ABSTRACT

This study examines the effect of Environmental, Social, and Governance (ESG) Performance on Market Leverage and investigates the moderating role of financial constraints, as measured by the KZ Index and SA Index. Additional tests assess the individual effects of Environmental, Social, and Governance Performance. The sample comprises 146 manufacturing firms in ASEAN countries during 2021–2024, resulting in 584 firm-year observations. Data were obtained from the Bloomberg Terminal and analyzed using panel data regression. Based on the Chow and Hausman tests, the Fixed Effect Model was employed with firm-clustered robust standard errors, year fixed effects, and Moderated Regression Analysis. ESG Performance, the KZ Index, and the SA Index were mean-centered before the interaction terms were constructed.

The results show that ESG Performance has a negative and statistically significant effect on Market Leverage. The interaction terms between ESG Performance and both the KZ Index and SA Index are also negative and significant at the 10% level, indicating that financial constraints strengthen the negative effect of ESG on Market Leverage. At the pillar level, Social Performance has a negative and significant effect at the 10% level, whereas Environmental and Governance Performance show negative but statistically insignificant effects. These findings are consistent with Corporate Risk Management Theory, which views ESG as part of a firm's management of nonfinancial risks. Effective risk management can stabilize cash flows, reduce financial distress risk, and improve market valuation. When market capitalization increases faster than total debt, Market Leverage declines, even if nominal debt does not necessarily decrease. This risk-management benefit becomes more relevant when firms face greater financing constraints.

Key words : *ESG Performance, Market Leverage, Financial Constraints, KZ Index, SA Index, ASEAN manufacturing firms.*