UNIVERSITI TEKNOLOGI MARA

ENVIRONMENTAL SOCIAL GOVERNANCE PERFORMANCE AND FINANCIAL PERFORMANCE: THE STRATEGIC RESOURCES AND CAPABILITIES PERSPECTIVES

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of the requirements for the degree of
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AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.

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ABSTRACT

There exist issues on irresponsible actions in which companies generate profit at the expense of human health and welfare. Such actions have enormously cost various groups of stakeholders, besides jeopardising the future of sustainability. Environmental Social Governance (ESG) has the potential to curb this corporate-related issue, hence a need for this aspect to be explored by both academicians and practitioners. This study explores the extent of ESG practices amongst Malaysian Public Listed Companies (PLCs) at different risk-level sectors (i.e., high, medium, and low). Particularly, this study seeks to investigate the possible relationship between ESG performance and financial performance from a resource-based perspective. It also investigates the relevant internal business factors and related ESG challenges and opportunities. A mixed-method approach is used in this study, and the research sample consisted of 24 PLCs (pioneers in ESG), with seven years of observation derived from Bloomberg's ESG data. Additionally, five (5) PLCs representing the high-risk and medium-risk sectors from the sample were selected for the in-depth and qualitative study. A panel data, the Seemingly Unrelated Regression (SUR) model, is used for the quantitative method to investigate the relationship between ESG performance and financial performance. Meanwhile, for the qualitative method, a semi-structured interview has been applied. The medium-risk sector and governance performance (mean) showed the best achievement in the seven years of observation based on the trend analysis. The study also found that environmental performance has a significant and positive relationship with financial performance. The study findings also indicate that the medium-risk sector is proactive in supplying green products and services, directly affecting consumers' everyday lives, thus producing greater earnings and attracting investors. Meanwhile, the combination of ESG's high-risk and low-risk sectors results was unable to attract investors' interest, as asset management was inefficient. The findings reveal that the medium-risk sector utilises sufficient resources, and is good at managing earnings and experience better cost optimisation in one year compared to the high-risk companies. Furthermore, the quality of human resource and market sensing capabilities are deemed essential to stimulate ESG's efficiency towards improved financial performance. This study's key strength was observing the challenges and opportunities at the bottom-line. This study found to incorporate ESG successfully; one should consider the internal processes (quality of management and human-centric approach) and top-line growth (market intelligence and effective stakeholder engagement). The study offers a new perspective of a business model through strategic ESG relating to the successful use of internal business factors (relevant resources and capabilities). This business model will support a synergistic strength between profit-making intention and sustainability developments.

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