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The Moderating Role of Institutional Ownership on the Nexus between Corporate Social Responsibility Performance and Financial Outcome in Malaysian Firms

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Abstract
Purpose: Existing literature concerning the association between corporate social responsibility (CSR) performance and firm financial outcomes is inconclusive. The absence of a moderating variable could be one of the contributing factors to the mixed results. This research investigates the moderating effect of institutional ownership on the nexus between firms' CSR performance and their financial outcome, based on the Malaysian market.
Design/methodology/approach: Multiple panel regression analysis was performed on a sample of 37 Malaysian public-listed firms covering the period from 2012 to 2020.
Findings: The evidence indicates a significant positive association between firms' CSR performance and their financial results in the presence of institutional shareholding
Research limitations/implications: This research contributes to the CSR literature by providing additional explanation over the divergence of previous works
Practical implications: The findings of this study are expected to provide support to policymakers such as the Securities Commission (SC) in broadening the role of institutional investors in corporate oversight activities and encouraging Malaysian corporations to engage in CSR activities to ensure the long-term viability of businesses
Originality/value: This is the empirical study which links institutional ownership, CSR and firm financial performance based on Malaysian environment.

Keywords: Corporate social responsibility (CSR), ESG, ROA, Institutional ownership, Financial performance, Malaysia

Introduction

Regulators, academics, and researchers have recently become interested in the topic of how socially responsible behaviour affects public approval of businesses. Previously, scholars such as Friedman (1970) claimed that the goal of businesses is to maximize profits for their shareholders, and that any additional expenditures paid for environmental conservation or socially responsible actions are thus harmful to the firm's worth. However, there has recently been a wind of change blowing through this philosophy. Concerns about corporate sustainability have prompted companies to devote resources to addressing governance and

environmental concerns, as well as to oppose acts or activities that are damaging to customers or employees.
According to research, companies that are socially responsible have superior governance, which minimises uncertainty and commercial risk (Garcia, Mendes-Da-Silva & Orsato, 2017; Kumar; 2020). For example, studies demonstrate that participating in environmentally or socially driven activities reduces the likelihood of paying heavy penalties by adhering to regulatory bodies' environmental requirements (Fatemi et al., 2017); improving efficiency, and lowering the degree of natural resources consumption (Aras & Crowther, 2008) ; having better workplace relation which may subsequently lead to better human capital retention and recruitment and eventually lead to profit generation (Bhattacharya et.al, 2008; Edmans et al., 2017); assisting in indirect firm value generation by improving firms' innovation capabilities (David et al., 2020) Furthermore, research also shows that socially responsible companies have more liquid stocks, cheaper cost of equity, lower level of information asymmetry, and improved earnings quality, lower cash flow risk (Rezee & Tuo, 2017; Kumar 2020; Hickman,2020; Nguyen et al.,2020). Whether and how socially responsible behaviour translates to firm financial performance still subject to debate among researchers. Some CSR studies provide evidence that CSR performance have positive influence towards firms financial performance (e.g., Servaes &Tamayo, 201 ;Wang & Sarkis, 2017; Garcia et.al., 2017; Bually et. al., 2020) while some findings exhibit negative or insignificant impact (e.g., Seifert et. al., 2003; Barnett & Solomon, 2012; Radhouane et al., 2020; Bae et.al.,2020). Reverte et.al. (2016), Wang & Sarkis (2017) and Broadstock et al. (2020) contend that the absence of moderating factor could be one of the contributing factors to the mixed outcomes.
With this idea in mind, this study therefore proposes that the presence of institutional ownership has a positive influence towards firms' CSR and financial performance based on Malaysian market. The foundation of this study is built upon the monitoring capability of institutional owners. Institutional ownership is capable to mitigate type II agency problems faced by Malaysian firms thanks to its sizeable investment. We postulates that this category of corporate owner is vested with power to demand their investees firms to behave socially responsible . Hence, it is expected that the presence of institutional ownership may strengthen the linkage between CSR performance and firm financial performance.
The study is organised as follows: The literature review and hypotheses formulation are detailed in the next section. The data and methodology used are provided in the third section. The findings and discussions are presented in the fourth section, and the study is concluded in the last section..

Literature Review
Past research attempts to establish the link between CSR initiatives and firms' financial achievement. For example, Servaes &Tamayo (2013) contend that in US, CSR activities improve firms Tobin's q when the CSR initiatives are aligned with firms' reputation.
Wang & Sarkis (2017) findings reveal that favourable return on assets (ROA) is associated with firms' CSR governance and environmental performance through a sample of 500 leading environmentally friendly corporations in US. Garcia et.al. (2017) show that firms' environmental performance impose favourable impact on ROA based on 365 publicly-traded firms from Brazil, Russia, India , China and South Africa (the so-called BRICS countries) covering the period of 2010 and 2012. Findings from Kuo et al (2021) claim that the implementation of CSR practices in airlines sector enhancing ROA after a period of time. Study from Albuquerque et al. (2020) show during the Covid-19 pandemic era, better environmental and social performance assist firms in US to achieve better stock return performance.
In contrary, some CSR studies show either negative or insignificant outcomes. For instance, by examining 882 banks from developed and developing countries, Bually et. al. (2020) discover

that CSR performance is negatively associated with banks' performance indicator. Study from Radhouane et.al. (2020) too find that CSR performance and the Tobin's q for environmental sensitive industries in France portray a negative relationship. Findings from Seifert et. al. (2003), Barnett & Solomon (2012) and Bae et al. (2021) show CSR performance has minimal impact on firms' financial performance.

Wang & Sarkis (2017) opine that the positive relationship between CSR performance and firm financial performance derives from firms which take serious and rigorous steps to execute CSR activities. For instance, firms that enforce corporate governance activities may take initiatives to improve their organizational structure and consequently lead to business performance. On the other hand, the implementation of CSR initiatives requires significant resource consumption. Hence, some firms may utilize CSR as a way to boost their corporate image or so-called 'greenwashing' (Kim et.al., 2012, Wang & Sarkis, 2017, Porter et. al. 2019). Therefore, the association between CSR performance and firm performance might be insignificant due to minimal resource allocation to implement strategic CSR initiatives.

Family and government-owned businesses are prevalent in Malaysia's commercial landscape Claessens et al. (2000) found that 67.2 % of Malaysian firms are held by families, whereas 13.4% are controlled by government entities. The five largest owners in these businesses controlled 60.4 % of the issued shares and more than half of the voting shares (World Bank , 2005). These figures strongly imply that Malaysian firms are vulnerable to type II agency problem (Claessens et. al., 2002).

The controlling shareholders in firms which are haunted by type II agency problems tend to indulge in opportunistic behaviour at the expense of minority outsiders. The owner-managers have the tendency to divert corporate resources for private benefits and hence their commitment in socially responsible behaviour might be questionable. Hence, it is very probable that the positive impact of CSR on firm performance which has been perceived in other markets might not be observed in Malaysia.

Corporate monitoring via institutional ownership might be a strategy to mitigate type II agency problems and encourage businesses to be more socially responsible. Institutional investors could be an excellent corporate watchdog based on two factors. First of all, institutional investors normally refer to companies or organisations which make investments on behalf of their members or clients. Institutional investors include public or private retirement funds, mutual funds, insurance companies, government bodies etc. The substantial amount of cash inflows which are channeled into the investee firms gives institutional investors the power to urge firms to act as a good corporate citizen (Velury & Jenkins, 2006; Ahmad & Jusoh, 2014). Secondly, institutional investors are the experts in monitoring the management. They are capable of intervening in management decisions should they discover any socially irresponsible conduct by the management (Bajo et. al., 2013; Elyasiani & Jia, 2010). Hence, it is expected that CSR performance is related to firm financial performance in Malaysia in the presence of institutional ownership.

Hypothesis Development

Based on the above discussions, we therefore developed the following hypotheses:

H1: There is a nexus between CSR and firm financial performance in Malaysia.

H2: The nexus between CSR and firm financial performance is stronger in the presence of institutional ownership in Malaysia.

Methods

The study includes 37 public-listed companies in Bursa Malaysia for the period 2012 to 2020. The final sample consists of 238 instead of 333 (9 x 37) firm-year observations due to missing

data and detected outliers in data are further removed. In this study, we use ROA as the firm financial performance indicator by following Sanches et.al (2017) and Li et.al. (2017). The independent variable employed in this study includes of CSR performance and institutional ownership. CSR performance is proxied by Environment, Social and Governance (ESG) score from Bloomberg database by following Fatemi et. al. (2017); Wang & Sarkis (2017). ESG score is the index ranges from 0 (lowest) to 100 (highest) compiled by Bloomberg based in environmental, social and governance pillar. The institutional ownership is measured by the percentage of institutional shareholding. We also include a total of four control variables that are known to influence firm financial performance: firm size (logarithm of total assets), financial leverage (ratio of total debt to total assets), dividend per share and market to book ratio (market value of equity divided by book value of equity).
In order to determine whether the institutional investors are associated with firm financial performance, we derived an equation as follows:
$ROA_{i,t} = \alpha + \beta_1 ESG_{i,t} + \beta_2 INS_{i,t} + \beta_3 ESG*INS_{i,t} + \beta_4 LSIZE_{i,t} + \beta_5 LEV_{i,t} + \beta_6 MTB_{i,t} + \beta_7 Dividend_{i,t} + \varepsilon_{i,t}$
where, ROA denotes return on assets; ESG denotes Corporate Social Responsibility (CSR) performance; INS denotes the institutional shareholding; SIZE denotes total assets; LEV denotes financial leverage; Dividend denotes the dividend per share; MTB denotes the market to book ratio; βi denotes the coefficient and εi, denotes the error term.
Our dataset just like any datasets of finance and accounting or corporate finance which involves panel datasets containing residuals possibly correlated across firms or across times. Hence, OLS standard errors can be biased, either over- or underestimate the true variability of the coefficients estimates. If standard errors are biased, then making inference based on these standard errors is inappropriate. So in this study, we employed regression based on pooled OLS model under the presence of firm fixed and time effects since both time effect and firm effect are detected. In addition, our panel datasets are highly possible facing threats to stability and reliability which include influential outliers, heteroscedasticity or non-normal residuals. One of the most common strategies for dealing with the possibility of heteroscedasticity in panel regression is to use White Standard Errors (refers to Model 2). It specifies the type of standard error that is given, which is resistant to certain types of misspecification and allows intragroup correlation. The feasible GLS (refers to Model 5) standard errors are also employed in the study since it is robust to disturbances that are heteroscedastic, cross-sectionally correlated contemporaneously, and autocorrelated of type first-order autoregressive. However, using the FGLS is typically inappropriate for use with medium and large scale panels if panel's time dimension (T) is smaller than it cross- sectional dimension (N). Thus, FGLS tends to produce unacceptably small standard error estimates. Finally, we also followed suggestions by Beck and Katz (1995) in which to rely on OLS coefficient estimates with panel corrected standard errors (refers to Model 6) to overcome problem detected in estimating FLGS.

Findings
The descriptive data for this investigation are presented in Table 1. The average return on assets (ROA) is 7.319 (standard deviation = 9.996), suggesting that firms in the sample earn profit RM7.319 for every RM (Ringgit Malaysia) invested in assets. Furthermore, the average financial leverage ratio is 28.771 (standard deviation = 16.14), implying that debts fund 28.771 percent of the sample firms' total assets. The average dividend paid by the sample firms is

RM0.268 per share (standard deviation = 0.544), with an average total asset value of RM9.844 million (standard deviation = 1.392). Also, one average, the institutional owners hold 63.679% (standard deviation= 23.429) of shares in the sample firms, while the mean of ESG score is 28.416 (standard deviation = 12.549).

Table 1. Descriptive statistics

Variables	N	Mean	Std. Dev.	Min	Max
ROA	238	7.319	9.996	0.000	75.400
ESG	238	28.416	12.459	10.530	55.790
INS	238	63.679	23.429	0	95.02
SIZE	238	9.844	1.392	6.493	13.811
LEV	238	28.771	16.140	0.08	68.19
MTB	238	8.912	68.836	0.270	1195.12
Dividend	238	0.268	0.544	0.01	6.976

Table 2 presents the correlation matrix. The results show that most of the variables have correlation values of less than 0.8, indicating no sign of serious multicollinearity (Gujarati, 2003).

Table 2. Correlation matrix

	ROA	ESG	INS	SIZE	LEV	Dividend	MTB
ROA	1						
ESG	0.2881	1					
INS	0.1245	0.2899	1				
SIZE	-0.5173	0.0050	0.1364	1			
LEV	-0.0429	0.0275	-0.1555	0.1283	1		
Dividend	0.2782	0.1220	0.0688	-0.1806	0.0902	1	
MTB	0.4919	0.2527	0.1045	-0.2172	-0.0393	0.1750	1

Table 3 highlights results of our analysis. In the presence of a firm fixed and time effects, we addressed one parametrically by including time dummies and then estimate standard errors clustered by firm. Model 1 reports the benchmark regression based on pooled OLS model under the presence of firm fixed and time effects. The results show that *ESG* score has insignificant impact on firms' financial performance and hence H1 is not supported. The outcome indicates that Malaysian firms tend to use CSR as an instrument to increase corporate image and reputation without channelling necessary efforts and resources to implement CSR strategies deeply. he negative coefficient values of *ESG* and *INS* both are statistically not significant. This study intends to suggest nuance insight in explaining the relationship between CSR and corporate financial performance by proposing institutional ownership as the moderating factor. It is believed that the monitoring ability of institutional owners is able to urge the controlling owner-managers in Malaysian firms to commit to social responsible behaviour. Hence, these firms are likely to generate favourable results on CSR related matters and subsequently achieve improved business performance. The estimated positive coefficient value of *ESG*INS* interaction is statistically significant at 5% significant level, it implies that the presence of institutional ownership strengthens the role of CSR in generating firm financial performance and hence H2 is supported. Among the control variables, *MTB* and *DIVIDEND* are positively associated with firm performance while *SIZE* shows the opposite. It seems that firms which are smaller in size, pay dividend, possess higher debt ratio and better market valuation have better financial performance. Model 2 through 6 serve as robustness check, where the sign, magnitude and the significance level of the coefficients for most of the variables remain unchanged, stable and reliable. Using White Standard Errors is one of the most frequent techniques for dealing with the probable existence of heteroscedasticity in panel regression (Model 2). It specifies the type of standard error reported which are robust to some kinds of misspecification that allow for intragroup correlation. Another alternate approach, the feasible GLS (Model 5) standard errors are also robust to disturbances being heteroscedastic, contemporaneously cross-sectionally correlated, and autocorrelated of type first-order autoregression of AR(1). Models 2 through 6 act as a robustness check, ensuring that the sign, size, and significance level of the coefficients for the majority of the variables remain consistent, stable and reliable.

Table 3: Impact of CSR and institutional ownership on firm financial performance

Variable	OLS (Firm &Time Effect)	White Standard Error	GLS (Random Effect)	GLS (Cluster Firm)	Feasible GLS (FGLS)	Panel Corrected Standard Error (PCSE)
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Constant	28.899	28.899	31.971	31.971	28.889	39.518
	(5.349)***	(3.836)***	(3.408)***	(6.338)***	(2.582)***	(2.170)***
ESG	-0.041	-0.041	-0.041	-0.042	-0.041	-0.052
	(0.050)	(0.055)	(0.060)	(0.044)	(0.063)	(0.167)
INS	-0.047	-0.047	-0.038	-0.038	-0.047	-0.105
	(0.026)*	(0.027)*	(0.027)*	(0.030)	(0.026)*	(0.064)
*ESG * INS*	0.002	0.002	0.002	0.002	0.002	0.005
	(0.001)**	(0.001)*	(0.0008)***	(0.001)**	(0.0009)***	(0.002)**
SIZE	-2.340	-2.340	-2.728	-2.728	-2.340	-3.628
	(0.547)***	(0.387)***	(0.354)***	(0.724)***	(0.251)***	(0.464)***
LEV	0.011	0.011	0.014	0.014	0.012	0.051
	(0.027)	(0.019)	(0.021)	(0.030)	(0.016)	(0.035)
MTB	0.096	0.096	0.057	0.056	0.096	0.016
	(0.019)***	(0.014)***	(0.016)***	(0.027)	(0.014)***	(0.025)
Dividend	4.193	4.193	4.419	4.418	4.194	4.953
	(2.073)*	(1.173)***	(1.556)***	(1.805)**	(1.241)***	(1.465)***

Note: The regressions contain time dummies. Figures in the parentheses are standard errors. Asterisk *, ** and *** indicate the respective 10%, 5% and 1% significance level.

Discussion and Conclusion

Through a sample of 37 Malaysian publicly traded firms, this research firstly examines whether CSR affects firm financial performance in Malaysia. The insignificant outcome pinpoints to the possibility of firms merely using CSR as a mechanism to increase corporate image or reputation without channeling sufficient resources and effort to 'walk the talk'. In view of this, we propose institutional ownership as the moderating variable on the nexus between CSR and firm financial performance. The evidence shows that the presence of institutional shareholding improves the association between CSR and business outcome. We believe that the monitoring capability of institutional owners to mitigate type-II agency problem in Malaysian firms could be the contributing factor. This study contributes to CSR literature by providing additional explanation over the mixed findings of the nexus between CSR and firm performance. Specifically, the outcomes suggest that CSR might not always generate good financial results if firms lack of commitment in solving CSR-related issues , and instead, treating CSR as an avenue to improve firm image and reputation. The presence of institutional owners is expected urge the owner-managers in Malaysian firms to be more socially-responsible and subsequently lead to better financial performance.

Practical and Social Implications

The outcomes of this study is expected to serve as a support for policy-makers such as Securities Commission (SC) to broaden the role of institutional investors in corporate oversight activities and to encourage corporations in Malaysia to participate in CSR activities to ensure long-term sustainability of firms.

Suggestions for Future Research

In future, researchers can focus on whether the type of institutional owners eg: domestic, foreign, state-owned, long-term, etc. playing a role in moderating the nexus between CSR and firm performance. We believe that different institutional investors have differ investment horizons and objectives, and hence, differ in their monitoring intensity towards managers.

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