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Exploring How Sustainability Development Goals (SDGs) Influence Market Returns for Malaysian Listed Firms

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Abstract: The significance of SDGs lies in their ability to offer a comprehensive structure for tackling worldwide issues and advancing sustainable development in the realms of economy, society, and the environment. This study aims to investigate the relationship between SDGs and market returns. The final data sample of 74 firms was collected from the firm website and Eikon database from 2021-2022. The research reveals that although SDGs and market returns have no statistically significant relationship, a positive impact indicates potential appeal to investors. Moreover, adhering to SDGs demonstrates social responsibility and can yield regulatory advantages, potentially shaping frameworks and offering investors a sense of assurance in the face of environmental apprehensions. Conducting comparative studies in various geographical and market contexts, as well as longitudinal studies that monitor SDG initiatives and market returns, has the potential to deepen our comprehension of how regional disparities and economic cycles impact the connection between SDGs and market performance. Additionally, examining sector-specific intricacies may reveal industry-specific obstacles and prospects in aligning with SDGs to enhance financial performance.

Keywords: *Sustainability, stock performance, disclosure*

1. Introduction

The SDGs are a comprehensive and inclusive initiative aimed at eradicating poverty, safeguarding the environment, and promoting prosperity for all individuals by the year 2030 (Pedersen, 2018). The 17 SDGs, formulated by the United Nations in 2015, cover various interrelated social, economic, and environmental objectives to tackle significant global concerns. Originally designed as a framework for governmental bodies and international organizations, the SDGs have gained significant relevance for businesses and investors that aim to align their operations with the ideals of sustainable development. Consequently, comprehending the relationship between the SDGs and market returns has garnered significant attention and significance among the financial community.

The SDGs offer a comprehensive framework for achieving sustainable development, encompassing various domains, including poverty reduction, education, gender parity, renewable energy, and climate mitigation, among other topics (Veleva, 2021). The attainment of these objectives necessitates collaborative endeavors from various entities, encompassing governmental bodies, enterprises, non-governmental organizations, and the financial industry. Businesses are crucial in promoting the SDGs through their activities, supply networks, goods, and services. Firms may contribute to achieving the SDGs and create long-term value for shareholders and stakeholders by incorporating sustainability concepts into their business strategy and operations.

The Malaysian government promotes sustainable business practices by implementing rules and activities encouraging enterprises to align with the SDGs (Isa et al., 2021). An example of these endeavors involves the integration of sustainability reporting obligations inside regulatory structures, as shown in Bursa Malaysia's directive for publicly traded firms to provide sustainability reports. Furthermore, the government offers various incentives, subsidies, and assistance programs to encourage firms to embrace sustainable practices and actively contribute towards attaining the SDGs. Moreover, partnerships among the government, corporate sector, and civil society organizations promote the exchange of knowledge, the enhancement of skills and abilities, and the establishment of optimal methods to expedite advancements toward sustainable development

in Malaysia. The government actively involves corporations in promoting the SDGs, thereby cultivating a culture of corporate responsibility and sustainability throughout the Malaysian business environment.

Although Bursa Malaysia requires firms to reveal SDG achievement in annual reports the decisions about achieving sustainability development targets are up to individual firms (Bakar et al., 2019). Nevertheless, not all firms choose not to reveal these objectives, resulting in a lack of openness. The need for more transparency surrounding a firm's sustainability activities gives rise to apprehensions over the appropriate evaluation of these practices and their possible influence on market returns. Lack of thorough transparency prevents investors and stakeholders from obtaining crucial information necessary for assessing a firm's sustainability information, such as environmental and social performance, hence impeding their capacity to make well-informed decisions. These findings highlight the significance of implementing standardized and transparent reporting methods to foster accountability and encourage the adoption of sustainable practices within the Malaysian market return.

This lack of transparency information creates asymmetry and compounds the challenges investors face in understanding and evaluating the link between sustainability efforts and market performance. Information asymmetry refers to an imbalance in access to relevant information between different parties involved in financial transactions. Non- disclosure, or the intentional withholding of crucial information, adds another layer of complexity. Consequently, the possibility of being duped by better-informed parties makes investors wary of making investments in the market (Fuhrmann, 2019). Investors may lack comprehensive data for making well-informed decisions in a landscape where some firms choose not to disclose key sustainability practices or performance metrics. This lack of transparency introduces uncertainties, which may make it difficult for investors to assess the true sustainability impact of their investment decisions accurately.

From an investor's standpoint, the SDGs information provides a structure for evaluating the sustainability achievements of enterprises and recognizing investment prospects that align with SDGs (Yaşar, 2021). Firms that successfully tackle difficulties related to SDGs are frequently in a more advantageous position to mitigate risks, attract customers, and exploit market possibilities. Furthermore, with the increased recognition of the SDGs among consumers, regulators, and investors, there is a mounting demand for enterprises to exhibit their dedication to sustainable development. Consequently, there is an increasing need to incorporate sustainability factors and impact investing, in which investors aim to achieve favorable social and environmental results in addition to financial gains. Therefore, the SDGs serve as a moral obligation and present a substantial prospect for businesses and investors to generate wealth while positively impacting a more sustainable and equitable global society.

2 Literature Review

Signalling theory

In signaling theory, the relationship between SDGs and stock market results is connected. This theory recommends companies that align their actions with the SDGs can show possible investors that they are committed to doing business in a way that is sustainable and socially responsible (Dinçer, 2024). As a result, these companies are more likely to attract socially conscious investors, leading to higher stock market returns.

Signaling theory posits that companies that integrate the SDGs into their operations can demonstrate their long-term sustainability and resilience, making them more attractive to investors (Dinçer, 2024). The SDGs include a broad spectrum of concerns, including climate change, social injustice, and responsible consumption, all of which are critical determinants of a company's long-term prosperity. This is because SDGs cover a broad spectrum of concerns, including climate change, social injustice, and responsible consumption, all of which are crucial elements that might influence a company's long-term prosperity. Hence, by proactively tackling these concerns, corporations can demonstrate their capacity to adjust and flourish in response to evolving societal and environmental expectations, ultimately resulting in increased stock market returns. In essence, signaling theory emphasizes the significance of connecting corporate practices with the SDGs to attract socially conscious investors and attain sustainable long-term growth in the stock market.