



Corporate Social Performance Influence on Corporate Financial Performance: A Case from Malaysia

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Abstract

This research study investigates whether corporate social performance influences the financial performance of Malaysian firms. This research study focuses on the shortcomings of current literature review by focusing the influence of corporate social performance on financial performance of Malaysian firms for the period of 2013-2022. The data is collected from Thomson Reuter DataStream. In general, corporate social performance and financial performance holds a optimistic relationship. The empirical result shows that the outcome of corporate social performance on corporate financial performance is positive. Institutional and legitimacy criteria serve as an effective foundation for establishing social sustainability. Policymakers and investors must consider these results when formulating economic policies and investment strategies, while enterprises in emerging nations such as Malaysia should recognize the potential implications of these elements and seek appropriate management strategies.

Keywords

Corporate Social Performance, Financial Performance, Literature Review, Malaysian Firms

Introduction

Prior to the early 1900s, business performance was assessed using quantitative methods. Performance is viewed by management of many multinational corporations as a function of profitability, liquidity, turnover, return on assets, return on capital employed, and many other factors. Companies have, however, moved from quantitative performance to becoming qualitative in reaction to wealth of shareholders as the amount of competition at the industry as well as firm levels has increased. Corporations have also chosen to implement tactics like focus, product differentiation, and cheap pricing in order to accomplish their aims and objectives, as a result of the introduction of forces that impact their performance. The company's market share and growth rate have increased as a result of this. One of the simplest methods for a business to outperform its rivals is in this way. Furthermore, in order to handle the opportunities in the external environment and make sure that they contribute to the society to which they belong, corporations may have attempted to utilize their internal strengths to expand their return on capital employed, market share, or size. Only in this manner can a business run efficiently and sustain positive relationships with the community to which it is assigned. This relationship can be described as the result of successful corporate social responsibility. Corporate social responsibility refers to a company's capacity to be socially responsible for the improvement and development of the environment in which it works. It outlines the unpaid services that a business provides to the public. Increased buying habits and a positive perception of the brand of company in

the community are the results. A company's ability to safeguard the environment, run charitable programs, and interact with the community has allowed it to do better than its rivals who take corporate social responsibility for granted. Many works of literature from both developed and underdeveloped countries, have explored the idea of corporate social responsibility. Few studies have specifically looked at the Malaysian context when measuring corporate performance using financial performance, despite the abundance of prevailing literature on the association among corporate social responsibility and company performance (Abdulrahman, 2013; Siddiq, 2014; Iqbal et al., 2014; Mishra & Suar, 2010; Uadiale & Fagbemi, 2012; Ofori & Darko, 2014; Trang & Yekini, 2014). The findings of all these research were equivocal. Therefore, more research is required. This study looks at the connection between 430 Malaysian companies' performance and corporate social responsibility. We discovered a strong correlation between return on assets and corporate social responsibility using both bivariate and multivariate analysis. However, there was no discernible link between financial achievement and community growth. Since shareholders' wealth is increased through successful CSR initiatives, the outcomes have theoretical implications for the stakeholder theory of corporation social responsibility. This paper's contribution is that it expands the research domain to include non-financial performance, which is why many previous studies have focused on financial performance indexes as a gauge of business performance. Thus, this study confirmed the stakeholder theory and validated previous findings on financial and corporate social performance.

Literature Review

The term "social performance" relates to the ability of the corporation to meet the expectations of stakeholder concerning social issues, with the ultimate objective being to improve the business's reputation amongst the public and its workforce (Jin & Zialaani, 2020). The ability of a firm to cultivate consumer trust via the implementation of optimal management practices is referred to as social. In turn, it creates long-term value for the company by reflecting its reputation (Ortas et al., 2015). Carroll (1979) described social performance as the program, social responsiveness policies, social responsibility principles, and observable results that all connect to and improve the social interactions of businesses. Instead of its conventional responsibility to increase money for shareholders, corporate social performance additionally described the framework that highlights the responsibilities of multiple stakeholders, from employees to the community (Turban & Greening, 1997). The same source claims that companies with strong social performance have an edge in recruiting qualified workers on time. Therefore, the company should be accountable and sensitive to social issues in order to foster trust and loyalty.

According to Limkriangkrai et al. (2017), social performance is preserving the social environment in which the business functions and treating all stakeholders fairly. They suggest the actions that businesses must take in order to refer problems that effect both internal as well as exterior stakeholders. Social performance, according to Sultana et al. (2018), is defending people's rights and enhancing their quality of life in the community. However, these activities encompass more than just human rights, gender diversity, community relations, labor standards, and employee involvement (Chartered Financial Analyst Institute, 2008). Social performance also refers to activities that enhance social capital, human capital, and cultural capital (Busch et al., 2016). Vives and Wadhwa (2012) claim that all traditional corporate organizations operate with two goals in mind: self-interest and solidarity. While self-interest will increase business return, solidarity enhances support and harmony. In summary, there are a number of reasons why businesses should focus on communal benefits rather than personal ones (Lokuwaduge & Heenetigala, 2017).

Human rights, product development, the organization's role in fostering communities, employment, and more are all linked to the company's socially conscious indicators. Carroll's (1979) corporate social performance concept further supported these indicators. According to Barnett and Salomon (2012), companies with the lowest social performance have better financial results, but the companies with the highest financial success have the middling corporate social performance. It supports the factual assertion that stakeholders uphold social responsibility in order to maximize profits. Wagner (2010), on the other side, claimed that there could not be a direct correlation between social and economic performance.

Health and Safety

Agreeing to Ortas et al. (2015), health and safety refers to policies and practices intended to prevent mishaps or injuries in public or occupational settings. Turban and Greening (1997) assert that

businesses must look out for all stakeholders in order to improve company performance. Providing people with a safe environment is the primary goal of the law. However, this is more difficult. Because creating an infrastructure that encourages safe and healthy behaviors necessitates not only strong organizational pressure but also small-scale initiatives like a shift in mind-set and a dedication where everyone is ready to contribute and change the system to improve the quality of life on Earth. The top-level management must start the implementation process. According to Fernández-Muñiz et al. (2008), accidents at work lower human capital and have a major impact on national production and efforts. For this reason, lowering accident rates while boosting financial development and competitiveness requires a strong occupational safety management system. The outcomes of the findings demonstrate that safety management improves performance in addition to growth and financial stability.

H1: Health and safety enhance the corporate financial performance.

Human Rights

All people, regardless of gender, race, language, nationality, or religion, are entitled to some fundamental rights. Human rights serve as a benchmark for people to live in freedom, equality, justice, and dignity. Every person and every stage of life has rights under human rights. Without exception, everyone is entitled to these rights. Human rights have a significant impact on financial results. Businesses will perform better financially if they grant their employees basic human rights without prejudice. Without human rights, society's morals would revert to their most primitive state.

Prior studies emphasized the importance of human rights and offered convincing proof of the actions related to essential human rights. Through the use of improved productivity metrics that reduce staff turnover, enhance systematic learning, stimulate creativity, and cultivate dedication, the notion aids in streamlining organizational performance and ultimately improves financial performance. Regarding the role of R&D, these studies have not been particularly concerned with it. The relationship between different human rights management methods and their effect on the overall performance of the company was elucidated by Wan et al. (2002). The performance and expansion of businesses were being significantly impacted by those management techniques. Regression analysis of the results revealed that effective use and application of HRM techniques enhances organizational performance and aids in its expansion and success. According to Deepak et al. (2003), using high-performance work systems can boost competitiveness and performance. Human rights practices have no direct influence on a corporation's performance, according to additional study by Kelley (1996). But according to Batt (2002), human rights policies are effective in larger organizations but ineffective in smaller businesses that operate in local markets. Human resource management techniques may have some effect on productivity, but they will also raise overall labor expenses, claim Cappelli and Newmark (2001). According to Huselid (1995), HRM practices are highly important and have an influence on the company's financial development.

H2: Human right enhance the financial performance of firms.

Training and Development

Employee training and development describes to a program wherein employees are taught particular skills, knowledge, and abilities. Training is the process of assessing a person's abilities and expertise. Development is the process of getting workers ready for their present and future positions. Enhancing worker performance is the goal of training and development. Our employees' performance will improve if we train them to meet the difficulties and new technology. In addition to providing workers with the skills, knowledge, and abilities to complete their current projects, training and development also helps to prepare them for future jobs (Desimone et al., 2002). Training plays a crucial role in keeping employees' knowledge, skills, and talents current in research and development (R&D) organizations because technology is continuously evolving (Tanner, 2003). Earlier empirical research has proven that training improves performance. Additionally, Chang and Chen (2002) propose a favorable correlation between training and development and company performance. Garcia's (2005) study also demonstrates that employee happiness is positively impacted by business productivity and human capital development. According to Ghebreiosgis and Karsten's (2007) research on emerging nations, employees are more inclined to stick with a company if they have the chance to advance and grow. Studies by Lee et al. (2005) and Faems et al. (2005) also demonstrated a negative correlation relating performance and training and development. According to Adnan et al. (2011), while development procedures have a detrimental effect on performance, participation and incentive

Corporate Social Performance Influence on Corporate Financial---Ashraf, Rooh, Jamal, Adnan

practices have a favorable and significant impact on financial advancement. According to this study, there is association amongst financial performance and collaborative practices.

H3: Training and development enhance the corporate financial performance.

Community Development

The UN defines community development as the process by which members of a community work together to address shared issues that the society faces. For instance, if businesses participate in community development initiatives, such as planting trees, supplying clean water to all, or opening schools or other educational facilities, their long-term financial performance will improve. As a result, the researcher believes there will be a good correlation between financial performance and community growth. By boosting sales, inspiring, and encouraging staff, increasing production, and spurring innovation, investments in society can raise and enhance the value of stakeholders. In this case, corporate social responsibility (CSR) plays a crucial role since it can influence customer demand, increase customer loyalty, and enhance a company's reputation and goodwill (Lev et al., 2010). The core idea of the stakeholder viewpoint is that a company's ability to establish and maintain relationships with important groups, such as customers, suppliers, employees, regulations, communities, and rivals, is crucial to its success because each of these groups can have an influence on the business capacity to accomplish its goals (Ihlen, 2008).

Building, preserving, and sustaining positive relationships with all current and potential stakeholders are the goal of the social component. Additionally, meeting stakeholder needs guarantees the company's devotion to them (Zahid & Ghazali, 2015). The sampled countries were chosen by the researcher due of their mention issues. Thus, it is necessary to research these elements.

According to stakeholder, legitimacy, and signalling theories, social factors are positively correlated. The following hypothesis is made by the researcher for this study based on mentioned theories and empirical literature:

H4: Community development enhances the corporate financial performance.

Conceptual Frame Work

The purpose of this analysis is to establish a link between corporation financial and social performance. Health and safety, human rights, training and development, and community development can all be used to evaluate corporate social performance. The dependent variable in this analysis was corporate financial performance.

Figure I: Conceptual Framework

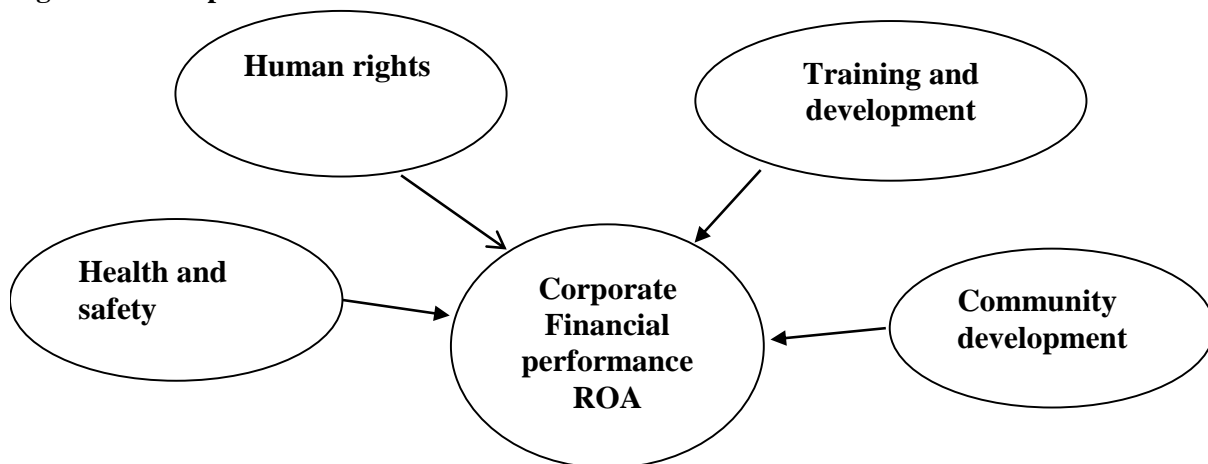


Figure I: The connection between independent and dependent variables.

Methodology of Research

Data and the Sample

The analytical technique used in this study was one of its defining characteristics. This study is based on easily accessible data or facts that are subsequently subjected to additional analysis to make inferences. The Panel data approach is used in this investigation. Panel data was gathered from multiple businesses throughout a range of time periods and at various times in time. Panel data combines characteristics of cross-sectional and time-series data. Malaysia is where the data used in this research analysis was obtained. Non-financial companies listed on the Malaysian Stock Exchange

made up the sample used in this study. The sample period used in this study was 2013–2022. The Thomson Reuter DataStream provides the information for every variable.

Variables Explanation

The dependent and independent variables were carefully chosen following a comprehensive analysis of the various theories and justifications for social sustainability as well as a thorough assessment of the empirical literature.

The measure of financial success is the dependent variable in this particular inquiry. Return on assets (ROA) is utilized in this analysis to calculate the financial performance. By comparing a company's net income to total assets, the return on assets is determined. The Return on Assets (ROA) is a measure of an organization's financial success, per the references (Jamal et al., 2022; Yu et al., 2018; Ortas et al., 2015; Xie et al., 2018; Pintea et al., 2014). Corporate social performance is the study's independent variable. Human rights, training and development, health and safety, and community development are the factors used in this analysis to evaluate corporate social performance (Gerged, 2021; Develle, 2021; Miralles-Quirós et al., 2018; Xie et al., 2018). The study's control variables are the company's age, size, and leverage. According to Mohammad and Wasiuzzaman (2021) and Sahut and Pasquini-Descomps (2018), the logarithm of the company's total assets can be used to quantitatively quantify its size. A company's age is determined by how long it has been listed on a stock exchange, Thomes (2012).

Data Analysis

Descriptive Statistic of Pakistan

The primary summary of the data is displayed by descriptive statistics. Table I below shows the descriptive summary used to estimate the impact of environmental sustainability on financial performance.

Table I; Descriptive Summary

Variable	Obs	Mean	SD	Min	Max
ROA	430	10.886	12.501	88.08	118.74
HS	430	57.262	32.896	14.25	93.78
HR	430	65.737	22.167	5.13	75.91
TD	430	70.728	16.885	5.48	77.59
CD	430	60.169	27.014	.47	86.84
FA	430	47.242	31.963	12.25	83.78
FS	430	45.737	23.157	25.13	65.91
FL	430	50.728	16.681	25.68	47.59

The descriptive statistics associated with the variables are shown in the table.

Correlation Matrix

The association relating the dependent and independent variables is shown by the correlation matrix. Its values fall between +1 and -1.

Table II; Correlation Matrix

Variable	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
ROA	1							
HS	-0.041	1						
HR	0.031	0.378	1					
TD	-0.043	0.237	0.234	1				
CD	-0.072	0.459	0.078	0.257	1			
FA	0.095	0.034	-0.049	-0.064	-0.044	1		
FS	-0.053	0.018	0.048	0.076	0.008	0.062	1	
FL	-0.032	-0.005	-0.013	-0.015	-0.052	0.024	-0.016	1

The table presents the correlation matrix of the variables.

Regression Analysis

The current study investigates the linear link among corporate social performance and its financial performance using a multivariate methodology. In this case, ROA acts as the study's dependent variable. Health and safety, human rights, training and development, as well as community development are the independent factors. Leverage, business size, and firm age are the control variables.

$$ROA = \alpha + \beta_1 HS + \beta_2 HR + \beta_3 TD + \beta_4 CD + \beta_5 FA + \beta_6 FS + \beta_7 FL + \epsilon_{i,t} \tag{4.1}$$

Equation (4.1) illustrates the association among the independent variable and the dependent variable. The ROA gauges the company's financial performance, the FS gauges its size, the FL gauges its leverage, the HS gauges health and safety, the HR gauges human rights, the TD gauges training and development, the CD gauges community development, the FA gauges the company's age, and the FS gauges the company's size. The beta coefficient is the slope, represented by β , and the error term is represented by $\epsilon_{i,t}$.

Table. III; Regression Analysis for Financial Performance

ROA	Coef.	St.Err.	P-value
HS	-.011*	.022	.0635
HR	.03**	.03	.0315
TD	.026**	.038	.0491
CD	-.025	.026	.329
FA	-.046**	.018	.011
FS	-2.759***	.481	0
FL	3.706***	.533	0
Constant	31.366***	4.629	0
R2	0.446	observation	430
F-test	12.874	P > F	0.001***

*The financial performance regression analysis is shown in this table. Human rights (HR), community development (CD), training and development (TD), and health and safety (HS) are the independent variables. As the study's control variables, the variables were firm size (FS), firm leverage (FL), and firm age (FA). *, **, and *** stand for statistically significant at 10%, 5%, and 1%, in that order.*

The regression findings are shown by financial performance in Table III. There are 430 observations in all. The model's fitness is measured by the F-value and the R-squared statistic. The R squared score of 0.446 indicates that 44% of the variance in the financial performance of Malaysian enterprises can be ascribed to the independent variable's causes. According to the F-value results, the entire model is appropriate for additional analysis and is significant at the 1% level. Financial performance is correlated positively with human rights (HR), health and safety (HS), training and development (TD), firm age (FA), firm size (FS), and firm leverage (FL). The financial performance of non-financial firms performing in Malaysia is improved by improving corporate social performance. Financial success is significantly and negatively correlated with FS and FA. The financial performance of non-financial enterprises in Malaysia is negatively affected by the age and size of the company. Financial success is significantly impacted by community development (CD).

Results and Discussion

To evaluate the influence of corporate social performance on the corporate financial performance of Malaysian businesses, this study employed multivariate analysis. Table III shows how Malaysian firms' financial success is impacted by their corporate social performance. Corporate social performance initiatives improve business performance, according to the results of corporate social performance factors, which are consistent with shareholder theory. Prior research (Jamal et al., 2024; Muslichah, 2020; Mohammad & Wasiuzzaman, 2021; Ahmad et al., 2020) has demonstrated a growing connection relating social sustainability standards and business performance. According to the institutional theory, a company's corporate culture and internal and external environments are the most relevant factors in achieving all aspects of sustainability. For the purposes of this objective, the corporation could be compared to a shared institution. According to Zhang et al. (2022) and Develle (2021), the social component exhibits significant performance outcomes. Muslichah (2020) and Broadstock (2021) have studied how social sustainability practices affect company value. They found that better social mechanisms lead to better business performance. A successful CSR initiative raises investor believe, that increases the company's value.

The conclusions indicate that Malaysian companies' financial performance is adversely affected by their size. Agreeing to Li et al. (2018) and Mohammad and Wasiuzzaman (2021), there is a negative association among company size and Tobin's Q. The firm's financial performance is likewise declining with age. Financial performance is also being negatively impacted by the firm's leverage. Physical investment, as measured by fixed assets, is positively and statistically significantly associated with the firm's age. According to the findings, companies with higher levels of leverage will be more profitable, while smaller businesses should be more productive. According to

Crisóstomo et al. (2011), Jamal et al. (2023), and Ingram and Frazier (1980), leverage favorably and significantly improves financial performance.

Study Implications

This research investigation's finding has a wide range of consequences. According to this study, social factors improve businesses' financial performance in developing countries like Malaysia. Governments and agencies can use the techniques in this study to increase social sustainability and boost national financial performance. The study's findings can be used by purchasers and shareholders to assess the social sustainability of their investment choices. This is justified by studies showing that social sustainability characteristics are important for success in both the near term and the long term. The government and lawmakers can also benefit from the research's conclusions. They invest in social sustainability projects and manage their resources. They will get stronger and faster over time.

Future Research Recommendations

As this is the suggested approach, future studies should look at a longer sample period in addition to other social aspects. By doing this, we will clarify how financial performance is impacted by other, intricate environmental sustainability issues. It is also suggested that the indirect effects of corporate social responsibility be investigated.

Conclusion

Issues with corporate social performance are important factors to take into account when achieving the company's goals. Finding out how much corporate social performance factors affect the corporate financial performance of Malaysian companies is the main goal and objective of this investigation. There is a key characteristic that sets this study apart.

A sample of non-financial enterprises registered on the Malaysia Stock Exchange regarding 2013 and 2022 was selected for this investigation. As part of this investigation, panel data was subjected to multivariate analysis. The study's findings indicate that important factors affecting Malaysian business financiers include human rights, health and safety, training and development, firm age, firm size, and firm leverage. Whereas community development yields negligible outcomes. The findings of the research study are consistent with earlier empirical studies. The findings of this study may benefit management and policymakers because they provide useful insights. They manage their resources and direct investments toward environmentally friendly activities. Over the next many decades, the economy will continue to improve.

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