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THE ROLE OF SUSTAINABILITY IN ASEAN BANKING DESICION-MAKING: A SYSTEMATIC LITERATURE REVIEW

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ABSTRAK

Penelitian ini mengkaji urgensi keberlanjutan sebagai dasar pengambilan keputusan strategis perbankan di ASEAN yang ditandai oleh keragaman regulasi, budaya, dan kapasitas kelembagaan. Tujuannya adalah menganalisis pemahaman dan implementasi prinsip ESG dalam keputusan perbankan serta kontribusinya terhadap efisiensi, stabilitas, dan legitimasi institusional. Dengan metode Systematic Literature Review berbasis PRISMA 2020 terhadap 22 artikel Scopus periode 2019–2025, temuan menunjukkan bahwa ESG berfungsi sebagai kerangka strategis yang meningkatkan kualitas kredit, efisiensi operasional, dan manajemen risiko, dengan tata kelola sebagai dimensi paling dominan dalam keberhasilan integrasi keberlanjutan. Efektivitas ESG dimoderasi oleh konteks kelembagaan dan budaya nasional antarnegara ASEAN. Studi ini berkontribusi dengan memetakan kesenjangan literatur dan mengembangkan kerangka ESG kontekstual, serta menjadi rujukan bagi regulator dan perbankan dalam merumuskan kebijakan keuangan berkelanjutan yang adaptif dan inklusif terhadap dinamika regional

Kata Kunci: ESG, keberlanjutan, perbankan ASEAN, pengambilan keputusan, tata kelola.

ABSTRACT

This study examines the growing importance of sustainability as a foundation for strategic decision-making in the ASEAN banking sector, which is characterized by regulatory, cultural, and institutional diversity. It aims to explore how Environmental, Social, and Governance (ESG) principles are understood and integrated into banking decision-making and to assess their contributions to efficiency, stability, and institutional legitimacy. Using a Systematic Literature Review (SLR) based on the PRISMA 2020 protocol, this study analyzes 22 Scopus-indexed articles published between 2019 and 2025. The findings indicate that ESG serves as a strategic framework that enhances credit quality, operational efficiency, and risk management, with governance emerging as the most influential dimension in successful sustainability integration. The effectiveness of ESG implementation is moderated by institutional and cultural contexts across ASEAN countries. This study contributes by identifying gaps in the literature and proposing a contextual ESG framework for the ASEAN banking sector, providing insights for regulators and practitioners in developing adaptive and inclusive sustainable finance policies.

Keywords: ESG, sustainability, ASEAN banking, decision-making, governance.

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1. Introduction

The issue of sustainability has become a strategic discourse in the world of global banking. Sustainability is no longer seen as an additional element, but has become an integral part of business strategy, decision-making, and the competitiveness of financial institutions. Recent studies, such as those by Buallay (2019), Bhaskaran et al., (2023), and Mishra and Sant (2024) show that sustainability disclosure, particularly in the context of ESG (Environmental, Social, and Governance), has a positive correlation with company value, managerial efficiency, and bank operational stability. However, there is a tendency for developed countries and the BRICS group to dominate the existing literature. Studies such as those conducted by Mirza et al. (2025) have provided a deep understanding of the European and BRICS regions. However, they have not systematically explored how sustainability practices influence strategic decision-making in the ASEAN region, which has highly diverse and dynamic cultural, regulatory, and financial structures. The urgency to develop a systematic literature synthesis in the ASEAN context is increasingly apparent when considering the methodological and geographical gaps in previous studies. Although there are significant contributions from international publications such as those by Buallay (2019), Hussain et al. (2024), and Zyznarska-Dworczak et al. (2023), most existing studies focus on BRICS and Europe, with limited synthesis related to ASEAN.

Although this highlights the relationship between ESG and financial efficiency and performance, scientific evidence which confirms that these findings are applicable within the ASEAN context is insufficient. In this case, a systematic literature review approach is essential to map the concepts, methodological approaches, and conclusions that are available globally and translate them into a specific local context. This study is expected to provide a conceptual map and holistic understanding that will serves as a basis for the formulation of relevant and contextual policies at the regional level.

The research gap addressed in this study lies primarily in the absence of a comprehensive synthesis connecting sustainability with strategic decision-making across ASEAN banking institutions. Previous studies remain fragmented and country-specific, lacking regional cross-comparison. Moreover, limited attention has been paid to the interaction between various ESG dimensions and managerial practices in ASEAN banking, particularly concerning credit risk assessment, investment allocation, and governance mechanisms. This study therefore addresses the gap by systematically reviewing empirical evidence to understand how ESG functions as a decision-support system that influences strategic, operational, and risk-related outcomes in regional banks.

The novelty of this research is founded upon the attempt to link sustainability indicators with bank managerial policies using a comprehensive systematic literature review framework. This approach not only collects and reorganises the results of previous research results but also analyses how theories such as the Triple Bottom Line. (Alfar et al., 2023), the DEA approach Zyznarska-Dworczak et al. (2023) , CAMELS (Gutiérrez-López and Abad-González, 2020), andInstitutional theory are applied in sustainability practices by ASEAN banks. By constructing a narrative from various methodological and theoretical perspectives, this study offers a synthesis that has never been conducted in this context.

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ASEAN, as the context of this study, has unique complexities. Its member countries have striking differences in terms of institutional capacity, bank ownership structure, regulatory pressure, and response to sustainability demands. Kumar and Prakash, (2020) show that external pressures, regulatory readiness, and bank ownership structures in Asia strongly influence sustainability reporting practices. These differences create highly varied conditions in terms of the integration of sustainability into decision-making systems. This study aims to examine these disparities and develop a collective understanding of sustainability practices among ASEAN countries.

Furthermore, dimensions such as financial inclusion, green technology adoption, and digital access inequality are critical issues in framing sustainability in ASEAN. A study by Gu et al. (2023) shows that financial inclusion is linked to sustainability in Asia. However, no research has explicitly examined its influence in the context of ASEAN banking. This study positions this issue within a broader regional discourse, particularly in the context of the ASEAN Economic Community (AEC) and the ASEAN Sustainable Finance Taxonomy, thereby contributing to the practical relevance of the synthesis.

The theoretical and practical contributions of this research are essential in bridging ESG theory with real-world practice in the ASEAN financial sector. Studies such as those by Gunawan et al. (2022), Kumar and Prakash (2020), and Sumarta et al. (2023) confirm that sustainability correlates with bank stability and resilience. However, this understanding is still partial and has not been integrated into risk assessment and strategic decision-making systems. Taking ASEAN as a context, this study seeks to develop a framework for aligning ESG-based risk assessment with unique local socio-political contexts. Thus, the scientific contribution of this study is transformational and applicable, not only closing a gap in the literature but also providing a conceptual framework that regulators and industry players can adopt.

In line with this, this study contributes to expanding legitimacy theory and institutional theory by highlighting that cultural norms and local dynamics are not only moderating variables but also key formative elements in the success or failure of sustainability implementation in the financial sector. Practically, it offers an evidence-based synthesis for banks to strengthen ESG integration into lending, investment, and governance decisions. From a policy perspective, it provides regulators and stakeholders with a conceptual map to support the formulation of contextualized sustainable finance policies aligned with the ASEAN Sustainable Finance Roadmap. Through this multi-dimensional contribution, the research not only bridges academic and policy gaps but also strengthens the foundation for sustainable financial transformation in the ASEAN banking sector.

Based on this description, it can be stated that this study aims to identify how sustainability is understood and applied in the decision-making process in the ASEAN banking sector, reveal the dimensions of sustainability (environmental, social, and governance) that are most often analyzed in the literature, evaluate the influence of sustainability on strategic decisions such as credit, investment, risk management, and ESG policies, analyze the frameworks, methods, and indicators used in previous studies, and map the gaps in the literature that have not been widely studied in the context of sustainability and ASEAN banking decisions.

2. Literature Review

Sustainability in the financial sector is no longer considered a moral concept, but rather a strategic framework that affects the stability, efficiency, and reputation of financial institutions. ESG (Environmental, Social, and Governance) has become a significant pillar in a sustainability approach that is integrated into banks' strategic decision-making (Buallay et al., 2020). The study by Bhaskaran et al. (2023) emphasises that social and governance dimensions contribute significantly to operational efficiency, reinforcing ESG's position as a strategic instrument that has a real impact on performance. Mirza et al. (2025) reveal that investing in green technology and environmentally friendly financing can increase banks' financial resilience, especially in the face of market uncertainty. Thus, ESG is not only a value-based approach, but also a mechanism for creating long-term values for financial institutions.

This study enriches the main theories in sustainability studies, including the Triple Bottom Line (TBL) by Elkington, which was further developed by Alfar et al. (2023), covering economic, social, and environmental aspects as the basis for decision-making. Institutional Theory explains how normative, regulatory, and cultural pressures influence ESG adoption legitimacy. The theory assumes that companies will respond to social pressures to maintain their existence. Data Envelopment Analysis (DEA) is used by Zyznarska-Dworczak et al. (2023) to measure sustainability efficiency. The CAMELS Framework is a bank supervision indicator that can be integrated with sustainability dimensions. (Gutiérrez-López and Abad-González, 2020). The combination of these theories allows for a holistic, cross-perspective understanding of how banks frame ESG in their policies.

Several core theories underpin the conceptual foundation of this study. First, Legitimacy Theory explains how banks disclose sustainability information to maintain social acceptance and regulatory alignment, positioning ESG as a mechanism for institutional legitimacy (Sumarta et al., 2023). Second, Institutional Theory emphasizes the role of coercive and normative pressures in shaping ESG adoption, where regulatory coherence and stakeholder expectations drive conformity (Kumar & Prakash, 2020). Third, Stakeholder Theory highlights that financial institutions have obligations beyond shareholders to communities, governments, and the environment thus requiring balanced decision-making across social and economic dimensions (Hussain et al., 2024). Finally, the Triple Bottom Line (TBL) framework (Alfar et al., 2023) operationalizes sustainability by integrating economic, environmental, and social indicators as equal performance measures in banking governance.

ESG Implementation in the ASEAN Region

The literature shows that variations greatly influence ESG implementation in ASEAN countries in terms of national regulations, technological readiness, and bank ownership structures. Gunawan et al., (2022) state that stakeholder pressure and shareholder dominance determine the intensity of ESG reporting. Meanwhile, Debnath et al. (2024) highlight that many banks in Southeast Asia still view sustainability reporting as a symbolic obligation rather than a managerial strategy. Differences in capacity between ASEAN countries such as Singapore with its mature ESG system versus Myanmar, which is still in its early stages indicate that a one-size-fits-all approach is not relevant. Local context is crucial in formulating regional ESG policies (Nicolò et al., 2024)

The Impact of ESG on Bank Decision-Making

ESG principles have been proven to have a direct correlation with various aspects of banking decision-making: Environmental Dimension: Studies by Saif-Alyousfi and Alshammari (2025) and Hasan and Lu (2023) confirm that green banking practices and environmentally friendly financial digitalisation support energy efficiency and expand inclusive services. Social Dimension: Santoso and Setiawan (2024) found that ESG social practices increase customer loyalty, reputation, and public trust, especially in countries with high social inequality. Governance Dimension: Bhaskaran et al. (2023) and Debnath et al. (2024) state that good governance reduces information asymmetry and strengthens the quality of internal bank supervision. Thus, ESG not only adds value to a company's reputation but also strengthens risk mitigation mechanisms and market competitiveness.

Challenges and Contextual Factors in ESG Integration

As Sebastião et al. (2024) and Lee et al. (2021) revealed, the main obstacles to ESG implementation in developing countries include low institutional capacity, regulatory disharmony, and weak reporting systems. ASEAN faces similar challenges, including the digital divide (Hasan and Lu, 2023) and differences in financial infrastructure and regulations. As a solution, ASEAN needs to develop a regional ESG framework that is adaptable to localities while remaining in line with global standards such as GRI, TCFD, or ISSB. This supports the opinions of Baran et al. (2022) that digital transformation in ESG reporting can accelerate the efficiency and transparency of bank decision-making.

3. Research Method

This study employed the *Systematic Literature Review* (SLR) approach to synthesise research on the role of sustainability in banking decision-making across ASEAN countries. The SLR design was selected to ensure transparency, replicability, and methodological rigor in summarising existing empirical evidence. This method enables a structured mapping of prior research related to *Environmental, Social, and Governance* (ESG) integration within strategic financial decision-making. The procedure strictly follows the *Preferred Reporting Items for Systematic Reviews and Meta-Analyses* (PRISMA 2020) guidelines, encompassing four sequential stages: identification, screening, eligibility, and inclusion. Each step was carefully designed to reduce bias and ensure the relevance of selected studies to the research focus.

In the identification stage, relevant articles were systematically retrieved from the Scopus database using predefined search keywords, namely *"Sustainability Banking Sector"*, *"Sustainability Banking Financial Performance"*, *"Decision Making"*, and *"Sustainability Report."* The initial search covered the period between 2015 and 2025 to capture both pre-pandemic and post-pandemic developments in sustainable finance. This stage focused on peer-reviewed journal articles published in English and ranked within Scopus Quartiles (Q1–Q4). Duplicate records, conference proceedings, and non-journal publications were excluded to maintain the academic integrity of the data source.

The screening stage involved a preliminary review of titles and abstracts to assess thematic alignment with the research objective. Articles were retained only if they explicitly examined the relationship between sustainability, ESG, and managerial or strategic decision-making in the banking sector. Studies outside this scope or lacking sufficient methodological information were excluded. The screening process ensured that all selected literature directly contributed to understanding the intersection of sustainability and financial decision processes within ASEAN or comparable regional contexts.

During the eligibility stage, the full text of the remaining studies was evaluated in detail. Each article was assessed against predefined inclusion and exclusion criteria. The inclusion criteria required that the papers (1) focus on the banking sector, (2) analyse sustainability or ESG-related practices influencing management decisions, and (3) include at least one ASEAN country within the research scope. Studies were excluded if they were not accessible in full text, written in non-English language, or did not clearly link sustainability to decision-making. This process ensured the conceptual and methodological relevance of the final dataset.

Finally, the inclusion stage compiled studies that met all requirements into the final review database. The total number of studies included, as well as the distribution by journal quality and publication year, is presented in the *Results and Discussion* section. To visualise the entire selection process, the PRISMA 2020 flow diagram (Figure 1) illustrates the progressive reduction of studies through each screening phase beginning from initial identification to final inclusion providing a transparent overview of how the literature set was refined.

Throughout the process, analytical consistency was maintained to align the method with the study's objectives. Thematic coding was later employed in the analysis phase to extract relevant patterns from the included studies. This structured procedure ensures that the resulting synthesis accurately represents how ESG and sustainability frameworks influence strategic banking decisions across ASEAN, in line with the research purpose outlined in the introduction.

4. Results and Discussion

Before discussing the thematic findings, it is important to understand how the article screening process was conducted systematically to ensure the validity and accuracy of the literature synthesis. This study refers to the PRISMA 2020 protocol as a framework for reporting the process of identifying, screening, and including articles in a Systematic Literature Review (SLR).

As illustrated in Figure 1, the initial search was conducted through the Scopus database using the keywords: Sustainability Banking Sector, Sustainability Banking Financial Performance, Decision Making, and Sustainability Report, resulting in 72 initial articles. After screening for duplicates (n=4), automatically irrelevant results (n=3), and articles not classified as Q1-Q4 journals (n=7), 58 articles were included in the review stage.

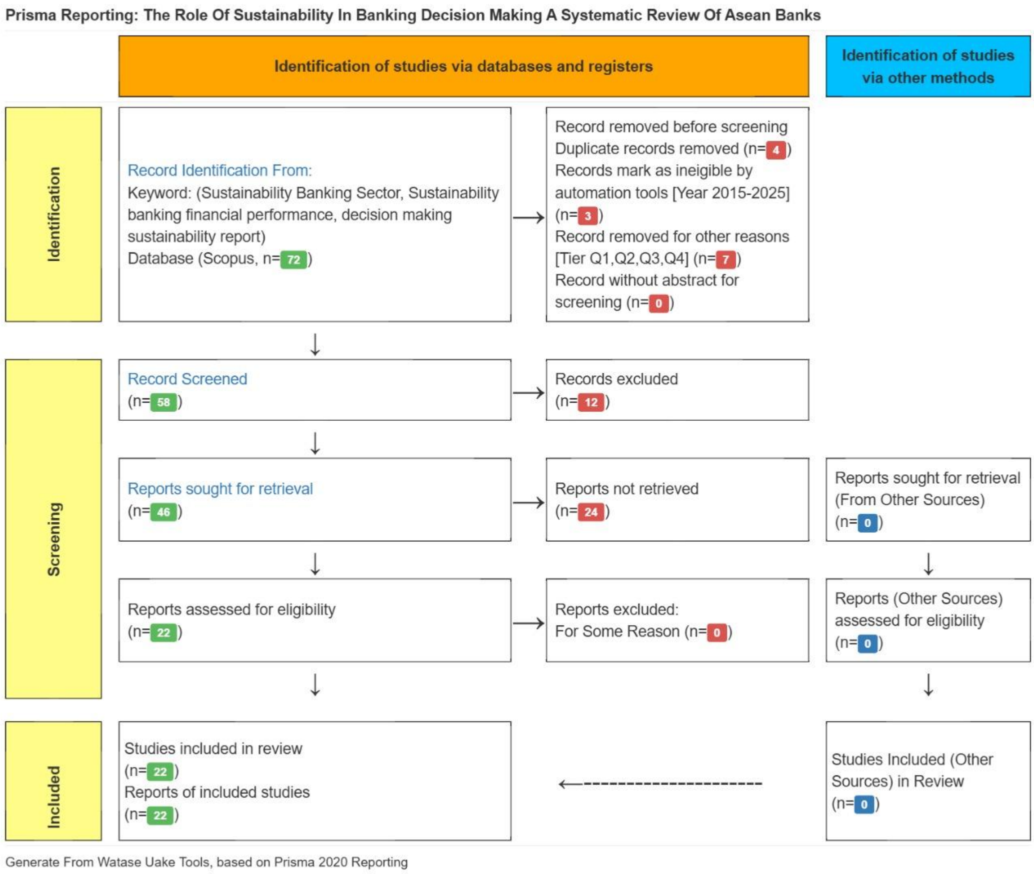

Figure 1. Article Screening Process

In the subsequent stage, 12 articles were determined not to meet the thematic criteria, and 24 articles were deemed inaccessible due to technical constraints (e.g., not available in full-text format). Finally, 22 articles that met all inclusion criteria were thoroughly analysed as the basis for thematic synthesis in this study. This process ensured that only articles that were relevant, fully accessible, and published in recognised quality journals were used as in the analysis, thereby improving the quality of the SLR results and minimising the potential for systematic bias. After going through a rigorous PRISMA screening process, 22 selected articles were obtained from reputable international journals. To ensure that the literature synthesis was sourced from valid research with high academic impact, only articles from Scopus-indexed journals were included. The following table presents the distribution of articles based on journal name, publication rank, number of articles per journal, and percentage of total articles reviewed:

Table 1. Distribution of Articles

Journal Source	Publication Rank	Articles	Percentage
Sustainability (Switzerland)	Q1	5	22.7%
Environment, Development and Sustainability	Q1	2	9.1%
Environmental Science and Pollution Research	Q1	2	9.1%
International Journal of Productivity and Performance Management	Q1	2	9.1%
China Finance Review International	Q1	1	4.5%

Journal Source	Publication Rank	Articles	Percentage
International Journal of Innovation Science	Q1	1	4.5%
Journal of Sustainable Finance and Investment	Q1	1	4.5%
Kybernetes	Q1	1	4.5%
Management of Environmental Quality: An International Journal	Q1	1	4.5%
Business Strategy and the Environment	Q1	1	4.5%
Administrative Sciences	Q2	1	4.5%
Economic Research – Ekonomska Istrazivanja	Q2	1	4.5%
Journal of Business Economics and Management	Q2	1	4.5%
Social Responsibility Journal	Q2	1	4.5%
Energies	Q1	1	4.5%
Total		**22**	**100%**

The table shows that most of the reviewed studies were published in high-quality Scopus Q1 journals (73%). In comparison, the remaining 27% appeared in Q2 journals, all of which are reputable and relevant to the topic of sustainability and banking. The journal *Sustainability (Switzerland)* contributes the largest share (22.7%), indicating that it is a leading outlet for research on ESG (Environmental, Social, and Governance) issues in the banking sector. Other journals, such as *Environment, Development and Sustainability*, *Environmental Science and Pollution Research*, and *International Journal of Productivity and Performance Management,* each account for around 9% of the total. This dominance of Q1 publications demonstrates the academic rigour and credibility of the sources used in the SLR. It also reflects the growing global interest in how sustainability and ESG integration influence strategic decision-making in the banking industry, especially within emerging markets like ASEAN.

Table 2. Recapitulation of 22 Articles Used in the Systematic Literature Review (SLR)

No	Author(s) & Year	Journal Source	Main Focus & Key Findings
1	Buallay (2019)	Management of Environmental Quality (Q1)	ESG disclosure positively correlates with banking performance in Europe.
2	Buallay (2020)	Int. J. of Productivity and Performance Management (Q1)	Sustainability reporting improves efficiency in both the manufacturing and banking sectors.
3	Bhaskaran et al. (2023)	Int. J. of Productivity and Performance Management (Q1)	Social and governance dimensions of ESG enhance banks' operational efficiency.
4	Gunawan et al. (2022)	Environment, Development and Sustainability (Q1)	Green banking in Southeast Asia remains symbolic mainly and compliance-oriented.
5	Kumar & Prakash (2020)	Environment, Development and Sustainability (Q1)	External pressure and regulatory readiness determine the extent of sustainable banking adaptation.
6	Hussain et al. (2024)	Kybernetes (Q1)	Financial innovation and green finance strengthen banks' sustainability performance.
7	Mirza et al. (2025)	China Finance Review International (Q1)	ESG-based lending and technology investments improve financial stability in BRICS banks.

No	Author(s) & Year	Journal Source	Main Focus & Key Findings
8	Mishra & Sant (2024)	Int. J. of Innovation Science (Q1)	Private banks show higher ESG disclosure levels than public banks.
9	Buallay et al. (2023)	Journal of Sustainable Finance and Investment (Q1)	Regional analysis of sustainability reporting in global banking sectors.
10	Nicolò et al. (2024)	Business Strategy and the Environment (Q1)	National culture significantly influences the level and quality of ESG disclosure.
11	Schulte et al. (2025)	Business Strategy and the Environment (Q1)	ESG practices enhance credit risk assessment and financial stability in Nordic banks.
12	Hasan & Lu (2023)	Environmental Science and Pollution Research (Q1)	Financial inclusion supports sustainability and digital transformation in Asian banking.
13	Mehmood (2023)	Environmental Science and Pollution Research (Q1)	Renewable energy and banking development contribute to environmental sustainability.
14	Filgueiras et al. (2024)	Sustainability (Switzerland) (Q1)	Customer perceptions of Sustainability 4.0 reveal positive attitudes toward responsible banking.
15	Saif-Alyousfi & Alshammari (2025)	Sustainability (Switzerland) (Q1)	Climate change and environmental concerns emerge as key banking risks.
16	Gutiérrez-López & Abad-González (2020)	Sustainability (Switzerland) (Q1)	Post-crisis predictive model for sustainable banking in Europe.
17	Krisciukaityte et al. (2023)	Journal of Business Economics and Management (Q2)	ESG performance is strongly linked to bank efficiency and profitability.
18	Zyznarska-Dworczak et al. (2023)	Economic Research Ekonomska Istrazivanja (Q2)	The DEA model is used to measure the sustainability performance efficiency in banks.
19	Lee et al. (2021)	Review of Quantitative Finance and Accounting	The CEO compensation structure affects investment risk and strategic decisions.
20	Sumarta et al. (2023)	Social Responsibility Journal (Q2)	Ownership structure impacts bank reputation through sustainability reporting.
21	Sebastião et al. (2024)	Administrative Sciences (Q2)	Identifies the evolution and challenges of sustainability reporting in global banking.
22	Baran et al. (2022)	Energies (Q1)	ESG reporting positively influences corporate financial performance in the energy sector.

Table 2 summarises the 22 articles reviewed in this study, showing the diversity of journals, research contexts, and findings related to sustainability in the banking sector. Most studies were published in Q1 journals (about 73%), indicating that the selected literature has a high level of academic quality and international recognition. The majority of the studies focused on the positive influence of ESG (Environmental, Social, and Governance) on bank performance, operational efficiency, and strategic decision-making. Several studies also highlighted the role of regulatory pressure, cultural context, and ownership structure in shaping ESG implementation. Overall, the reviewed articles demonstrate that sustainability is no longer limited to reporting obligations but has become a strategic factor influencing how banks make decisions about lending, investment, and risk management, especially in the context of emerging markets such as ASEAN.

To understand the dynamics of studies on sustainability in the ASEAN banking sector, the distribution of articles was analysed based on the year of publication. This aims to trace the increase or decrease in academic interest regarding the integration of ESG in bank decision-making.

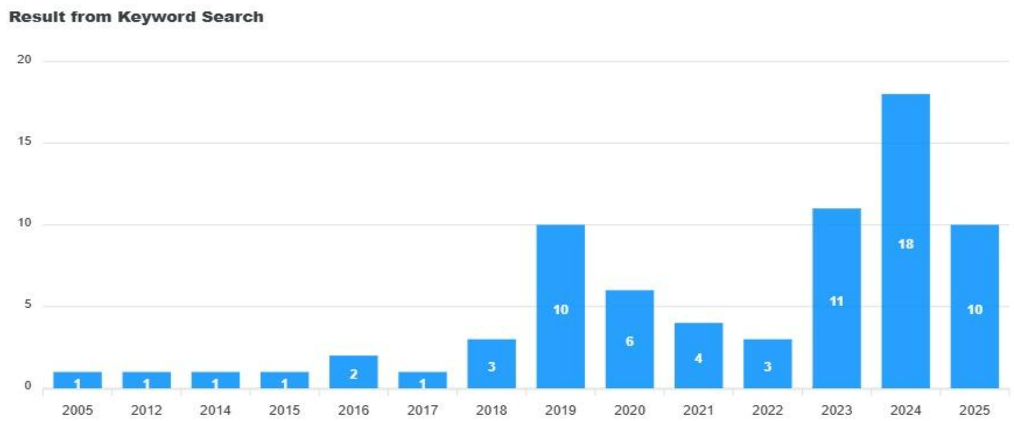

Figure 2. Article Publications Based on Keyword Searches

Figure 2 shows that scientific publications began to show significant growth in 2019, with 10 articles, and peaked in 2024 with a total of 18 relevant articles. This increase indicates that sustainability issues in the financial sector, particularly in the ASEAN region, are gaining serious attention from both academics and practitioners. Prior to 2018, the number of publications was still low and sporadic. This trend reinforces the urgency and relevance of the systematic literature review, mainly to summarise key findings and strengthen the conceptual basis of strategic sustainability practices in the regional banking sector.

Based on the author keyword analysis using *VOSviewer*, several dominant terms emerged, such as “ESG,” “sustainability reporting,” “banking performance,” “green finance,” and “corporate governance.” The visualization indicates that research on ASEAN banking mainly revolves around the interaction between sustainability disclosure and financial performance, forming a dense cluster linked to governance and environmental efficiency. A second cluster connects “digital banking,” “financial inclusion,” and “risk management,” suggesting that digital transformation increasingly supports sustainable banking models. Meanwhile, a smaller but growing cluster features “Islamic banking” and “stakeholder theory,” reflecting a recent shift toward value-based financial systems in Southeast Asia. These keyword patterns confirm that ESG implementation has become not only a compliance matter but also a strategic component of regional banking innovation.

This study examines the integration of sustainability dimensions (Environmental, Social, and Governance, ESG) in the strategic decision-making process of banks in the ASEAN region and globally. Through a systematic review of 22 scientific articles, three major themes representing the role of ESG were obtained, namely: contribution to financial efficiency and performance, application of ESG in lending and investment, and the influence of bank characteristics and local context on ESG disclosure.

Sustainability as a Strategic Foundation for Decision-Making in the Banking Sector

Across the 22 studies reviewed, sustainability has transformed from a peripheral moral discourse into the strategic nucleus of modern banking decisions. The synthesis of these

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Scopus-indexed studies demonstrates this evolution. ESG (Environmental, Social, and Governance) principles no longer function merely as disclosure requirements; rather, they serve as decision architectures that influence how banks price risk, allocate capital, evaluate investments, and maintain legitimacy in volatile financial environments. Earlier empirical work, such as Buallay (2019, 2020), provided the first evidence that integrating ESG metrics enhances managerial efficiency and operational stability, especially within European and Gulf banking systems. Subsequent studies expanded this view, showing that ESG acts as a multidimensional control mechanism that strengthens internal governance, builds investor confidence, and improves risk-adjusted performance (Bhaskaran et al., 2023; Hussain et al., 2024; Schulte et al., 2025).

Across the literature, a clear pattern emerges: governance quality anchors environmental and social effectiveness. Robust board structures and transparent decision channels serve as preconditions for credible sustainability implementation (Krisciukaityte et al., 2023; Gunawan et al., 2022). Governance mechanisms ensure that ESG goals translate into measurable performance indicators spanning cost efficiency, reputational resilience, and ethical accountability (Zyznarska-Dworczak et al., 2023; Nicolò et al., 2024). Under this structure, environmental initiatives such as carbon-efficient financing and renewable-energy portfolios become instrumental to long-term profitability rather than philanthropic extensions (Sebastião et al., 2024; Saif-Alyousfi & Alshammari, 2025). Simultaneously, the social dimension has shifted from corporate social responsibility to financial inclusion and stakeholder engagement, driven by digital technologies that expand banking access and reinforce customer trust (Hasan & Lu, 2023; Filgueiras et al., 2024)

This transformation reflects a fundamental reorientation of the banking model from compliance toward strategic sustainability management. The ESG framework now operates as an information infrastructure that supports decision-making accuracy. For instance, Mirza et al. (2025) and Gutiérrez-López and Abad-González (2020) illustrate how ESG data guide loan selection and asset allocation, enabling banks to detect potential credit risks earlier and design adaptive investment portfolios. Such evidence indicates that sustainability acts not only as an ethical compass but also as a risk-mitigation and opportunity-creation system, optimising the balance between economic return and societal impact.

From a theoretical lens, this evolution aligns with Legitimacy Theory and Institutional Theory. Legitimacy Theory posits that organisations seek societal acceptance through transparent, accountable practices; in the banking context, ESG functions as the mechanism of legitimacy maintenance (Bhaskaran et al., 2023; Sumarta et al., 2023). Institutional Theory adds that coercive regulations and normative expectations push banks to internalise sustainability as part of their organisational logic (Gunawan et al., 2022). These combined pressures explain why ESG integration deepens in countries with regulatory coherence and cultural alignment, yet remains symbolic where such institutional support is weak (Mishra & Sant, 2024; Korzeb & Samaniego-Medina, 2019). In ASEAN, this dual pressure is increasingly visible: regulators promote sustainable finance taxonomies while market actors translate ESG into credit, investment, and governance practices that respond to both profitability and moral accountability.

Overall, the cumulative evidence across the 22 studies shows that sustainability now functions as a strategic intelligence system within banks, collecting environmental, social, and governance information to refine decisions that affect profitability, stability, and social legitimacy. By embedding ESG into the managerial core, banks shift from reactive reporting to proactive strategy design. In practical terms, sustainability has become the foundation of competitive advantage: institutions that integrate ESG achieve stronger operational efficiency, attract responsible investors, and demonstrate higher resilience to macro-financial shocks (Buallay et al., 2023; Schulte et al., 2025).

In conclusion, sustainability serves as the strategic backbone of contemporary banking decision-making. It transforms ESG from a symbolic compliance mechanism into a comprehensive decision-support framework that unites financial performance with ethical stewardship. For ASEAN banks, this implies that achieving long-term competitiveness and institutional credibility depends on how effectively sustainability is embedded, not as an external mandate but as an internalised governance and risk-management system. This integration marks a shift toward a banking paradigm where value creation and value responsibility are no longer separate objectives but mutually reinforcing outcomes of strategic sustainability.

ESG as a Catalyst for Sustainable Lending, Investment, and Risk Management

The synthesis of literature highlights that ESG principles have progressed beyond being an evaluative or ethical framework into a core catalyst that redefines the mechanisms of lending, investment, and risk management in the global and ASEAN banking sectors. In most of the reviewed studies, sustainability practices are shown to generate tangible financial value, not merely reputational capital. ESG is thus repositioned as an *instrument of strategic discipline,* a guiding force that channels banking activities toward long-term resilience, market confidence, and social accountability (Buallay et al., 2023; Mirza et al., 2025; Hussain et al., 2024).

In the area of lending and credit allocation, numerous studies demonstrate that ESG integration enhances both the quality and credibility of bank loans. Mirza et al. (2025) provide evidence that ESG screening significantly mitigates financing risks and lowers default probabilities in banks across BRICS nations. Buallay et al. (2023) found that sustainability-oriented banks are more capable of maintaining credit efficiency even under economic stress. This improved performance is rooted in better information processing and stakeholder trust, as ESG disclosure reduces asymmetry between banks and borrowers (Kumar & Prakash, 2020). Such transparency allows banks to incorporate non-financial indicators like environmental impact, governance quality, or social compliance into their risk models, leading to a more holistic understanding of borrower sustainability. Similarly, Hussain et al. (2024) emphasise that banks with robust ESG frameworks exhibit more substantial investor confidence, as sustainable lending demonstrates responsible capital stewardship.

Beyond lending, investment and capital allocation decisions are increasingly guided by ESG performance data. Mehmood (2023) notes that sustainability-based investment policies allow banks to balance profitability with environmental commitments, particularly through renewable energy projects and green bonds. These findings are reinforced by

Gutiérrez-López and Abad-González (2020), who show that sustainability-focused investment portfolios can strengthen market reputation and increase institutional trust. Importantly, ESG-based investments are not only ethical but strategically efficient, as they reduce exposure to stranded assets and regulatory sanctions linked to environmentally harmful sectors (Sebastião et al., 2024). Hasan and Lu (2023) add that sustainability-driven lending and investment open competitive advantages through digital financial inclusion, enabling banks to serve underserved populations while maintaining ESG compliance. Thus, ESG acts as both a filter for risk mitigation and a compass for capital direction, allowing financial institutions to align profit motives with developmental and environmental goals.

The relationship between ESG and risk management forms another dominant pattern across the reviewed studies. Schulte et al. (2025) and Hussain et al. (2024) reveal that ESG adoption strengthens the resilience of financial institutions by improving credit-risk assessment, operational transparency, and investor monitoring. The governance dimension in particular plays a pivotal role in ensuring that sustainability metrics are incorporated into enterprise risk frameworks, reducing exposure to volatility and reputational damage (Bhaskaran et al., 2023; Zyznarska-Dworczak et al., 2023). Nicolò et al. (2024) further argue that integrating sustainability within risk governance mechanisms creates a form of "dynamic accountability," where banks continuously adjust their ESG commitments to match changing economic and social expectations. This dynamic adaptation contributes to long-term stability and investor trust, two of the most critical outcomes in the post-crisis financial landscape.

Nevertheless, the extent to which ESG influences lending and investment depends on institutional structure, ownership, and regulatory enforcement. Private banks, according to Mishra and Sant (2024), exhibit stronger ESG-driven lending and disclosure practices compared to public or state-owned banks, which tend to approach sustainability from a compliance-based perspective. Filgueiras et al. (2024) also observe that private institutions are more agile in utilising digital channels for sustainability reporting, thereby enhancing their reputational standing. Conversely, research from the Gulf Cooperation Council (Saif-Alyousfi & Alshammari, 2025) highlights that in countries where regulatory oversight is strong, ESG becomes a mandatory part of bank operations, while in weaker governance environments, sustainability practices remain symbolic. Gunawan et al. (2022) strengthen this finding by showing that green-banking disclosure depth is determined more by regulatory legitimacy and stakeholder pressure than by voluntary corporate initiatives. This pattern underscores a consistent global dynamic: when governance and institutional alignment are strong, ESG becomes an embedded strategic tool; when they are weak, it remains an external compliance layer.

From a theoretical standpoint, this evolution reinforces the view of ESG as a risk management architecture. Under Legitimacy Theory, ESG reporting is not only a means of external validation but also a mechanism of internal assurance helping banks legitimise their operational decisions in the eyes of both regulators and investors (Bhaskaran et al., 2023; Gunawan et al., 2022). Institutional Theory adds that coercive and mimetic pressures drive convergence in ESG adoption across regions, pushing banks toward uniform standards of accountability (Sumarta et al., 2023). However, these theories also imply that

ESG's influence on lending and investment is context-sensitive. In ASEAN, where regulatory frameworks, cultural expectations, and digital infrastructures vary widely, ESG functions as a mediated construct, with its impact filtered through local institutional realities. Banks in Singapore and Malaysia, for instance, tend to embed sustainability within corporate strategy, while those in emerging ASEAN economies still struggle with data standardisation and ESG integration at the policy level (Nicolò et al., 2024; Sebastião et al., 2024).

In conclusion, the reviewed studies consistently affirm that ESG functions as a catalyst for transforming traditional banking practices into sustainability-oriented systems. By embedding ESG into lending, investment, and risk frameworks, banks achieve superior loan quality, investor confidence, and risk resilience outcomes that directly support long-term financial performance and institutional legitimacy. The synthesis also reveals that the strength of ESG's catalytic role depends on governance maturity and regulatory coherence, highlighting a key lesson for ASEAN banking: sustainability must be institutionalised within the bank's strategic core, not left at the periphery of compliance. When treated as a fundamental part of the decision-making infrastructure, ESG becomes a strategic compass that aligns profitability with purpose, bridging economic growth, environmental responsibility, and social equity in a unified financial ecosystem.

Contextual Diversity, Theoretical Frameworks, and Emerging Research Gaps

The third major synthesis from the 22 reviewed studies highlights that the implementation and outcomes of ESG practices in banking are profoundly shaped by contextual diversity, both institutional and cultural. Sustainability is not a uniform construct; its meaning and application differ across governance systems, ownership structures, and stages of economic development. While global studies confirm ESG's positive effect on performance, the ASEAN context reveals a spectrum of maturity and integration depth, driven by variations in regulation, digital infrastructure, and socio-cultural orientation (Nicolò et al., 2024; Sebastião et al., 2024; Hasan & Lu, 2023).

The institutional and regulatory context stands out as a primary determinant of ESG effectiveness. Saif-Alyousfi and Alshammari (2025) demonstrate that in GCC countries, which have regulatory designs similar to those of several ASEAN nations, stringent oversight and well-defined reporting frameworks lead to higher disclosure quality and enhanced financial resilience. Conversely, in jurisdictions with weak institutional enforcement, ESG activities tend to be symbolic, serving as reputational signalling rather than operational transformation (Mishra & Sant, 2024; Buallay, 2019). Gunawan et al. (2022) further reveal that in Southeast Asian banks, green-banking disclosures often arise from stakeholder pressure and policy compliance, not from internal governance incentives. This institutional asymmetry mirrors the ASEAN landscape, where countries such as Singapore and Malaysia lead in sustainability adoption through taxonomies and integrated reporting. In contrast, emerging economies like Indonesia, Vietnam, and Cambodia are still consolidating ESG governance at the regulatory level.

Ownership and governance characteristics also play a decisive role in shaping ESG outcomes. Empirical findings demonstrate that private and foreign-owned banks show stronger ESG performance and higher transparency than state-owned institutions, mainly

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due to greater exposure to international standards and market discipline (Filgueiras et al., 2024; Mishra & Sant, 2024). Korzeb and Samaniego-Medina (2019) affirm that ownership structure determines not only the intensity of ESG disclosure but also its orientation. Private banks tend to prioritise governance and environmental aspects, while public institutions emphasise social programs tied to political mandates. These variations underscore that ESG maturity is relational; it emerges from the interaction between internal governance capacity and external legitimacy demands. Banks operating within robust governance ecosystems translate ESG into tangible performance metrics, while those in politicised or weak regulatory environments often adopt ESG symbolically to maintain legitimacy without altering core practices (Bhaskaran et al., 2023; Hussain et al., 2024).

The cultural and technological context further mediates how sustainability is institutionalised. Nicolò et al. (2024) and Sebastião et al. (2024) show that cultural traits such as collectivism, long-term orientation, and social trust affect how banks perceive accountability and implement ESG frameworks. ASEAN countries with strong cultural emphasis on communal welfare and environmental stewardship tend to achieve broader social engagement and inclusion-based sustainability outcomes. Technological readiness also amplifies ESG effectiveness: digital transformation enables more inclusive banking and improves ESG data traceability, particularly in lending and reporting processes (Hasan & Lu, 2023; Filgueiras et al., 2024). However, the digital divide between urban and rural areas still limits the reach of ESG-driven financial inclusion in many ASEAN economies, creating uneven progress toward sustainability-oriented banking.

From a theoretical standpoint, the reviewed literature consistently grounds its interpretations in Legitimacy Theory, Institutional Theory, and Stakeholder Theory, complemented by the Triple Bottom Line (TBL) paradigm.

- Legitimacy Theory posits that banks disclose ESG information to align with societal expectations and secure continued acceptance from their stakeholders (Bhaskaran et al., 2023; Sumarta et al., 2023).
- Institutional Theory extends this idea by emphasising coercive, mimetic, and normative pressures that push banks to conform to sustainability standards, especially when facing global capital market scrutiny (Gunawan et al., 2022).
- Stakeholder Theory situates ESG adoption as a response to the interdependence between corporate actions and stakeholder trust, underscoring that transparency and inclusiveness serve as intangible assets that sustain long-term profitability (Hussain et al., 2024; Krisciukaityte et al., 2023).
- Finally, the TBL framework operationalises these theoretical insights by integrating economic, social, and environmental performance metrics, providing an empirical lens through which ESG can be measured (Alfar et al., 2023; Zyznarska-Dworczak et al., 2023).

Despite the theoretical richness, several methodological and conceptual gaps persist across the literature. First, most studies employ cross-sectional designs that establish correlation but not causation. Few trace the causal pipeline from ESG policy implementation to measurable impacts on lending quality, credit risk, and investor valuation (Buallay et al., 2023; Hussain et al., 2024). Second, research within ASEAN remains fragmented and unevenly distributed, with limited multi-country comparative studies examining regulatory convergence or divergence. Existing studies often generalise global ESG findings without adapting them to the region's socio-economic diversity, thereby overlooking contextual nuances such as Islamic banking frameworks, informal finance systems, and cultural determinants of ethical conduct (Sebastião et al., 2024; Gunawan et al., 2022). Third, data standardisation and ESG metrics remain inconsistent across countries, making benchmarking difficult. Few banks in developing ASEAN economies have adopted uniform sustainability indicators aligned with GRI, TCFD, or ISSB standards, limiting the comparability and policy relevance of existing findings (Nicolò et al., 2024).

Furthermore, the literature has not yet fully addressed how ESG integration interacts with emerging digital ecosystems such as fintech platforms, digital credit scoring, and AI-based sustainability analytics. These technologies could potentially enhance ESG data collection and predictive risk management. However, they remain underexplored in empirical research. Another unexplored area involves the synergy between Islamic finance principles and ESG, particularly in ASEAN countries like Indonesia and Malaysia. Sharia-based ethical investment shares fundamental goals with sustainability finance but operates under different normative logics.

Synthesising these observations reveals an important academic and policy implication: sustainability in ASEAN banking must be understood as a context-dependent construct, one that requires local adaptation rather than direct replication of Western ESG models. Theoretical frameworks such as Legitimacy and Institutional Theory remain useful. However, they must be complemented with contextual paradigms that account for cultural, religious, and developmental factors unique to the ASEAN region. Moreover, a shift toward longitudinal and mixed-method approaches is essential to capture the dynamic evolution of sustainability behaviour over time and its feedback effects on financial and social outcomes.

In conclusion, contextual diversity is both a challenge and an opportunity for the future of ESG research and practice in ASEAN banking. The reviewed literature demonstrates that sustainability integration succeeds where governance quality, regulatory enforcement, and digital readiness intersect with strong social norms. However, in the absence of these enabling conditions, ESG remains symbolic and fragmented. To move beyond compliance, ASEAN banks and scholars must co-develop regionally grounded frameworks that merge global standards with local realities, bridging the gap between policy ambition and implementation capacity. Only through such contextualised models can sustainability evolve from an imported narrative into a regionally embedded system of responsible banking, capable of balancing financial performance, ethical accountability, and societal well-being.

The review identifies several gaps and potential directions for future research. First, further empirical studies should explore causal relationships between ESG adoption and risk-adjusted financial performance using longitudinal or panel data models. Second, comparative analyses between Islamic and conventional banks could reveal how ethical finance principles strengthen ESG compliance. Third, future research should focus on digital sustainability governance, particularly the use of AI and big-data analytics to enhance ESG measurement accuracy. Lastly, policy-oriented research is needed to evaluate the effectiveness of the ASEAN Sustainable Finance Taxonomy and regional ESG regulations in shaping sustainable banking behaviour.

5. Conclusion, Implications, and Limitations

This study concludes that sustainability has moved beyond a peripheral concern to become a strategic imperative in the ASEAN banking sector. The synthesis of 22 Scopus-indexed articles confirms that *Environmental, Social, and Governance (ESG)* principles now form an integral decision-support framework that guides lending, investment, and risk-management processes. Strong governance emerges as the core driver that anchors environmental and social performance, transforming sustainability from a compliance-based obligation into a strategic architecture for value creation, institutional legitimacy, and stakeholder trust.

From a theoretical perspective, this research strengthens the integration of *Legitimacy Theory*, *Institutional Theory*, and the *Triple Bottom Line (TBL)* framework by demonstrating how ESG serves as both a legitimising mechanism and a performance-enhancing system within financial institutions. The review also highlights that institutional diversity and regulatory asymmetry across ASEAN countries act as moderating factors that shape the depth and effectiveness of sustainability implementation. In regions with mature governance ecosystems, such as Singapore and Malaysia, ESG has evolved into a proactive decision instrument, whereas in emerging economies, sustainability remains largely symbolic and compliance-oriented.

The practical implications of these findings are twofold. For policymakers, the results suggest that sustainable-finance regulations must be harmonised regionally through instruments such as the *ASEAN Sustainable Finance Taxonomy* to ensure cross-border consistency and comparability. Enhancing transparency, digitalisation, and disclosure standards will accelerate banks' transition from symbolic reporting to strategic sustainability integration. For practitioners, embedding ESG within core management systems can strengthen risk resilience, improve lending quality, and attract socially responsible investment capital. Furthermore, adopting digital-based ESG monitoring, leveraging AI and big-data analytics, can increase efficiency and accuracy in sustainability assessment, enabling banks to respond dynamically to environmental and social risks.

In terms of theoretical and academic contribution, this study provides an updated conceptual synthesis linking sustainability with strategic decision-making in the ASEAN banking context, an area previously underexplored in global ESG literature. It offers a contextualised ESG framework that reflects regional institutional diversity, thereby filling an important research gap between global ESG models and local practice. The study also establishes a foundation for longitudinal research that can trace the causal effects of ESG adoption on credit performance, operational efficiency, and financial stability over time.

Despite its comprehensive scope, this study acknowledges several limitations. The literature analysed is unevenly distributed across ASEAN countries, with limited empirical evidence from smaller or less-developed markets such as Laos, Cambodia, and Myanmar. The predominance of cross-sectional designs in prior research restricts causal interpretation between sustainability adoption and banking outcomes. Moreover, inconsistencies in ESG metrics across jurisdictions hinder comparative analysis. Future studies should therefore employ multi-country and mixed-method designs, combining quantitative modelling with qualitative case studies to capture contextual nuances and evolving sustainability practices.

In summary, this review underscores that sustainability is redefining banking decision-making in ASEAN. ESG principles have become a strategic compass that aligns profitability with responsibility, bridging financial efficiency, social inclusion, and environmental stewardship. Strengthening governance quality, regulatory alignment, and digital infrastructure will be key to transforming sustainability from rhetoric into measurable impact. The findings serve as both an empirical synthesis and a policy guide for advancing sustainable finance across ASEAN, supporting a more resilient, transparent, and inclusive regional banking ecosystem.

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