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The Road to Sustainable Investing: Corporate Governance, Sustainable Development Goals, and the Financial Market

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Abstract: *This study investigates the impact of corporate governance (CG) and sustainable development goals (SDGs) practices on financial markets and company performance in Malaysia compared to developed countries like the United States, United Kingdom, Canada, and Singapore. The study uses panel data regression models to analyse the impact of CG and SDG adoption on stock return, volatility, investor sentiment, profitability, liquidity, and solvency from 2017 to 2021. The findings show that CG and SDG practices have a positive impact on financial market and company performance in both developed and developing countries. However, the strength and specific variables of the relationship differ depending on the country context. In developed countries, board responsibilities, remuneration, engagement with stakeholders, SDG4 (Quality Education), and SDG10 (Reduce Inequalities) are positively associated with stock return. In contrast, audit committee effectiveness and SDG8 (Decent Work and Economic Growth), SDG11 (Sustainable Cities and Communities), and SDG13 (Climate Action) are significant in Malaysia and Singapore. The study emphasizes the significance of context-specific factors in determining the effect of CG and SDG practices on financial market and company performance. It recommends Malaysia learn from developed countries' best practices and adopt a tailored approach to implementation based on its country context.*

Keywords: Corporate Governance; Sustainable Development Goals; Sustainable Investing; Financial Market Performance; Company Performance
JEL Classification: G15, G30 and Q01

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1. Introduction

Corporate governance (CG) and Sustainable Development Goals (SDGs) practices are essential for ensuring the transparency and sustainability of publicly listed companies (PLCs) (Chien, 2023). In Malaysia, CG and SDGs have gained increasing attention, with the Securities Commission (SC) revamping the Malaysian Code on Corporate Governance (MCCG) 2017 to require separate CG reporting from annual reports. In 2015, Bursa Malaysia introduced sustainability reporting along with the SDGs developed by the United Nations (UN). Despite these developments, Malaysia still faces challenges in aligning its CG and SDG practices with those of developed countries, such as the United Kingdom (UK), United States (US), Canada, and Singapore.

The impact of CG and SDG practices on the financial and stock market performance of Malaysian PLCs is uncertain despite their importance for the country's development (Buniamin et al., 2022). Previous studies have focused on the MCCG 2012 and sustainability reporting, overlooking the significance of PLCs in implementing the best practices of CG and SDGs (Hamad et al., 2022). Some have argued that adopting CG and SDGs may lead to poor performance for Malaysian PLCs due to higher compliance costs, but further empirical testing is necessary to confirm these claims (Lau & Wong, 2022). The current framework for CG and sustainability reporting in Malaysia may not be adequate for a rapidly changing global economy. Enhancing the framework to promote better CG and SDG practices can benefit Malaysian PLCs by improving their access to capital, enhancing their reputation, and strengthening their ability to compete globally (Sadiq et al., 2023).

Sustainable investing is an increasingly important trend in the global financial market. According to the Global Sustainable Investment Alliance, as of 2020, sustainable investing assets have reached $35.3 trillion, accounting for 36% of total assets under management in major markets (GSIA, 2021). This trend has also been observed in Malaysia, where sustainable investing is gaining traction among investors who are increasingly conscious of environmental, social, and governance (ESG) issues (Khan et al., 2023). Incorporating green or sustainable investing strategies into corporate governance practices and aligning with the SDGs can create value for companies by attracting more socially responsible

investors, improving their long-term financial performance, and promoting sustainable economic growth (Jamil et al., 2021).

While Malaysia has made significant strides in promoting CG and SDGs, there is still a gap between the country and developed countries in terms of best practices (Bose & Khan, 2022). Identifying the best practices that can help Malaysian PLCs improve their financial performance is critical for achieving sustainable economic growth and promoting investor confidence (Sekarlangit & Wardhani, 2021). The lack of empirical evidence on the impact of CG and SDGs on the financial and stock market performance of Malaysian PLCs compared to developed countries creates uncertainty and limits the ability of policymakers, regulators, and practitioners to develop effective strategies for improving corporate governance and sustainability practices (Joseph et al., 2019).

Therefore, this study aims to investigate the impact of CG and SDGs on the financial and stock market performance of Malaysian PLCs compared to publicly listed companies in developed countries. The comparison with developed countries is important as it can provide insights into best practices for enhancing CG and SDG practices in Malaysian PLCs and can assist policymakers, regulators, and practitioners in improving CG and sustainability reporting framework. Additionally, understanding the gap between Malaysia and developed countries in terms of CG and SDG practices can help Malaysian PLCs become more competitive globally and attract more foreign investment.

The remaining sections of this paper are structured as follows: The second section examines the related literature. The methodology and estimated models are described in Section 3. Section 4 contains the findings and analysis. Section 5 concludes with a summary, implications, limits, and suggestions for further research.

2. Literature Review

2.1 Sustainable investing

Sustainable investing, also known as socially responsible investing, has gained increasing attention in recent years as investors seek to align their investment decisions with their values and beliefs (Zaman et al., 2022). Sustainable investing incorporates ESG factors into investment decisions

to promote sustainability and societal benefits while generating financial returns (Azhgaliyeva et al., 2019). The concept of sustainable investing dates back to the 18th century when the Quakers prohibited investments in the slave trade and related industries (Salin et al., 2019). However, sustainable investing gained momentum in the 1960s with the rise of socially responsible investing, which involved excluding certain industries, such as tobacco and weapons, from investment portfolios.

Over the past few decades, sustainable investing has evolved to include a broader range of strategies, including ESG integration, impact investing, and engagement (Azmi et al., 2020). ESG integration involves incorporating CG and SDGs into investment decisions to identify risks and opportunities that may impact the long-term financial performance of companies (Sládková et al., 2022). Impact investing involves investing in companies or projects to generate measurable social and environmental benefits alongside financial returns (Global Impact Investing Network, 2021). Engagement involves actively engaging with companies on CG and SDGs to promote positive change.

The relationship between sustainable investing and financial performance has been a topic of debate in the literature. Some studies have found a positive relationship between sustainable investing and financial performance, suggesting that companies with strong CG and SDG practices may have better financial performance than those without (Loh et al., 2017). Other studies have found mixed or inconclusive results, suggesting that the relationship may be more complex and context-dependent (Shahbaz et al., 2022).

One potential explanation for the mixed findings is that sustainable investing may have different impacts on different dimensions of financial performance, such as risk and return (Brooks & Oikonomou, 2018). Some studies have found that sustainable investing may help reduce risk by identifying and managing CG and SDG risks that may impact the long-term financial performance of companies (Puaschunder, 2019). Other studies (see for example, Amacha & Dastane, 2017) have found that sustainable investing may not compromise financial returns, or may even enhance them, by identifying companies with long-term growth potential and innovative business models.

The literature suggests that sustainable investing can improve long-term financial returns and reduce risks for investors. While developed markets

have been at the forefront of sustainable investing, emerging markets, such as Malaysia, are also increasingly adopting sustainable investing practices. However, there are still challenges to be addressed, including the lack of standardised CG and SDGs metrics and the need for better disclosures in emerging markets, including Malaysia.

2.2 Corporate governance and SDGs

CG and SDGs are two important practices that contribute to ensuring the transparency and sustainability of PLCs. The adoption of these practices is crucial in shaping a nation's social and economic development. However, the impact of these practices on the financial and stock market performance of Malaysian PLCs is still unclear.

Several theoretical frameworks suggest a positive relationship between CG, SDGs, and financial market and company performances. Agency theory proposes that good CG practices can reduce agency problems between managers and shareholders, leading to improved financial performance (Alsayegh et al., 2020). Stakeholder theory argues that CG practices that consider the interests of all stakeholders can lead to improved financial performance (Franco & Sethpornpong, 2022). Similarly, the adoption of SDGs can lead to improved financial performance according to the resource-based view theory, which suggests that sustainable practices can lead to a sustainable competitive advantage for companies (Van der Waal & Thijssens, 2020). Legitimacy theory also argues that companies seen as legitimate by society due to their sustainable practices can benefit from improved financial performance (Bose & Khan, 2022).

Theoretical frameworks suggest a complex relationship between CG, SDGs, and financial performance, but some argue this may be context-dependent (Bose et al., 2022). Further empirical testing is needed, particularly for Malaysian PLCs. Recent developments in CG and SDGs in Malaysia include the MCCG 2017 requiring separate CG reporting and Bursa Malaysia introducing SDG-aligned sustainability reporting. However, aligning with developed countries like the UK, US, Canada, and Singapore remains a challenge. Adopting SDGs can positively impact financial and company performance, as shown by Buniamin et al. (2022) and Hamad et al. (2022), who found that higher SDG compliance correlated with better financial returns and profit margin.

The practices of CG can differ significantly across countries due to differences in regulatory frameworks, legal systems, and cultural norms. In developed countries, such as the UK, Singapore, Canada, and the US, the adoption of good CG practices is widespread, and there are established frameworks for enforcing these practices. In contrast, in developing countries like Malaysia, the adoption of CG practices has been relatively recent, and the regulatory frameworks are still evolving (Escrig-Olmedo et al., 2019). Despite these differences, there is a growing interest in comparing the CG practices in Malaysia and developed countries.

Some studies have explored the link between CG and financial performance in developed countries. Mattera et al. (2021) showed that investors value companies' social and environmental behaviour as material for investment decisions, while Kara et al. (2021) argued that better CG and SDG practices among Canadian firms reduce debt financing costs. Muhmad and Muhamad (2021) found that Singaporean PLCs with better CG and SDG practices have higher cash flow and valuations than private sector companies. However, limited empirical evidence exists on the impact of CG and SDGs on the financial and stock market performance of Malaysian PLCs compared to developed countries.

This study aims to examine the impact of CG and SDGs on the financial and stock market performance of Malaysian PLCs compared to developed countries such as the UK, US, Canada, and Singapore. While several theoretical frameworks suggest a positive relationship between CG, SDGs, and financial performance, the literature is mixed on the extent of this relationship. Additionally, limited empirical evidence exists on the impact of CG and SDGs on Malaysian PLCs' financial and stock market performance compared to developed countries. Based on the above discussion, this study proposes the following hypotheses and research framework:

H1: There is a positive relationship between corporate governance practices and sustainable development goals on financial and stock market performances.

H2: The level of compliance with corporate governance practices and sustainable development goals is higher in developed countries, such as the UK, US, Canada, and Singapore, compared to Malaysia.

H3: The positive relationship between corporate governance practices and sustainable development goals on financial and stock market performances is stronger in developed countries, such as the UK, US, Canada, and Singapore, compared to Malaysia.

3. Methodology

3.1 Data and sampling

This study selected PLCs as of 31 December 2021 in Malaysia, the US, UK, Canada, and Singapore. PLCs refer to companies whose shares are available for trading on the stock exchange and are owned by the general public. The criteria for selecting the PLCs included the following: (1) stocks must have been listed before 1 January 2017 and remained in listing status as of 31 December 2021, (2) only stocks were included, and other non-stock securities such as warrants and ETFs were excluded.

The total number of PLCs in Bursa Malaysia (Malaysia Stock Exchange) is 927, out of which 825 companies met the selection criteria and were included in the study. The selection criteria for the other corresponding developed countries were as follows: US (New York Stock Exchange: 1392 companies), UK (London Stock Exchange: 1215 companies), Canada (Toronto Stock Exchange: 1412 companies), and Singapore (Singapore Exchange: 429 companies).

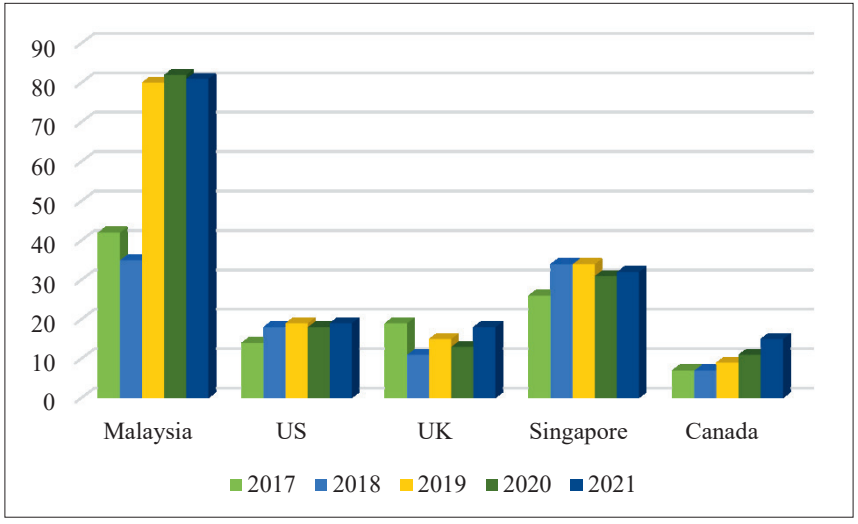
To collect data on CG and SDGs compliance, this study gathered information from the disclosure of annual reports and corporate governance reports published yearly by each company on the stock exchange. To ensure consistency and accuracy in the classification of data, this study followed the guidelines and frameworks provided by international organisations, such as the United Nations Global Compact, Global Reporting Initiative, and Organisation for Economic Co-operation and Development (OECD). The SDGs were classified according to the 17 goals and their corresponding targets, while the CG components were classified according to the principles and codes set by each country's respective stock exchange or regulatory body. The research timeframe was from 1 January 2017 to 31 December 2021.

Although ESG is an important factor in sustainable investing, this study specifically examines the relationship between CG and SDGs and financial

and stock market performance. CG and SDGs are two essential components of sustainable business practices that are widely accepted and implemented across Malaysia and developed markets, providing a standardised framework for analysis. By focusing on CG and SDGs, this study aims to contribute to the understanding of how companies can integrate sustainable practices into their operations while achieving positive financial outcomes. The decision to narrow the scope of the study to CG and SDGs was made to ensure a clear and specific research focus and to enable a more comprehensive analysis of these critical components of sustainable business practices.

Figure 1 ranks Malaysia, the US, UK, Singapore, and Canada based on their progress in achieving the SDGs from 2017 to 2021, according to the Sustainable Development Report by the Sustainable Development Solutions Network. Malaysia's ranking has dropped from 42nd in 2017 to 81st in 2021, indicating slower progress, but its score improved slightly from 60.2 to 60.4 in 2021. The US, UK, and Canada have maintained relatively stable rankings with some score fluctuations, while Singapore improved slightly from 34th in 2018 to 31st in 2020 before dropping to 32nd in 2021.

Figure 1: Sustainable Development Rankings, 2017-2021



Source: Sustainable Development Solutions Network.

3.2 Corporate governance and sustainable development goals

For CG practices, seven variables were selected based on the Malaysian Code of Corporate Governance, including Board Responsibilities, Board Composition, Remuneration, Audit Committee, Risk Management and Internal Control, Engagement with Stakeholders, and Conduct of General Meetings. The data for CG compliance was collected from the disclosure of annual reports and corporate governance reports published yearly by each company on the stock exchange. These reports contain information on the CG practices implemented by the companies, including their adherence to the MCCG 2017 guidelines. The data for other developed countries, namely the US, UK, Canada, and Singapore, was collected using similar methods, such as reviewing company annual reports and governance reports to seek similar disclosure on CG's seven variables.

To measure the compliance of each variable, all CG components are proxied by a dummy variable, with 1 representing full compliance and 0 representing partial or non-compliance. The practices used in this study are outlined in the MCCG 2017. Seventeen SDGs are selected based on the 2030 Agenda for Sustainable Development outlined by the UN. A dummy variable is used to proxy for the adoption of SDGs, namely 1 as adoption and 0 as non-adoption, based on the annual report and sustainability reporting disclosure.

3.3 Panel data regression

This study uses panel data regression to analyse the influence of CG and SDGs on both the financial market and company performances. The financial market performance is proxied through three variables, namely stock return, volatility, and investors' sentiment, while company performance is proxied through profitability, liquidity and solvency.

Panel data regression is chosen over ordinary least squares (OLS) regression because it captures cross-sectional and time-series analyses efficiently (Loang & Ahmad, 2023). The fixed-effect (FE) and random-effect (RE) models are employed to address unobserved variables that may lie outside the scope of CG and SDG, increasing explanatory power. These models capture individual and time-specific unobserved variables, not possible with pooled regression, which only uses cross-sectional data and is less efficient (Bostanci et al., 2018). The regression equations are:

Financial Market Panel Data Regression Model:

$$FP_{i,t} = \gamma_0 + \gamma_1 BR_{i,t} + \gamma_2 BC_{i,t} + \gamma_3 R_{i,t} + \gamma_4 AC_{i,t} + \gamma_5 RM_{i,t} + \gamma_6 ES_{i,t} + \gamma_7 GM_{i,t} + \gamma_8 NP_{i,t} + \gamma_9 ZH_{i,t} + \gamma_{10} GH_{i,t} + \gamma_{11} QE_{i,t} + \gamma_{12} GE_{i,t} + \gamma_{13} CW_{i,t} + \gamma_{14} CE_{i,t} + \gamma_{15} DW_{i,t} + \gamma_{16} III_{i,t} + \gamma_{17} RI_{i,t} + \gamma_{18} SC_{i,t} + \gamma_{19} RC_{i,t} + \gamma_{20} CA_{i,t} + \gamma_{21} LW_{i,t} + \gamma_{21} LL_{i,t} + \gamma_{22} PJ_{i,t} + \gamma_{23} PG_{i,t} + \gamma_{24} MarCap_{i,t} + \gamma_{25} Vol_{i,t} + \varepsilon_t$$

Company Performance Panel Data Regression Model:

$$CP_{i,t} = \gamma_0 + \gamma_1 BR_{i,t} + \gamma_2 BC_{i,t} + \gamma_3 R_{i,t} + \gamma_4 AC_{i,t} + \gamma_5 RM_{i,t} + \gamma_6 ES_{i,t} + \gamma_7 GM_{i,t} + \gamma_8 NP_{i,t} + \gamma_9 ZH_{i,t} + \gamma_{10} GH_{i,t} + \gamma_{11} QE_{i,t} + \gamma_{12} GE_{i,t} + \gamma_{13} CW_{i,t} + \gamma_{14} CE_{i,t} + \gamma_{15} DW_{i,t} + \gamma_{16} III_{i,t} + \gamma_{17} RI_{i,t} + \gamma_{18} SC_{i,t} + \gamma_{19} RC_{i,t} + \gamma_{20} CA_{i,t} + \gamma_{21} LW_{i,t} + \gamma_{21} LL_{i,t} + \gamma_{22} PJ_{i,t} + \gamma_{23} PG_{i,t} + \gamma_{24} MarCap_{i,t} + \gamma_{25} Vol_{i,t} + \varepsilon_t$$

Where, $FP_{i,t}$ is the financial market performance proxied by stock return, volatility, investor sentiment, $CP_{i,t}$ is the company performance proxied by profitability, liquidity and solvency, $BR_{i,t}$ is the Board Responsibilities, $BC_{i,t}$ is the Board Composition, $R_{i,t}$ is the remuneration, $AC_{i,t}$ is the Audit Committee, $RM_{i,t}$ is the Risk Management & Internal Control, $ES_{i,t}$ is the Engagement with Stakeholders, $GM_{i,t}$ is the Conduct of General Meeting, $NP_{i,t}$ is the SDG 1: No Poverty, $ZH_{i,t}$ is the SDG 2: Zero Hunger, $GH_{i,t}$ is the SDG 3: Good Health and Well-Being, $QE_{i,t}$ is the SDG 4: Quality Education, $GE_{i,t}$ is the SDG 5: Gender Equality, $CW_{i,t}$ is the SDG 6: Clean Water and Sanitation, $CE_{i,t}$ is the SDG 7: Affordable and Clean Energy, $DW_{i,t}$ is the SDG 8: Decent Work and Economic Growth, $III_{i,t}$ is the SDG 9: Industry, Innovation And Infrastructure, $RI_{i,t}$ is the SDG 10: Reduce Inequalities, $SC_{i,t}$ is the SDG 11: Sustainable Cities and Communities, $RC_{i,t}$ is the SDG 12: Responsible Consumption and Production, $CA_{i,t}$ is the SDG 13: Climate Action, $LW_{i,t}$ is the SDG 14: Life Below Water, $LL_{i,t}$ is the SDG 15: Life Below Land, $PJ_{i,t}$ is the SDG 16: Peace, Justice and Strong Institution, $PG_{i,t}$ is the SDG 17: Partnership For Goals, $MarCap_{i,t}$ is the market capitalisation of firm i at time t and $Vol_{i,t}$ is the trading volume of firm i at time t. Market capitalisation and trading volume are the control variables. The comparison between various models can provide comprehensive empirical evidence to indicate the impact of CG and SDG on the financial market and company performances.

4. Results and Discussion

4.1 Impact of CG and SDG on financial market performance

To examine the impact of CG and SDG, this study generates two panel data regression models for financial market performance and company performance. The FE model controls for the effects of time-invariant variables, while the RE model hypothesises that individual characteristics are not associated with the dependent variable (Loang et al., 2022). To determine the appropriate model to use, the Hausman test is employed to test for the selection between FE and RE models for panel data regression. The test is hypothesised as follows:

$$H0 : Cov\ (\lambda i, Xit) = 0\ (No\ correlation\ between\ \lambda i\ and\ Xit - Random\ Effect)$$
$$H1 : Cov\ (\lambda i, Xit) \neq 0\ (Correlation\ between\ \lambda i\ and\ Xit - Fixed\ Effect)$$

To detect the existence of heteroscedasticity, the White Test is adopted. Heteroscedasticity exists when the standard deviations of a predicted variable are non-constant when measured across changing values of an independent variable across periods. The White test examines if the values of the independent variable in the regression affect the variance of regression errors. Heteroscedasticity occurs when the p-value of heteroscedasticity is less than 0.05. The results in Table 1 indicate that the volatility and investor sentiment models are appropriate for employing a FE model with Hausman p-values less than 5% significant level. On the other hand, stock return, profitability, liquidity, and solvency models adopt a RE model with Hausman p-values of more than 0.05. No evidence of heteroscedasticity is detected in all models.

Table 1 presents the panel data regression models for the impact of CG and SDGs on financial market performance measures, including stock return, volatility, liquidity, solvency, and investor sentiment, in five different countries: Malaysia, the UK, the US, Canada, and Singapore. The results of the stock return model suggest that PLCs in Malaysia and Singapore that adopt similar CG variables, specifically those related to audit committee effectiveness, and certain SDGs, such as SDG 8 (Decent Work

Table 1: Relationship between CG and SDGs and Financial Market Performance

	Stock Return					Volatility					Investor Sentiment				
Variables	**MY**	**UK**	**US**	**CA**	**SG**	**MY**	**UK**	**US**	**CA**	**SG**	**MY**	**UK**	**US**	**CA**	**SG**
Model	**RE**	**RE**	**RE**	**RE**	**RE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**
Constant	-0.046	-0.084	-0.073	0.013	0.004	-0.860	-0.076	-0.619	0.014	0.513	-0.000	0.081	0.005	0.014	0.005
Corporate Governance															
BRi,t	-0.146	-0.857*	-0.174*	-0.383	-0.249	0.623	0.056	0.016	0.051	0.134	0.006	0.003	0.001	0.000	0.005
$BC_{i,t}$	0.121	0.530	0.181	0.931	0.123	0.546	0.573	0.762	0.583	0.681	-0.003	-0.014	-0.153	-0.163	-0.064
$R_{i,t}$	0.060	0.027*	0.133**	0.134*	0.561	0.355	0.401	0.181	0.573	0.006	0.002*	0.000**	0.001*	0.004**	0.153***
$AC_{i,t}$	0.179***	0.001	0.083	0.013	0.153**	0.374**	0.941**	0.781*	0.542**	0.687***	0.001	0.005	0.002	0.145	0.051
$RM_{i,t}$	-0.111	-0.438	-0.130	-0.351	-0.152	0.191	0.174	0.752	0.147	0.074	-0.001	-0.062	-0.153	-0.524	-0.253
$ES_{i,t}$	0.027	0.062**	0.025*	0.152**	0.482	0.510	0.006	0.064	0.148	0.681	-0.001	-0.002	-0.005	-0.004	-0.004
$GM_{i,t}$	0.046	0.014	0.103	0.241	0.425	-0.439	-0.072	-0.586	-0.056	-0.153	0.002	0.005	0.004	0.001	0.000
Sustainable Development Goals															
$NP_{i,t}$	0.048	0.169	0.001	0.048	0.468	0.004	0.048	0.164	0.012	0.041	0.338	0.369	0.003	0.338	0.668
$ZH_{i,t}$	0.029	0.017	0.008	0.018	0.049	0.008	0.018	0.019	0.004	0.139	0.029	0.039	0.008	0.038	0.339
$GH_{i,t}$	0.038	0.122	0.001	0.048	0.411	-0.004	-0.048	-0.122	-0.001	-0.014	-0.038	-0.322	-0.003	-0.338	-0.633
$QE_{i,t}$	0.102	0.085***	0.002***	0.401***	0.085	0.001	0.401	0.045	0.022	0.102	0.302	0.088	0.002	0.603	0.088
$GE_{i,t}$	0.032	0.018	0.002	0.041	0.048	-0.001	-0.041	-0.014	-0.022	-0.012	-0.032	-0.038	-0.002	-0.333	-0.338
$CW_{i,t}$	0.028	0.159	0.001	0.018	0.458	0.004	0.018	0.154	0.023	0.024	0.028	0.389	0.003	0.038	0.688
$CE_{i,t}$	0.001	0.077	0.003	0.004	0.099	-0.013	-0.004	-0.099	-0.213	-0.001	-0.003	-0.099	-0.001	-0.033	-0.099
$DW_{i,t}$	0.005*	0.064	0.001	0.005	0.037*	-0.013	-0.005	-0.253	-0.001	-0.005	-0.005	-0.064	-0.001	-0.005	-0.039
$III_{i,t}$	0.032	0.092	0.003	0.071	0.081	0.014	0.071	0.042	0.022	0.012	0.032	0.092	0.001	0.091	0.081
$RI_{i,t}$	0.079	0.002**	0.004*	0.098**	0.001	-0.007	-0.098	-0.001	-0.021	-0.094	-0.099	-0.002	-0.011	-0.098	-0.003

	Stock Return					Volatility					Investor Sentiment				
Variables	**MY**	**UK**	**US**	**CA**	**SG**	**MY**	**UK**	**US**	**CA**	**SG**	**MY**	**UK**	**US**	**CA**	**SG**
Model	**RE**	**RE**	**RE**	**RE**	**RE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**
$SC_{i,t}$	0.050**	0.053	0.001	0.005	0.057*	-0.007	-0.025	-0.051	-0.104	-0.05	-0.07	-0.073	-0.003	-0.07	-0.079
$RC_{i,t}$	0.090	0.020	0.009	0.018	0.01	-0.008	-0.018	-0.101	-0.043	-0.04	-0.09	-0.02	-0.009	-0.08	-0.03
$CA_{i,t}$	0.030***	0.160	0.001	0.007	0.73*	0.007	0.07	0.16	0.014	0.01	0.003	0.016	0.003	0.009	0.093
$LW_{i,t}$	0.011	0.202	0.001	0.077	0.101	0.007	0.012	0.101	0.011	0.011	0.031	0.202	0.023	0.099	0.103
$LL_{i,t}$	-0.002	-0.106	-0.002	-0.001	-0.703	-0.001	-0.001	-0.106	-0.025	-0.001	-0.002	-0.103	-0.002	-0.002	-0.902
$PJ_{i,t}$	-0.015	-0.010	-0.001	-0.045	-0.04	-0.004	-0.045	-0.012	-0.001	-0.015	-0.027	-0.02	-0.002	-0.127	-0.12
$PG_{i,t}$	0.036	-0.048	-0.005	0.046	-0.048	-0.005	0.046	-0.014	-0.005	0.016	0.023	-0.128	-0.007	0.123	-0.128
Control Variables															
Market Cap.	0.000*	0.001*	0.013	0.001*	0.002	0.003*	0.051	0.000	0.001*	0.081	0.000*	0.000	0.000	0.000*	0.000*
Volume	0.838*	0.143	0.582	0.274	0.868	-0.960*	-0.174	-0.001	-0.374*	-0.183	0.005*	0.014	0.005*	0.005	0.002
Specification															
R-squared	0.597	0.572	0.482	0.567	0.624	0.396	0.364	0.484	0.366	0.444	0.384	0.525	0.593	0.493	0.385
Hausman	0.793	0.284	0.672	0.284	0.843	0.005	0.014	0.048	0.023	0.009	0.013	0.038	0.002	0.000	0.029
White	0.862	0.582	0.186	0.374	0.205	0.864	0.384	0.186	0.364	0.403	0.742	0.572	0.878	0.682	0.782

Note: Malaysia is represented by MY, United Kingdom by UK, United States by US, Canada by CA, and Singapore by SG. The random-effects model is denoted as RE, while the fixed-effects model is denoted as FE. In the tables, significance levels are indicated by ***, **, and *, which represent p-values below 0.01, 0.05, and 0.1, respectively.
Source: Author's work.

and Economic Growth), SDG 11 (Sustainable Cities and Communities), and SDG 13 (Climate Action), experience a positive impact on stock return. This suggests that PLCs that prioritise these CG practices and SDGs may enjoy better financial market performance. However, developed countries, such as the UK, US, and Canada, show different results, with Board Responsibilities, Remuneration, and Engagement with Stakeholders for CG variables and SDG4 (Quality Education) and SDG10 (Reduce Inequalities) also demonstrating a positive association with stock return. These findings highlight the importance of context-specific factors and the need for PLCs to adopt a tailored approach to CG and SDG implementation based on their respective country contexts.

The results of the volatility models suggest that, in both Malaysia and the developed countries, audit committee effectiveness is the only variable that is significantly correlated with volatility. This may be because a well-functioning audit committee can help to improve financial reporting quality and reduce the likelihood of financial restatements, which can lead to increased volatility in the stock price. Similarly, the results of the investor sentiment model show that, in both Malaysia and the developed countries, remuneration is the only variable that is significantly and positively correlated with investor sentiment. This suggests that firms with higher remuneration for their directors may be perceived more favourably by investors, possibly due to the signalling effect of higher executive compensation.

The SDGs included in the analysis do not appear to have a significant correlation with volatility and investor sentiment. The lack of significant correlation between SDGs and volatility and investor sentiment could be due to several reasons. First, SDGs could be not directly related to financial performance measures, such as volatility and investor sentiment. Second, the impact of SDGs on financial market performance may be more indirect and long-term, and thus may not be immediately reflected in short-term measures of volatility and investor sentiment. Third, it could be that the specific SDGs included in the analysis do not capture all the relevant factors that could influence volatility and investor sentiment. Finally, there may be other unobserved factors that are driving the relationship between SDGs and financial market performance measures, which are not captured by the variables included in the analysis.

The results of this study are consistent with previous research by El-Bassiouny and El-Bassiouny (2018), who argue that developing countries

have less sophisticated CG and SDG practices than developed countries, such as Germany and the US. As a result, the impact of CG and SDG practices is more pronounced in developed countries. This may be due to the higher level of market efficiency in developed countries compared to developing countries, as suggested by Mertzanis et al. (2019). According to the Efficient Market Hypothesis, efficient markets reflect all available public and private information in the financial markets. In this context, developing countries, which are assumed to be less efficient, may be slower to reflect the impact of CG and SDG on stock return, volatility, and investor sentiment. This argument is supported by Malaysia's short history of implementing CG and SDG practices compared to developed countries.

4.2 Impact of CG and SDG on company performance

This study estimates the impact of CG and SDGs on company performance measures, including profitability, liquidity, and solvency. We use panel data regression models for five countries: Malaysia, the UK, the US, Canada, and Singapore. Table 2 presents the panel data regression models for the impact of CG and SDGs on company performance.

The profitability model reveals that in Malaysia, risk management and internal control and SDG 11 (Sustainable Cities And Communities) are significant at the 1%, 5%, and 10% levels, and are positively correlated with profitability. The finding suggests that companies that prioritise these factors tend to generate higher profits. The results of the UK, US, Canada, and Singapore show that board responsibilities and SDG 17 (Partnership For Goals) are also significant variables positively associated with profitability. Again, the results highlight the importance of adopting a tailored approach to CG and SDG practices based on the respective country contexts.

In Malaysia, the audit committee is the only variable significantly associated with liquidity and solvency, while stakeholder engagement and general meeting conduct impact these measures positively for PLCs in developed countries. Engagement with stakeholders and conduct of general meetings are also significant variables that positively impact liquidity and solvency for the PLCs in the US, UK, Canada, and Singapore. Surprisingly, adopting SDGs did not significantly impact liquidity and solvency, possibly because SDGs indirectly impact these measures through good corporate governance. SDGs may also take a longer time to impact liquidity and

Table 2: Relationship between CG and SDGs and Company Performance

	Profitability					Liquidity					Solvency				
Variables	**MY**	**UK**	**US**	**CA**	**SG**	**MY**	**UK**	**US**	**CA**	**SG**	**MY**	**UK**	**US**	**CA**	**SG**
Model	**RE**	**RE**	**RE**	**RE**	**RE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**
Constant	0.083	0.011	0.009	0.014	0.009	0.000	0.051	0.007	0.013	0.007	0.153	0.205	0.011	0.043	0.003
Corporate Governance															
$BR_{i,t}$	0.008	0.003**	0.001*	0.000*	0.009**	0.003	0.003	0.001	0.000	0.007	0.005	0.003	0.001	0.000	0.001
$BC_{i,t}$	-0.003	-0.014	-0.193	-0.183	-0.084	0.003	0.013	0.173	0.133	0.033	0.003	0.013	0.113	0.153	0.053
$R_{i,t}$	0.002	0.000	0.001	0.004	0.193	0.005	0.000	0.001	0.003	0.173	0.005	0.025	0.001	0.003	0.113
$AC_{i,t}$	0.001	0.009	0.002	0.149	0.091	0.001*	0.007**	0.005*	0.137*	0.071**	0.001**	0.001**	0.005*	0.131*	0.011***
$RM_{i,t}$	0.001**	0.082*	0.193**	0.924*	0.293***	0.001	0.035	0.173	0.753	0.573	0.001	0.055	0.113	0.153	0.513
$ES_{i,t}$	-0.001	-0.002	-0.009	-0.004	-0.004	0.001	0.005*	0.007**	0.003*	0.003*	0.001	0.005**	0.001*	0.003*	0.003*
$GM_{i,t}$	0.002	0.009	0.004	0.001	0.000	0.005	0.007*	0.003*	0.001*	0.000**	0.005	0.001*	0.003**	0.001*	0.000*
Sustainable Development Goals															
$NP_{i,t}$	0.004	0.048	0.164	0.012	0.041	0.118	0.169	0.001	0.115	0.665	0.004	0.045	0.164	0.012	0.041
$ZH_{i,t}$	0.008	0.038	0.038	0.002	0.139	0.029	0.019	0.008	0.015	0.339	0.005	0.035	0.035	0.002	0.139
$GH_{i,t}$	-0.004	-0.028	-0.322	-0.003	-0.014	-0.018	-0.122	-0.001	-0.115	-0.633	-0.004	-0.025	-0.222	-0.002	-0.056
$QE_{i,t}$	0.001	0.403	0.025	0.011	0.101	0.102	0.088	0.002	0.601	0.055	0.001	0.402	0.022	0.011	0.505
$GE_{i,t}$	-0.001	-0.023	-0.034	-0.011	-0.011	-0.012	-0.018	-0.002	-0.111	-0.335	-0.001	-0.022	-0.024	-0.011	-0.055
$CW_{i,t}$	0.004	0.038	0.354	0.013	0.014	0.028	0.189	0.001	0.015	0.655	0.004	0.025	0.625	0.012	0.056
$CE_{i,t}$	-0.013	-0.002	-0.038	-0.133	-0.001	-0.001	-0.099	-0.001	-0.011	-0.099	-0.013	-0.002	-0.025	-0.122	-0.005
$DW_{i,t}$	-0.013	-0.005	-0.253	-0.003	-0.005	-0.005	-0.064	-0.001	-0.005	-0.039	-0.013	-0.002	-0.252	-0.002	-0.005
$III_{i,t}$	0.014	0.073	0.022	0.031	0.041	0.012	0.092	0.007	0.097	0.087	0.014	0.072	0.022	0.011	0.055

	Profitability					Liquidity					Solvency				
Variables	**MY**	**UK**	**US**	**CA**	**SG**	**MY**	**UK**	**US**	**CA**	**SG**	**MY**	**UK**	**US**	**CA**	**SG**
Model	**RE**	**RE**	**RE**	**RE**	**RE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**	**FE**
$RI_{i,t}$	-0.007	-0.038	-0.003	-0.013	-0.094	-0.099	-0.002	-0.077	-0.098	-0.003	-0.007	-0.028	-0.043	-0.012	-0.096
$SC_{i,t}$	0.007**	0.087**	0.073*	0.302**	0.07**	-0.007	-0.071	-0.007	-0.07	-0.079	-0.007	-0.07	-0.072	-0.202	-0.017
$RC_{i,t}$	-0.008	-0.08	-0.03	-0.33	-0.09	-0.019	-0.02	-0.009	-0.08	-0.03	-0.008	-0.078	-0.032	-0.622	-0.029
$CA_{i,t}$	0.007	0.07	0.016	0.029	0.002	0.01	0.16	0.007	0.019	0.093	0.007	0.037	0.106	0.029	0.002
$LW_{i,t}$	0.007	0.022	0.102	0.021	0.021	0.031	0.202	0.083	0.088	0.703	0.006	0.044	0.102	0.021	0.021
$LL_{i,t}$	-0.002	-0.002	-0.103	-0.027	-0.002	-0.002	-0.103	-0.008	-0.008	-0.804	-0.004	-0.004	-0.103	-0.026	-0.002
$PJ_{i,t}$	-0.004	-0.047	-0.012	-0.001	-0.017	-0.026	-0.02	-0.008	-0.786	-0.74	-0.004	-0.046	-0.012	-0.001	-0.016
$PG_{i,t}$	-0.007	0.043**	-0.014**	-0.007**	0.013**	0.023	-0.128	-0.006	0.783	-0.788	-0.006	0.043	-0.014	-0.006	0.013
Control Variables															
Market Cap.	0.009	0.002	0.004	0.006**	0.000**	0.005	0.013	0.025**	0.036**	0.071	0.001*	0.005*	0.003	0.003	0. 001
Volume	0.131*	0.014	0.005	0.009	0.002	0.535*	0.313	0.131*	0.007	0.005	0.131	0.003**	0.109**	0.001*	0.005
Specification															
R-squared	0.314	0.629	0.623	0.423	0.519	0.353	0.457	0.413	0.313	0.357	0.313	0.551	0.553	0.353	0.411
Hausman	0.213	0.912	0.932	0.839	0.982	0.553	0.741	0.735	0.337	0.735	0.562	0.175	0.185	0.631	0.155
White	0.342	0.932	0.131	0.812	0.312	0.335	0.774	0.135	0.355	0.355	0.335	0.135	0.331	0.515	0.315

Notes: Malaysia is represented by MY, United Kingdom by UK, United States by US, Canada by CA, and Singapore by SG. The random-effects model is denoted as RE, while the fixed-effects model is denoted as FE. In the tables, significance levels are indicated by ***, **, and *, which represent p-values below 0.01, 0.05, and 0.1, respectively.
Source: Author's work.

solvency. Effective corporate governance and stakeholder engagement are vital in maintaining a company's liquidity and solvency.

The present study found that adopting good practices in CG and SDGs can lead to higher profitability for PLCs. This result is consistent with previous research by Khaled et al. (2021) that suggest, larger and profitable companies tend to exhibit greater social responsibility and internal controls. One possible explanation is that good CG and SDG practices can lead to more sophisticated risk management and internal controls, which in turn mitigate business risks and lead to higher profits. However, in contrast to the UK, US, Canada, and Singapore, the adoption of SDGs did not significantly impact the liquidity and solvency of Malaysian PLCs. This finding is consistent with Martínez and Miralles-Quirós (2022), who argue that the impact of SDGs is stronger in developed countries than in developing countries. One potential reason for this is that SDG adoption in developing countries is not as widely accepted as in Malaysia, partly due to the numerous compliance costs for every listed company. As these costs cannot be easily quantified in financial statements, they may be viewed as detriment to shareholders. Consequently, the impact of SDGs on listed companies in developing countries may not be as pronounced as in developed countries.

4.3 Hypothesis testing

The results of the stock return model suggest that PLCs in Malaysia and Singapore that adopt similar CG variables and certain SDGs experience a positive impact on stock return. Additionally, the profitability model shows that prioritising certain CG practices and SDGs can lead to higher profits for companies in Malaysia and developed countries. These findings support H1 that there is a positive relationship between corporate governance practices and sustainable development goals on financial and stock market performances.

The results of the study are consistent with the H2 that the level of compliance with CG practices and SDGs is higher in developed countries compared to Malaysia. Specifically, the study found that developed countries tend to have more sophisticated CG and SDG practices associated with better financial market performance. Additionally, the results of the study suggest that developing countries may be slower to reflect the impact of CG and SDG on stock return, volatility, and investor sentiment. This supports the

hypothesis that there is a difference in the level of compliance with CG and SDGs between developed and emerging countries, such as Malaysia.

The study found that the positive relationship between the impact of CG and SDGs on financial and stock market performance is stronger in developed countries compared to Malaysia (H3). While certain CG practices and SDGs are associated with better financial market performance in both developing and developed countries, the impact on liquidity and solvency was not significant in Malaysia, indicating a weaker relationship. Developing countries may be slower to reflect the impact of CG and SDGs on financial market performance, suggesting a weaker relationship compared to developed countries. Developed countries, like the US, UK, Canada, and Singapore, have more sophisticated CG and SDG practices than Malaysia. In these countries, boards take responsibility for strategic direction and management oversight, executive remuneration is often tied to performance targets, and mechanisms for engaging with stakeholders are more formalised. Developed countries invest in education and skills development and have policies to reduce income inequality.

The study's findings highlight the importance of sustainable investing, where investors consider a company's CG practices and SDG adoption when making investment decisions. Prioritising sustainability can lead to better financial performance in the long run, and effective CG practices and stakeholder engagement are crucial for maintaining liquidity and solvency. By incorporating sustainability into business strategies, companies can mitigate risks and create long-term value for shareholders. Sustainable investing plays a critical role in promoting and rewarding companies that prioritise sustainability, and investors can use this study's findings to guide their investment decisions towards companies with strong CG practices and SDG adoption.

5. Conclusion and Implications

This study examines the impact of CG and SDG practices on the financial market and company performances in Malaysia compared to selected developed countries, such as the US, UK, Canada and Singapore. The research timeframe is 2017 to 2021. For CG practices, seven variables are selected: board responsibilities, board composition, remuneration, audit committee, risk management and internal control, engagement with

stakeholders and conduct of general meeting. The 17 SDG goals are chosen based on the guidelines of the UN. For methodology, this study adopts panel data regression – FE and RE models - to examine the impact of CG and SDG adoption to control the unobserved variables.

The study concludes that adopting CG and SDG practices has a positive impact on financial market and company performance, but the significant variables and strength of the relationship vary by country context. Effective corporate governance practices and stakeholder engagement are crucial for maintaining liquidity and solvency, and adopting good practices in CG and SDGs can increase profitability. Context-specific factors should guide firms in tailoring their approach to implementation. Developed countries have more sophisticated CG and SDG practices and higher market efficiency, which leads to a quicker and more effective reflection of their impact on financial market and company performance. This highlights the relevance of sustainable investing, which considers ESG factors, in developed countries.

Malaysian PLCs can adopt best practices in CG and SDGs from developed countries, such as the US, UK, Canada, and Singapore, which have more advanced practices. These include boards taking responsibility for strategic direction and oversight, executive remuneration tied to performance targets, formalised mechanisms for engaging with stakeholders, investment in education and skills development, and policies to reduce income inequality. Implementing these practices can aid Malaysia's PLCs in achieving better financial market and company performances.

Theoretical implications of this study contribute to the sustainable investing literature by examining the impact of CG and SDGs on financial and company performance beyond market performance. The study provides more empirical evidence on the benefits of adopting better ESG practices for Malaysia and developed countries. Practical implications of this study can aid policymakers, regulators, and practitioners in enhancing CG and SDGs practices of Malaysian PLCs. The study highlights gaps between publicly listed Malaysian companies and those of developed countries, encouraging the adoption of best practices for better financial market and company performance. The study provides insights for investors who consider CG and SDGs factors in their investment decisions.

Policy implications of this study highlight the need for policies that promote the adoption of better CG and SDG practices by PLCs. Governments can promote sustainable investing by developing policies

and programmes that incentivise companies, working with industry associations, establishing guidelines and benchmarks for best practices, and engaging in international collaborations. Policymakers can also develop more comprehensive reporting requirements for CG and SDG practices, or requiring regular audits of these practices to ensure compliance.

One of the limitations of this study is the lack of data to examine the different behaviours of local and foreign investors in trading the companies, with and without the compliance of CG and SDG practices. For recommendation, future studies are encouraged to examine the impact of women directors on the financial market and company performance.

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