Sustainable Finance and the Financial Sector: A Conceptual Exploration of ESG's Role

Anita Abu Hassan[1], Najah Mokhtar[2], Mohd Syazrul Hafizi Husin[3], Fasharudin Hassan[4]

[1,2]Faculty of Business and Management,

[3]Colleage of Creative Art

Universiti Teknologi MARA, Cawangan Kedah, 08400 Merbok. Kedah, Malaysia

[4]RHB Bank Berhad, No.10 & 11, Susuran Sosenati Pusat Perniagaan Sosenati, 1, Jalan Kuala Kedah, 05400 Alor Setar, Kedah Malaysia

DOI: https://dx.doi.org/10.47772/IJRISS.2024.8090103

Received: 30 August 2024; Accepted: 06 September 2024; Published: 04 October 2024

ABSTRACT

This study addresses the critical issue of how Environmental, Social, and Governance (ESG) factors are integrated within the financial sector, particularly in the context of sustainable finance. As global financial markets increasingly prioritize sustainability, there is a growing need to understand the role that ESG criteria play in shaping financial practices and outcomes. This study aims to explore the conceptual underpinnings of sustainable finance, examining how ESG factors influence financial institutions and contribute to broader sustainability goals. The methodology adopted in this research involves a comprehensive literature review, synthesizing recent empirical studies and theoretical frameworks to provide a holistic understanding of the intersection between sustainable finance and ESG. Key findings suggest that the integration of ESG factors enhances the sustainability and resilience of financial systems, particularly in regions with robust regulatory frameworks, such as Europe and Japan. The study also identifies significant challenges, including the lack of standardized ESG metrics and the risk of greenwashing, which undermine the effectiveness of ESG integration. The implications of this study are both theoretical and practical. Theoretically, it contributes to the literature by applying the Triple Bottom Line (TBL) and Institutional Theory to the context of sustainable finance, highlighting the role of ESG in aligning financial practices with environmental and social objectives. Practically, the study offers insights for financial institutions, policymakers, and investors on the importance of standardized ESG reporting and the need for ongoing regulatory support to ensure meaningful ESG adoption. By addressing these critical issues, the study provides a foundation for future research and policy development aimed at advancing sustainable finance.

Keywords: Sustainable Finance, ESG Integration, Financial Sector, Triple Bottom Line (TBL), Institutional Theory

INTRODUCTION

The global financial landscape has undergone a transformative shift in recent decades, driven by an increasing recognition of the need for sustainable development. This transformation has been largely propelled by the integration of Environmental, Social, and Governance (ESG) criteria into financial decision-making processes, fundamentally altering the dynamics of the financial sector. As the world faces pressing

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue IX September 2024

challenges such as climate change, social inequality, and corporate governance failures, sustainable finance has become increasingly vital. By aligning financial practices with broader societal and environmental goals, sustainable finance has emerged as a key mechanism for addressing these global issues. The urgency of these challenges is underscored by recent reports highlighting the stark realities of environmental degradation and social inequity. For instance, the Intergovernmental Panel on Climate Change (IPCC) has warned of the catastrophic consequences of failing to limit global warming to 1.5°C above pre-industrial levels, emphasizing the critical role of financial systems in mobilizing investments for a low-carbon transition (IPCC, 2023). Similarly, the World Economic Forum (2024) has identified ESG-related risks, such as extreme weather events and social unrest, as significant threats to global stability. These developments have catalyzed a paradigm shift within the financial sector, where ESG factors are no longer seen as peripheral concerns but as central to long-term financial performance and risk management. In response to these global imperatives, sustainable finance has emerged as a framework that integrates ESG considerations into financial decision-making processes, aiming to promote long-term value creation while addressing societal challenges. The financial sector, as a key driver of economic activity, plays a pivotal role in this transition by reallocating capital towards more sustainable investments and fostering greater corporate accountability.

In the Malaysian context, the integration of ESG criteria into the financial sector has gained significant momentum as the country strives to meet its sustainable development goals. As a rapidly developing economy, Malaysia faces unique challenges and opportunities in aligning its financial practices with ESG principles. The Malaysian government has actively endorsed sustainable finance through various policies and initiatives, reflecting a growing recognition of the importance of ESG factors in fostering long-term economic stability and environmental stewardship. Recent developments underscore Malaysia's commitment to sustainable finance. For instance, the Securities Commission Malaysia (SC) has introduced the Sustainable and Responsible Investment (SRI) Sukuk framework, which aims to promote investments adhering to ESG principles (Securities Commission Malaysia, 2023). This framework guides issuers in aligning their financial products with sustainable development objectives, supporting Malaysia's broader agenda of enhancing its green finance ecosystem. Additionally, the Malaysian Green Taxonomy, launched by Bank Negara Malaysia (BNM), provides a comprehensive classification system to facilitate the identification of environmentally sustainable activities and investments (Bank Negara Malaysia, 2023). Furthermore, Malaysia's corporate sector has increasingly embraced ESG reporting and practices. Bursa Malaysia has mandated the disclosure of sustainability practices for listed companies, reinforcing the importance of transparency and accountability in corporate governance (Bursa Malaysia, 2024). This regulatory move is part of a broader effort to enhance the integration of ESG considerations into corporate strategy and financial reporting, reflecting a growing awareness of the financial and reputational benefits associated with responsible business practices. This paper explores the conceptual foundations of ESG within the context of sustainable finance, focusing on Malaysia's proactive approach to integrating ESG criteria into its financial sector. It examines how these efforts are reshaping financial practices and contributing to the broader goal of sustainable development, with implications for financial institutions, investors, and policymakers alike.

Despite the growing body of literature on sustainable finance and ESG integration in Malaysia, several research gaps remain. Existing studies have highlighted the benefits of ESG practices and the impact of regulatory frameworks, but there is limited research on the nuanced mechanisms through which ESG integration influences financial decision-making and performance in the Malaysian context. Specifically, there is a need for a deeper understanding of how different sectors within Malaysia's financial industry are adapting to ESG principles and the challenges they face in implementing these practices effectively. Moreover, while regulatory frameworks like the SRI Sukuk and the Malaysian Green Taxonomy have been the focus of recent research, there is a lack of comprehensive studies exploring the interplay between these regulations and the broader financial ecosystem. This gap in the literature indicates a need for a more detailed conceptual exploration of how ESG criteria are reshaping financial practices and decision-making processes across various segments of the Malaysian financial sector.

This paper aims to address these gaps by achieving the following objectives: 1) To explore the conceptual foundations of ESG integration within the Malaysian financial sector, examining how ESG criteria are being incorporated into financial decision-making processes and the implications for investment strategies. 2)To analyze the impact of recent regulatory developments on ESG adoption among Malaysian financial institutions and assess how these frameworks are influencing corporate and investment practices. 3)To identify and evaluate the challenges and opportunities associated with ESG integration in Malaysia, providing insights into sector-specific responses and adaptations. The structure of this article is organized as follows: First, the Literature Review section provides an in-depth exploration of existing research on sustainable finance and ESG integration, with particular attention to studies that address their role in the financial sector. This section establishes a foundation by identifying key concepts, theories, and gaps in the current literature. Next, the Methodology section details the research design, including the data collection methods, population, sample size, and analytical techniques used to examine the integration of ESG criteria within the financial sector. This section ensures clarity on the research process and the rigor applied in investigating the research questions. Following this, the Discussion section presents and interprets the findings of the study in relation to the literature reviewed. It analyzes the extent to which ESG criteria are being integrated into financial practices and the impact of regulatory frameworks on this process. The discussion highlights the implications of these findings for the broader understanding of sustainable finance and ESG integration. Finally, the Conclusion section synthesizes the key findings of the study, reflecting on their significance for theory and practice. Under this section, the Implications are discussed, outlining the practical relevance of the findings for policymakers, financial institutions, and investors. The Suggestions for Future Research sub-section provides recommendations for further studies that can expand on the insights gained from this research, addressing limitations and exploring new areas in sustainable finance and ESG integration.

LITERATURE REVIEW

A. Introduction to Sustainable Finance

Sustainable finance refers to financial practices that integrate environmental, social, and governance (ESG) considerations into decision-making processes, aiming to promote long-term economic stability, environmental protection, and social equity. This approach marks a departure from traditional financial models, which primarily focus on maximizing returns and managing risk. Sustainable finance expands this scope to include the broader societal and environmental impacts of financial activities (Khan, Serafeim, & Yoon, 2016). Over the past two decades, sustainable finance has evolved significantly, moving from socially responsible investing (SRI) to ESG investing, and now includes products like green bonds and impact investments. The establishment of initiatives such as the United Nations Principles for Responsible Investment (PRI) in 2006 and the growth of green bond markets are critical milestones that reflect this shift (UN PRI, 2006).

The literature emphasizes that sustainable finance is now recognized as essential for achieving long-term global development goals. Researchers such as Friede et al. (2015) have argued that ESG integration is not merely an ethical imperative but also critical for financial performance. Companies with strong ESG practices have demonstrated lower volatility, improved operational efficiencies, and superior long-term financial performance (Giese et al., 2019). This has spurred a growing demand for ESG-aligned financial products, such as green bonds, which have been used to raise capital for projects focused on renewable energy and environmental sustainability (Flammer, 2021).

B. Environmental, Social, and Governance (ESG) Criteria

ESG criteria provide a framework for evaluating the non-financial impacts of investments and corporate practices. Environmental criteria focus on the company's impact on the natural environment, such as carbon emissions and climate change adaptation, with strong environmental performance often leading to lower capital costs (Krueger, Sautner, & Starks, 2020). Social criteria assess how companies manage relationships with employees, suppliers, and communities, covering aspects like labor practices, diversity, and community engagement. Companies with strong social practices tend to exhibit higher productivity and enjoy reputational benefits (Ioannou & Serafeim, 2015). Governance criteria evaluate the leadership, ethics, and risk management structures within a company. Strong governance has been shown to reduce corporate scandals and improve overall performance (Bebchuk & Cohen, 2005).

The impact of ESG integration on investment outcomes has been widely studied. Awaysheh et al. (2021) found that portfolios incorporating ESG factors outperform traditional investments, mitigating risks and aligning business practices with societal values. However, challenges persist, including inconsistent ESG reporting standards and the threat of greenwashing (Kotsantonis & Serafeim, 2019), where companies exaggerate their sustainability claims. These issues highlight the need for rigorous and standardized reporting frameworks to ensure that ESG integration delivers genuine sustainability outcomes (Levine, 2021; Tett, 2020).

C. ESG Integration in Malaysia

In Malaysia, the integration of ESG criteria into financial decision-making marks a significant shift, driven by the need to balance financial returns with sustainable practices (Abdullah et al., 2023). The country is progressively incorporating ESG into its financial system, influenced by both global trends and local demands for sustainability (Tan & Kwan, 2023). In their 2024 study, Sustainable Finance and ESG Importance: A Systematic Literature Review and Research Agenda, Zairis et al. provide a critical analysis of 80 studies using key terms such as ESG, sustainable finance, financial sector, sustainability, and EPS importance. Their findings emphasize the significant role of regulatory frameworks in advancing sustainable finance, particularly in the Asia-Pacific region. Regulatory initiatives like the Malaysian Code on Corporate Governance 2021 and the Sustainable and Responsible Investment (SRI) Sukuk Framework have played a crucial role in promoting ESG adoption (Securities Commission Malaysia, 2021). These frameworks have enhanced transparency and accountability, encouraging financial institutions to incorporate ESG factors into their risk assessments and investment portfolios (Ali, 2022). Strengthening these frameworks could be instrumental in mitigating financial risks and fostering a more resilient and sustainable banking sector

However, challenges remain, particularly regarding the need for more detailed guidelines and enforcement mechanisms to enhance the effectiveness of ESG integration (Cheah et al., 2023). Furthermore, the absence of standardized ESG metrics complicates the comparison of sustainability efforts across companies, posing a significant barrier to assessing and verifying ESG performance in Malaysia (Yusoff et al., 2023). Nevertheless, the increasing interest in green bonds and ESG-focused funds indicates a promising shift toward sustainable finance in the region (Mohamed et al., 2022).

D. Global ESG Integration: Trends and Challenge

Globally, ESG integration has gained momentum as financial markets recognize the importance of aligning financial performance with broader societal and environmental objectives. ESG criteria are now seen as essential for achieving sustainable development goals, with numerous studies demonstrating the financial benefits of strong ESG practices (Friede et al., 2015; Giese et al., 2019). However, global challenges remain, including inconsistent ESG data and reporting standards, which complicate the evaluation of ESG performance across companies and regions (Kotsantonis & Serafeim, 2019). The proliferation of ESG rating agencies with differing methodologies adds to the confusion, leading to discrepancies in ratings and investor uncertainty (Berg et al., 2022).

Despite these challenges, the global financial sector is increasingly recognizing the opportunities presented by ESG. The growing prevalence of green bonds and ESG-focused investment funds reflects rising demand for financial products aligned with sustainability goals (Hale, 2020). Companies that excel in ESG practices are likely to gain a competitive advantage, attracting more capital and achieving superior long-term performance (Dimson et al., 2020).

E. Study Gap

While the literature provides substantial insights into the role of ESG in the financial sector, several research gaps remain. First, there is a lack of comparative studies that explore the differences in ESG integration across regions and financial systems, particularly between developed economies and emerging markets like Malaysia. Additionally, although ESG's impact on financial performance has been widely studied, its role in risk management practices—especially how financial institutions mitigate environmental and social risks—remains underexplored. Another gap lies in the inconsistent ESG reporting standards, which hinder meaningful comparisons between companies and regions. Standardizing ESG metrics would be a critical step toward ensuring genuine and comparable sustainability outcomes (Kotsantonis & Serafeim, 2019).

Further research is needed to explore the mediating and moderating factors that influence the effectiveness of ESG integration, such as regulatory frameworks, governance structures, and cultural contexts. Additionally, the issue of greenwashing—where companies misrepresent their sustainability efforts—remains an underexplored risk that requires further investigation to ensure the authenticity of ESG practices (Levine, 2021). Finally, while much attention has been paid to the impact of ESG on equity, the relationship between ESG and debt financing remains unclear and warrants further study (Cantino et al., 2017).

This literature review highlights the growing importance of ESG integration within the financial sector, both globally and in Malaysia. While ESG practices have been shown to enhance financial performance and sustainability, challenges such as inconsistent reporting standards and greenwashing continue to impede progress. Addressing these challenges and exploring the nuanced mechanisms through which ESG influences financial decision-making, particularly in emerging markets like Malaysia, will be critical to advancing the field of sustainable finance. This study aims to fill these gaps by offering a conceptual exploration of ESG's role in shaping the financial sector, providing insights for both scholars and practitioners.

F. Conceptual Framework

Based on the reviewed literature, the study has developed a conceptual framework. The conceptual framework of this study explores the intricate relationships between ESG (Environmental, Social, Governance) integration and financial sector performance, highlighting key variables that mediate and moderate this dynamic process. At the core of this framework are the three dimensions of ESG—environmental sustainability, social sustainability, and good governance—which serve as the independent variables. These elements are not only foundational to sustainable finance but also act asdrivers that influence financial institutions' responses to growing sustainability imperatives. As the global push for sustainability intensifies, these ESG factors play a crucial role in shaping the practices and strategies of financial institutions, guiding them toward more responsible and ethical financial decision- making.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue IX September 2024

A significant component of the framework is the regulatory framework, which acts as a mediating variable. Regulations and policies specifically tailored to promote ESG adoption ensure that financial institutions adhere to required standards of sustainability. By setting legal and policy boundaries, the regulatory framework serves as a critical control mechanism that facilitates ESG integration, shaping how financial institutions align their practices with sustainability goals. Additionally, challenges and barriers emerge as a moderating variable, introducing potential roadblocks to the seamless implementation of ESG factors. These challenges—ranging from the lack of standardized metrics to the risk of greenwashing—moderate the effectiveness of ESG integration by influencing the ease and success with which financial institutions can adopt and apply ESG principles.

In response to these forces, financial institutions adjust their strategies and decision-making processes, as represented in the conceptual framework's central element: integrated financial products and decision-making. This reflects the sector's proactive adaptation to ESG integration through the development of new financial products, risk management approaches, and investment strategies that align with broader sustainability goals. The regulatory framework and challenges/barriers shape these responses, influencing how ESG is incorporated into institutional policies and practices.

The ultimate outcome of this framework is captured in the dependent variable, which is financial sector performance. Financial performance, post-ESG adoption, is measured through various indicators such as improved corporate financial performance, a shift toward sustainable investment strategies, and enhanced risk management practices that better account for environmental and social risks. Importantly, the framework also evaluates financial institutions' contributions to broader Sustainable Development Goals (SDGs) and their financial resilience—the ability to remain adaptive and resilient in the face of evolving ESG-related risks and opportunities. These interconnected variables create a dynamic pathway illustrating how ESG integration, regulatory frameworks, and institutional responses coalesce to impact financial sector performance and sustainability outcomes. This conceptual framework provides a comprehensive understanding of the critical role ESG plays in modern financial systems, offering a robust foundation for further exploration and empirical analysis.

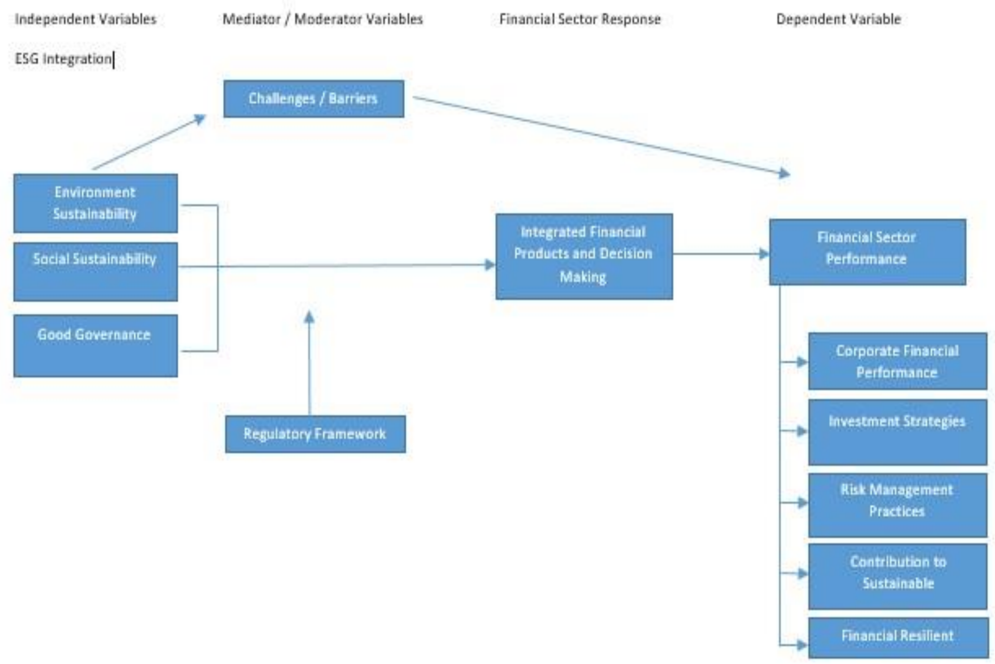

Fig 1 Conceptual Framework of ESG's Role in Sustainable Finance for the Financial Sector

G. Relevant Theories

To support a study on the integration of ESG (Environmental, Social, and Governance) criteria within the financial sector, several underpinning theories could be relevant. These two theories were chosen as they provide a conceptual foundation for understanding how and why ESG factors might influence financial decision-making, corporate behavior, and investment outcomes.

1. Triple Bottom Line (TBL)

The Triple Bottom Line (TBL) framework is highly relevant as it broadens the evaluation of corporate performance by incorporating social and environmental dimensions alongside financial outcomes. This approach emphasizes the importance of considering the full spectrum of a company's impact, thereby promoting the integration of Environmental, Social, and Governance (ESG) factors into financial decision-making. By encouraging organizations to measure success not only by profit but also by their contributions to people and the planet, TBL fosters a more comprehensive and sustainable view of corporate responsibility.

2. Institutional Theory

Institutional Theory, as articulated by DiMaggio and Powell (1983), explores how organizations are shaped by the norms, values, and rules of the institutional environment in which they function. According to this theory, companies often adopt certain practices to achieve legitimacy and align with industry standards. The relevance of Institutional Theory lies in its ability to explain the widespread adoption of Environmental, Social, and Governance (ESG) practices across various industries. This diffusion of ESG practices is driven by external pressures such as regulatory frameworks, industry benchmarks, and the influence of peers. Therefore, the adoption of ESG is not merely a strategic decision but also a response to the expectations and demands of the institutional environment

TABLE 1 List of Past Studies of Sustainable Finance and ESG

Authors	Study Titles	Key Focus	References
Theme : Sustainable Finance in the Financial Sector			
Alonso & Marques (2019)	Financial Innovation for a Sustainable Economy	Discusses the financial sector's role in mitigating climate risks and supporting sustainable economic transformation through innovations like sustainability-linked financial instruments and green finance.	Alonso, A., & Marques, J. (2019). Financial Innovation for a Sustainable Economy. AARN: Political Ecology (Topic). https://doi.org/10.2139/ssrn.3471742.
Gutterman (2020)	Sustainable Finance	Introduces sustainable investment strategies, focusing on ESG considerations, and discusses tools like blended finance, green bonds, and sustainable bonds.	Gutterman, A. (2020). Sustainable Finance. Corporate Finance: Governance. https://doi.org/10.4324/9780367816681-103.
Khudyakova (2023)	Sustainable Finance in New Political and Economic Realities	Reviews trends in sustainable finance, emphasizing recent shifts in project structures and investment preferences, with a focus on biodiversity and decarbonization, particularly post-COVID-19.	Khudyakova, L. (2023). Sustainable Finance in New Political and Economic Realities. World Economy and International Relations. https://doi.org/10.20542/0131-2227-2023-67-8-5-15.
Urban & Wójcik (2019)	Dirty Banking: Probing the Gap in Sustainable Finance	Critiques the paradox of financial institutions promoting fossil-free investment funds while continuing to finance environmentally harmful industries, and calls for stronger commitments to sustainability in finance.	Urban, M., & Wójcik, D. (2019). Dirty Banking: Probing the Gap in Sustainable Finance. Sustainability. https://doi.org/10.3390/SU11061745.
Soppe (2004)	Sustainable Finance	Explores the integration of sustainability concepts into corporate finance, proposing a shift from shareholder-focused to stakeholder-oriented approaches in finance.	Soppe, A. (2004). Sustainable Corporate Finance. Journal of Business Ethics, 53, 213-224. https://doi.org/10.1023/B:BUSI.00000394 10.18373.12.

Authors	Study Titles	Key Focus	References
Theme: ESG and Financial Performance			
Aybars, Ataünal & Gurbuz (2019)	ESG and Financial Performance	Found a positive relationship between ESG scores and operational profitability (ROA) of S&P 500 firms, but Tobin's Q was more influenced by market perceptions.	Aybars, A., Ataünal, L., & Gurbuz, A. (2019). ESG and Financial Performance. Advances in Business Strategy and Competitive Advantage. https://doi.org/10.4018/978-1-5225-7180-3.CH029.
Garcia, Mendes-da-Silva, & Orsato (2018)	Corporate Sustainability, Capital Markets, and ESG Performance	Larger firms, especially in sensitive industries, demonstrated better ESG performance in BRICS countries.	Garcia, A., Mendes-da-Silva, W., & Orsato, R. (2018). Corporate Sustainability, Capital Markets, and ESG Performance. Individual Behaviors and Technologies for Financial Innovations. https://doi.org/10.1007/978-3-319-91911-9_13.
Zhou, Liu & Luo (2022)	Sustainable Development, ESG Performance, and Company Market Value	ESG performance enhances company market value, with financial performance acting as a mediating factor.	Zhou, G., Liu, L., & Luo, S. (2022). Sustainable development, ESG performance and company market value: Mediating effect of financial performance. Business Strategy and the Environment. https://doi.org/10.1002/bse.3089.
Sousa & Cuevas (2023)	ESG and its Relationship to the Financial Performance of the Most Capitalizable U.S. Companies	ESG scores positively impacted both ROA and Tobin's Q, suggesting financial benefits from good ESG practices.	Sousa, E., & Cuevas, F. (2023). ESG and its Relationship to the Financial Performance of the most Capitalizable U.S. Companies. Studies of Applied Economics. https://doi.org/10.25115/sae.v41i3.9408.
Qureshi et al. (2021)	Do ESG Endeavors Assist Firms in Achieving Superior Financial Performance?	ESG practices, especially in the environmental and governance pillars, improved financial performance for the "100 best corporate citizens."	Qureshi, M., Akbar, M., Akbar, A., & Poulova, P. (2021). Do ESG Endeavors Assist Firms in Achieving Superior Financial Performance? A Case of 100 Best Corporate Citizens. SAGE Open, 11. https://doi.org/10.1177/21582440211021598.
Zhang & Liu (2022)	Does ESG Performance Enhance Financial Flexibility?	ESG performance enhances financial flexibility, especially in uncertain environments and high market attention scenarios.	Zhang, D., & Liu, L. (2022). Does ESG Performance Enhance Financial Flexibility? Evidence from China. Sustainability. https://doi.org/10.3390/su141811324.
Zhao et al. (2018)	ESG and Corporate Financial Performance: Empirical Evidence from China's Listed Power Generation Companies	Good ESG performance improved financial performance significantly in China's energy sector.	Zhao, C., Guo, Y., Yuan, J., Wu, M., Li, D., Zhou, Y., & Kang, J. (2018). ESG and Corporate Financial Performance: Empirical Evidence from China's Listed Power Generation Companies. Sustainability. https://doi.org/10.3390/SU10082607.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue IX September 2024

Authors	Study Titles	Key Focus	References
Theme: ESG and Financial Sector			
I. Lupu et al.	How Is the ESG Reflected in European Financial Stability?	ESG scores do impact European financial stability, with varying impacts across the ESG pillars, and this connection cannot be identified using standard average distribution levels.	Lupu, I., Hurduzeu, G., & Lupu, R. (2022). How Is the ESG Reflected in European Financial Stability?. Sustainability. https://doi.org/10.3390/su141610287.
S. Kim et al.	Understanding the Impact of ESG Practices in Corporate Finance	ESG factors positively impact corporate profitability and credit rating, with corporate governance having the most significant impact.	Kim, S., & Li, Z. (2021). Understanding the Impact of ESG Practices in Corporate Finance. Sustainability. https://doi.org/10.3390/SU13073746.
Tuotuo Fu et al.	An empirical analysis of the impact of ESG on financial performance: the moderating role of digital transformation	ESG positively impacts corporate financial performance, with digital transformation driving this effect, but the positive effect may weaken over time.	Fu, T., & Li, J. (2023). An empirical analysis of the impact of ESG on financial performance: the moderating role of digital transformation. Frontiers in Environmental Science. https://doi.org/10.3389/fenvs.2023.1256052.
O. Bătae et al.	The relationship between environmental, social, and financial performance in the banking sector: A European study	Emission reductions positively impact financial performance, but corporate governance quality negatively affects accounting performance and market valuation, contradicting stakeholder theory predictions.	Bătae, O., Dragomir, V., & Feleagă, L. (2021). The relationship between environmental, social, and financial performance in the banking sector: A European study. Journal of Cleaner Production. https://doi.org/10.1016/J.JCLEPRO.2021.125791.
Xiaoxuan Yu et al.	Integration of ESG in Financial Institutions: A Study on the Impact of Sustainability Reporting	Integrating ESG principles in financial institutions and implementing sustainability reporting positively impacts their operations, decision-making processes, and overall performance.	Yu, X. (2023). Integration of ESG in Financial Institutions: A Study on the Impact of Sustainability Reporting. International Journal of Multidisciplinary Research and Growth Evaluation. https://doi.org/10.54660/.ijmrge.2023.4.5.468-472.
Guangyou Zhou et al.	Sustainable development, ESG performance and company market value: Mediating effect of financial performance	Improving ESG performance in listed companies improves their market value, with financial performance acting as a mediating factor and operational capacity playing a key role.	Zhou, G., Liu, L., & Luo, S. (2022). Sustainable development, ESG performance and company market value: Mediating effect of financial performance. Business Strategy and the Environment. https://doi.org/10.1002/bse.3089.
Dongyu Zhang et al.	Does ESG Performance Enhance Financial Flexibility? Evidence from China	ESG performance significantly enhances financial flexibility for Chinese firms, with financing constraints acting as a mediator and environmental uncertainty and market attention as positive moderating factors.	Zhang, D., & Liu, L. (2022). Does ESG Performance Enhance Financial Flexibility? Evidence from China. Sustainability. https://doi.org/10.3390/su141811324.
Yang Oh-Suk et al.	Assessing the Effect of Corporate ESG Management on Corporate Financial & Market Performance and Export	Corporate ESG management positively impacts corporate profitability, but has mixed effects on exports, and no significant effect on market performance.	Oh-Suk, Y., & Jae-Hoon, H. (2023). Assessing the Effect of Corporate ESG Management on Corporate Financial & Market Performance and Export. Sustainability. https://doi.org/10.3390/su15032316.
M. Stolbov et al.	The impact of ESG-factors on financial stability	Higher ESG-rankings tend to enhance financial stability by mitigating individual risk and systemic risk, with more research focused on environmental and corporate governance factors than social ones.	Stolbov, M., & Shchepeleva, M. (2022). The impact of ESG-factors on financial stability. Voprosy Ekonomiki. https://doi.org/10.32609/0042-8736-2022-11-136-148.
Dongyu Liu et al.	How Does Corporate ESG Performance Affect Financial Irregularities?	Better ESG performance in Chinese listed companies leads to fewer financial irregularities, with greater public, media, and investor attention strengthening this inhibitory effect.	Liu, D., & Jin, S. (2023). How Does Corporate ESG Performance Affect Financial Irregularities?. Sustainability. https://doi.org/10.3390/su15139999.

Authors	Study Titles	Key Focus	References
Theme: Sustainable Finance and Financial Performance			
[illegible] Mohamad et al.	Sustainable business practices and financial performance during pre- and post-SDG adoption periods: a systematic review	Companies with sustainability practices show a positive relationship with their financial performance, as reported by 96% of publications in the literature.	[illegible], S., & Mohamad, R. (2020). Sustainable business practices and financial performance during pre- and post-SDG adoption periods: a systematic review. Journal of Sustainable Finance & Investment, 11, 281 - 309. https://doi.org/10.1080/20430795.2020.1727724.
Guangyu Zhang et al.	Factors Affecting the Sustainability Performance of Financial Institutions in Bangladesh: The Role of Green Finance	Green finance dimensions positively impact the sustainability performance of banks in Bangladesh, with private commercial banks contributing the most to green financing.	Zhang, G., [illegible], A., [illegible], M., & [illegible], N. (2021). Factors Affecting the Sustainability Performance of Financial Institutions in Bangladesh: The Role of Green Finance. Sustainability. https://doi.org/10.3390/su131810165.
Ayşe [illegible] et al.	Exploring the Impact of Sustainability on Corporate Financial Performance Using Discriminant Analysis	Sustainability positively impacts corporate financial performance, with large companies being more sustainable and attracting more investors, leading to less volatility, better price-to-book ratios, and easier access to external financing.	[illegible], A., [illegible], B., & [illegible], C. (2020). Exploring the Impact of Sustainability on Corporate Financial Performance Using Discriminant Analysis. Sustainability. https://doi.org/10.3390/su12062346.
[illegible] Li et al.	Understanding the Impact of Green Initiatives and Green Performance on Financial Performance in the US	Green initiatives and green performance significantly impact financial performance, but the impact varies by industry sector and may not be immediate.	Li, S., [illegible], T., & Chen, F. (2017). Understanding the Impact of Green Initiatives and Green Performance on Financial Performance in the US. Business Strategy and The Environment, 26, 776-790. https://doi.org/10.1002/BSE.1948.
[illegible] et al.	The impact of social and environmental sustainability on financial performance: A global analysis of the banking sector	Access to finance positively impacts the financial performance of the banking sector globally, with loan growth and management quality being key factors.	[illegible], B., Ng, A., [illegible], G., [illegible], R., & [illegible], M. (2019). The impact of social and environmental sustainability on financial performance: A global analysis of the banking sector. Journal of Multinational Financial Management. https://doi.org/10.1016/J.MULFIN.2019.01.002.
I. Yilmaz et al.	Sustainability and financial performance relationship: international evidence	Corporate sustainability positively impacts financial performance, with total ESG scores having a significant effect, while individual ESG components show insignificant results.	Yilmaz, I. (2021). Sustainability and financial performance relationship: international evidence. World Journal of Entrepreneurship, Management and Sustainable Development, ahead-of-print. https://doi.org/10.1108/WJEMSD-10-2020-0133.
Chen Liu et al.	Green finance, sustainability disclosure and economic implications	Green finance is positively associated with financial performance and reduced capital costs, while enhancing risk management and economic development.	Liu, C., & Wu, S. (2023). Green finance, sustainability disclosure and economic implications. Fulbright Review of Economics and Policy. https://doi.org/10.1108/frep-03-2022-0021.
Ahmad Ali [illegible] et al.	Financial Stability and Sustainable Finance: A Mini-Review	Sustainable finance aims to incorporate fiscal, social, and environmental factors, but current models often overlook key social and environmental factors.	[illegible], A., & [illegible], H. (2020). Financial Stability and Sustainable Finance: A Mini-Review. Environmental Economics [illegible]. https://doi.org/10.2139/ssrn.3538328.
[illegible] et al.	Financing For Sustainability and Bank Performance: Case of G-20 Countries	Disbursement of sustainable financing significantly improves financial performance and attracts investors, while reducing non-performing loans and enhancing environmental, social, and governance (ESG) performance.	[illegible], A., & [illegible], Y. (2023). Financing For Sustainability and Bank Performance: Case of G-20 Countries. International Journal of Current Science Research and Review. https://doi.org/10.47191/ijcsrr/v6-i5-38.
S. [illegible] et al.	Is sustainability a competitive advantage for small businesses? An empirical analysis of possible mediators in the sustainability–financial performance relationship	Sustainability practices positively impact competitive advantage for Italian manufacturing small businesses, with corporate reputation, customer satisfaction, and organizational commitment acting as mediators.	[illegible], S., & [illegible], A. (2018). Is sustainability a competitive advantage for small businesses? An empirical analysis of possible mediators in the sustainability–financial performance relationship. Journal of Cleaner Production, 182, 166-176. https://doi.org/10.1016/J.JCLEPRO.2018.02.016.

In addition to the literature mentioned earlier, this study will analyze the following publications for further examination related to sustainable finance, ESG, and financial performance within the financial sector.

- **Sustainable Finance in the Financial Sector:**

The literature shows a consistent focus on how the financial sector supports sustainability through innovations like green finance and sustainability-linked financial instruments (e.g., Alonso & Marques, 2019). The integration of sustainability is not just limited to climate risks but is also increasingly focused on biodiversity and post-COVID economic realities (Khudyakova, 2023).

A paradox exists in the financial industry's sustainability efforts, where financial institutions might promote fossil-free investment funds while continuing to fund harmful industries (Urban & Wójcik, 2019). This theme challenges the genuine commitment to sustainability and calls for stronger action.

- **ESG and Financial Performance:**

Many studies highlight a positive relationship between ESG performance and financial outcomes, such as operational profitability (Aybars et al., 2019) and company market value (Zhou et al., 2022). However, certain findings suggest that the impact of ESG practices, especially in environmental and governance pillars, can vary across firms and industries (Qureshi et al., 2021; Sousa & Cuevas, 2023).

A few works also examine the role of market perception in ESG performance, such as how Tobin's Q is influenced by market confidence, indicating that companies can benefit financially from strong ESG practices (Sousa & Cuevas, 2023).

- **Sustainable Finance and Financial Performance:**

This theme is centered on the idea that sustainability practices lead to improved financial outcomes. For instance, larger firms, especially in sensitive industries, tend to perform better in ESG practices, which in turn enhances financial performance (Garcia et al., 2018).

Several studies show that green finance (such as green bonds and sustainable loans) significantly impacts the sustainability performance of financial institutions, with private banks being more involved in green financing efforts (Zheng et al., 2021).

- **Challenges and Gaps in Research:**

While the literature generally supports a positive relationship between sustainability and financial performance, certain gaps and contradictions exist. For example, Bătae et al. (2021) found that corporate governance practices could negatively impact financial outcomes in the banking sector, contrary to traditional stakeholder theory expectations.

Another emerging theme is the role of digital transformation in moderating the effects of ESG on financial performance. As digitalization becomes a more significant factor, its interaction with sustainability practices is seen as a driving force, but its long-term benefits remain uncertain (Fu et al., 2023).

The analysis of past research on Sustainable Finance and ESG reveals several significant trends, as well as notable gaps and challenges. First, there is a growing consensus that integrating environmental, social, and governance (ESG) factors into financial practices can lead to positive financial outcomes. Studies demonstrate improved operational profitability, market value, and overall financial performance in firms with strong ESG commitments, particularly in environmentally sensitive sectors. The rise of green finance instruments, such as green bonds and sustainable loans, further highlights the financial sector's role in promoting sustainability, especially among private banks.

ISSN No. 2454-6186 | DOI: 10.47772/IJRISS |Volume VIII Issue IX September 2024

However, despite the overall positive relationship between ESG and financial performance, certain inconsistencies remain. For example, corporate governance practices in some cases appear to have a neutral or even negative effect on financial outcomes, challenging the assumption that good governance always leads to better performance. Additionally, while much of the literature focuses on ESG's impact on equity, there is still limited research on its effect on debt financing and other financial products, presenting an opportunity for future exploration.

Moreover, the ongoing issue of greewashing—where firms overstate their sustainability efforts—continues to challenge the authenticity of ESG claims, especially in regions with inconsistent regulatory frameworks. The literature also highlights the importance of digital transformation as a moderating factor in ESG performance, suggesting that technological advancements can further enhance the benefits of ESG integration, though this area remains underexplored.

In conclusion, while there is ample evidence supporting the positive effects of ESG practices on financial outcomes, there is a need for more sector-specific, regional, and comparative studies to fully understand the nuanced impacts of ESG integration. Additionally, addressing the challenges related to standardized reporting, greenwashing, and digital transformation will be critical to advancing both scholarly and practical discussions in the field of sustainable finance. These areas present key opportunities for future research and are crucial for creating a more consistent, transparent, and impactful approach to ESG integration within the financial sector..

METHODOLOGY

A. Research Design

The study employs a conceptual research design aimed at exploring the role of Environmental, Social, and Governance (ESG) criteria within the realm of sustainable finance and the broader financial sector. This design is particularly suitable for theoretical explorations and the development of new frameworks, as it allows for the synthesis of existing literature and the formulation of new insights (Jebb et al., 2017). The research is descriptive and exploratory in nature, focusing on the relationships between ESG criteria, sustainable finance, and their impacts on financial institutions. As a conceptual paper, it does not involve empirical data collection from primary sources but rather relies on secondary data and theoretical constructs.

B. Population, Sample Size, and Sampling Technique

Since this study is conceptual, the "population" refers to the body of existing literature on sustainable finance, ESG, and related financial practices. The sampling technique employed is purposive sampling, which is common in conceptual research where the aim is to select literature that is most relevant and informative for the research objectives (Palinkas et al., 2015). The sample size consists of a wide range of peer-reviewed journal articles, books, and reports from reputable institutions published over the last decade. This timeframe is chosen to ensure the inclusion of the most current and relevant research, particularly in light of recent developments in ESG and sustainable finance.

C. Data Collection

Data collection for this study involves an extensive literature review. The sources include peer-reviewed journal articles, books, white papers, and reports from authoritative institutions such as the United Nations, World Bank, and prominent financial regulatory bodies. The literature was collected using academic databases like Scopus, Web of Science, and Google Scholar. Keywords such as "sustainable finance," "ESG," "financial sector," "triple bottom line," and "institutional theory" were used to identify relevant literature. This approach ensures a comprehensive collection of data that is relevant to the research questions (Snyder, 2019).

D. Data Analysis

The analysis in this conceptual study is conducted through thematic analysis. This qualitative method allows for the identification of key themes and patterns in the literature, enabling the synthesis of findings across different studies (Braun & Clarke, 2006). Thematic analysis is particularly appropriate for conceptual papers as it facilitates the organization of literature into coherent themes that address the research objectives. The data analysis process includes coding the literature, categorizing findings under specific themes (e.g., the impact of ESG on financial performance, regulatory influences), and synthesizing these themes to draw new insights and propose a conceptual framework.

E. Variables and Measurement

Although the study is conceptual and does not involve empirical measurement, the variables discussed are based on constructs identified in the literature. The primary variables include ESG criteria (environmental, social, and governance aspects), financial performance, and regulatory frameworks. These variables are explored in the context of how they interact within the financial sector to promote sustainable finance. In this study, these variables are not measured quantitatively but are instead analyzed qualitatively to understand their conceptual interrelationships and implications for theory and practice (Blaikie & Priest, 2019).

F. Reliability and Validity of Questionnaires Construct

As this study does not involve primary data collection through questionnaires, the focus on reliability and validity pertains to the robustness of the literature review process. The reliability of the study is ensured by systematically and rigorously selecting literature from credible and high-impact sources. Validity is addressed by triangulating the findings from different studies to ensure that the conclusions drawn are well-supported by the existing body of knowledge (Yin, 2018). The conceptual framework developed is validated through its consistency with existing theories such as the Triple Bottom Line and Institutional Theory, which are widely accepted in the literature.

DISCUSSION

The integration of ESG criteria into the financial sector has emerged as a pivotal mechanism for promoting sustainable development, as underscored by the literature. The global shift towards sustainable finance, driven by the need to address pressing environmental, social, and governance challenges, has fundamentally reshaped financial practices. Ziolo et al. (2019) highlight the significance of incorporating ESG factors into financial decision-making, demonstrating that such integration leads to more sustainable financial systems. This is particularly evident in Scandinavian countries, where sustainability practices have been most effectively implemented. Similarly, Schumacher et al. (2020) point out that sustainable finance practices are essential for mitigating climate risks and supporting transitions to low-carbon economies, with Japan serving as a notable example.

In the Malaysian context, the regulatory environment has played a crucial role in accelerating ESG adoption among financial institutions. The introduction of the Malaysian Code on Corporate Governance (2021) and the Sustainable and Responsible Investment (SRI) Sukuk Framework has created a structured ecosystem that supports ESG integration (Securities Commission Malaysia, 2021). These developments align with the findings of Lai and Ng (2023), who report that Malaysian banks and asset managers are increasingly incorporating ESG criteria into their risk assessment models and investment portfolios, driven by regulatory compliance and investor demand.

However, challenges persist. Yusoff et al. (2023) identify the lack of standardized ESG metrics and reporting frameworks as a significant obstacle to effective ESG integration, complicating the comparison of ESG performance across companies and industries. This is consistent with global findings, where Kotsantonis and Serafeim (2019) note the inconsistencies in ESG data and the resulting difficulties in assessing ESG performance. The issue of greenwashing, where companies make exaggerated claims about their ESG practices, further exacerbates these challenges (Levine, 2021).

Despite these challenges, the opportunities for the financial sector in Malaysia and globally are significant. The growing demand for green bonds and SRI products reflects a shift in investor preferences toward more sustainable investment options (Mohamed et al., 2022). Moreover, the rise of ESG-focused funds and the integration of sustainability into corporate governance practices indicate that the financial sector is increasingly aligned with global sustainability goals (Zulkifli & Ahmad, 2023). This trend is mirrored globally, with the rise of green financial products and ESG-focused investments driving the financial sector towards more sustainable practices (Hale, 2020).

In conclusion, while the integration of ESG criteria into financial practices faces challenges such as inconsistent data and the risk of greenwashing, the momentum behind sustainable finance is undeniable. The regulatory frameworks in Malaysia and other regions are crucial in shaping this landscape, providing the necessary structure and support for ESG integration. Theoretical underpinnings such as the Triple Bottom Line and Institutional Theory offer valuable insights into the motivations and mechanisms behind ESG adoption. Future research should focus on addressing the gaps in ESG data standardization and exploring the long-term impacts of sustainable finance on financial performance and societal outcomes.

CONCLUSION

This study has provided valuable insights into the integration of Environmental, Social, and Governance (ESG) factors within the financial sector, highlighting its positive impact on financial performance, the role of financial practices in promoting sustainability, and the challenges and opportunities inherent in sustainable finance. The findings indicate that ESG integration can enhance financial stability and support sustainable development, as evidenced by practices such as green bonds and ESG investment frameworks. However, the effectiveness of these practices is closely tied to the robustness of measurement frameworks and regulatory oversight.

The study also reveals significant variability in the implementation of ESG practices across regions, with challenges in standardization and regulatory gaps hindering broader adoption. From a theoretical perspective, the research reinforces the relevance of the Triple Bottom Line Theory and Stakeholder Theory, emphasizing the need to balance economic, environmental, and social outcomes while addressing diverse stakeholder interests. Practically, the study underscores the importance of enhanced transparency and comprehensive regulation to overcome resistance to ESG integration and ensure its effectiveness.

The limitations of this study include the variability in ESG implementation across different regions and the evolving nature of sustainable finance, which may affect the longevity of the findings. Future research should focus on developing standardized ESG reporting frameworks, evaluating the long-term impacts of green financial instruments, and exploring the role of emerging technologies like fintech in advancing ESG transparency and performance. Expanding research to encompass a more diverse range of regions will also be essential for a comprehensive understanding of sustainable finance on a global scale.

ACKNOWLEDGMENT

The authors would like to express their sincere gratitude to the Kedah State Research Committee, UiTM Kedah Branch, for the generous funding provided under the Tabung Penyelidikan Am. This support was crucial in facilitating the research and ensuring the successful publication of this article.

REFERENCES

1. Abdullah, R., Chan, S. H., & Wong, W. P. (2023). The impact of ESG on financial performance: Evidence from Malaysia. *Journal of Sustainable Finance & Investment, 13*(1), 45-63.
2. Ali, H. M. (2022). Regulatory initiatives and the impact on ESG practices in Malaysia. *Asian Journal of Business and Accounting, 15*(2), 78-95.
3. Alonso, A., & Marques, J. (2019). Financial innovation for a sustainable economy. *AARN: Political Ecology*. https://doi.org/10.2139/ssrn.3471742
4. Awaysheh, A., Heron, R. A., Perry, T., & Wilson, J. I. (2021). On the relation between corporate social responsibility and financial performance. *Strategic Management Journal, 42*(3), 441-456. https://doi.org/10.1002/smj.3255
5. Aybars, A., Ataünal, L., & Gurbuz, A. (2019). ESG and financial performance. *Advances in Business Strategy and Competitive Advantage*. https://doi.org/10.4018/978-1-5225-7180-3.CH029
6. Bachtiar, A., & Nainggolan, Y. (2023). Financing for sustainability and bank performance: Case of G-20 countries. *International Journal of Current Science Research and Review, 6*(5), 30. https://doi.org/10.47191/ijcsrr/v6-i5-30
7. Bank Negara Malaysia. (2023). *Malaysian Green Taxonomy*. Retrieved from Bank Negara Malaysia website
8. Bătae, O., Dragomir, V., & Feleagă, L. (2021). The relationship between environmental, social, and financial performance in the banking sector: A European study. *Journal of Cleaner Production, 125791*. https://doi.org/10.1016/j.jclepro.2021.125791
9. Bebchuk, L. A., & Cohen, A. (2005). The costs of entrenched boards. *Journal of Financial Economics, 78*(2), 409-433. https://doi.org/10.1016/j.jfineco.2004.12.006
10. Berg, F., Kölbel, J. F., & Rigobon, R. (2022). Aggregate confusion: The divergence of ESG ratings. *Review of Finance, 26*(3), 511-557. https://doi.org/10.1093/rof/rfac012
11. Blaikie, N., & Priest, J. (2019). *Designing social research: The logic of anticipation* (3rd ed.). Polity Press.
12. Braun, V., & Clarke, V. (2006). Using thematic analysis in psychology. *Qualitative Research in Psychology, 3*(2), 77-101. https://doi.org/10.1191/1478088706qp063oa
13. Bursa Malaysia. (2024). *Sustainability Reporting*. Retrieved from Bursa Malaysia website
14. Cantele, S., & Zardini, A. (2018). Is sustainability a competitive advantage for small businesses? An empirical analysis of possible mediators in the sustainability–financial performance relationship. *Journal of Cleaner Production, 182*, 166–176. https://doi.org/10.1016/j.jclepro.2018.02.016
15. Cantino, V., Devalle, A., & Fiandrino, S. (2017). *ESG sustainability and its impact on the cost of equity and debt: An empirical analysis*. Journal of Financial Management, Markets and Institutions, 5(2), 121-140. https://doi.org/10.12831/88026
16. Dhaheri, A., & Nobanee, H. (2020). Financial stability and sustainable finance: A mini-review. *Environmental Economics eJournal*. https://doi.org/10.2139/ssrn.3538328
17. DiMaggio, P. J., & Powell, W. W. (1983). *The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields*. American Sociological Review, 48(2), 147-160. https://doi.org/10.2307/2095101
18. Dimson, E., Marsh, P., & Staunton, M. (2020). ESG and investment returns: Evidence from the long run. Financial Analysts Journal, 76(3), 26-47. https://doi.org/10.1080/0015198X.2020.1747380

19. Flammer, C. (2021). Corporate green bonds. *Journal of Financial Economics, 142*(2), 499-516. https://doi.org/10.1016/j.jfineco.2021.01.010
20. Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment, 5*(4), 210-233.
21. Garcia, A., Mendes-da-Silva, W., & Orsato, R. (2018). Corporate sustainability, capital markets, and ESG performance. *Individual Behaviors and Technologies for Financial Innovations*. https://doi.org/10.1007/978-3-319-91911-9_13
22. Giese, G., Lee, L. E., Melas, D., Nagy, Z., & Nishikawa, L. (2019). Foundations of ESG investing: How ESG affects equity valuation, risk, and performance. *Journal of Portfolio Management, 45*(5), 69-83. https://doi.org/10.3905/jpm.2019.45.5.069
23. Gutterman, A. (2020). Sustainable finance. *Corporate Finance: Governance*. https://doi.org/10.4324/9780367816681-103
24. Hale, J. (2020). How ESG funds have performed during the COVID-19 crisis. *Morningstar* .Intergovernmental Panel on Climate Change (IPCC). (2023). *Climate Change 2023: Synthesis Report* . IPCC. Retrieved from https://www.ipcc.ch/report/ar6/syr/
25. Ioannou, I., & Serafeim, G. (2015). The impact of corporate social responsibility on investment recommendations: Analysts' perceptions and shifting institutional logics. *Strategic Management Journal, 36*(7), 1053-1081. https://doi.org/10.1002/smj.2268
26. Jebb, A. T., Parrigon, S., & Woo, S. E. (2017). Exploratory data analysis as a foundation of inductive research. *Human Resource Management Review, 27*(2), 265-276. https://doi.org/10.1016/j.hrmr.2016.08.003
27. Keskin, A., Dincer, B., & Dincer, C. (2020). Exploring the impact of sustainability on corporate financial performance using discriminant analysis. *Sustainability*, *12*(6), 2346. https://doi.org/10.3390/su12062346
28. Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. *The Accounting Review, 91*(6), 1697-1724. https://doi.org/10.2308/accr-51383
29. Khudyakova, L. (2023). Sustainable finance in new political and economic realities. *World Economy and International Relations*. https://doi.org/10.20542/0131-2227-2023-67-8-5-15
30. Kim, S., & Li, Z. (2021). Understanding the impact of ESG practices in corporate finance. *Sustainability*, *13*(7), 3746. https://doi.org/10.3390/su13073746
31. Kotsantonis, S., & Serafeim, G. (2019). Four things no one will tell you about ESG data. *Journal of Applied Corporate Finance, 31*(2), 50-58. https://doi.org/10.1111/jacf.12316
32. Krueger, P., Sautner, Z., & Starks, L. T. (2020). The importance of climate risks for institutional investors. *Review of Financial Studies, 33*(3), 1067-1111. https://doi.org/10.1093/rfs/hhz137
33. Lai, A. L., & Ng, K. K. (2023). ESG integration in risk assessment models: The case of Malaysian banks and asset managers. *Journal of Sustainable Finance & Investment*, *12*(3), 245-265.
34. Levine, M. (2021). The problem of greenwashing. *Bloomberg Opinion*
35. Liu, C., & Wu, S. (2023). Green finance, sustainability disclosure and economic implications. *Fulbright Review of Economics and Policy*. https://doi.org/10.1108/frep-03-2022-0021
36. Liu, D., & Jin, S. (2023). How does corporate ESG performance affect financial irregularities? *Sustainability*, *15*(13), 9999. https://doi.org/10.3390/su15139999
37. Lupu, I., Hurduzeu, G., & Lupu, R. (2022). How is the ESG reflected in European financial stability? *Sustainability*, *14*(10), 10287. https://doi.org/10.3390/su141610287
38. Mohamed, N., Rahim, R. A., & Abdullah, S. (2022). Sustainable finance and the green bond market: Evidence from Malaysia. *Journal of Environmental Management, 310*, 114648. https://doi.org/10.1016/j.jenvman.2022.114648
39. Muhmad, S., & Muhamad, R. (2020). Sustainable business practices and financial performance during pre- and post-SDG adoption periods: A systematic review. *Journal of Sustainable Finance & Investment*, *11*, 291–309. https://doi.org/10.1080/20430795.2020.1727724
40. Nizam, E., Ng, A., Dewandaru, G., Nagayev, R., & Nkoba, M. (2019). The impact of social and environmental sustainability on financial performance: A global analysis of the banking sector. *Journal of Multinational Financial Management*

. https://doi.org/10.1016/j.mulfin.2019.01.002

41. Oh-Suk, Y., & Jae-Hoon, H. (2023). Assessing the effect of corporate ESG management on corporate financial and market performance and export. *Sustainability*, *15*(3), 2316. https://doi.org/10.3390/su15032316
42. Palinkas, L. A., Horwitz, S. M., Green, C. A., Wisdom, J. P., Duan, N., & Hoagwood, K. (2015). Purposeful sampling for qualitative data collection and analysis in mixed method implementation research. *Administration and Policy in Mental Health and Mental Health Services Research*, *42*(5), 533-544. https://doi.org/10.1007/s10488-013-0528-y
43. Qureshi, M., Akbar, M., Akbar, A., & Poulova, P. (2021). Do ESG endeavors assist firms in achieving superior financial performance? A case of 100 best corporate citizens. *SAGE Open*, *11*. https://doi.org/10.1177/21582440211021598
44. Schumacher, K., Chenet, H., & Volz, U. (2020). *Sustainable finance in Japan: Mitigating climate risks and supporting the transition to a zero-carbon economy*. Journal of Sustainable Finance & Investment, 10(2), 150-174. https://doi.org/10.1080/20430795.2020.1734745
45. Securities Commission Malaysia. (2021). Malaysian Code on Corporate Governance. https://www.sc.com.my/regulation/corporate-governance
46. Securities Commission Malaysia. (2021). Malaysian Code on Corporate Governance. Retrieved from https://www.sc.com.my/ask-aliss#search/Malaysian%20Code%20on%20Corporate%20Governance
47. Securities Commission Malaysia. (2023). *Sustainable and Responsible Investment Sukuk Framework*. Retrieved from Securities Commission Malaysia website
48. Snyder, H. (2019). Literature review as a research methodology: An overview and guidelines. *Journal of Business Research, 104*, 333-339. https://doi.org/10.1016/j.jbusres.2019.07.039
49. Soppe, A. (2004). Sustainable corporate finance. *Journal of Business Ethics*, *53*, 213–224. https://doi.org/10.1023/B:BUSI.0000039410.18373.12
50. Sousa, E., & Cuevas, F. (2023). ESG and its relationship to the financial performance of the most capitalizable U.S. companies. *Studies of Applied Economics*, *41*(3), 9408. https://doi.org/10.25115/sae.v41i3.9408
51. Stolbov, M., & Shchepeleva, M. (2022). The impact of ESG-factors on financial stability. *Voprosy Ekonomiki*, *11*, 136–148. https://doi.org/10.32609/0042-8736-2022-11-136-148
52. Tan, Y. S., & Kwan, J. S. (2023). ESG in Malaysia: Adoption and future prospects. *Malaysian Journal of Economic Studies, 60*(1), 45-63.
53. Tett, G. (2020). The problem with ESG ratings. *Financial Times*
54. UN PRI. (2006). Principles for Responsible Investment. https://www.unpri.org/
55. Urban, M., & Wójcik, D. (2019). Dirty banking: Probing the gap in sustainable finance. *Sustainability* , *11*(6), 1745. https://doi.org/10.3390/su11061745
56. World Economic Forum. (2024). *Global Risks Report 2024*. World Economic Forum. Retrieved from https://www.weforum.org/reports/global-risks-report-2024
57. Yu, X. (2023). *The impact of ESG integration on the performance and decision-making processes of financial institutions*. Journal of Financial Sustainability, 7(4), 98-115. https://doi.org/10.1016/j.jfs.2023.101502
58. Yusoff, W. F. W., Zainal, N., & Ismail, F. (2023). ESG integration in Malaysia: Challenges and opportunities. *Journal of Corporate Finance, 75*, 101980. https://doi.org/10.1016/j.jcorpfin.2022.101980
59. Zhang, D., & Liu, L. (2022). Does ESG performance enhance financial flexibility? Evidence from China. *Sustainability*, *14*(18), 11324. https://doi.org/10.3390/su141811324
60. Zhao, C., Guo, Y., Yuan, J., Wu, M., Li, D., Zhou, Y., & Kang, J. (2018). ESG and corporate financial performance: Empirical evidence from China's listed power generation companies. *Sustainability*, *10*(8), 2607. https://doi.org/10.3390/su10082607
61. Zheng, G., Siddik, A., Masukujjaman, M., & Fatema, N. (2021). Factors affecting the sustainability performance of financial institutions in Bangladesh: The role of green finance. *Sustainability*, *13*(18), 10165. https://doi.org/10.3390/su131810165

62. Zioło, M., Filipiak, B., Bąk, I., & Cheba, K. (2019). *The role of ESG factors in enhancing the sustainability of financial systems: A comparative analysis of Scandinavian countries*. Journal of Cleaner Production, 231, 1255-1267. https://doi.org/10.1016/j.jclepro.2019.05.121
63. Zulkifli, N., & Ahmad, N. (2023). ESG-focused funds and corporate governance in Malaysia: Trends and prospects. *Asian Journal of Business Ethics, 10*(2), 137-158. https://doi.org/10.1007/s13520-023-00152-9