it}$: The first interaction term used to evaluate whether state ownership moderates the relationship between board independence and ESG scores.
- $BGD_{it} \times SO_{it}$: The second interaction term used to evaluate whether state ownership moderates the relationship between board gender diversity and ESG scores.
- μ_i (**Firm Fixed Effects**): Captures unobserved, time-invariant firm-level heterogeneity (unique company characteristics that do not change over time).
- δ_t (**Time Fixed Effects**): Controls for macroeconomic shocks or annual regulatory changes that affect all listed firms equally across a specific year (such as the rolling out of the NSRF).
- ε_{it} : The stochastic error term.

Conclusion

This study establishes a rigorous framework to investigate the internal and external determinants of ESG performance within the elite corporate tier of Malaysia (the FBM KLCI). The model offers a clear look at corporate sustainability through a financial lens by discarding subjective survey methodologies in favor of objective, institutional panel metrics. This framework demonstrates that an elite ESG rating is not an accidental byproduct, but rather the structural outcome of robust internal governance oversight, adequate financial flexibility, and strategic alignment with state institutional ownership. This study bridges a key gap in emerging-market sustainable finance literature, Tang et al. (2026) and Joshi & Joshi (2024) to track empirical drivers of rating trends rather than focusing solely on downstream financial consequences.

The study will have several significant implications for various capital market stakeholders such as regulators, capital investors, corporate managers and boards and researchers. The study provides objective empirical data that allow regulatory bodies, such as the Securities Commission Malaysia and Bursa Malaysia, to optimize compliance policies and refine frameworks such as the National Sustainability Reporting Framework (NSRF). It enables institutional investors and asset managers to accurately project the ESG risk trajectories of their portfolios by identifying which corporate ecosystems naturally foster superior sustainability performance. It also offers blue-chip corporate leaders a clear understanding of the internal structural mechanisms (such as board independence and gender diversity) and financial constraints (such as leverage) that dictate a firm's capacity to build an effective ESG framework. Other than that, it sets a methodological benchmark for analyzing ESG scores across unique market designs by utilizing an objective, archival secondary-data panel approach rather than subjective primary questionnaires.

This study introduces a distinct departure from traditional sustainable finance literature in which shifting from outcomes to antecedents and disconnecting profit motivations from ESG

integration. Extensive previous research within sustainable finance has concentrated heavily on evaluating the downstream consequences of ESG scores on subsequent financial performance indicators, such as Tobin's Q, market value, or short-term Return on Assets (Pinheiro et.al., 2024). On the other hand, this framework shifts the focus entirely toward the antecedents, examining the internal corporate ecosystems and structural factors that drive a firm to achieve a high or low ESG rating in the first place (D'Amato, et. al., 2024). Instead, traditional sustainable finance models often operate under the assumption that corporations integrate ESG initiatives primarily to produce direct, short-term cash profits or immediate financial returns. This study contrasts with that paradigm by highlighting that ESG integration among elite Malaysian firms is driven by institutional alignment, legitimacy seeking, and coercive regulatory pressures such as mandatory IFRS S1 and S2 climate-first disclosures rather than immediate financial outcomes.

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