

# Does ESG Drive ROI Recovery in Distressed Malaysian Companies?

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**Background:** Malaysia's PN17 and GN3 classifications flag companies in financial distress. Boards in these companies face hard choices about where to focus limited effort. ESG is widely discussed, but the pillar that may matter most for a turnaround is governance. The dataset covers Malaysian distressed companies from 2015 to 2024, a period when sustainability reporting matured and disclosure quality improved. This creates a useful setting to study whether better governance aligns with better investment returns inside the same company over time.

**Purpose:** To test whether within-company improvements in the Governance pillar are linked to higher Return on Investment, and to compare the governance link against Environmental and Social pillars for distressed Malaysian companies.

**Methodology:** This study uses annual panel data on PN17 and GN3 companies from 2015 to 2024. The dependent variable is return on investment, while the main independent variables are the Environmental, Social, and Governance pillars. Controls include company size, company age, revenue growth, leverage, insider shareholdings, and board size. The analysis relies on panel regressions that track changes within the same company over time and includes year controls to capture common shocks. Standard errors are clustered by company.

**Finding:** This study expects governance to show a positive and economically meaningful association with ROI within companies, while environmental and social effects are weaker or less precise once controls are included.

**Limitation:** As an observational design, the results reflect associations rather than strict causality. Performance changes may influence governance actions, creating potential simultaneity. Pillar-level indicators for E, S, and G may carry measurement error or inconsistent coding, especially for smaller issuers. Limited within-company variation in some variables can reduce precision. Recovery, delisting, or missing data may introduce selection concerns that cannot be fully addressed with the available sample.

**Originality:** This study focusses on distressed Malaysian companies rather than broad-market samples and examines changes within the same company over time to keep interpretation practical for directors and investors. Offering a clear modelling takeaway. The evidence speaks directly to whether improving governance is a realistic lever for better investment returns during distress, with implications for boards, investors, and policy discussions in the PN17 and GN3 context.

**Keywords:** PN17, GN3, ROI, ESG, Distressed