

## **Abstract**

This study examines the effect of environmental, social, and governance on financial distress with control variables of financial slack and asset tangibility in energy sector companies in developing countries in Southeast Asia. The research sample consists of 15 companies with a total of 150 observations. Data was extracted from the Thomson Reuters database from 2014 to 2023. This study uses a panel data approach with fixed effects estimation. The findings show that the environmental (ENV) and social (SOC) positively impact the Z-score. However, they are insignificant, indicating that these two activities do not significantly affect the risk of financial distress. In contrast, the governance pillar (GOV) has a negative impact on Z-score and is significant, indicating that improving governance practices increase the risk of financial distress. This study has several limitations. First, the research focuses only on the energy sector in Southeast Asia. Second, the ESG measurement relies on Thomson Reuters scores, which invites further investigation using various ESG score providers, such as Bloomberg, MSCI, and Sustainalytics. Third, the model has not considered macroeconomic factors such as energy market volatility and country-specific environmental regulations. Future research could expand the sector coverage, use alternative ESG measures, and consider macroeconomic variables. This study contributes to the literature by examining the role of ESG performance in mitigating financial distress, particularly in the energy sector in emerging economies. The findings provide theoretical insights and practical implications for energy sector management and policymakers in designing financial risk mitigation strategies by implementing comprehensive ESG practices. This study recommends re-evaluating efficient and value-oriented governance practices, developing balanced regulations without imposing excessive compliance costs, and considering financial slack and asset tangibility factors as balancing indicators in the assessment of energy sector investments.

**Keywords:** developing countries, energy sector, ESG performance, financial distress