



Research article

Balancing Socioemotional wealth and corporate financial performance: How family control enhances the financial value of ESG practices

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Abstract: The growing focus on corporate sustainability is prompting family firms worldwide to accelerate their adoption of environmental, social, and governance (ESG) practices. In this study, this study explores the influence of ESG performance on corporate financial performance (CFP) in family firms, focusing on how family control, ownership, leadership, and directorship moderate this relationship. Analyzing data from 72 Malaysian family firms between 2018 and 2022, this study extends the socio-emotional wealth theory by illustrating how family-specific factors shape the ESG-CFP dynamic, utilizing a hierarchical linear modeling approach. The findings reveal a positive relationship between ESG and CFP, with family control, ownership, leadership, and directorship further enhancing this connection. These results reflect how family firms pursue their socio-emotional wealth objectives through governance mechanisms. This study adds to the literature by offering valuable insights into the sustainability practices of family firms in developing countries.

Keywords: Corporate financial performance; ESG performance; corporate sustainability; family firms, family control

JEL Codes: G20, G22, F25, M14, D23

1. Introduction

Since 2020, human civilization has faced a series of major global disruptions, such as the United States (U.S.)-China trade war, the Russia-Ukraine conflict, the Israel-Hamas war, the COVID-19

pandemic, and widespread economic crises, which have caused significant financial losses, including the collapse of major institutions (S&P Global, 2024; Thompson, 2023). These crises have intensified stakeholder concerns over corporate sustainability, especially with scandals involving companies like China Evergrande Group and PricewaterhouseCoopers (Reuters, 2024), raising accountability and governance issues. Stakeholders strongly urge that fraudulent practices that compromise a company's integrity and reputation must be avoided (Asghar et al., 2020). In response, stakeholders now emphasize sustainability metrics, assessing performance across economic, environmental, social, and governance (ESG) dimensions (Chen et al., 2023; Liu et al., 2022). Unlike corporate social responsibility (CSR), the ESG concept introduced in 2004 offers a quantitative framework enabling stakeholders to evaluate sustainability risks and performance (Chouaibi et al., 2022; Seow, 2024c). Naeem et al. (2022) emphasize that for sustainability practices to be effective, they must benefit all stakeholders while enhancing corporate value.

ESG encompasses a broad range of issues, from environmental factors like carbon emissions, climate change, and waste management to social responsibility topics such as community impact, human rights, and health and safety, and governance concerns like anti-bribery, accountability, and transparency (Liu et al., 2022). ESG reporting works as an effective non-financial disclosure, reducing information asymmetry between companies and stakeholders (Bamahros et al., 2022). Kim et al. (2012) identified two typical corporate ESG strategies: Genuine commitment, yielding long-term gains, and "greenwashing", where superficial efforts fail to deliver meaningful returns. Moreover, companies experience challenges while implementing ESG, such as high costs, limited resources, a lack of standardized metrics, and the absence of a universal reporting framework (Nareswari et al., 2023; Seow, 2025c). When sustainability initiatives are unable to deliver positive results, firms are likely to attend to other competing priorities (Servaes & Tamayo, 2013).

Despite the challenges of implementing ESG, many companies are increasingly motivated to enhance their ESG performance due to the significant benefits it offers. ESG investments not only alleviate financial constraints (Cheng et al., 2014) and reduce capital costs (Tan et al., 2020) but also improve customer and employee satisfaction (Servaes & Tamayo, 2013). Aligning ESG with the goal of maximizing firm value creates long-term competitive advantages for diverse stakeholders (Tsang et al., 2023). Research has shown that ESG can improve financial performance by enhancing corporate reputation, brand value, and stakeholder trust (Naeem et al., 2022), leading to higher shareholder satisfaction and stronger business outcomes (Okafor et al., 2021). Companies committed to ESG reduce reputational risks and signal sustainability to the market (Qu & Zhang, 2023). This fosters stronger stakeholder relationships and lowers operational risks (Nicholls, 2010), leading to better financial standing (Velte, 2017) and improved productivity (Chen et al., 2023). Other scholars argue that enhanced ESG performance also mitigates information asymmetry (Cui & Liu, 2018), strengthens reputation (Jeffrey et al., 2019), secures stakeholder support (Huang, 2021), and improves workforce productivity (Chen et al., 2023), all of which contribute to better corporate performance (Gao & Han, 2022). Additionally, ESG disclosures during economic uncertainty build resilience, attract investors, and reduce systemic risks by complementing traditional financial analysis (Ahmad et al., 2021).

In the last decade, ESG's economic impact has gained global attention, with researchers exploring ESG performance across sectors such as environmentally sensitive industries (Naeem et al., 2022), power generation (Zhao et al., 2018), banking (Dragomir et al., 2022), and airlines (Kuo et al., 2021). In a cross-country study, Gangi et al. (2025) found that ESG performance can lead to higher corporate financial performance (CFP). Furthermore, the ESG-CFP relationship across

developed and emerging economies remains understudied (Naeem et al., 2022). Although some scholars argue that mandatory ESG disclosure negatively affects CFP, while voluntary disclosure produces positive results (Bucaro et al., 2020), this claim requires further empirical investigation. Despite these studies, researchers have predominantly focused on non-family firms in developed economies; the ESG-CFP relationship within family firms, especially in emerging markets, remains significantly underexplored (Wang et al., 2023; Zhan, 2023). This oversight is critical, considering family firms constitute between 65% and 80% of businesses globally (Delmas & Gergaud, 2014; Seaman & Bent, 2017), yet their ESG motivations and financial behaviors may diverge substantially from non-family counterparts. Socio-emotional wealth theory (SEWT) conceptualizes family firms as being guided by a stock of non-financial utility, termed socio-emotional wealth (SEW). SEW is typically described through interrelated dimensions that include family control and influence over the firm, family members' identification with the business, dense internal and external social ties, emotional attachment to the organization, and the desire to renew family bonds through intergenerational succession (Gómez-Mejía et al., 2007; Gómez-Mejía & Herrero, 2022). Guided by this logic, SEWT predicts that family owners prioritize protecting this SEW stock, even when such protection appears to conflict with short-term financial gains. These preservation motives can shape how family firms engage with ESG activities and how those activities translate into financial outcomes, potentially moderating the ESG-CFP relationship. While emerging studies debate the effects of mandatory versus voluntary ESG disclosures on financial outcomes, further empirical evidence is needed, especially in emerging economies where regulatory environments and ownership structures differ considerably.

To extend the ongoing scholarly debate on this topic, this study examines ESG's impact on CFP in family firms in emerging markets, focusing on the moderating roles of family control, ownership, leadership, and directorship. This study focuses on Malaysia, a context that offers unique and generalizable insights. Malaysia stands out as one of Southeast Asia's most progressive economies in ESG adoption, being among the first to mandate ESG disclosures for publicly listed firms (Seow & Loo, 2023). Its regulatory environment, rooted in a hybrid institutional setting that blends market mechanisms with state-driven governance, creates a fertile ground for examining the interaction between ESG mandates and firm-level behavior. Additionally, Malaysia's corporate landscape is dominated by family-owned businesses, making it a particularly relevant setting for exploring how familial characteristics influence ESG-CFP linkages (Seow, 2025a). This investigation offers further insights into the impact of family dynamics on the ESG-CFP relationship. Based on data from 72 Malaysian family firms between 2018 and 2022, this study is particularly relevant, as Malaysia leads ESG promotion in Southeast Asia, with mandatory ESG disclosure requirements.

This study makes several important contributions to the literature. Theoretically, it extends SEWT by empirically demonstrating how family-specific attributes, namely family control, ownership, leadership, and directorship, moderate the relationship between ESG performance and corporate financial outcomes. Moreover, while SEWT posits that family firms prioritize SEW over financial returns, this study shows how ESG initiatives can serve as a strategic mechanism to simultaneously preserve SEW and enhance financial performance. Second, this study fills a critical gap by examining the ESG-CFP relationship in family firms, a topic underexplored despite the global dominance of family-owned businesses. Third, it provides valuable insights into how family control, ownership, leadership, and directorship moderate the ESG-financial performance link, enriching the understanding of sustainability dynamics in family firms. Furthermore, practically, this study provides region-specific

insights from Malaysia, an emerging economy with a strong regulatory push toward ESG disclosure. These findings offer actionable implications for policymakers promoting ESG adoption in family-dominated economies and for business leaders seeking to align sustainability practices with long-term financial performance. By highlighting how ESG engagement contributes to firm stability, reputation, and stakeholder trust, this study informs strategies for sustainable value creation in family firms, offering stakeholders critical insights into risk management, reputation, and stakeholder relationships.

The paper is thoughtfully organized: Section 2 provides a comprehensive literature review, setting the foundation for the hypotheses. Section 3 details the methodology, explaining the data collection and sample selection process. In Section 4, the empirical results are analyzed, emphasizing their significance. Section 5 contextualizes these findings, fostering a deeper understanding of their relevance. Finally, Section 6 draws together the major conclusions, limitations, and future research, before moving on to deliberate on the implications of this study.

2. Theoretical framework and hypotheses development

2.1. Theoretical frameworks

Although no single theory fully explains corporate ESG initiatives and disclosures, scholars have found grounding in several established theories (Seow, 2024b). Stakeholder theory argues that businesses should consider the interests of all stakeholders, not just shareholders, and the generation of value and profit, in their operations (Freeman, 1984). A company's sustainable value is demonstrated by meeting stakeholder expectations, with ESG investments helping businesses gain competitive advantages and enhance financial performance (Liu et al., 2022; Naeem et al., 2022). In contrast, shareholder theory (Friedman, 1962) asserts that a company's primary responsibility is to maximize shareholder value and that ESG activities, without clear financial returns, may increase costs and reduce profitability (Friedman, 1970). However, as shareholder awareness of sustainability grows, ESG investments that align with shareholder interests are increasingly seen as compatible with this theory (Almulhim & Aljughaiman, 2023). Additionally, legitimacy theory suggests that a company's right to operate is granted by stakeholders through an implicit social contract that requires ongoing reaffirmation (Palazzo & Scherer, 2006). Social acceptance from stakeholders is vital for a firm's survival and financial benefits, with ESG practices playing a key role in maintaining this legitimacy (Ghardallou, 2022). These theoretical frameworks collectively highlight the importance of corporations consistently engaging in ESG activities and how such practices can drive financial gains.

In the context of family firms, SEWT provides a lens to understand how owning families balance socio-emotional and financial objectives (Gómez-Mejía et al., 2007). It argues that when strategic choices are perceived as threatening core SEW dimensions, such as control, identity, or dynastic succession, families are willing to sacrifice short-term financial gains to avoid losses in these domains (Gómez-Mejía et al., 2007; Gómez-Mejía & Herrero, 2022). This loss-averse logic means that decisions that protect SEW, even if they appear economically conservative, are often preferred to riskier strategies that might endanger the family's affective endowment (Ballal & Bapat, 2020; Chirico et al., 2019). Therefore, SEWT complements traditional economic theories by explaining why family firms sometimes deviate from purely profit-maximizing behavior, especially when evaluating ESG initiatives that affect reputation, stakeholder relationships, and long-term continuity (Li et al., 2023). Some studies suggest that a strong long-term and stewardship orientation leads family firms to engage more deeply in ESG,

strengthening reputation and financial performance (Venturelli et al., 2020). Other work shows that families may resist ESG investments if they perceive them as diluting control or inviting unwanted scrutiny (Requejo et al., 2018). These tensions highlight SEWT's central claim that the financial consequences of ESG in family firms depend on how ESG actions are interpreted in terms of SEW preservation or loss (Al-Tabbaa et al., 2023). In this study, SEWT serves as the core framework for analyzing how family firms align or misalign ESG initiatives with financial goals.

2.2. Hypotheses development

2.2.1. ESG and corporate financial performance

ESG strategies must be embedded in strategic and operational management to yield tangible benefits. Such engagement strengthens internal performance by improving social outcomes, fostering employee commitment, and increasing productivity (Chen et al., 2023). It also functions as a risk management mechanism, as neglecting sustainability exposes firms to litigation and financial losses (Naeem & Cankaya, 2022). High-profile cases illustrate these risks, including Lehman Brothers' collapse due to weak governance, the fine on PricewaterhouseCoopers for failing to uncover the China Evergrande scandal, and BP's Deepwater Horizon oil spill, which caused extensive environmental and economic harm (Cao & Xu, 2019; Garcia et al., 2017). Consistent with legitimacy theory, ESG reporting helps secure societal approval by aligning corporate conduct with normative expectations. Effective disclosure fosters stakeholder trust (Cui & Liu, 2018), signals positive prospects (Huang, 2021), and enhances corporate value, reputation, and shareholder satisfaction (Okafor et al., 2021) while reinforcing government confidence in compliance (Chen et al., 2023). Strong ESG performance further provides a competitive edge, lowers capital costs, and eases financial constraints (Tsang et al., 2023). Nonetheless, tensions arise between these benefits and short-term financial logic, as critics contend that ESG investments may limit capital flexibility, heighten financial risk, and reduce immediate profitability (Skarmeas & Leonidou, 2013), making it difficult for stakeholders to evaluate long-term value (Broadstock et al., 2020).

Empirical evidence on the ESG-CFP relationship remains mixed (Liu et al., 2022). Many researchers report positive financial outcomes from ESG activities (Alsayegh et al., 2020; Bhaskaran et al., 2020; De Lucia et al., 2020), while others reveal more nuanced effects. Zhou et al. (2022) showed that ESG performance raises market value with CFP acting as a mediator, especially during growth phases (Gao et al., 2023). Naeem et al. (2022) found positive effects on return on equity (ROE) and Tobin's Q, particularly in developed economies. In contrast, some researchers observed negative or insignificant relationships (Almulhim & Aljughaiman, 2023; Lopez-de-Silanes et al., 2020). These discrepancies may stem from the use of accounting versus market-based metrics, as ESG effects tend to be weaker on accounting outcomes and limited on market measures (Liu et al., 2022). Implementation stages may also matter. Kuo et al. (2021) found that firms at the early stage of ESG adoption, such as airlines, initially experienced a decline in return on assets, which later improved. Family firms further complicate these dynamics. SEWT suggests that such firms prioritize non-financial goals, including legacy, control, and reputation, over short-term profit maximization (Gómez-Mejía et al., 2007; Gómez-Mejía & Herrero, 2022); Yet, this does not exclude financial rationality. Evidence shows ESG engagement can support socio-emotional wealth and financial performance, particularly for family firms seeking legitimacy and long-term sustainability (Gangi et al., 2025).

While family firms may initially adopt ESG to protect non-financial priorities, they also view it as a pathway to financial gains, especially in emerging markets where institutional pressures and stakeholder expectations are rising. On this basis, this study hypothesizes that:

Hypothesis 1 (H₁). ESG disclosure has a significant positive impact on CFP.

2.2.2. Family factors, ESG, and corporate financial performance

Family firms pursue financial and socio-emotional objectives, which may at times conflict (Al-Tabbaa et al., 2023). SEWT argues that when tensions arise, family firms usually safeguard SEW even at the expense of short-term profits, which can lead to strategies that appear suboptimal from a purely economic perspective (Ballal & Bapat, 2020; Chirico et al., 2019; Gómez-Mejía & Herrero, 2022). Yet, when survival is at stake, economic priorities prevail because SEW depends on the firm's continuation (Gomez-Mejia et al., 2019). Stakeholder theory suggests that ESG engagement builds trust and long-term value, complementing family firms' pursuit of reputational capital and continuity, while legitimacy theory views ESG as a means of securing social acceptance essential for intergenerational survival.

Research indicates that family firms are especially inclined toward ESG activities because of their long-term benefits for stability and SEW (Gómez-Mejía & Herrero, 2022). Studies show that such firms tend to issue more comprehensive CSR reports and address a broader array of concerns (García-Sánchez et al., 2021; Muñoz-Bullon et al., 2018). Nonetheless, theoretical tensions persist. Stakeholder and legitimacy theories predict a positive ESG-performance link, whereas SEWT cautions that excessive SEW prioritization may drive overinvestment in non-financial goals and weaken financial outcomes if economic returns are overlooked. The degree of family ownership and involvement shapes these dynamics, since it enables families to control ESG decisions in line with SEW priorities (Nordqvist et al., 2014). Stakeholder theory suggests that such control supports long-term orientation and stakeholder engagement, yet it may also permit entrenchment that reduces the financial benefits of ESG. Empirical evidence remains mixed: Some researchers report a positive effect of family ownership on ESG performance (Sun et al., 2024) and others a negative effect (Chung et al., 2024), and family involvement shows similarly varied outcomes depending on context (Ardianto et al., 2024). Moreover, the SEW-performance relationship is shaped by factors such as SEW type, firm life cycle, and cultural context (Davila et al., 2023). Given this theoretical and empirical complexity, this study examines how family factors moderate the ESG-CFP relationship by distinguishing ownership and involvement to clarify how different dimensions of family influence the financial value of ESG efforts. Accordingly, this study hypothesizes that:

Hypothesis 2 (H₂). Family control has a positive moderating effect on the relationship between ESG disclosure and CFP.

Hypothesis 3 (H₃). Family ownership has a positive moderating effect on the relationship between ESG disclosure and CFP.

Hypothesis 4 (H₄). Family leadership has a positive moderating effect on the relationship between ESG disclosure and CFP.

Hypothesis 5 (H₅). Family directorship has a positive moderating effect on the relationship between ESG disclosure and CFP.

Figure 1 presents the conceptual framework of this study, illustrating the relationship between ESG disclosure and CFP and the moderating roles of family control, ownership, leadership, and directorship in shaping this link.

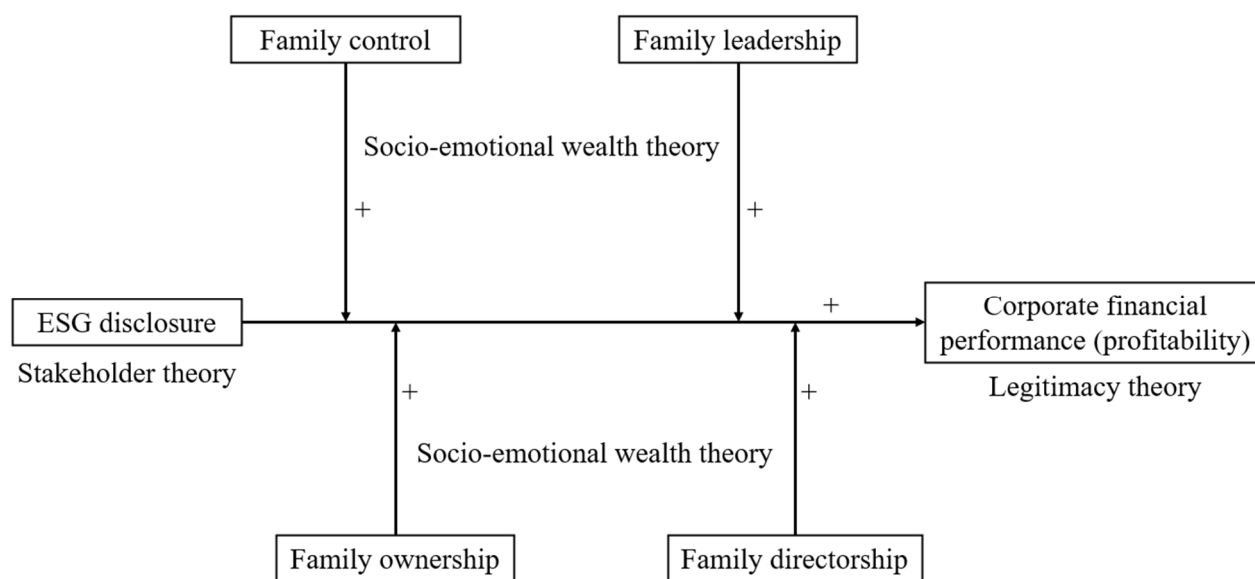


Figure 1. Conceptual framework.

3. Research design

3.1. Data collection

This study adopts a structured methodology for data and sample selection, focusing on family firms listed on the Main Market of Bursa Malaysia from 2018 to 2022. Family firms are defined as those where the largest shareholder and at least one family member together hold a minimum of 10% of the company's total shares (Seow, 2025b), which enables the inclusion of firms with varying degrees of family control (Seow, 2025d). In the Malaysian context, ownership is highly concentrated and often organized through pyramidal structures and cross-shareholdings, so a 10% combined stake typically reflects meaningful influence over strategic decisions, even when formal ownership appears modest. This threshold has been commonly applied in Malaysian family firms' studies focusing on family control (Seow, 2025b, 2025d). Therefore, this threshold captures a broad spectrum of family firms while preserving sufficient variation for multivariate analysis, and the robustness checks in Section 4.6 confirm that the major results are not sensitive to using stricter cut-offs. The focus on the Main Market ensures the selection of larger firms subject to stricter regulatory standards, with fewer financial constraints that could skew financial disclosures (Seow, 2024a). Firms in the financial services sector, including banks, insurers, real estate investment trusts, special purpose acquisition companies, closed-ended funds, and other regulated financial institutions, are excluded because of their distinct business models and reporting regimes (Okpamen & Ogbeide, 2020; Sarhan et al., 2019). With these exclusions, there are 789 listed firms on the Main Market as of June 2023, with more than half classified as family firms (Tan, 2016). To ensure a meaningful statistical sample, the selected sample must exceed the

minimum threshold required to achieve a 10% margin of error at a 90% confidence level with a 50% standard deviation (Alhomoud et al., 2016). Applying the defined inclusion and exclusion criteria (see Table 1) and adopting a purposive, criterion-based sampling approach, this study identifies 72 family firms, yielding 360 firm-year observations across eleven non-financial sectors (see Table 2). The largest representations come from industrial products and consumer services, reflecting their prominence on the Main Market. This broad sectoral coverage reduces the likelihood that the findings are driven by a single industry and offers a reasonable level of representativeness across key family firm-intensive sectors.

Table 1. Family firms' selection.

Inclusion criteria	Exclusion criteria	Population
Main Market	Real estate investment trusts, special purpose acquisition companies, closed-ended funds, banks, and financial institutions	789 listed firms (June 2023)
Family firm ($\geq 10\%$ shareholding)	Incomplete 2018–2022 data	$>50\%$ or >395 are family firms (Tan, 2016)
10% margin of error with a 90% confidence level and 50% standard deviation		Final selection: 72 family firms, 360 firm-year observations

Source: Author's creation.

Table 2. Data samples across the sectors.

No.	Sector	No. of firms	No. of firm-year observation
1	Construction	4	20
2	Consumer Products & Services	16	80
3	Energy	3	15
4	Health Care	2	10
5	Industrial Products & Services	21	105
6	Plantation	4	20
7	Property	10	50
8	Technology	4	20
9	Telecommunications & Media	2	10
10	Transportation & Logistics	5	25
11	Utilities	1	5
Total		72	360

Source: Author's creation

3.2. Measurement of variables

In the finance literature, ROE and return on assets (ROA) are commonly used to assess CFP (Almulhim & Aljughaiman, 2023; Ghardallou, 2022). ROE measures income relative to shareholder equity, but it can be inflated by increased debt without improving a firm's operational strength (Qureshi et al., 2021). As such, ROE can provide a distorted view of financial health, especially when driven by

excessive borrowing. In contrast, ROA offers a clearer picture by focusing on how efficiently a company uses its assets to generate profits. Unlike ROE, which can be affected by debt levels, ROA provides a more accurate measure of operational performance, making it a superior metric for evaluating a firm's resource efficiency (Ghardallou, 2022). Consequently, this study uses ROA as the primary measure of CFP.

In ESG research, scholars often use ESG scores to evaluate performance (Ghardallou, 2022). However, variations in the methodologies of rating agencies can lead to inconsistencies in ESG scores (Berg et al., 2022; Christensen et al., 2022). Clément et al. (2025) argue that ESG scores tailored for specific contexts are difficult to generalize. To address this, this study applies content analysis to calculate ESG scores (Seow, 2024a), a reliable method for deriving insights from textual data while maintaining context (Suttipun, 2021). Content analysis mitigates issues posed by incomplete datasets (Roy & Mukherjee, 2022). The ESG index is based on a 37-item framework developed by Seow (2025a). The coding is conducted independently by three experienced ESG researchers using a pre-tested coding manual, and intercoder reliability is evaluated to ensure consistency. Any discrepancies are carefully reviewed and resolved through discussion. This systematic approach reduces the potential influence of individual subjectivity and strengthens the reliability and transparency of the ESG disclosure measure. An unweighted scoring scheme is used, assigning 1 when an item is disclosed, and 0 otherwise, and the ESG disclosure score is computed as the total disclosed items divided by the total number of items, yielding a value between 0 and 1. This unweighted index avoids imposing arbitrary importance weights, facilitates comparison across firms and sectors, and is consistent with ESG content-analysis studies that prioritize transparency and replicability of coding rules (Seow, 2025a).

This study employs four moderating variables (see Table 3). Family control (FC) is operationalized through a composite index comprising three dimensions: family ownership, family leadership, and family directorship (Seow, 2025d). Family ownership captures the proportion of shares collectively held by family members, ranging from 0 to 1, with higher values indicating stronger ownership power (Al Amosh & Khatib, 2021). Family leadership is measured as a binary variable that takes the value of 1 when a family member serves as the CEO or chairman and 0 otherwise (El Ghoul et al., 2016; Muttakin et al., 2018). Family directorship reflects the proportion of family members on the board relative to total board size, also ranging from 0 to 1, indicating the family's influence over strategic oversight (Matzler et al., 2015). The FC index is computed as the sum of these three standardized components, producing values between 0 and 3, where higher scores indicate stronger family control. Assigning equal weight to ownership, leadership, and board representation is theoretically consistent with governance literature, which conceptualizes family control as a multidimensional construct jointly shaped by voting rights, managerial authority, and board participation (Seow, 2025d). This structure avoids arbitrary weighting decisions and ensures that each governance channel contributes proportionately to the overall representation of family influence. The remaining moderating variables, namely family ownership (FOWN), family leadership (FL), and family directorship (FDIR), are computed using the respective individual components described above.

Table 3. Variables.

Variable	Description	Proxy
<i>Dependent Variable</i>		
Corporate financial performance	ROA	Net income divided by total assets
<i>Independent Variables</i>		
ESG performance	ESG	Sum of ESG items disclosed, ranging from 0 and 1
<i>Moderating Variable</i>		
Family control	FC	An index that represents the degree of family control, computed by a combination of ownership, directorship, and CEO factors
Family ownership	FOWN	Owning family's shareholding at the end of the financial year
Family leadership	FL	A dummy variable, 1 if the owning family member is holding either the chairman or the CEO position, 0 otherwise
Family directorship	FDIR	Number of directors held by family members over the total number of directors on the board
<i>Control Variables</i>		
Firm size	SIZE	Natural log of total assets
Leverage	DER	Total liabilities divided by total equity
Profitability	NPM	Net profit divided by revenue
Business efficiency	ATR	Revenue divided by average total assets

Source: Author's creation

Building on established literature, several key financial variables are also included to examine the relationship between corporate sustainability and financial performance: Firm size (SIZE) is measured using the natural logarithm of total assets (Almulhim & Aljughaiman, 2023). Financial leverage (DER) is the ratio of total liabilities to equity, reflecting the firm's debt structure (Naeem et al., 2022). Profitability is assessed through net profit margin, calculated as net profit over revenue, while business efficiency is measured by the assets' turnover ratio, which indicates how effectively a firm utilizes its assets to generate revenue (Liu et al., 2022).

3.3. Empirical models

Employing a suitable panel data analysis that aligns with the dataset's characteristics is essential to ensure robust results. The Breusch-Pagan test and the Arellano-Bond tests are employed to assess heteroscedasticity and autocorrelation. The Breusch-Pagan test, yielding a p-value of 0.005, indicates significant heteroscedasticity (Halunga et al., 2017). The Arellano-Bond tests show no first-order autocorrelation (p-value = 0.219) but detect second-order autocorrelation (p-value = 0.023) (Cheng & Bang, 2021). Additionally, the Durbin-Wu-Hausman test (p-value < 0.001) supports the use of the fixed effects model over the random effects model (Arayssi & Jizi, 2024). Collectively, these diagnostics show that unobserved firm-specific heterogeneity, heteroscedastic errors, and temporal dependence must be addressed explicitly in the modeling strategy. The data have a clear hierarchical structure, with repeated firm-year observations (Level 1) nested within firms (Level 2). Therefore, hierarchical linear modeling (HLM) is adopted as the primary estimator because it accommodates this nesting by specifying random intercepts at the firm level and simultaneously modelling within- and

between-firm variation (Abbasian et al., 2020; Garson, 2013). This approach is more flexible than conventional pooled or random-effects panel models and complements the fixed-effects logic by enabling firm-level heterogeneity to be modeled directly rather than fully differenced out. It also improves parameter precision and helps account for temporal dependencies in panels with a moderate number of firms and time periods (Xu et al., 2021). Although the 72 firms are spread across eleven non-financial sectors, the number of sector groups is too small to justify an additional sector level in the multilevel specification, so the HLM structure focuses on firm-year observations nested within firms. To check robustness to alternative panel estimators, a fixed-effects model with clustered standard errors (FEM-CSE) is also estimated, which controls for time-invariant firm-specific effects while addressing heteroscedasticity and serial correlation. In addition, the system generalized method of moments (SGMM) is employed to mitigate potential endogeneity using internal instruments based on lagged variables (Dwibedi et al., 2024).

The regression models used for independent variables and moderating effects are as follows:

$$ROA_{i,t} = \beta_0 + \beta_1(ESG)_{i,t} + \beta_{10}(SIZE)_{i,t} + \beta_{11}(DER)_{i,t} + \beta_{12}(NPM)_{i,t} + \beta_{13}(ATR)_{i,t} + \varepsilon_t$$

$$ROA_{i,t} = \beta_0 + \beta_2(ESG \times DFC)_{i,t} + \beta_3(ESG \times FOWN)_{i,t} + \beta_4(ESG \times FL)_{i,t} + \beta_5(ESG \times FDIR)_{i,t} + \beta_6(DFC)_{i,t} + \beta_7(FOWN)_{i,t} + \beta_8(FL)_{i,t} + \beta_9(FDIR)_{i,t} + \beta_{10}(SIZE)_{i,t} + \beta_{11}(DER)_{i,t} + \beta_{12}(NPM)_{i,t} + \beta_{13}(ATR)_{i,t} + \varepsilon_t$$

In these equations, β_0 represents the constant term, and $\beta_1 - \beta_{13}$ are coefficients for the independent, moderating, and control variables, respectively. The subscript i denotes the firms in the sample, t refers to the time period, and ε is the error term. Statistical Package for Social Sciences software version 28 and Stata version 18 are used for data analysis in this study.

4. Results and analysis

4.1. Descriptive statistics

The descriptive statistics offer key insights into the financial and governance characteristics of the sample firms (see Table 4). ROA has a mean of 0.038 and a standard deviation of 0.089, ranging from -0.468 to 0.846, indicating significant variability in profitability, with some firms reporting negative returns while others show substantial gains. ESG averages 0.474, with a standard deviation of 0.129, reflecting varying levels of commitment to sustainability. Values range from 0.162 to 0.838, further highlighting differences in ESG performance. Moreover, FC has a mean of 1.565, ranging from 0.229 to 2.340, illustrating diverse levels of family influence. Similarly, FOWN averages 0.500, with a range of 10.8% to 86.6%, indicating moderate to high family shareholding. Furthermore, FL averages 0.842, showing that family members hold key leadership roles in most firms, while FDIR has a mean of 0.365, indicating that about one-third of board members are family, with a range of 0% to 66.7%. Moreover, SIZE has a mean of 5.956, with a wide range from 4.610 to 7.880, while DER averages 1.553, with substantial variation, ranging from 0.020 to 205.047, indicating different leverage levels. NPM shows an average of 0.019, with a broad range from -9.182 to 3.068. Last, ATR averages 0.609, with a range from 0.006 to 2.959, indicating variability in asset efficiency across firms.

Table 4. Descriptive statistics.

Variables	Mean	Std. Deviation	Minimum	Maximum
ROA	0.038	0.089	-0.468	0.846
ESG	0.474	0.129	0.162	0.838
FC	1.565	0.594	0.229	2.340
FOWN	0.500	0.142	0.108	0.866
FL	0.842	0.366	0.000	1.000
FDIR	0.365	0.177	0.000	0.667
SIZE	5.956	0.672	4.610	7.880
DER	1.553	10.855	0.020	205.047
NPM	0.019	0.651	-9.182	3.068
ATR	0.609	0.407	0.006	2.959

Abbreviations: ROA, profitability; ESG, ESG performance; FC, family control; FOWN, family ownership; FL, family leadership; FDIR, family directorship; SIZE, firm size; DER, leverage; NPM, profitability; ATR, business efficiency.

Source: Author's creation

4.2. Correlation matrix

The correlation matrix reveals several significant relationships between the variables, shedding light on the dynamics of firm characteristics and financial performance (see Table 5). ROA is positively correlated with ESG, indicating that firms with higher ESG performance tend to be more profitable. FOWN also shows a positive correlation with ROA, suggesting that firms with greater family ownership are associated with better financial performance. Additionally, NPM and ATR are strongly correlated with ROA, highlighting the link between profitability, business efficiency, and returns. Conversely, DER is negatively correlated with ROA, implying that higher debt levels may hinder profitability. The correlation between FDIR and ROA is negative but insignificant, suggesting that the proportion of family members on the board does not directly correlate with profitability. Moreover, ESG is positively correlated with FOWN but negatively correlated with FC, FL, and FDIR, and shows positive correlations with SIZE and ATR.

Regarding multicollinearity, variance inflation factor values range from 1.062 to 3.743, well below the threshold of 10, indicating that multicollinearity is not a concern in the model (Ghardallou, 2022). These results support the robustness of the regression models used in the analysis.

Table 5. Correlation matrix.

Variables	ROA	ESG	FC	FOWN	FL	FDIR	SIZE	DER	NPM	ATR
ROA	1									
ESG	0.186**	1								
FC	0.028	-0.221**	1							
FOWN	0.114*	0.167**	0.208**	1						
FL	0.030	-0.157**	0.654**	-0.076	1					
FDIR	-0.045	-0.166**	0.761**	0.025	0.540**	1				
SIZE	-0.028	0.492**	-0.289**	0.003	-0.248**	-0.155**	1			
DER	-0.311**	-0.090	-0.131*	-0.155**	-0.132*	-0.094	0.136**	1		
NPM	0.411**	0.039	-0.039	0.036	-0.035	0.026	0.011	-0.183**	1	
ATR	0.329**	0.147**	0.077	0.141**	0.080	-0.027	-0.124*	-0.017	0.088	1
VIF		1.526	3.743	1.285	1.954	2.586	1.520	1.062	1.135	1.124

*. Correlations are significant at the 0.05 level (2-tailed).

**. Correlations are significant at the 0.01 level (2-tailed).

Abbreviations: ROA, profitability; ESG, ESG performance; FC, family control; FOWN, family ownership; FL, family leadership; FDIR, family directorship; SIZE, firm size; DER, leverage; NPM, profitability; ATR, business efficiency.

Source: Author's creation

4.3. Regression results

The baseline regression results presented in Table 6 show a significant positive relationship between ESG performance and CFP, with a coefficient of 0.111 ($p < 0.01$), supporting H₁. This indicates that firms with stronger ESG practices tend to experience better financial performance, which is consistent with studies showing ESG's benefits in improving stakeholder relations, reputation, and operational efficiency (Alshehhi et al., 2018; Bhaskaran et al., 2020; De Lucia et al., 2020; Velte, 2017). This finding aligns with similar research on Malaysian firms (Ab Aziz et al., 2023; Ming et al., 2024), implying that family and non-family Malaysian firms benefit financially from ESG initiatives.

Table 6 provides deeper insights by further exploring the moderating effects of family factors on the ESG-CFP relationship. Model 2 shows that the interaction between family control and ESG performance is positively associated with CFP (coefficient = 0.058, $p < 0.05$), supporting H₂. This suggests that family control enhances the financial benefits of ESG, likely due to long-term strategic focus. In Model 3, family ownership strengthens the positive link between ESG and CFP (coefficient = 0.218, $p < 0.05$), supporting H₃, indicating that family owners may drive responsible business practices to protect financial health when they have higher stockholding. Similarly, Model 4 reveals that family leadership also positively moderates the ESG-CFP relationship (coefficient = 0.116, $p < 0.05$), supporting H₄, though the overall effect of family leadership on profitability is negative (-0.060 , $p < 0.01$), possibly due to risk aversion or managerial entrenchment. This reflects that when family members are holding key leadership positions, they can better enforce the alignment between family SEW, ESG, and CFP. Furthermore, Model 5 shows family directorship positively moderating ESG's impact on CFP (coefficient = 0.270, $p < 0.05$), supporting H₅. This implies that the presence of family members on the board enhances the financial returns of ESG engagement by over 2.5%, highlighting the strategic role of board composition in sustainability outcomes. Interestingly, while the moderating effect is positive, the direct effect of family directorship on financial performance is negative (-0.122 ,

$p < 0.05$), suggesting potential conflicts or resistance to external oversight without strong ESG. Family members on the board may prioritize sustainable practices that contribute to the firm's long-term success, particularly when ESG performance is robust. This pattern, also observed for family leadership, indicates that family involvement in governance can be detrimental in isolation, potentially due to entrenchment or resistance to external oversight. However, when aligned with robust ESG performance, such involvement appears to transform from a liability into a strategic asset. These findings underscore the conditional value of family influence, where ESG engagement serves as a mechanism to align SEW preservation with financial objectives, enabling family firms to unlock value through purposeful, sustainability-driven governance.

Additionally, Tables 6 and 7 highlight the positive associations of NPM and ATR with ROA, underscoring the importance of profitability and efficiency. Interestingly, SIZE shows no significant effect on ROA, while DER has a small negative relationship, indicating that higher debt levels may limit profitability. The Wald chi-squared test confirms the overall significance of the models.

Table 6. Baseline regression results.

	Model 1
ESG	0.111*** (0.043)
SIZE	-0.007 (0.010)
DER	-0.002*** (0.001)
NPM	0.043*** (0.006)
ATR	0.077*** (0.013)
Constant	-0.018 (0.055)
N	360
Wald chi2	184.48
Significance (p-value)	<0.001

***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Abbreviations: ROA, profitability; ESG, ESG performance; SIZE, firm size; DER, leverage; NPM, profitability; ATR, business efficiency.

Source: Author's creation

Table 7. Regression results with family moderating variables.

	Model 2	Model 3	Model 4	Model 5
ESG_FC	0.058** (0.030)			
ESG_FOWN		0.218** (0.088)		
ESG_FL			0.116** (0.045)	
ESG_FDIR				0.270** (0.125)
FC	-0.019 (0.015)			
FOWN		-0.065 (0.054)		
FL			-0.060*** (0.022)	
FDIR				-0.122** (0.06)
SIZE	0.010 (0.011)	-0.005 (0.010)	-0.005 (0.009)	0.004 (0.010)
DER	-0.002*** (0.001)	-0.002*** (0.001)	-0.002*** (0.001)	-0.002*** (0.001)
NPM	0.044*** (0.006)	0.045*** (0.006)	0.043*** (0.006)	0.044*** (0.006)
ATR	0.089*** (0.013)	0.081*** (0.013)	0.068*** (0.011)	0.083*** (0.013)
Constant	-0.084 (0.071)	0.003 (0.062)	0.035 (0.056)	-0.036 (0.064)
N	360	360	360	360
Wald chi2	170.69	200.14	195.52	173.25
Significance (p-value)	<0.001	<0.001	<0.001	<0.001

***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Abbreviations: ROA, profitability; ESG, ESG performance; FC, family control; FOWN, family ownership; FL, family leadership; FDIR, family directorship; SIZE, firm size; DER, leverage; NPM, profitability; ATR, business efficiency.

Source: Author's creation

4.4. Additional analysis

To better understand which dimensions of ESG performance impact CFP, environmental (EP), social (SP), and governance performance (GP) variables are developed using the same method as the ESG performance variable. Table 8 presents the results of the relationship between individual ESG performance dimensions and CFP. Model 1 shows a positive relationship between environmental performance and CFP, with a coefficient of 0.048, which is significant at the 10% level ($p < 0.10$). This result indicates that firms with stronger environmental performance may experience slight

improvements in profitability. The positive link suggests that environmentally responsible firms benefit from cost savings or enhanced reputations, contributing to better financial outcomes. However, the modest significance level implies that the impact of environmental initiatives on profitability may be less direct or substantial compared to other ESG factors. Nonetheless, this finding contrasts with studies by Agarwala et al. (2024) and Siwec and Karkowska (2024), who found no connection between environmental performance and financial outcomes, and other research reporting a negative impact (Ding & Lee, 2024; Liu et al., 2022). Additionally, my findings of this study differ from other research on Malaysian firms, where environmental performance has been found to negatively correlate with financial outcomes (Ab Aziz et al., 2023; Ming et al., 2024).

Table 8. Additional regression results using EP, SP, and GP.

	Model 1	Model 2	Model 3
EP	0.048* (0.026)		
SP		0.071** (0.030)	
GP			0.063 (0.042)
SIZE	-0.003 (0.010)	-0.002 (0.010)	-0.001 (0.010)
DER	-0.002*** (0.001)	-0.002*** (0.001)	-0.002*** (0.001)
NPM	0.043*** (0.006)	0.043*** (0.006)	0.043*** (0.006)
ATR	0.081*** (0.013)	0.078*** (0.013)	0.081*** (0.013)
Constant	-0.012 (0.056)	-0.021 (0.055)	-0.052 (0.054)
N	360	360	360
Wald chi2	179.37	182.49	177.74
Significance (p-value)	<0.001	<0.001	<0.001

***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Abbreviations: ROA, profitability; EP, environmental performance; SP, social performance; GP, governance performance; SIZE, firm size; DER, leverage; NPM, profitability; ATR, business efficiency.

Source: Author's creation

Similarly, Model 2 shows a significant positive relationship between social performance and CFP, with a coefficient of 0.071 ($p < 0.05$), which is consistent with findings by Agarwala et al. (2024), Ding and Lee (2024), and Siwec and Karkowska (2024). However, this finding does not corroborate with earlier Malaysian studies (Ab Aziz et al., 2023; Ming et al., 2024), suggesting that firms engaging in social responsibility, such as improving employee welfare or community development, tend to achieve better financial performance. Social initiatives likely boost corporate reputation, stakeholder relationships, and talent acquisition, driving stronger financial outcomes. The greater significance of social performance

compared to environmental factors indicates that social responsibility may play a more direct role in profitability, especially in markets where it is increasingly valued by consumers and investors.

Interestingly, governance performance does not show a significant relationship with CFP in Model 3, in contrast to studies suggesting a positive impact (Agarwala et al., 2024; Ding & Lee, 2024; Liu et al., 2022). It has been suggested that governance performance has the strongest influence on CFP (Velte, 2017), but apparently, family firms do not appear to align with this assertion. In comparison to other studies on Malaysian firms, Ming et al. (2024) found that governance performance negatively impacts CFP, while Ab Aziz et al. (2023) concluded that governance performance is unrelated to CFP. This implies that governance practices like board independence or audit quality may not yield immediate financial returns but may instead influence long-term sustainability and risk management. Moreover, while governance is undoubtedly important for long-term sustainability and risk management, the lack of significance in the short term suggests that governance factors may influence financial performance through more indirect or long-term mechanisms, rather than immediate profitability.

4.5. Endogeneity issues

The Hausman specification test confirms the presence of endogeneity in the dataset, prompting the use of SGMM to address this issue and ensure a thorough and rigorous analysis. SGMM is highly effective in addressing endogeneity issues because it uses internal instruments, such as lagged variables, to control for unobserved heterogeneity, simultaneity, and measurement errors, ensuring more reliable and consistent parameter estimates. Table 9 presents the results from five regression models that explore the relationship between ESG performance and CFP, along with the moderating effects of family control, ownership, leadership, and directorship. These results closely align with those in Tables 6 and 7, further reinforcing the robustness and reliability of my findings.

Table 9. System generalized method of moments results.

	Model 1	Model 2	Model 3	Model 4	Model 5
ROA L1	-0.442 (0.377)	0.372 (0.323)	0.042 (0.345)	-0.317 (0.302)	-0.239 (0.461)
ESG	0.548** (0.262)				
ESG_FC		0.159** (0.075)			
ESG_FOWN			0.830** (0.335)		
ESG_FL				0.625** (0.296)	
ESG_FDIR					0.952*** (0.349)
FC		-0.085** (0.040)			
FOWN			-0.690* (0.355)		
FL				-0.404* (0.208)	
FDIR					-0.306* (0.179)
SIZE	-0.050** (0.025)	-0.022 (0.016)	-0.037* (0.021)	-0.057 (0.040)	-0.022 (0.023)
DER	-0.001** (0.001)	-0.002*** (0.001)	-0.002*** (0.001)	-0.002*** (0.001)	-0.002*** (0.001)
NPM	0.050*** (0.019)	0.031 (0.023)	0.037 (0.024)	0.044** (0.020)	0.041 (0.026)
ATR	0.029 (0.038)	0.021 (0.019)	0.043 (0.035)	0.037 (0.031)	0.039 (0.030)
Constant	0.068 (0.129)	0.161 (0.133)	0.374** (0.189)	0.454 (0.324)	0.100 (0.167)
N	360	360	360	360	360
Wald chi2	163.25	386.44	101.23	482.11	297.41
Significance (p-value)	<0.001	<0.001	<0.001	<0.001	<0.001

***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Abbreviations: ROA, profitability; ESG, ESG performance; FC, family control; FOWN, family ownership; FL, family leadership; FDIR, family directorship; SIZE, firm size; DER, leverage; NPM, profitability; ATR, business efficiency.

Source: Author's creation

4.6. Robustness tests

To strengthen the robustness of my findings, two additional distinct approaches are applied. First, instead of HLM, a FEM-CSE model is used as an alternative. FEM-CSE is well-suited for panel data, as the fixed effects model controls for unobserved, time-invariant firm-specific characteristics. When

combined with clustered standard errors, this method effectively addresses heteroskedasticity and autocorrelation, enhancing the reliability of the estimates. Additionally, the fixed effects model tackles endogeneity from time-invariant omitted variables by focusing on within-firm variation, reducing bias from unobserved firm-specific factors. The FEM-CSE results in Table 10 closely align with those in Tables 5 and 6, further supporting H₁, H₂, H₃, H₄, and H₅. Second, ESG performance is recalculated by averaging its environmental, social, and governance components, rather than relying on a simple summation (Seow, 2025a). The HLM regression results using this alternative measure remain consistent with the baseline regression, confirming the robustness of the findings, as shown in Table 11. Third, to enhance the credibility of the causal inferences, placebo tests are conducted by randomly reassigning ESG scores across firms while preserving the year structure (Eggers et al., 2024). Models 1 through 5 replicate the major HLM specifications but substitute the original ESG and interaction terms with their placebo counterparts. As shown in Table 12, none of the placebo ESG coefficients, whether for the main effect (Model 1) or for the interactions with family control, ownership, leadership, and directorship (Models 2 to 5), are statistically significant. The absence of significance across all placebo models reinforces that the original findings are unlikely to be driven by spurious correlations or model overfitting. These results provide additional support for the robustness and internal validity of the observed ESG-CFP relationships in family firms.

Although the sample comprises 72 firms, the panel structure yields 360 firm-year observations, which enhances the precision of the estimated parameters. Methodological work on power in linear and multilevel models indicates that samples of this order are generally adequate to detect interaction effects of moderate size at conventional significance levels when the number of predictors is modest. This expectation is consistent with the empirical results, as the interaction terms between ESG and family factors are statistically significant across the HLM, FEM-CSE, and SGMM specifications reported in Tables 7, 9, 10, and 11. These patterns suggest that this study has sufficient statistical power to identify the moderating effects of family control, ownership, leadership, and directorship on the ESG-CFP relationship.

Table 10. Fixed effects model with clustered standard errors results.

	Model 1	Model 2	Model 3	Model 4	Model 5
ESG	0.174* (0.088)				
ESG_FC		0.089* (0.047)			
ESG_FOWN			0.299** (0.145)		
ESG_FL				0.211** (0.102)	
ESG_FDIR					0.325* (0.196)
FC		-0.035 (0.026)			
FOWN			-0.007 (0.078)		
FL				-0.093** (0.045)	
FDIR					-0.213* (0.123)
SIZE	0.236*** (0.074)	0.245** (0.081)	0.260*** (0.080)	0.239** (0.072)	0.254*** (0.082)
DER	-0.001*** (0.001)	-0.001*** (0.001)	-0.001*** (0.001)	-0.001*** (0.001)	-0.001*** (0.001)
NPM	0.039** (0.016)	0.039** (0.016)	0.040** (0.016)	0.039** (0.016)	0.039** (0.016)
ATR	0.187*** (0.067)	0.187*** (0.069)	0.189*** (0.068)	0.188*** (0.067)	0.184*** (0.069)
Constant	-1.563*** (0.483)	-1.546*** (0.509)	-1.694*** (0.516)	-1.501*** (0.457)	-1.565*** (0.511)
N	360	360	360	360	360
R-squared	0.444	0.435	0.445	0.45	0.435
Significance (p-value)	<0.001	<0.001	<0.001	<0.001	<0.001

***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Abbreviations: ROA, profitability; ESG, ESG performance; FC, family control; FOWN, family ownership; FL, family leadership; FDIR, family directorship; SIZE, firm size; DER, leverage; NPM, profitability; ATR, business efficiency.

Source: Author's creation

Table 11. Hierarchical linear modeling results with an alternative ESG measure.

	Model 1	Model 2	Model 3	Model 4	Model 5
ESG	0.107** (0.042)				
ESG_FC		0.057* (0.029)			
ESG_FOWN			0.214* (0.086)		
ESG_FL				0.110* (0.044)	
ESG_FDIR					0.262* (0.122)
FC		-0.018 (0.015)			
FOWN			-0.062 (0.053)		
FL				-0.056*** (0.022)	
FDIR					-0.119** (0.06)
SIZE	-0.008 (0.010)	0.009 (0.011)	-0.006 (0.010)	-0.005 (0.008)	0.005 (0.010)
DER	-0.002*** (0.001)	-0.002*** (0.001)	-0.002*** (0.001)	-0.002*** (0.001)	-0.002*** (0.001)
NPM	0.043*** (0.006)	0.043*** (0.006)	0.043*** (0.006)	0.043*** (0.006)	0.043*** (0.006)
ATR	0.077*** (0.013)	0.089*** (0.013)	0.081*** (0.013)	0.068*** (0.011)	0.085*** (0.013)
Constant	-0.011 (0.055)	-0.081 (0.071)	0.008 (0.062)	0.036 (0.055)	-0.038 (0.065)
N	360	360	360	360	360
R-squared	183.88	169.26	199.46	194.37	169.77
Significance (p-value)	<0.001	<0.001	<0.001	<0.001	<0.001

***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Abbreviations: ROA, profitability; ESG, ESG performance; FC, family control; FOWN, family ownership; FL, family leadership; FDIR, family directorship; SIZE, firm size; DER, leverage; NPM, profitability; ATR, business efficiency.

Source: Author's creation

Table 12. Placebo tests using hierarchical linear modeling.

	Model 1	Model 2	Model 3	Model 4	Model 5
ESGP	0.00029 (0.00028)				
ESGP_FC		0.00016 (0.00015)			
ESGP_FOWN			0.00067 (0.00051)		
ESGP_FL				0.00029 (0.00031)	
ESGP_FDIR					0.00050 (0.00062)
FC		-0.00425 (0.01260)			
FOWN			-0.02223 (0.04735)		
FL				-0.01328 (0.01664)	
FDIR					-0.05237 (0.04542)
SIZE	0.01306 (0.00920)	0.01802 (0.01011)	0.01726 (0.00982)	0.00944 (0.00859)	0.01574 (0.00986)
DER	-0.00162 (0.00031)***	-0.00167 (0.00032)***	-0.00168 (0.00031)***	-0.00192 (0.00030)***	-0.00171 (0.00032)***
NPM	0.04577 (0.00596)***	0.04323 (0.00584)***	0.04444 (0.00595)***	0.04601 (0.00605)***	0.04300 (0.00583)***
ATR	0.08868 (0.01310)***	0.09559 (0.01381)***	0.09554 (0.01375)***	0.07950 (0.01186)***	0.09457 (0.01375)***
Constant	-0.10542 (0.05805)	-0.13158 (0.06753)	-0.12617 (0.06376)**	-0.06520 (0.05620)	-0.10158 (0.06384)
N	360	360	360	360	360
R-squared	150.25	154.87	158.84	174.27	154.94
Significance (p-value)	<0.001	<0.001	<0.001	<0.001	<0.001

***, **, and * denote statistical significance at the 1%, 5%, and 10% levels, respectively.

Abbreviations: ROA, profitability; ESGP, ESG performance (for placebo test); FC, family control; FOWN, family ownership; FL, family leadership; FDIR, family directorship; SIZE, firm size; DER, leverage; NPM, profitability; ATR, business efficiency.

Source: Author's creation

5. Discussion

This study reveals a clear positive relationship between ESG performance and CFP in family firms, showing that those committed to sustainability achieve superior financial outcomes. These results align

with research documenting the financial benefits of ESG, such as stronger stakeholder relationships, enhanced reputation, and operational efficiencies (Bhaskaran et al., 2020; De Lucia et al., 2020) and mirror the modest yet meaningful improvements identified by Alshehhi et al. (2018). They are also consistent with evidence from Malaysia (Ab Aziz et al., 2023; Ming et al., 2024), reinforcing that ESG engagement reflects the long-term orientation of family firms in emerging markets, where sustainability is increasingly seen as a pathway to growth (Delmas & Gergaud, 2014). Furthermore, these findings differ from researchers reporting negative or insignificant ESG–CFP links (Almulhim & Aljughaiman, 2023; Garcia et al., 2017), which may reflect contextual differences in governance quality, cultural norms, or the maturity of ESG reporting, particularly between developed and emerging economies. In less institutionalized settings, family firms often adopt ESG selectively, balancing socio-emotional and financial goals in ways that diverge from conventional shareholder-value approaches. This pattern underscores the nuance of SEWT, which frames ESG not merely as compliance or branding but as a mechanism for preserving identity, legitimacy, and continuity while generating returns.

The results also indicate that when family firms pursue ESG to advance their SEW, they tend to integrate it with financial objectives rather than treat it as a trade-off. Malaysian family firms exemplify this alignment by combining ESG initiatives with strategies that strengthen family priorities and firm profitability. The magnitude of the effect is meaningful, with an average ROA of 3.8%; even a 1%-2% increase attributable to ESG investment represents a substantial performance gain. This is particularly important for family firms in emerging markets, where tight margins and high operational risks heighten the impact of incremental improvements. Consequently, ESG initiatives in these firms function not only as symbolic or reputational efforts but also as material drivers of profitability.

This study shows that the three ESG dimensions influence financial performance unevenly. Environmental practices have only a modest effect on profitability, likely because investments in clean technologies or carbon reduction yield delayed returns. In contrast, social performance emerges as the strongest driver of financial gains, indicating that initiatives such as employee welfare and community engagement translate more directly into improved outcomes, especially in contexts where social responsibility carries high value. This pattern reflects Malaysia's cultural emphasis on community and employee welfare and aligns with studies identifying social performance as the most salient ESG dimension for financial returns (Ding & Lee, 2024), while contradicting earlier Malaysian research reporting minimal or negative associations between social and financial metrics (Ab Aziz et al., 2023; Ming et al., 2024). Such discrepancies may result from methodological differences, including the use of self-constructed metrics versus third-party scores or variations in sample composition between family and non-family firms. The importance of social ESG elements also echoes the findings by Siwiec and Karkowska (2024), who noted that stakeholders in emerging markets are especially responsive to firms' labor practices, diversity, and community engagement. Conversely, governance performance shows no significant effect on financial outcomes, diverging from studies in developed markets that highlight its centrality (Liu et al., 2022; Velte, 2017). This weaker effect may stem from family firms' emphasis on internal control rather than external transparency, as well as their limited disclosure of governance practices (Dinh & Calabrò, 2019).

Family-specific factors further moderate the ESG–CFP relationship. Concentrated family control, ownership, leadership, and directorship enhance the positive effects of ESG by encouraging long-termism and deeper stakeholder engagement, consistent with evidence (Sun et al., 2024) and arguments that family involvement in governance strengthens alignment between ESG values and firm strategy (Vardaman & Gondo, 2014). However, other researchers document

negative effects of family ownership or board participation on ESG outcomes (Ardianto et al., 2024; Chung et al., 2024), suggesting that entrenchment or resistance to external accountability can undermine ESG benefits. These contrasting findings underscore that the influence of family factors is context-dependent and shaped by how ESG is integrated into strategic priorities, particularly where regulatory enforcement is uneven or stakeholder pressure is limited. Nonetheless, my results show that family control generally amplifies ESG benefits, supporting SEWT's argument that family firms strive to preserve legacy and emotional wealth while pursuing long-term financial objectives (Gómez-Mejía et al., 2007; Gómez-Mejía & Herrero, 2022). The consistent impact of ownership, leadership, and directorship indicates that family firms mobilize all aspects of involvement to ensure that ESG initiatives reinforce socio-emotional wealth and financial performance.

6. Conclusions

This study examines the ESG-CFP relationship in Malaysian family firms, focusing on how family control, ownership, leadership, and directorship moderate this link. Drawing on data from 72 firms over five years, this study extends SEWT by showing that ESG practices enhance financial performance, with social performance exerting a stronger effect than environmental or governance dimensions. The findings indicate that owning families leverage control and involvement to reinforce ESG-CFP alignment while preserving SEW, reflecting their long-term orientation and commitment to sustainable practices. Robust regression results provide solid empirical support and enrich the literature on family firms, ESG, and financial outcomes. By highlighting the conditions under which ESG practices generate returns, this study underscores the role of family enterprises in advancing sustainability and socio-economic development in emerging markets and offers practical insights for policymakers, practitioners, and scholars seeking to foster inclusive, sustainable growth.

However, this study is not without its limitations. The focus on Malaysian family firms under a mandatory ESG disclosure regime constrains the external validity of the findings, particularly for non-family or privately held firms and for countries where ESG reporting remains largely voluntary. The institutional and cultural specificities of Malaysia mean that the ESG-CFP patterns and the moderating role of family factors observed here may not transfer directly to other settings. In future studies, researchers could broaden the scope by conducting comparative studies of family firms across emerging and developed economies in which regulatory intensity, cultural environments, enforcement quality, and market maturity differ. Such studies would clarify whether the ESG-CFP relationship and the influence of family control, ownership, leadership, and directorship hold in alternative institutional environments. Additionally, my sample of 72 firms over five years is limited, and expanding the sample size would enhance robustness and allow for more detailed comparisons across family firms, such as small versus large firms or first-generation versus multi-generational businesses, to engage with ESG practices. Moreover, longitudinal studies could entail the long-term effects of ESG initiatives and how they contribute to CFP over time. Researchers could extend this study by examining potential lagged effects of ESG investments, incorporating alternative financial performance indicators such as ROE and Tobin's Q, and conducting more granular analyses across sectors, firm size, leverage levels, and dimensions of family firm heterogeneity, including firm age, generational stage, and life cycle. Such extensions would deepen the understanding of whether the ESG-CFP relationship and the moderating influence of family factors vary across time, contexts, and family firms. Finally, external factors such as industry

characteristics and macroeconomic conditions are not considered. In future studies, researchers should include these variables, particularly through a sectoral approach, to provide a more comprehensive understanding of how family firms navigate ESG practices amid external challenges like economic downturns or regulatory changes.

6.1. Implications

This study advances theory and practice by clarifying how ESG performance relates to corporate financial performance in family firms. This study extends SEWT by empirically showing that family control, ownership, leadership, and directorship moderate the ESG-CFP relationship, demonstrating that ESG can serve as a strategic means of balancing socioemotional wealth preservation with financial performance. This deepens the understanding of how family firms integrate sustainability with performance objectives and shows that socioemotional priorities need not preclude rational, performance-driven ESG strategies. The findings also differentiate the influence of ESG dimensions, revealing that environmental and social performance exert stronger effects on financial outcomes than governance, particularly in emerging markets where regulatory and cultural contexts shape ESG relevance. The limited financial impact of governance performance underscores persistent transparency gaps and supports arguments on information asymmetry and socio-political embeddedness in these settings.

Practically, the results provide guidance for managers, investors, and policymakers. They indicate that family firms can leverage their long-term orientation and socioemotional commitments to improve financial outcomes by embedding ESG principles into strategy and operations. Formal mechanisms such as ESG committees, family-led sustainability governance, and integration of ESG metrics into performance reviews can enhance internal alignment and external legitimacy. Since environmental and social performance drive the greatest returns, initiatives in climate resilience, employee welfare, and community engagement should be prioritized, supported by structured reporting and measurable targets to attract ESG-conscious investors. At the policy level, tailored regulatory frameworks, disclosure incentives, and capacity-building programs can strengthen ESG adoption in family firms. By highlighting the conditions under which ESG practices yield financial returns, this study underscores their strategic value for firm competitiveness and broader sustainability objectives in emerging economies.

Use of AI tools declaration

During the preparation of this work, the author used ChatGPT to improve the language and readability of the paper. After using this tool/service, the author reviewed and edited the content as needed and takes full responsibility for the content of the publication.

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Conflict of interest

The author declares no conflict of interest.

Data Availability Statement

All the data generated or analyzed during this study are included in this published article.

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