

Corporate Sustainability Commitment, Institutional Investors and Financial Performance: Evidence from Malaysia

(Komitmen Kemampanan Korporat, Pelabur Institusi dan Prestasi Kewangan: Bukti dari Malaysia)

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ABSTRACT

This study examines whether corporate commitment towards sustainability contributes to financial performance and the moderating role of institutional investors toward relationship between sustainability commitment and financial performance. The monitoring role by institutional investors is also expected to be able to align sustainability practices with the company's financial objectives. The sample includes Malaysian companies listed on the main board of Bursa Malaysia from 2015 to 2021, with a total observation of 256 companies. Data were collected from Refinitiv-Eikon Thomson Reuters. Findings indicated that higher corporate sustainability commitment (CSC) does associate with higher financial performance. In addition, the presence of institutional investors positively affects the financial performance of companies, however, weakens the effect of CSC on financial performance. This study provides insights for Malaysian regulators on the importance of sustainable practices toward value creation and achieving the 2030 Agenda for Sustainable Development. Additionally, it provides insights from the perspectives of agency theory, by which companies can create better values when their commitment towards sustainability practices is monitored by the presence of institutional investors.

Keywords: Institutional investors; corporate sustainability; sustainable development goals; financial performance

ABSTRAK

Kajian ini mengkaji sama ada komitmen korporat terhadap kemampanan menyumbang kepada prestasi kewangan dan sama ada pelabur institusi menyederhanakan hubungan antara komitmen kemampanan dan prestasi kewangan. Melalui peranan pelabur institusi, mekanisme pemantauan luaran dijangka menyelaraskan amalan kemampanan dengan objektif kewangan syarikat. Sampel termasuk syarikat Malaysia yang disenaraikan di papan utama Bursa Malaysia dari 2015 hingga 2021, dengan sejumlah 256 syarikat diperhatikan. Data dikumpul daripada Refinitiv-Eikon Thomson Reuters. Penemuan menunjukkan komitmen kemampanan korporat (CSC) yang lebih tinggi dikaitkan dengan prestasi kewangan yang lebih tinggi. Selain itu, kehadiran pelabur institusi memberi kesan positif kepada prestasi kewangan syarikat, tetapi melemahkan kesan CSC terhadap prestasi kewangan. Kajian ini memberikan pandangan kepada pengawal selia Malaysia tentang kepentingan amalan mampan ke arah penciptaan nilai dan mencapai Agenda 2030 untuk Pembangunan Mampan. Selain itu, ia memberikan pandangan daripada perspektif teori agensi, di mana syarikat boleh mencipta nilai yang lebih baik apabila komitmen mereka terhadap amalan kemampanan dipantau oleh kehadiran pelabur institusi.

Kata kunci: Pelabur institusi; kemampanan korporat; matlamat pembangunan mampan; prestasi kewangan

INTRODUCTION

The world is bloated with the various pollutants that comes from the human action that cause to the degradation of environment and the rise of climate change. Pressures on environmental degradation, social and economic challenges have forced worldwide companies to confront and acknowledge the importance of sustainability issues and realize their responsibilities to address them (Asl et al. 2022; Jamil et al. 2021). Lately, many companies have started to realize that sustainability practices in operations can and committed to reduce the impact on the environment. Such commitments include minimizing pollutions, adopting green technology, reducing waste and promoting sustainable practices throughout their supply chain. Since the establishment of the Sustainable Development Goals (SDGs) by the United Nations (2015), companies around the world have been promoted to adopt the SDGs into their operation through the various frameworks and guidelines produced by their national regulators that aim to assist companies to manage sustainability issues.

Malaysia committed toward SDGs by aligning SDGs agenda with the National Development Plan (Economic Planning Unit 2021). In addition, the sustainability practices in the corporate environment have been emphasised by Bursa Malaysia. Bursa Malaysia had provided the sustainability reporting framework as guidance for public listed companies to report sustainability activities. Sustainability reporting is mandatory for all publicly listed companies starting 2016 (Raj 2022) and Bursa Malaysia introduced the latest amendments of the sustainability reporting framework which requires

companies to disclose information regarding common material sustainability matters including waste management, anti-corruption, health and safety and diversity (Bursa Malaysia 2022).

The reporting of how business strategies align with the social, economic, and environmental concerns is an essential avenue to demonstrate the commitment of companies towards corporate sustainability. Being sustainable is expected to bring benefits for both short and long term for organisations (Poursoleyman et al. 2022). Short-term benefits improve firm performance through cost savings, efficiency, and investor interest, while long-term benefits enhance resilience, brand value, innovation, and sustainable growth, supporting consistent financial performance over time. Sustainability practices for instance are treated as part of strategic advantages for companies to maintain relationships with stakeholders through social and environmental activities (Matuszewska-Pierzynka 2021). Nevertheless, sustainability practices incur higher costs for companies which ultimately jeopardise their financial goals and shareholder's interest (Sarhan & Al-Najjar 2022). The arguments of such an issue are based on the conflict of interests whereas management might use sustainability practices for their own interest at the cost of companies and does not benefit companies economically. However, most companies reported that sustainability practices help reduce operational costs and provide significant benefits to the organization (Mayank & Agrawal 2021; Shad et al. 2020).

Apart of highlighting the relationship between corporate sustainability commitment and financial performance, institutional investors act as an essential role to the relationship. Xu et al. (2023) had mentioned that institutional investors play a role of monitoring the financial performance and governance of the company to ensure the sustainability of the company in the long term. Corporate sustainability commitments are becoming increasingly important to institutional investors as they seek to manage risk and align their investments with their values (Abideen 2024). Thus, companies that prioritize sustainability are more attractive to these investors, and in turn bring positive implications to financial performance in the long term. Nevertheless, institutional investors in Malaysia also have been found to be less effective monitoring mechanism (Zainul Abidin et al. 2024) due to lack of resources, attracted toward highly diversified business (Saleh et al. 2010) and have low stakes in the companies (Annuar 2019). Despite these limitations, institutional investors remain key stakeholders with the potential to influence corporate decisions, especially in areas such as sustainability. As such, their involvement may not directly improve firm performance but could moderate the relationship between corporate sustainability commitment and performance outcomes as part of investment strategies (Kordsachia et al. 2022; Meng & Wang 2020). Specifically, institutional investors can either strengthen or weaken this relationship depending on their level of engagement, investment horizon, and Environmental, Social, and Governance (ESG) priorities (Velte 2023). Given the growing attention toward responsible investment and ESG integration, particularly among global and regional institutional investors, it is increasingly relevant to assess whether their presence enhances or dilutes the performance effects of sustainability efforts. Thus, institutional investors are treated as a moderating variable to capture these contextual dynamics and conditional effects on firm performance. Thus, this study will examine the impact of corporate sustainability commitment (CSC) on financial performance and the moderating role of institutional investors in the relationship between CSC and financial performance.

This paper is organized as follows, where the literature discussion in the next section, followed by the methodology section, research results and discussion, and the last section is the overall conclusion of this paper.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Most companies have switched their priority towards achieving sustainability instead of financial concentration that contribute to the organisation's longevity (Correggi et al. 2024; Walker et al. 2021). In line with the aim of the global focus, stakeholders demand to increase awareness towards global warming, environmental disaster and human rights when performing corporate responsibilities that contribute to the business sustainability (Nagy Katarina & Durana 2022; Tjahjadi et al. 2021; Hu & Loh 2018).

Several theories have been employed to comprehend the implementation of SDGs for every country. Amongst these are agency theory and institutional theory. Agency theory explores the relationship between the cooperative parties which is principal delegate work to agents (Jamil et al. 2021; Jamil et al. 2022). In this study, companies act as an intermediary to the principal that must obey the sustainability guidelines established by the United Nation. The sustainability practice in the companies should be directed by the board of directors to all stakeholders to ensure that the objective is achieved, and the efficient strategy could enhance the financial position of the company. However, agency theorist argues that company's involvement in social responsibility activities only bring more harm as such activities might utilizing shareholder's wealth thus increase agency cost to the companies (Sarhan & Al-Najjar 2022). Thus, agency theory suggests a strong monitoring mechanism should be applied to reduce the cost and to ensure companies align their activities with shareholders interest and financial objectives (Jensen & Meckling 1976). Moreover, such cost can be reduced as long sustainable activities are inline and part of companies' financial and wealth maximisation objectives (Shi et al. 2016).

Institutional theory explains the process of institutionalising a practice toward structured institutional change of behaviour (Kao et al. 2018). This theory connects to the relationship between sustainability and the companies' practices that react to the enforcement by changing the sustainable behaviour. The primary goal of the company is to serve the requirements of numerous stakeholders and satisfy them so that it could improve the image and company's performance (Javed et al. 2016). Thus, this theory relates to the corporate sustainability enforcement in the companies in terms of shaping

the sustainable behaviour among the stakeholders which can lead to the increase of company's performance (Kao et al. 2018). There are some arguments that interventions by institutional investors able to influence companies' management and decision toward sustainability practices thus able to be benefiting both companies and shareholders (García-Sánchez et al. 2022). The presence of institutional ownership would enhance corporate transparency and disclosure quality. As the sustainability activities affect the corporate value and performance (Schönborn et al. 2019), information about those activities is needed by institutional investors to make investment decisions (Dyck et al. 2019; Brandon & Krüger 2018). Through the assurance of sustainability reports, institutional investors play a critical role in corporate sustainability. (García-Sánchez et al. 2022) that enhance corporate sustainability commitment, and hence consequently contribute to the betterment of the financial performance of the companies.

Thus, this study focuses on answering the question about how the corporate sustainability commitment (CSC) and its pillars could enhance the corporate financial performance? and how institutional investors could moderate the relationship between CSC and corporate financial performance?

CORPORATE SUSTAINABILITY COMMITMENT AND FINANCIAL PERFORMANCE

Corporate sustainability commitment (CSC) becomes a major concern to all businesses which encompass the dimensions of governance, social and environmental (A Rahim et al. 2022)

In strengthening the CSC, most of the company's focus on corporate social responsibility (CSR) activities to enhance the sustainability disclosure of the companies that represent the environmental, social and governance dimension. CSR focused on the socially responsible activities that will maximise corporate value and company performance. Scholars have given two views on CSR. The first view is, companies need to see the benefits of engaging in CSR if they are able to maximize shareholder value; while the second view states that companies should make investments to benefit society even if it will reduce shareholder value (Moser & Martin 2012; Timbate & Park 2018). Additionally, there are views that corporate spending on socially responsible activities destroys corporate value (Harjoto & Jo 2015). Additionally, some research (Blasi et al. 2018; Soana 2011) reported conflicting results regarding CSR and financial performance while some studies (Lin et al. 2017; Barnea & Rubin 2010) showed no association between CSR and financial performance.

However, most of the researchers found that CSR and sustainability activities could enhance corporate value and company performance (Poursoleyman et al. 2022; Muhmad & Muhamad 2020; Ifada et al. 2021; Schönborn et al. 2019 and Platonova et al. 2018). Additionally, there is evidence that CSR-related disclosures enhance companies' performance (Razali et al. 2018; Yusoff & Adamu 2016). Thus, CSR activities and sustainability disclosures would contribute to the enhancement of company performance by employing efficient tools. Hence, as claimed by Cuomo et al. (2016) and Cruz et al. (2010), companies need to have efficient tools, such as corporate disclosure, in order to reduce information asymmetry related to CSR activities.

Previous research related to the field of CSR and sustainability focused on the impact of social and environmental disclosures on corporate performance. A commitment to corporate sustainability can be expressed through the company's CSR and sustainability disclosures that include social, environmental and governance pillars. Kasbun et al. (2016) and Schönborn et al. (2019) discovered a positive relationship between sustainability and financial performance and indicate that the sustainability dimension of corporate culture, such as sustainability and leadership, is a predictor for corporate financial performance. However, Atan et al. (2018) and Atan et al. (2016) discovered a negative correlation between performance and sustainability disclosure. The contradictory findings represent the difference of data taken in different types of companies. Every company has different financial conditions and availability for the implementation of sustainability practices. The early stage for sustainability practice is when companies faces lot of pressure in managing expenses, and struggling in generating profits (Muhmad & Muhamad 2020; Li & Wu 2017; Shafai et al. 2022). Other types of companies have more options to invest their money for CSR activities and those activities actually could enhance their visibility and be considered as marketing as an ethical company.

The related voluntary disclosures of CSR and sustainability are part of ethical business practices (Weller 2020; Goel & Ramanathan 2014). Companies that committed in ethical practices received positive shareholder's expectation (Berrone et al. 2007) as it reflects companies' effectiveness in utilising resources (Karim et al. 2016); potentially reduce the cost of capital (Pae & Choi 2011) and secure the long-term shareholder investment that is important towards the sustainability of their business (Abidin et al. 2017). Such views posit the potential of sustainability commitment to reduce information asymmetry thus improving corporate performance. Higher sustainability disclosure indicates that the business upholds its obligation to meet stakeholders' interests while protecting the interests of shareholders through long-term financial stability (Matuszewska-Pierzynka 2021; Endiana et al. 2020; Cai et al. 2012).

Therefore, this study hypothesized that companies with higher sustainability commitment will tend to have higher financial performance. Therefore, the first hypothesis (H₁) is derived as follows:

H₁ There is a positive association between corporate sustainability commitment and financial performance.

INSTITUTIONAL INVESTORS AND FINANCIAL PERFORMANCE

Institutional investors are any organization or legal entity that receive fund from other parties and investing those funds on behalf of those parties. As claimed by Schleifer and Vishny (1997), institutional investors are recognized as efficient monitoring system in external corporate governance mechanisms. Institutional investors are likely to promote activism in aligning the interest of managers and shareholders; and disciplined managers especially in companies with weak governance structures (Gillan & Starks 2000). Moreover, with their massive number of shares, institutional investors will have more power to control managers (Hashim & Devi 2012; Denes et al. 2016). Hadani et al. (2011) argues that companies with pressure to meet the institutional investors' expectations can result in healthier corporate performance.

Dyck et al. (2019) suggested that institutional investors' monitoring role influences management decisions, better protection of shareholder interests, and a rise in corporate value. For example, In the Malaysian environment, institutional investors form an effective monitoring mechanism especially among politically related companies, further improving information on stock prices (Tee 2017). However, there are arguments suggesting that institutional investors are ineffective and have no influence on the companies' performance (Chang 2015) as the institutional investors with diversified business, have lack of stakes in investee companies and lack of resources to actively monitor companies (Annuar 2019). Similarly, Jaffar and Abdul-Shukor (2016) found that the existence of institutional shareholders diminished the performance of political ties. Another empirical finding however shows inconsistent result between institutional investors and performance (i.e; Zainul Abidin et al. 2024; Sohail et al. 2017).

Therefore, this study hypothesized that organisations with a stronger presence of institutional investors would do better financially. Hence, the second hypothesis (H_2) is derived as follows:

H_2 There is a positive association between the presence of Institutional Investors and financial performance.

CORPORATE SUSTAINABILITY COMMITMENT, INSTITUTIONAL INVESTORS, AND FINANCIAL PERFORMANCE

Agency theory asserts that managers, as agents, perform decision-making processes on behalf of shareholders, who are the owners of the business (Jensen & Meckling 1976). Hence, agency costs may arise when managers, in response to their knowledge advantage, prefer to serve their own interests over the interests of shareholders (Rahman et al. 2017). This agency costs could exist in relation to CSC as there is a possibility that corporate involvement in sustainability practices could be used as a tool towards managerial entrenchment. In this aspect, Othman and Borges (2015) suggest that institutional investors with a large number of shares are highly motivated to monitor the company by disciplining managers to perform better (Gillan & Starks 2000). Thus, institutional investors' ability to reduce agency conflict by re-aligned shareholders and managers' interest will resulting companies to face lower risk and enhanced their performance (Shi et al. 2016).

As previous studies have shown that institutional investors can influence management, corporate decisions, and performance (Hadani et al. 2011) as well as towards commendable ethical practices (Dyck et al. 2019; Mili et al. 2019), there is an attempt to take institutional investors into account as a moderating variable in empirical analysis. Institutional investors have been found to moderate the relationship between corporate sustainability and financial performance (Velte 2023) as well as the relationship between research and development (R&D) and performance (Scott 2014; Le et al. 2006).

From the perspective of the agency theory, these findings generally suggest that institutional investors serve as effective monitoring mechanisms to reduce agency problems (Shi et al. 2016; Raimo et al. 2020; Hashim and Devi, 2012). The ability of institutional investors in mitigating agency costs is mainly a result of their activism in the form of direct influence in corporate governance (Rayfield & Unsal 2021; Lin & Fu 2017) due to their expertise in monitoring investee companies' investment decision (Ljungqvist et al. 2007) or pressuring companies by the ability to withdraw their shares from companies (Denes et al. 2016). For instance, Eliwa et al. (2025) provide evidence that the presence of institutional investors as effective monitors in reducing information asymmetry in company with better earnings quality. Previous study also recognizing the moderating role of institutional investors between sustainability and financial performance. In addition, Nguyen et al. (2020) found that companies able to create values through sustainability practices, with closely monitored by institutional investors.

Therefore, institutional investors are predicted to have an impact on the relationship between corporate sustainability commitment and financial performance. Institutional investors that actively monitoring companies, will help companies to achieve high standards of sustainability practices that can help in improving their financial performance (García-Sánchez et al. 2022; Jong & Ho 2018; Lin & Fu 2017).

In the context of Malaysia, corporate sustainability practices of firms are indicated a significant improvement (Jamil et al. 2021) and rises in the quality of sustainability reporting (Zahid et al. 2019). Additionally, it has been proved that sustainability disclosure improves Malaysian companies' financial success (Hasan & Yakob 2022). The corporate sustainability commitment is seen to boost the sustainability reporting that led to the increase of the financial performance. However, there is a lack of evidence to support the role of institutional investors on corporate financial performance (Zainul

Abidin et al. 2024; Abdulsamad & Wan Yusoff 2016). The reasons could be the limited resources, pursuing short-term investment returns and low motivations in monitoring investee companies (Annuar 2019).

Therefore, based on the argument that the influenced of institutional investors on relationship between CSC and financial performance, this study hypothesised that institutional investors in a company will influence the association between corporate sustainability commitment and financial performance. Thus, the third hypothesis (H₃) is derived as follows:

- H₃ The presence of institutional investors strengthens the positive relationship between corporate sustainability commitment and firm financial performance.

RESEARCH METHODOLOGY

This study examined the sustainability commitment of publicly listed companies in Malaysia for seven years, from 2015 to 2021. We choose to start with the year 2015 to be in line with the time that the SDG is started to be implemented. At first, we select all companies listed in Bursa Malaysia after excluding financial companies because they have different accounting practices and regulations (Ibrahim et al. 2016). As ESG is the main focuses, firms without ESG data were excluded, resulting only 256 company-year observations available after excluding missing data. This small observation was in line with other study that focuses on ESG in Malaysia such as Thomas et al. (2021) with 180 companies, from year 2015 to 2019, and Al-ahdal et al. (2024) that focuses on SDGs, observes 264 companies in Malaysia, 184 companies in Indonesia and 56 companies in Singapore from year 2018 to 2021. All data were collected from the Refinitiv-Eikon Thomson Reuters database.

MODEL AND MEASUREMENT

We utilized a panel data regression model to investigate the first hypothesis (H₁), which is the relationship between Corporate Sustainability Commitment (CSC) and financial performance, and the second hypothesis (H₂), which is the moderating effect of institutional investors. The model is built as follows:

$$LNTOBINQ_{it} = \beta_0 + \beta_1 CSC_{it} + \beta_2 INVEST_{it} + \beta_3 CSC * INVEST_{it} + \beta_k CONTROLS_{it} + \varepsilon_{it} \quad (1)$$

In the above model, LNTOBINQ is measured by the natural log of ratios between market value of equity divided by total assets (Price & Sun 2017). The reason to used log transformation for tobins q is to fix the skewed distribution, thus stabilizing the variance and make the model more linear (Curran-Everett 2018).

Regarding sustainability commitment (CSC), is proxied by the total ESG score from the Refinitiv-Eikon Thomson Reuters database. SOC, GOV and ENVIR represent Social, Governance and Environment scores, respectively. For alternative measures of CSC, we employ SDG that is based on the total number of SDG indicators available in the companies. Our moderating variable is INVEST, a proxy for institutional investors that is measured by the total number of shares held by strategic investors to the total outstanding shares.

Regarding the control variables (CONTROLS), the model includes the firm-level variables as follows: lnSZ is the size of the company that measured from natural log of total assets; LEV represents financial leverage, which is measured by total liabilities divided by total assets; PRICE represents the share price of common stocks (RM); AGE is the age of the company, calculated from the year of its incorporation; CASHF representing companies's total operational cash flow (RM bil); BD_SZ (Board size), measured by the numbers of board members; BD_IND (Board independent); measured by percentage of independent board members; and CEO_DUAL (CEO duality) assigned as dummy variable of ceo also chairman in board; INDUSTRY and YEAR represent the industry sector dummy and year dummy, respectively. Detailed descriptions of all variables are presented in TABLE 1.

The panel regression model however were known suffered from the issue of heteroscedasticity, cross-sectional dependence and auto-correlation that might lead to bias estimation result (Hoechle 2007). Therefore, we applied the Driscoll-Kraay Standard Errors estimation approach in order to control such problems (Gonçalves 2024). This approaches is a nonparametric covariance estimator that produces consistent heteroskedastic and autocorrelation standard errors that robust which is similar to the Newey and West (1987). Adjusting the estimated standard error in this way guarantees that the estimator of the covariance matrix is consistent, independently of the cross-sectional dimension N (ie also for $N \rightarrow \infty$). Thus, Driscoll and Kraay's approach eliminates the shortcoming of other large T covariance matrix estimators that typically become inappropriate when the cross-sectional dimension N of the micro econometric panel becomes large.

TABLE 1. Description of variables

Variable	Descriptions	Measurement
Dependent variable		
LNTOBINQ	Natural log of Tobin's Q	Log transformation of Market value of equity / total assets
Independent variables		
CSC	Corporate Sustainability Commitment	Overall corporate sustainability score (%)
SOC	The social pillar	Social score (%)

GOV	The corporate governance pillar	Governance score (%)
ENVIR	The environmental pillar	Environmental score (%)
Moderating variable		
INVEST	Institutional investors	(Number of shares held by strategic investors/ total of common shares) x 100
Control variables		
lnSZ	Size of companies	Natural log of total assets
LEV	Financial leverage	Total liabilities / Total assets
PRICE	Stock price	Price per common shares (RM)
CASHF	Cash flow	Total operational cash flow (RM bil)
AGE	Age of companies	Numbers of years company operates
BD_SZ	Board size	Numbers of board members
BD_IND	Board independent	Percentage of independent board members
CEO_DUAL	CEO duality	Dummy variable of ceo also chairman
SECTOR	Industry sector dummy	Dummy variable for industry sector
YEAR	Year dummy	Dummy variable for year

RESULTS

TABLE 2 presents the statistics of the companies in the sample based on their sector. Companies in industrial sectors consist of 18.36 percent of the total sample, or 47 companies. Companies in Basic Materials are the smallest in the sample, with 2.73 percent (7 companies).

TABLE 2. Descriptive statistics of companies based on industry sectors

	Freq.	Percent	Cum.
Basic Materials	7	2.73	2.73
Consumer Discretionary	46	17.97	20.70
Consumer Staples	44	17.19	37.89
Energy	18	7.03	44.92
Health Care	19	7.42	52.34
Industrials	47	18.36	70.70
Real Estate	25	9.77	80.47
Technology	11	4.30	84.77
Telecommunications	15	5.86	90.63
Utilities	24	9.38	100.00
Total	256	100.00	

The descriptive statistic of all the continuous variables presented in following TABLE 3. The mean (median) value for LNTOBINQ was 2.142 (0.685). For CSC, the mean (median) value was 49.6 (50.9) percent. Regarding the sustainability pillars, the social pillar (SOC) is shown to have a mean value of 54.5 percent, governance pillar (GOV) with a mean of 47.8 percent and the environmental pillar (ENVIR) with a mean value of 43.4 percent. Meanwhile, the data for INVEST indicates a mean of 10 percent, with a minimum of 1.4 percent and a maximum of 87 percent. The assumptions of multicollinearity are not violated as the Variance Inflation Factor (VIF) for all variables are less than five (Reddy & Balasubramanyam 2021).

TABLE 3. Descriptive statistics

Variable	Obs	Mean	Median	Std. Dev.	Min	Max	vif	skewness	kurtosis
LNTOBINQ	256	-0.180	-0.378	1.309	-2.826	2.576		0.542	2.681
CSC	256	0.496	0.510	0.167	0.051	0.892	1.16	0.109	0.854
SOC	256	0.545	0.546	0.198	0.044	0.972	1.20	0.267	0.305
GOV	256	0.478	0.472	0.209	0.035	0.987	1.15	0.276	0.000
ENVIR	256	0.434	0.460	0.218	0	0.899	1.22	0.288	0.000
INVEST	256	0.100	0.071	0.114	0.014	0.870	1.13	0.000	0.000
LnSZ	256	20.206	20.194	1.712	16.879	24.483	2.94	0.038	0.579
LEV	256	0.380	0.379	0.171	0.049	0.789	1.88	0.978	0.000
PRICE	256	1.758	0.607	3.303	0.040	18.681	1.50	0.000	0.000
CASHF	256	0.314	0.022	1.234	-1.151	8.853	1.56	0.000	0.000
AGE	256	28.848	28	16.746	0	84	1.20	0.060	0.094
BD_SZ	256	8.839	9	2.010	1	17	1.08	0.000	0.000
BD_IND	256	0.534	0.538	0.157	0	1	1.04	0.046	0.610
CEO_DUAL	256	0.168	0	0.375	0	1	1.04	0.000	0.005

The correlations between variables are presented in TABLE 4. The correlations between LNTOBINQ with all the independent variables (CSC, SOC, GOV) were not significant, except for ENVIR with negative significant. INVEST has positive correlations with LNTOBINQ, but no correlation was found between and all variables for corporate sustainability commitments (CSC, SOC, GOV), except for ENVIR with negative significant.

TABLE 4. Pairwise correlations

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
(1)	1.000															
(2)	0.034	1.000														
(3)	0.051	0.882***	1.000													
(4)	0.085	0.694***	0.473***	1.000												
(5)	-0.159**	0.758***	0.609***	0.314***	1.000											
(6)	0.553***	0.017	0.085	0.024	-0.190***	1.000										
(7)	-0.239***	-0.170***	-0.241***	-0.193***	0.068	-0.272***	1.000									
(8)	-0.132**	-0.181***	-0.158**	-0.146**	-0.102*	-0.116*	0.565***	1.000								
(9)	0.098	-0.021	-0.122*	0.014	0.100	-0.077	0.402***	-0.072	1.000							
(10)	-0.044	-0.275***	-0.254***	-0.212***	-0.172***	-0.110*	0.511***	0.222***	0.265***	1.000						
(11)	-0.134**	-0.009	-0.033	-0.191***	0.241***	-0.172***	0.218***	-0.026	0.149**	-0.064	1.000					
(12)	-0.122*	-0.001	-0.075	0.050	0.010	-0.113*	-0.021	-0.025	-0.182***	-0.018	-0.055	1.000				
(13)	0.036	0.033	0.028	0.112*	0.018	-0.025	0.082	0.013	0.050	-0.011	-0.033	-0.085	1.000			
(14)	0.048	0.083	0.133**	0.031	0.042	-0.077	-0.077	-0.050	-0.024	-0.065	0.003	0.083	0.015	1.000		
(15)	0.101*	-0.017	-0.055	0.029	-0.053	-0.026	0.114*	0.041	0.115*	0.073	-0.027	-0.005	-0.068	0.044	1.000	
(16)	-0.002	0.195***	0.227***	0.041	0.194***	-0.056	-0.047	-0.097	-0.027	0.004	0.107*	-0.017	-0.060	-0.077	0.000	1.000

*** $p < 0.01$, ** $p < 0.05$, * $p < 0.1$

(1) LNTOBINQ; (2) CSC; (3) SOC; (4) GOV; (5) ENVIR; (6) INVEST; (7) lnSZ; (8) LEV; (9) PRICE; (10) CASHF; (11) AGE; (12) BD_SZ; (13) BD_IND; (14) CEO_DUAL; (15) SECTOR; (16) YEAR

HYPOTHESES TESTING

To test our hypotheses, we applied the Driscoll-Kraay Standard Errors estimation approach in order to control the issue of heteroscedasticity, cross-sectional dependence and auto-correlation (Hoechle 2007; Law 2018) in the analysis. From TABLE 5, CSC is found to have positive association with LNTOBINQ (model 1) at 5 percent level. Based on the findings, our first hypothesis, H_1 , is accepted. The findings are consistent with earlier research (i.e Matuszewska-Pierzynka 2021; Schönborn et al. 2019) as the managers might be involved in sustainability practice as part of the strategy that could increase company's values (Jamil et al. 2021).

When separating the analysis based on the ESG pillars, only SOC (model 2) has a positive association with LNTOBINQ. Both GOV and ENVIR (model 3 & 4) have no association with LNTOBINQ. Regarding ESG dimension, companies with high SOC have higher value. Therefore, the finding indicates that social activities undertaken by companies will increase stakeholder's trust thus improve financial values. For the governance pillar, GOV however shows that companies with best governance practices have no influence on company's financial values. In addition, environmental practice has a negative association with LNTOBINQ, however such association is unable to be proven.

Regarding our second hypothesis, INVEST has a positive association with LNTOBINQ in all models, thus H_2 is accepted. The finding is in line with previous studies related to institutional investors and performance (Jusoh 2016; Tee 2017). The positive association implies that institutional investors in Malaysia play a significant monitoring role in companies, thus helping the companies to have better financial values.

For our third hypothesis, H_3 the coefficient of CSC*INVEST (model 1) and SOC*INVEST (model 2) is shown to be significant and negative at 5 percent significant levels, thus rejecting H_3 . The result suggests that the relationship between corporate sustainability commitment and LNTOBINQ is weakened by the presence of institutional investors as illustrated in FIGURE 1. Companies without intervention of institutional investors tend to enjoy higher valuation while practising sustainability as compared to firms with lower sustainability. On the contrary, firms with presence of institutional investors tend to have lower value especially for companies with highly committed to practising sustainability. This result implies that firms with highly concentrated ownership, institutional investors might have higher expectations for firms to meet their interests. Therefore, by highly committed to sustainability practices, and at the same time fulfilling investors' interests might incur higher costs and therefore reduce their values.

TABLE 5. Panel regressions

VARIABLES	(1) LNTOBINQ	(2) LNTOBINQ	(3) LNTOBINQ	(4) LNTOBINQ
CSC	1.216** (0.486)			
SOC		1.350** (0.528)		
GOV			0.522 (0.345)	
ENVIR				-0.185 (0.113)
INVEST	6.617*** (0.690)	8.196*** (1.166)	4.391** (1.296)	3.173*** (0.411)
CSC*INVEST	-6.282** (2.289)			
SOC*INVEST		-7.983** (2.707)		
GOV*INVEST			-1.852 (1.662)	
ENVIR*INVEST				1.156 (2.703)
lnSZ	-0.282*** (0.0652)	-0.278*** (0.0559)	-0.262*** (0.0603)	-0.257*** (0.0610)
LEV	-0.983 (0.860)	-0.982 (0.789)	-1.076 (0.887)	-1.102 (0.863)
PRICE	0.105*** (0.0234)	0.109*** (0.0235)	0.104*** (0.0245)	0.108*** (0.0199)
CASHF	0.149*** (0.0143)	0.151*** (0.0112)	0.125*** (0.0241)	0.100** (0.0333)
AGE	4.17e-05 (0.00424)	0.000286 (0.00444)	0.000298 (0.00356)	-0.000798 (0.00436)
BD_SZ	0.0327 (0.0361)	0.0395 (0.0367)	0.0279 (0.0397)	0.0268 (0.0381)
BD_IND	0.151 (0.320)	0.135 (0.297)	0.124 (0.339)	0.151 (0.311)
CEO_DUAL	0.373** (0.144)	0.337* (0.150)	0.388** (0.145)	0.371** (0.141)
SECTOR fixed effect	Included	Included	Included	Included
YEAR fixed effect	Included	Included	Included	Included

Constant	9.985* (4.973)	9.313 (4.912)	9.611* (4.526)	10.15* (4.608)
Observations	256	256	256	256
R-squared	0.579	0.586	0.573	0.571
F-test	53.84***	41.72***	697.1***	391.6***
Number of groups	69	69	69	69

Standard errors reported in parentheses

*** p<0.01, ** p<0.05, * p<0.1

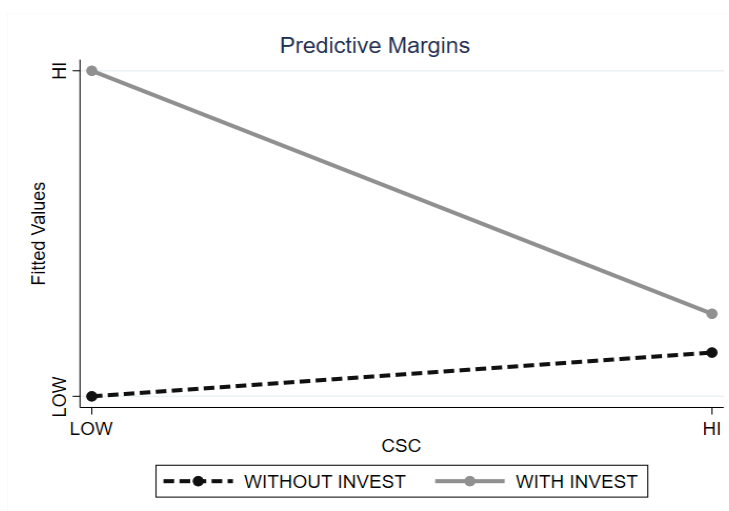


FIGURE 1. The interaction plot between CSC and INVEST

The main result in this study (TABLE 5) however might be bias due to endogeneity problem, where companies with higher value were more likely to committed in sustainability practices. Thus, firms high CSC companies might be self-selected into the sample. To overcome this issue, we followed Muhmad et al. (2022) and Firth et al. (2016) by employing two stage least square (2SLS) regression.

TABLE 6 present the 2SLS regression model, in first stage, each independent variables (CSC, ECO, SOC and ENV) were regressed with exogenous variable, ROA alongside controlling variables. Banks with high ROA, will have higher tendency to sustainability practices (Muhmad et al. 2022; Agburuga 2018). The residuals values from the first stage regression (model 5-8) were used as instruments in the second stage (model 9-12). The results of 2SLS similar with the main models in TABLE 5, where both CSC and SOC are found to have positive association with LNTOBINQ at 5 percent significant level (Model 9-10). Meanwhile, GOV and ENVIR has no association with LNTOBINQ (model 11-12). The results also show INVEST has positive association with LNTOBINQ in all models, which also similar to TABLE 5. The interaction term of CSC*INVEST and SOC*INVEST also shown similar findings as in TABLE 5 where both interactions have negative association with LNTOBINQ.

We further testing the interest variable by applying Durbin–Wu and Hausman test as presented in TABLE 7. The result shows there are no occurrence of endogeneity in CSC, SOC, GOV and ENVIR ($p<0.05$) (Durbin 1954; Wu 1973; Hausman 1978).

TABLE 6. Two stage least square estimation (2SLS)

VARIABLES	First stage				Second stage			
	(5) CSC	(6) SOC	(7) GOV	(8) ENVIR	(9)	(10)	(11)	(12)
					LNTOBINQ			
CSC					1.155** (0.465)			
SOC						1.359** (0.528)		
GOV							0.523 (0.345)	
ENVIR								-0.284 (0.141)
INVEST					6.459*** (0.714)	8.224*** (1.161)	4.393** (1.296)	3.033*** (0.436)
CSC*INVEST					-5.963** (2.226)			
SOC*INVEST						-8.030** (2.712)		
GOV*INVEST							-1.855 (1.661)	

ENVIR*INVEST								1.610 (2.537)
lnSZ	0.00599 (0.00991)	-0.00700 (0.0117)	-0.00837 (0.0122)	0.0328** (0.0127)	-0.274*** (0.0633)	-0.288*** (0.0564)	-0.266*** (0.0626)	-0.264*** (0.0596)
LEV	-0.151* (0.0806)	-0.0990 (0.0950)	-0.0692 (0.0996)	-0.240** (0.104)	-1.163 (0.823)	-1.116 (0.784)	-1.112 (0.869)	-1.048 (0.860)
PRICE	0.00129 (0.00374)	-0.00418 (0.00441)	0.00815* (0.00462)	0.00250 (0.00481)	0.106*** (0.0229)	0.103*** (0.0249)	0.109*** (0.0222)	0.108*** (0.0199)
CASHF	-0.0377*** (0.00988)	-0.0290** (0.0116)	-0.0353*** (0.0122)	-0.0459*** (0.0127)	0.103*** (0.0244)	0.112*** (0.0231)	0.107*** (0.0244)	0.110** (0.0328)
AGE	-0.000516 (0.000654)	-0.000328 (0.000770)	-0.00253*** (0.000807)	0.00199** (0.000840)	-0.000544 (0.00433)	-0.000167 (0.00436)	-0.00103 (0.00421)	-0.00139 (0.00444)
BD_SZ	-0.000777 (0.00520)	-0.0102* (0.00613)	0.00674 (0.00642)	0.00226 (0.00668)	0.0315 (0.0364)	0.0258 (0.0365)	0.0314 (0.0375)	0.0257 (0.0385)
BD_IND	0.0250 (0.0651)	0.0301 (0.0768)	0.143* (0.0805)	0.00414 (0.0837)	0.180 (0.322)	0.176 (0.305)	0.199 (0.306)	0.147 (0.309)
CEO_DUAL	0.0287 (0.0272)	0.0629* (0.0320)	0.00351 (0.0336)	0.0211 (0.0349)	0.406** (0.146)	0.423** (0.139)	0.390** (0.146)	0.363** (0.138)
ROA	-0.0268 (0.0501)	0.00634 (0.0591)	0.000226 (0.0619)	-0.0622 (0.0645)				
SECTOR	Included	Included	Included	Included	Included	Included	Included	Included
YEAR	Included	Included	Included	Included	Included	Included	Included	Included
Constant	0.445** (0.174)	0.813*** (0.205)	0.607*** (0.215)	-0.212 (0.224)	4.382** (1.766)	4.698** (1.567)	4.086* (1.786)	3.983** (1.611)
Observations	256	256	256	256	256	256	256	256
R-squared	0.101	0.108	0.122	0.128	0.578	0.586	0.573	0.571
F-test	3.05***	3.30***	3.79***	4.00***				
Wald chi2					48.79***	1267***	677***	377.1***

Standard errors reported in parentheses

*** p<0.01, ** p<0.05, * p<0.1

TABLE 7. Durbin and Wu-Hausman endogeneity test

	CSC	SOC	GOV	ENVIR
Durbin score (chi ²)	2.146	2.211	2.376	2.724
P-value	0.145	0.139	0.123	0.099
Wu-Hausman (F)	2.139	2.204	2.371	2.721
P-value	0.142	0.137	0.125	0.100

As 2SLS has limitations to identify the appropriate instrument variable (Dam & Scholtens 2012; Muhmad et al. 2022) thus we further our analysis using Propensity Score Matching (PSM) approach by following Kamarudin et al. (2022). The PSM approach were developed by Rosenbaum and Rubin (1983) to control firm-level characteristics. The closest propensity score was used as references to matched companies with high CSC and companies with low CSC. TABLE 8 present the logit estimation of the CSC, SOC, GOV and ENVIR with companies' characteristics control variables (lnSZ, LEV, PRICE, CASHF, AGE and ROA) in first stage column. In second stage, the weighted score of the logistic regression were included in the main models and found estimation for CSC, SOC, GOV and ENVIR was similar to the main results in TABLE 5. Both interaction terms (CSC*INVEST and SOC*INVEST) weakened the association between sustainability and financial performance.

TABLE 8. Propensity score matching

VARIABLES	First stage (Logistic regression)				Second stage: OLS (PSM)			
	(1) CSC	(3) SOC	(5) GOV	(7) ENVIR	(2) LNTOBINQ	(4) LNTOBINQ	(6) LNTOBINQ	(8) LNTOBINQ
lnSZ	0.0406 (0.159)	-0.00325 (0.161)	-0.0863 (0.151)	0.333* (0.172)	CSC 1.337** (0.562)			
LEV	-0.644 (1.217)	1.042 (1.228)	0.520 (1.144)	-2.528* (1.295)	SOC	1.365*** (0.469)		
PRICE	0.171*** (0.0657)	0.0258 (0.0651)	0.188*** (0.0725)	0.0791 (0.0647)	GOV		0.611 (0.493)	
CASHF	-0.207 (0.179)	-0.138 (0.173)	-0.355* (0.209)	-0.539** (0.249)	ENVIR			-0.248 (0.411)
AGE	-0.0275** (0.0109)	-0.0138 (0.0107)	-0.0327*** (0.0105)	0.000209 (0.0105)	INVEST	6.984*** (2.169)	8.272*** (2.151)	4.632** (2.228)
ROA	-0.458 (0.755)	-0.0619 (0.787)	-0.149 (0.729)	-1.241 (0.856)	CSC*INVEST	-7.053* (4.189)		2.865*** (1.028)
					SOC*INVEST	-8.106** (3.471)		
					GOV*INVEST		-2.390 (4.482)	
					ENVIR*INVEST			1.705 (3.067)

					lnSZ	-0.306*** (0.0625)	-0.283*** (0.0607)	-0.280*** (0.0625)	-0.300*** (0.0633)
					LEV	-0.867* (0.472)	-0.957** (0.465)	-0.994** (0.479)	-1.144** (0.469)
					PRICE	0.103*** (0.0237)	0.109*** (0.0234)	0.101*** (0.0247)	0.0847*** (0.0231)
					CASHF	0.273*** (0.0906)	0.173*** (0.0664)	0.238*** (0.0901)	0.800*** (0.174)
					AGE	0.000633 (0.00402)	0.000371 (0.00398)	0.000944 (0.00416)	0.000360 (0.00385)
					BD_SZ	0.0312 (0.0308)	0.0389 (0.0308)	0.0259 (0.0311)	0.00648 (0.0300)
					BD_IND	0.167 (0.380)	0.127 (0.377)	0.134 (0.386)	0.115 (0.365)
					CEO_DUAL	0.380** (0.164)	0.339** (0.164)	0.397** (0.166)	0.360** (0.158)
					SECTOR	Included	Included	Included	Included
					YEAR	Included	Included	Included	Included
Constant	2.022*** (0.338)	2.097*** (0.321)	1.778*** (0.313)	2.951*** (0.375)	Constant	4.241*** (1.214)	3.661*** (1.200)	4.066*** (1.247)	5.150*** (1.229)
Observations	249	256	256	238	Observations	253	255	252	249
Pseudo R-squared	0.1915	0.2114	0.1609	0.2361	R-squared	0.585	0.587	0.578	0.617
LR Chi2	65.69***	74.93***	57.12***	75.20***	F	12.24***	12.44***	11.86***	13.76***

Standard errors reported in parentheses

*** p<0.01, ** p<0.05, * p<0.1

DISCUSSIONS

The findings regarding CSC and firm performance suggest that companies may engage in sustainability initiatives cautiously, ensuring that such practices do not compromise their financial standing. This aligns with the premise of agency theory, which traditionally argues that social and environmental activities may not directly enhance shareholder wealth (Qaderi et al. 2024). However, contrary to this view, the results indicate that firms with high sustainability commitment often enjoy improved reputation and stakeholder trust, which can translate into greater firm valuation (Alareeni & Hamdan 2020). This suggests that, in the Malaysian context, sustainability efforts may serve as a strategic tool for value creation rather than a mere compliance cost, especially when communicated effectively to the market and stakeholders. Moreover, agency theory also recognizes institutional investors as key monitoring agents capable of aligning managerial actions with shareholder interests. In this study, the findings indicate that institutional ownership is associated with improved firm performance, supporting the Malaysian Code of Institutional Investors (Institutional Investors Council Malaysia 2016; Indy et al. 2022), which advocates for more proactive monitoring of investee firms. This reinforces the argument that institutional investors play a governance-enhancing role, promoting efficiency and accountability that can lead to better financial outcomes.

However, the presence of institutional investors as a moderating factor uncovers a more intricate interaction. The findings indicate that the presence of institutional investors weakens the positive relationship between sustainability commitment and financial performance. This could suggest that the dual pressures of meeting institutional investors' expectations and maintaining robust sustainability practices may stretch firm resources, especially in emerging markets where institutional capacities and ESG infrastructure are still developing. It also reflects findings from past literature (Zainul Abidin et al. 2024; Annuar 2019), indicating that institutional investors in Malaysia may be limited in influence due to relatively low ownership stakes or a focus on short-term gains. This finding suggests that the simultaneous demands of adhering to the expectations of institutional investors and upholding rigorous sustainability standards may strain the resources available to firms, an effect that is particularly pronounced in emerging economies where the infrastructure and capabilities related to environmental, social, and governance factors are still in nascent stages of development (Rebs et al. 2019). This resource strain could manifest in various forms, such as increased compliance costs, the need for specialized expertise in sustainability reporting and implementation, or the diversion of capital from core business operations to sustainability initiatives, ultimately impacting financial performance (Buallay 2019).

The company that institutional investors invariably amplify the value of corporate sustainability strategies faces a significant challenge when considering the moderating effects of investor engagement (Nwoba et al. 2021). This perspective suggests that the involvement of institutional investors can introduce cost implications, potentially leading to short-term financial constraints for firms grappling with heightened compliance and reporting mandates (Qaderi et al. 2024). This insight is pivotal as it refines the understanding of institutional investors' role, suggesting that their effectiveness as moderators depends on the depth of their engagement, the extent of their resource commitment, and the alignment of their objectives with the corporation's long-term sustainability goals (Yang et al. 2024). Overall, the study contributes to the literature by providing empirical evidence from an emerging market context on how corporate sustainability efforts interact with institutional ownership to influence firm performance. It bridges the gap between theoretical expectations from agency theory and the practical realities of governance and sustainability in Malaysia,

offering implications for corporate managers, investors, and policymakers aiming to balance profitability with sustainable development.

IMPLICATIONS

This study presents several key implications across theoretical perspectives, policymaking, and investor considerations. From a theoretical standpoint, the findings align with stakeholder theory, as the positive impact of CSC on corporate value suggests companies that prioritize sustainability and exhibit strong management commitment are likely to generate sustainable growth and create long-term value. However, the lack of financial benefits from governance and environmental activities raises concerns from an agency theory perspective, highlighting potential inefficiencies and increased agency costs associated with sustainability investments. This underscores the need for stronger monitoring mechanisms to ensure that corporate sustainability efforts do not compromise shareholder value and are strategically aligned with business performance.

Additionally, strengthening sustainability reporting standards can enhance transparency and encourage businesses to disclose measurable impacts of their sustainability investments. Regarding institutional investors, the study suggests that while they play a crucial role in corporate governance, their influence appears to diminish corporate value in firms highly engaged in sustainability activities. Investors should seek a balanced approach, supporting sustainability practices that generate long-term value while avoiding excessive pressure that could diminish corporate financial performance. Improved alignment between investor priorities and corporate sustainability strategies will be essential to fostering sustainable business growth. These insights underscore the need for policymakers and corporate leaders to refine sustainability frameworks, ensuring they contribute to long-term value creation rather than imposing financial burdens on businesses. Clearer policies could incentivize companies to engage in socially responsible activities while ensuring governance and environmental initiatives are effectively integrated into corporate strategies.

CONCLUSIONS

This study examines the sustainability commitments among publicly listed companies in Malaysia by considering their impact on financial performance, as well as incorporating the view related to the roles of institutional investors in aligning CSC with corporate financial performance. The results show that corporate involvement in sustainability activities does bring benefits toward their corporate values. Furthermore, by aggregating sustainability into three separate dimensions, namely social, governance, and environmental, only corporate involvement in social activities is shown to have a positive association with corporate values. These findings suggest that corporate involvement in governance and environmental activities does not contribute toward value creation.

Nevertheless, the overall findings can be explained from the agency theory perspective and contribute to understanding whether corporate involvement in sustainability practices maximizes, or destroys, shareholders' values. Since involvement in sustainability activities may increase agency costs, there is a greater need for monitoring mechanisms to reduce such costs in companies that actively embark on such activities. This study's findings emphasize the importance of institutional investors, who are renowned for their ability to monitor and align corporate objectives with shareholder interests. The results suggest that the presence of institutional investors influences a company's value positively. However, companies that are highly involved in sustainability activities and with a higher presence of institutional investors have lower corporate values.

Nevertheless, the findings of this study are constrained in numerous ways. First, this study only relied on LNTOBINQ as a measure of corporate value creation. Future research could attempt to use different measures of corporate value to capture whether, and to which extent, corporate involvement in sustainability affects different performance measures. Another recommendation is to employ alternative measures to financial performance which can illustrate corporate value creation or value destruction when companies are highly involved in sustainability activities. Secondly, the limitation of this study is that it does not examine further the variations in CSC and institutional investors across the different sectors/industries. Different sectors have unique objectives and may be subjected to different investment preferences by the shareholders. It is recommended that future research extend this study by exploring how different industries approach sustainability practices.

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