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The Relationship between SDG Engagement and Corporate Financial Performance: Evidence from Public Listed Companies in Malaysia

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Abstract

Purpose: The aims of this study are to investigate the relationship between SDGs engagement and Corporate Financial Performance (CFP) among public listed companies and to identify the extent of SDGs disclosure among public listed companies in Malaysia

Design/methodology/approach: The data were obtained from 320 annual reports of public listed companies in Malaysia for the year 2019. Content analysis was conducted to extract the data, where the independent variables of this study are disclosure of economic elements, social elements, and environmental elements in the annual reports. Meanwhile the dependent variable extracted is the Return on Equity (ROE) of the companies for 2019.

Findings: This study revealed that most companies engage in economic elements associated with decent work and economic growth (SDG8). SDG3 which is Good Health and Well Being, under social domain is the second most engaged goal. Meanwhile, goal on responsible consumption and production (SDG12) is the highest goals mentioned under environment domain. In terms of the relationship between SDGs engagements and CFP, the study found that there are significant negative relationship between SDG3 (social domain) and SDG8 (economic domain) with CFP.

Research limitations/implications: This study is restricted to the examination of engagement based on SDGs mentioned in the corporate annual reports and does not include an assessment of detailed SDGs engagement such as in terms of specific target and key performance indicators to measure corporate engagement in SDGs.

Practical implications: This study could support Malaysian companies in enhancing their engagement in SDGs. The study could also support policymakers and regulators to outline effective frameworks promoting SDGs engagement as a framework for the strategic corporate model.

Originality/value: This study is among the earliest studies that investigate the relationship between SDGs engagements CFP.

Paper type: Research paper

Keywords: SDG engagement, Corporate financial performance, Triple bottom line

Introduction

The *2030 Agenda for Sustainable Development* (United Nations, 2015) have drawn 17 goals that are important for sustainability of the people and the world. In Malaysia, the goals have been embedded in the Eleventh Malaysia Plan 2016-2020 (Economic Planning Unit, 2015). However, achieving these goals is not only the role of the government, but involves participation of various players. As for companies, board level should be aware of these goals and SDGs agenda should be embedded into their core values and business value chain (Ern, 2017). However, in a worldwide survey by KPMG, only 40% of the 250 largest companies in the world included these goals in their sustainability reports (KPMG, 2018). Various factors may contribute to this result. Among others, Cormer and Magnan (2014) found that the company size is one of those factors. This is consistent Cormier, Ledoux, and Magnan (2011), Buniamin, Alrazi, Johari, and Abd Rahman (2011) and Gallo and Christensen (2011) who found that larger companies tend to report more information and provide better quality reporting.

Phan, Tran, Le, Nguyen, Pervan and Tran (2020) suggested that short-term profitability should not be the only objective of the company. The new development era of corporate management increasingly shifts toward stakeholder-based strategy by paying more attention to stakeholder's interest in achieving the company's goals (Siahaan, Susanti & Sudirman, 2020). This concept is known as Triple Bottom Line (TBL) introduced by John Elkington in 1994. TBL emphasised three domains that should be used to measure companies' performance, namely economic, social and environmental. It is believed that harmonising these three factors might help a company advance in more possibly sustainable paths (Elkington, 2004). All these domains are in line with the 17 goals of Sustainable Developments. However, businesses have different views regarding TBL. Some companies view TBL disclosure as an activity that would drag down their business since it will increase cost, while others see it as make their business more successful and sustainable in the long term (Sulastri, Yuliani & Dewi, 2018). This is consistent with Fatemi, Glaum, and Kaiser (2018) who proposed that such disclosure may have positive impacts since it reduces information asymmetry, but it may also be perceived negatively as an act of “greenwashing” and a mere “cheap talk”. According to Ito (2018), SDGs engagement has a positive impact on the firm's value.

By applying TBL Theory, this study would like to observe the level of SDGs' engagement among public listed companies in Malaysia and examine the relationship between SDGs engagement among Malaysian companies and their CFP. The 17 SDGs basically can be categorised into the three domains of TBL. Hence, this study categorised all the 17 goals into economy, social and environmental. The goals that can be categorised under economic elements are decent work and economic growth (SDG8) and industry, innovation and infrastructure (SDG9). Meanwhile under the social element, related goals are no poverty (SDG1), zero hunger (SDG2), good health and wellbeing (SDG3), quality education (SDG4), gender equality (SDG5), reduced inequality (SDG10), peace and justice strong institutions (SDG16) and partnerships to achieve the goal (SDG17). Finally, goals under environmental are clean water and sanitation (SDG6), affordable and clean energy (SDG7), sustainable cities and communities (SDG11), responsible consumption and production (SDG12), climate action (SDG13), life below water (SDG14) and life on land (SDG15). According to Jackson et al. (2011), TBL reporting may have positive and negative influences on the companies. The findings of the study contribute significantly to the companies' decision making regarding their SDGs engagement as well for the policymakers and regulators to outline effective frameworks promoting SDGs engagement as a framework for the strategic corporate model. The structure of this paper consists of introduction, literature review, theoretical framework and hypotheses development, research method, findings, and discussion and conclusion. Hence this study hypothesised that economic, social and environmental disclosure has a significant relationship with CFP.

Literature Review

SDGs Engagement in Malaysia

In Malaysia, the engagement of companies with SDGs initiatives is still very limited. In a study towards public listed companies in Malaysia, Buniamin, Jaafar, Ahmad and Johari (2020) found that only 22.4 percent of the companies were involved in SDGs reporting. However, this situation is also quite similar worldwide, where Sachs, Schmidt-Traub, Kroll, Lafortune, and Fuller, (2018) concluded that currently none of the countries is on track to achieve these goals by 2030. However, larger companies had a higher possibility of engagement in SDGs (Cormier & Magnan, 2014). In addition, in a study towards Malaysian companies, Buniamin et. al. (2020) observed that highest engagement in SDGs activities is reported among companies under the industrial products and services (IPNS) industry. Cost factor might be a reason for the lack of engagement in SDGs activities among companies in Malaysia. As concluded by Alhayali, Chew, Salleh, and Abd Hamid (2017), engagement in sustainability activities consumed a huge portion of company capital, hence smaller companies could not afford to much engagement in those activities.

Companies Financial Performance (CFP)

Companies' performance is essential to companies as an indicator of their achievement. Performance refers to the capacity of a company to expand and utilise their capitals to advance a competitive advantage (Iswatia, & Anshoria, 2007). Companies Financial Performance (CFP) emphasises variables related directly to financial reports (Almajali, Alamro & Al-Soub, 2012). According to Jao, Hamzah, Laba, and Mediaty (2020), firm value measures a company's achievement in maximising values of its shareholders. It is vital to maximise firm value in order to maximise the wealth of the shareholders (Sucuahi & Cambarihan, 2016). The CFP was measured by Return on Equity. ROE was one of the most widely used as a proxy of CFP in the literature (Galant & Cadez, 2017; Endrikat et al., 2014).

The Influence of Economic Disclosure on CFP

SDGs that represent economic disclosure are SDG8 and SDG9. In a study towards Kenya companies, Kodongo, Mokoaleli-Mokoteli, and Maina (2015) found that for small companies, growth, which was measured by sales, will positively affect CFP. However, the same variable does not significantly influence the performance of larger companies. Meanwhile, in a study towards the hospitality industry in India, Aggarwal and Padhan (2017) measured firms' growth by growth in total assets. The measurement is appropriate since in hotel industry since expansion of business normally signifies by the increase in total assets. This is also consistent with Titman and Wessels (1988) which measured growth with growth in total assets. As hypothesised, Aggarwal and Padhan (2017) found a positive relationship between economic growth and CFP.

Economic disclosure is also represented by SDG9, which is industry, innovation and infrastructure. Ho, Fang and Hsieh (2011) suggested that a thorough business model innovation as well as escalating new target markets can positively lead to a competitive advantage. Brink and Holmen (2009) proposed that effective companies must continuously change their business models. Ho et. al. (2011) conducted a case study on two companies in Taiwan. The first company is a high-end technology company, meanwhile another company is a low-end technology company. The study found that business model innovation will lead to improvement in both market and financial value in high-end technology industries compared to low-end technology companies. This is consistent with Zott and Amit (2007) who concluded that an innovative business model could yield a competitive advantage, hence have a positive influence on CFP.

The Influence of Environmental and Social Disclosure on CFP

There are mixed results of the impact of environmental and social disclosure on CFP. Faisal, Situmorang, Achmad and Prastiwi (2020) found that social and environmental responsibility disclosure have positive relationships with CFP. Guidry and Patten (2010) observed a positive market reaction after the environmental and social disclosures were released. Cormier and Magnan (2015) also suggested that disclosures of environmental and social activities bring not only a decent image for the firms, but also benefitted the companies financially for example led to a higher share price. However, such disclosure may also be perceived negatively by investors as an act of 'greenwashing' (Fatemi et al., 2017).

Theoretical Framework & Hypotheses Development

Triple Bottom Line (TBL)

Triple Bottom Line (TBL) reporting helps the stakeholders to obtain knowledge regarding the company beyond the conventional aspects which focus only on financial (Jackson, Boswell & Davis, 2011). TBL extends the reporting to another two aspects which are social and environmental. By Incorporating TBL in the report, companies' reporting became more transparent since it is not only highlighting the economic aspects but as well as the impact of their operations on the people and the planet (Jackson et. al, 2011). Hence TBL is a synchronised effort to embed economic, environmental and social deliberations into a company's performance appraisal and decision-making processes (Wang & Lin, 2007).
There are various studies that measure the relationship between economic/financial activities with CFP (Jao et. al., 2020; Nawaiseh, 2017). Sandu and Ianole (2016) found the determinant of company reputation was dominated by economic performance. Stakeholders assess the company's financial performance through financial statements because it provides a signal regarding the level of financial health (Ames, Hines, & Sankara, 2014).

H1 There is a positive relationship between disclosure of economic elements in SDGs and CFP.

There are mixed results on the relationship between social elements and CFP. In a study towards manufacturing companies listed in Shanghai and Shenzhen Stock Exchange from 2010 to 2015, Hu, Chen, Shao and Gao (2018) found that corporate social responsibility (CSR) has a positive relationship with CFP. However, the relationship between CSR and CFP is declining for companies with intensive advertising activities where CSR by these companies receive negative responses from the stakeholders. Meanwhile, Chen and Lee (2017) found that investment in CSR does not contribute to enhancing CFP.

H2 There is a positive relationship between disclosure of social elements in SDGs and CFP.

Past studies reported a consistent finding which showed a positive relationship between environmental sensitivity companies with corporate reporting (Fatima, Abdullah, & Sulaiman, 2015; Mohd Said, Sulaiman, & Nik Ahmad, 2013). Van Zanten and Van Tulder (2018) found some clues for the relevance of industry that drives companies to engage with the SDGs. Hence, environmental elements in SDGs are also predicted to have a significant influence on the CFP. Plumlee, Brown, Hayes and Marshall (2015) found that voluntary environmental disclosure has a positive relationship with the CFP.

H3 There is a positive relationship between disclosure of environmental elements in SDGs and CFP.

Method

The sample of 320 enterprises was drawn at random from the 788 public listed companies on the Main Board of Bursa Malaysia as of June 2020, using Excel's random number generator. The data was obtained using content analysis of the corporate annual report for the year 2019. It was found that only 87 companies mentioned specific SDGs in their 2019 annual reports. The dependent variable of this study is corporate financial performance which was measured by return on equity (ROE). ROE was one of the most widely used as a proxy of CFP in the literature (Galant & Cadez, 2017; Endrikat et al., 2014). Moreover, accounting-based measure captures random company traits that are responsible for corporate social reporting (Van der Laan et al., 2008) that relates with SDGs. Meanwhile, the independent variables are SDGs disclosure which was divided into three domains which are economic, social and environmental. The goals that can be categorised under the economic domain are SDG8 and SDG9. Goals under the social domain are SDG1, SDG2, SDG3, SDG4, SDG5, SDG10, SDG16 and SDG17. Finally, goals under the environmental domain are SDG6, SDG7, SDG11, SDG12, SDG13, life SDG14 and SDG15.

Findings

According to preliminary data analysis, only 27%, or 87 firms out of a total of 320 sample companies, mentioned their engagements in specific SDGs in the 2019 annual reports. Thus, it appeared that SDGs concerns were not high on the priority list of the study's sample firms. Table 1 shows the frequency with which companies engage in SDGs according to TBL (i.e. economics, social and environment) domain.

Table 1: Company's Engagement in SDGs

TBL	SDGs	Yes	No	% Engagement
Economics	SDG 8	82	5	94
	SDG 9	48	39	55
Social	SDG 1	26	61	30
	SDG 2	19	68	22
	SDG 3	68	19	78
	SDG 4	57	30	66
	SDG 5	46	41	53
	SDG 10	41	46	47
	SDG 16	41	46	47
	SDG 17	23	64	26
Environment	SDG 6	33	54	38
	SDG 7	35	52	40
	SDG11	32	55	37
	SDG12	61	26	70
	SDG13	57	30	66
	SDG14	23	64	26
	SDG15	27	60	31

As indicated in Table 1, the highest goal in the economics domain as well as for the overall goals is SDG 8 - Decent Work & Economic Growth, with 94 per cent (82 companies) reported their engagement in the annual reports. In the social domain, SDG 3-Good Health & Well Being is the highest reported goal within social domain goals and rank the second among the overall goals with 78 per cent (68 companies). Meanwhile, SDG12-Responsible Consumption & Production, is the highest in environment domain goals mentioned by companies with 70 percent (61 companies). Consistently, many companies are still focused on the financial bottom line rather than the triple bottom line and it is fair to argue that a culture of sustainable development practice has yet to be taken seriously (Nichita et al., 2020). Companies are beginning to prioritise goals that they feel are relevant and important to them including their activities that affect the social and environment. Some objectives that appear to be highly important for different sectors in general, such as SDG14 and SDG15 (PricewaterhouseCoopers (PWC), 2019), are not getting the attention they need right now as only 26 percent (23 companies and 31 percent (27 companies) respectively mentioned the engagement in corporate annual reports.

Table 2 shows companies' engagement according to the number of SDGs in the TBL domain. In the economic domain, only 4 companies have no engagement in both SDG 8 and 9, while 47 companies engaged in both goals. Overall, for the social domain with a total of eight goals, 2 companies have no engagement in any of the eight goals, while 2 companies engaged in all goals under the social domain. Most companies engaged in 2 to 3 SDGs which 17 and 15 companies engaged in 2 and 3 SDGs respectively. As for the environmental domain, 6 companies were not engaging in any of the seven goals and another 6 companies engaged with all the goals. Most companies (15-17) engaged in 1 to 3 goals.

Table 2: Companies Engagement According to Numbers of SDGs

TBL	**SDGs**	**Number of SDGs (Total Companies=87)**								
		0	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**
ECONOMICS (2 SDGs)	8, 9	4	36	47						
SOCIAL (8 SDGs)	1, 2, 3, 4, 5, 10, 16, 17	2	11	15	17	13	9	10	8	2
ENVIRONMENT (7 SDGs)	6, 7, 11, 12, 13, 14, 15	6	17	15	16	11	9	7	6	

Table 3 presents the findings of regression analysis to test the hypotheses on the relationship between SDGs engagement in TBL (i.e. economics, social and environment) and CFP.

Table 3: The Impacts of SDGs Engagement on Corporate Financial Performance (CFP)

TBL	SDG	Coefficients Beta	t	Sig.	R^2	Adjusted R^2	F-statistic
Economics	(Constant)		2.828	0.006	0.044	0.021	1.934
	SDG8	-0.213	-1.967	0.053*			
	SDG9	0.038	0.353	0.725			
Social	(Constant)		2.649	0.010	0.14	0.052	1.587
	SDG1	-0.111	-0.911	0.365			
	SDG2	0.019	0.165	0.870			
	SDG3	-0.293	-2.491	0.015**			
	SDG4	-0.049	-0.427	0.670			
	SDG5	0.180	1.565	0.122			
	SDG10	0.233	1.738	0.086			
	SDG16	0.091	0.812	0.419			
	SDG17	-0.154	-1.227	0.224			
Environment	(Constant)		2.064	0.042	0.015	-0.072	0.177
	SDG6	-0.068	-0.504	0.616			

	SDG7	0.002	0.018	0.986			
	SDG11	-0.029	-0.237	0.813			
	SDG12	0.054	0.451	0.653			
	SDG13	-0.024	-0.188	0.852			
	SDG14	-0.092	-0.730	0.468			
	SDG15	0.034	0.245	0.807			

*Significant at $p < 0.10$ **Significant at $p < 0.05$

The results reveal that the relationship between corporate engagement in SDG8 under the economics domain is negatively significant with CFP at a significant p-value less than 0.10 and coefficient value at -0.213 (t=-1.967). The value of adjusted R square of 0.021 per cent indicates that 2.1 per cent of the variability in corporate performance can be explained by the variables in the research equation. Additionally, the results also reported a negative significant relationship between corporate engagement in SDG3 under social domain and CFP at a significant p-value less than 0.05 (Coefficient= -0.293, t=-2.491). The value of adjusted R square of 0.052 per cent indicates that 5.2 per cent of the variability in CFP can be explained by the variables in the research equation. This finding indicates that lower corporate engagement in SDG8 and SDG3 impacts on higher CFP and vice versa. Meanwhile, the relationships between all goals in the social domain and other goals in economic as well as social with CFP are not significant.

Discussion and Conclusion

The main objective of this study is to examine the company's engagement in SDGs according to the triple bottom line (TBL) domain which includes economics, social and environmental. The study also further investigates the relationship between corporate engagement in SDGs and CFP. The results of the study reveal that most companies engage in economic elements associated with decent work and economic growth (SDG8). It is believed that embracing more responsible and inclusive economic models gain not just in terms of achieving the SDGs, but also in terms of creating significant business opportunities, securing the companies' long-term viability. Consistent with PwC (2019) and previous studies such as Pizzi et al. (2021) and Izzo et al. (2020) who also reported that the most commonly disclosed SDG is Goal number 8. Goal number 3 - Good Health and Well Being, under the social domain comes just after this most significant goal. This indicates that companies are concerned that SDGs are important prospects for producing shared social benefits. Next, responsible consumption and production (SDG12) is the highest goal mentioned under the environmental domain. Similarly, Izzo et al. (2020) reported that organisations have responded to the environment as one of the most important challenges. From the findings, the study would suggest that corporations have taken into consideration all three domains of TBL, economics, social and environment. In line with the main aim of the goals in 2030 to balancing economic, social and environmental which corporations can play a significant role by integrating SDGs into their corporate strategies and operations in order to provide some solutions towards sustainable development challenges (United Nations, 2015) and considering business value in the context of fulfilling multiple stakeholders needed. These three domains are interrelated and complement each other (Ito, 2018; McCollum et al., 2018).

The relationship between corporate sustainable development engagement and CFP has been widely explored in past literature. However, past research has provided mixed findings regarding the links between these two factors. For instance, Ito (2018) and Khan et al. (2016) found a positive impact of SDGs engagement on the firm value because SDGs could improve the recognised firm value and offer competitive advantages (Lopez, 2020). On the other hand, past studies suggest that some sustainable development factors have no or negative effects on the firm value (Kawamura & Nagata, 2016). In the context of this study, the findings reported the influence of corporate engagement in SDG8 (economics domain) and SDG3 (social domain) on CFP. The results suggest a negative relationship between SDGs engagement in the economics and social domains with CFP. The finding is in line with traditional or classical views of stakeholder theory on the impacts of sustainable activities on corporate performance (Ullmann, 1985). Traditional views expect a negative relationship between sustainable practice and CFP due to more expenses are needed to improve a company's performance on sustainable practices. From this standpoint, sustainable activities contradict with companies' main objective of maximising shareholder's value; non-mandatory activities including sustainable activities are considered philanthropy and incur more expenses which dislocate profit maximisation. Similarly, Duque-Grisales and Aguilera-Caracuel (2021) reported a negative relationship between corporate social performance and CFP. Jha and Rangarajan (2020) also revealed some negative association between corporate social performance and financial performance and they suggest that Indian companies do not get the financial performance benefits from investments on sustainability activities. Past studies confirmed a different combination of the possible outcomes a relationship between sustainable practices and corporate performance which are positive, negative, no impact or even a reciprocal relationship (Alshehhi et al., 2018). The possible reasons for the difference are due to different research designs and the findings are characterising of the context, industry, or geography investigated. Moreover, in the Malaysia context corporate engagement in SDGs is still at a low level and further in-depth investigation towards corporate engagement is required.

Theoretical Implications

The study contributes to the growing literature on SDGs engagement based on TBL domains; economics, social and environment in developing economies. Moreover, this study contributes to the existing literature and stakeholder theory by analysing the relationship between SDG engagement and CFP.

Practical and Social Implications

Due to the growing significance of sustainability reporting, this paper could support Malaysian companies in increasing their engagement in SDGs. In addition, the study could also support policymakers and regulators to outline effective frameworks in promoting SDGs engagement as a framework for strategic corporate models.

Limitations and Suggestions for Future Research

Only corporate annual reports were used to investigate the SDG's engagement in this study. As a result, it would be more interesting for future research to consider a comprehensive corporate report, such as sustainability report, corporate social responsibility report, or integrated report. This study is limited to the investigation of engagement based on SDGs mentioned in the corporate annual report and does not include an assessment of detailed SDGs engagement such as in terms of specific target and key performance indicators to measure corporate engagement in SDGs. Thus, future research might benefit from measuring the actual corporate performance in SDGs engagement, and describing corporate disclosure in a more meaningful term, which can include corporate intentions, strategic plans, and opportunities and better understand the actual absence or presence of SDG in disclosure practices.

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