TOWARDS A SUSTAINABLE GROWTH: HOW ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG) FACTORS AND FIRM CHARACTERISTICS DRIVE FINANCIAL PERFORMANCE IN THE FTSE4G BURSA MALAYSIA FIRMS

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ABSTRACT

The integration of environmental, social, and governance (ESG) factors into investment decisions has gained significant in recent years, reflecting a shift towards sustainable firm performance. This study examines the relationship of ESG factors, firm characteristics, and financial performance in 96 firms listed on the FTSE4G Bursa Malaysia index from 2014 to 2022. Utilising panel regression analysis, the study examines accounting-based performance measures: Net income margin (NIM), Return on Assets (ROA), Return on equity (ROE), and market-based performance measure: Tobin's Q. The results show a positive and significant relationship between ESG factors and financial performance, as measured using Tobin's Q, suggesting that investors increasingly recognise ESG factors as a determinant of corporate value. However, ESG factors exhibit no significant impact on traditional financial metrics; NIM, ROA and ROE, indicating that while ESG factors enhance market perception, they may not directly influence short-term profitability. These results underscore the growing importance of ESG factors in investment strategies, where firms may encounter trade-offs between immediate financial gains and long-term sustainability objectives. This study highlights the necessity for firms to embed ESG factors within corporate strategies, fostering long-term value creation over short-term financial performance.

Keywords: ESG Factors, Firm Characteristics, Financial Performance, FTSE4G Bursa Malaysia.

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1. INTRODUCTION

The integration of environmental, economic, and governance (ESG) factors into investment decisions has become an important element in determining corporate sustainability. The emergence of corporate sustainability reflects stakeholders' concerns regarding the long-term implications of ESG factors and the increasing demand for corporate ethics. The commitment of firms to managing their ESG responsibilities demonstrates transparency by disclosing information on their challenges and achievements, which is essential for portraying both internal and external activities. Consequently, corporate achievements are no longer confined to monetary implications but extend to broader contributions in ESG domains (Zumente & Bistrova, 2021). This shift positioned ESG factors as a fundamental framework (Chouaibi & Affes, 2021), underscoring its role in fostering stakeholder trust, enhancing corporate strategy, and strengthening corporate reputation (Sani et al., 2020). The disclosure of corporate activities is a fundamental aspect of ESG factors, as transparency in environmental, social, and governance practices allows stakeholders to assess a firm's commitment to sustainability, manage risks, and align business objectives with long-term value creation.

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