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The Sustainability Performance and Corporate Financial Stability in Malaysia: The Moderating Effects of Ownership Structures

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ABSTRACT

Sustainability performance (SUSP) of the corporate sectors has increasingly gained attention among the market regulators and business stakeholders especially since the launching of the UN's SDGs Agenda 2030 in 2015. Since then, many researches have been conducted to study the relationship between SUSP and corporate financial performance. However, there is scarce number of studies on the relationship between SUSP and corporate financial stability (CFS) and yet, the results are indecisive or inconclusive as revealed by the studies in the developed and other developing countries. Therefore, this study aims to investigate the relationships between the SUSP (ESG scores) and the CFS (Altman's z-score) using the samples of 77 Shariah-compliant public listed companies in Malaysia. Additionally, this study examines the moderating effects of ownership structures (concentrated and managerial) on the SUSP-CFS nexus. The study spans from 2018 to 2023 with annual unbalanced panel data and employs the static panel analysis comprising the POLS, fixed and random effects estimations. The results prove that the environmental, social and governance performances have mixed relationships with the CFS in spite of insignificant results. Further, both ownership structures show significant moderating effects particularly on the environmental performance-CFS nexus. Meanwhile, the concentrated ownership reveals significant weakening effect on the social-CFS positive nexus. This study has policy and managerial implications, where it ignites the policy makers and corporate sectors to have concerted efforts in upholding the SUSP, strengthening the ownership structures and ultimately enhancing the CFS in Malaysia.

INTRODUCTION

CFS is defined as the capacity of corporate sector in facilitating and enhancing the economic pursuits, managing the risks and absorbing the financial upsets (Schinasi, 2004). Stobierski (2020) suggested CFS as a blend of robust and consistent financial position, financial performance and cash flows. Maverick (2022) noted that the CFS is varying over time as it is the outcome of combination of multiple financial metrics comprising liquidity, operating efficiency, profitability, and solvency. Meanwhile, Nosiru (2023) claimed that the CFS does not solely depend on profitability, but also needs to persistence from the companies in overcoming the problems in business. In addition, investment performance and efficient control of resources and cost play crucial roles towards the CFS (Chen & Wong, 2004; Sayidah et al., 2019). Apart from that, the internal management characteristics such as leadership effectiveness, management confidence, and investor protection also contribute towards the CFS (Hasan et al., 2018; Friedman et al., 2002).

The CFS is also influenced by the changes in the macroeconomic fundamentals and development in the markets (Dafermos et al., 2018; Tsoukas, 2011). The rising inflation and interest rate had contributed to skyrocketing operating and financing costs, which have worsened the CFS (IMF, 2022). Moreover, the global geopolitical instabilities have interrupted the business operation and the supply chain, which has led to higher

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production cost and contributed to financial instability. Aside from economic factors, the CFS is influenced by non-financial factors. The corporate governance attributes and the sustainability performance had enhanced the CFS particularly during the financial turbulence but the impacts varied across companies' characteristics and operating environments (Nguyen et al., 2022; Chiaramonte et al., 2022; Li et al., 2023; Orazalin et al., 2023).

Meanwhile, the companies that were not financially stable were exposed to probability of defaults (Badayi et al., 2021; Shih et al., 2021; Li et al., 2022; Citterio & King, 20223) or likelihood of bankruptcy (Cooper & Uzun, 2019; Shih et al., 2021; Lisin et al., 2022; Brooks & McGuire, 2023; Habermann & Fischer, 2023). Apparently, the CFS is crucial to ensure the creditworthiness, solvency, and long term survival of companies (Aslan et al., 2021; Lisin et al., 2022). Cohen (2023) suggested that the companies must be willing to invest certain funds and resources to achieve the CFS. Meanwhile, Hsiao et al. (2022) claimed that huge expenditure allocated by companies to improve the relationship with their stakeholders had caused financial instability. Further, Castenholz (2021) added the corporate financial instability can negatively influence the ability of companies to obtain funds in the capital market, thus raising the cost of fund. The study associated the financial instability with financial failure that caused the companies' inability to meet their financial obligations as noted by Aslan et al. (2021).

In the meantime, the sustainability performance (SUSP) has increasingly gained interest among the business communities. The issues such as renewable energy, carbon emission, workforce diversity, and consumer data privacy and security have become concerning. The SUSP is currently associated with environmental, social and governance (ESG) performances. The environmental pillar comprises resource reduction, emission reduction and product innovation. The social pillar encompasses workforce, community, and human right and product responsibility whereas; the governance pillar consists of corporate management, shareholders' right, and CSR strategy (Fiandrino et al., 2019; Lisin et al., 2022). Previous studies interchangeably referred the SUSP to ethical investing (Lisin et al., 2022), socially responsible investment (Domanovic, 2022; Jia & Li, 2022), green investment (Hsiao et al., 2022), sustainability initiatives (Qureshi et al., 2021; Abdi et al., 2022; Saidane & Abdallah, 2021; Harymawan et al., 2021; Li et al., 2022; Brooks & McGuire, 2023), and green income (Shih et al., 2021). The SUSP brings about a new standard of corporate endeavor in the value creation (Castenholz, 2021; Sandberg et al., 2023). Moreover, the SUSP potentially improves the corporate reputation, image, competitive advantage, and creditworthiness (Sadiq et al., 2020; Castenholz, 2021; Aslan et al., 2021; Harymawan et al., 2021; Citterio & King, 2023; Cohen, 2023). The SUSP also enhances the corporate visibility, legitimacy, approval from various stakeholders (Duque-Grisales & Aguilera-Caracuel, 2021; Jia & Li, 2022), and minimizes the exposure of the companies to the market risk besides establishing the goodwill in the long-term (Badayi et al., 2021). In addition, the SUSP is able to influence the investors' decision on the companies (Chen et al., 2023) and attract public sympathy (Cohen, 2023). Chen et al. (2023) suggested the companies with high SUSP were more secured and trusted by the stakeholders. Besides, the SUSP contributes to the financial efficiency (Iazzolino et al., 2023), creates greater business value (Hagen, 2021) and establishes pragmatic corporate culture (Bukhari, 2023).

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Nevertheless, the SUSP requires strong corporate commitment operationally and financially (Efthymiou et al., 2023). Ang et al., (2022) and Pérez et al. (2022) claimed that SUSP imposed extra financial burden as more costs and resources are required. This creates new challenges to the corporate sectors in the integration and implementation of SUSP as the relevant costs are exorbitant and instant (Papageorgiou & Suntheim, 2019). The PwC (2022) revealed 75 percent of the global companies had to commit to the sustainability initiatives despite its negative impact on their profitability in the near term. The debate continues whether the SUSP is an effective business strategy in elevating the corporate efficiency and profitability in the future (Andrey, 2023).

Further, the ownership structure (OWNS) also plays crucial role in maintaining the CFS. The OWNS particularly the majority shareholders have the rights to influence the corporate managerial decisions, monitoring and supervision (Baba & Baba, 2021; Batra et al., 2023). Koskinen (2023) revealed that different forms of OWNS had different impacts on the management practices. Stable OWNS contributed to creation of the corporate value in the long term and promoted higher level of investments especially during the crisis period (Lardon et al., 2019). Moreover, an ideal OWNS did not only contribute towards better financial performance of the companies (Sarpong-Danquah et al., 2022; Nashier & Gupta, 2023), but it also helped in enhancing the companies' efficiency and reducing the cost of capital (Habib et al., 2022; Faysal et al., 2020). Meanwhile, Mehdi et al., (2017) noted that the OWNS significantly influenced the corporate policy particularly the dividend payout during the time of crisis.

Previous studies highlighted that concentrated ownership (CONC) served as better protection of the shareholders' interest, effective monitoring on the quality of corporate disclosures and reporting (Raimo et al., 2020; Batra et al., 2023). Besides, ideal CONC boosted the innovation in the companies (Lee, 2023) and contributed towards better financial performance (Shahrier et al., 2020). In addition, the companies with large CONC would be actively monitored, thus reducing the agency problem and agency costs that might arise (Nashier & Gupta, 2023). In contrast, Maniruzzaman et al. (2024) claimed that larger CONC had no significant influence on the companies' financial performance but led to increased agency problem. Meanwhile, Karim et al. (2023) concluded CONC had significant negative influence on the operating-based financial performance whereas; Mohamad et al. (2020) revealed CONC had no significant relationship with both operating and market performances. On the managerial ownership (MANG), Tarighi et al. (2022) claimed MANG enhanced the corporate financial stability whilst Chen et al. (2020) and Gerged et al. (2022) suggested no significant influence by MANG on the financial stability. Almulhim (2020) proved that the MANG had negative relationships with the stock liquidity.

Based on the arguments, this study aims to investigate the relationship between the SUSP and CFS in Malaysia. In addition, this study examines the extent of moderating effects of OWNS on the SUSP-CFS nexus. The previous studies on Malaysian corporate setting had specifically examined the relationships between the SUSP (ESG) and firms' financial performance using the ROA, ROE or Tobin's Q as the proxies. This study attempts to address the gaps by examining the relationship between SUSP and CFS using the proxy of Emerging Market Score (EMS), namely the adjusted Altman's z-score. The EMS is an inclusive and robust measure that not only looks at the

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profitability as ROA and ROE do but it combines the four crucial financial metrics, namely liquidity, operating efficiency, profitability, and leverage to measure CFS. As per our literature search, this is the first attempt in Malaysian corporate setting to study the relationship between the SUSP and CFS (EMS) with the moderating effects of concentrated and managerial ownerships.

Therefore, this study is essential to enrich the scarce literature on this area of study particularly in the developing countries. Further, the study will shed light on the level of SUSP among the Malaysian companies, especially the *Shariah*-compliant companies that are supposed to have more awareness and commitment towards the sustainability agenda as this is in line with the *Maqasid Shariah* principles. In Malaysia, the *Shariah* compliance status is strictly monitored by the Securities Commission Malaysia, where every six months the status will be revised and updated. The study will benefit the policy makers to further enhance the ESG framework and policies for the corporate implementation. Besides, the companies can improve their SUSP while enhancing their financial stability with ideal ownership structures. The investors can also benefit by considering the corporate SUSP and CFS to make better investment portfolio decisions. The remainder of this study is arranged as follows; next section discusses the specific literature and develops the hypotheses, then we explain the data and methodology, next the results are analyzed and discussed, and lastly we conclude the study.

RESEARCH METHOD

We used convenience sampling by selecting the companies under the FTSE4Good Bursa Malaysia (F4GBM) Index constituents. The F4GBM Index was launched in December 2014 mainly to enhance the profiles and exposures of the listed companies at Bursa Malaysia with leading sustainability (ESG) practices and stimulate the companies to disclose their best practices. As of December 2023, there were a total of 109 companies under the F4GBM. Out of the total, 10 companies were non *Shariah*-compliant, 15 financial companies, and 84 *Shariah*-compliant non-financial companies. We excluded 15 financial companies because they have unique capital structure and different nature and treatment of assets, liabilities, revenue and expenditure besides different reporting requirements (Kim et al., 2014; Habermann & Fischer, 2023; Ahmad et al., 2023). Our final sample was only 77 *Shariah* companies as 7 companies had no ESG scores available in the Refinitiv Eikon database. The sample companies comprised various sectors, where the consumer products and services and technology sectors make up the majority, followed by industrial products and services, property, energy, telecommunications and media, transportation and logistics, health care, utilities, and plantation.

The dependent variable of study is the CFS using the proxy of adjusted z-score (EMS) as tested by Shahwan and Habib (2020), and Habib and Kayani (2022). We manually calculated the EMS using the EMS model (Altman & Hotchkiss, 1993; Altman, 2005) as follows:

$$EMS = 3.25 + 6.56X1 + 3.26X2 + 6.72X3 + 1.05X4$$

Where;

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EMS = Adjusted Z-score for the emerging markets' companies
X1 = working capital / total assets
X2 = retained earnings / total assets
X3 = earnings before interest and taxes / total assets
X4 = book value of equity / total liabilities

Precisely, X1 measures the liquidity of companies in meeting short term needs and financial obligations, X2 captures companies' sustainable profitability and reinvestment opportunity for future growth using the internal financing, X3 represents companies' operating efficiency in generating income from the assets utilized after considering the operating expenses, and X4 indicates companies' level of leverage or solvency. The companies with the EMS more than 5.85 are considered as 'financially stable and healthy' (Habib & Kayani, 2022). Otherwise, the companies are categorized as 'financially unstable'.

The raw financial data for EMS was collected from the respective companies' financial statements. As for the independent variables, the individual ESG performance scores (Environmental-ENVP, Social-SOCP, Governance-GOVP) were used to measure the SUSP (Saidane & Abdallah, 2021; Habermann & Fischer, 2023). The scores were collected from the Refinitiv Eikon. The concentrated ownership (CONC) was measured based on the substantial percentage of shareholdings, namely 5% or more following Alhmood et al. (2023) and Al Lawati and Sanad (2023). The managerial ownership (MANG) was measured based on the percentage of shareholdings by the companies' directors, CEOs or senior management (Tristanto et al., 2023; Wu et al. (2022). The raw data for CONC and MANG was manually collected from the companies' annual reports under the shareholdings analysis section.

This study included three control variables namely the companies' size, age and dividend. Majority of studies used total assets (Ismail et al., 2022; Hsiao et al., 2022; Harymawan et al., 2021; Atif & Ali, 2021) and total sales or revenue (Duque-Grisales & Aguilera-Caracuel, 2019; Fiandrino et al., 2019; Sandberg et al., 2022; Sadiq et al., 2020) to proxy the companies' sizes. Both total assets and sales are operating-based measure of size. In this study, we decided to use the market-based measure, namely the market capitalization of companies following Cohen (2023), Hashmi et al. (2020), and Dang et al. (2018), who emphasized the importance of selecting right proxy for the size as different proxies captured different aspects of firms' size, and therefore have different implications. As for the firms' age, we based on the number of years of business incorporation (Harymawan et al., 2021; Diantini et al., 2023). The larger and older companies are supposed to have more resources either financial or physical, thus can contribute more to the sustainability activities (Abdi et al., 2022), thus having higher SUSP. The dividend yield (DY) was used as another control variable following Saygili et al. (2022) and Shakil et al. (2019). DY was found to have significant negative influences on the financial performance and value of companies (Saygili et al., 2022). The raw data for the control variables were sourced from the Refinitiv Eikon.

This study used secondary annual data covering the period from 2018 to 2023. The unbalanced panel with 253 observations was tested by employing the static panel data techniques of analysis, namely pooled ordinary least square (POLS), fixed effect (FE)

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and random effect (RE) following Saygili et al. (2022) and Ismail et al. (2022) besides the descriptive, correlation and diagnostic analyses. Further, we determined the most appropriate estimation model for final analysis based on the likelihood ratio (Chow test) between POLS and FE, the Hausman (1978) test between RE and FE, and the BP-LM test between POLS and RE. We run the tests in the EViews 11 software based on the following models:

Baseline model:

$$CFS_{it} = \propto + \beta_1 SUSP_{it} + \beta_2 SIZE_{it} + \beta_3 AGE_{it} + \beta_4 DIV + \in_{it}$$

Moderating (interacting) model:

$$CFS_{it} = \propto + \beta_1 SUSP_{it} + \beta_2 OWNS_{it} + \beta_3 (SUSP_{it} * OWNS_{it}) + \beta_4 SIZE_{it} + \beta_5 AGE_{it} + \beta_6 DIV + \in_{it}$$

Where; CFS, SUSP, OWNS, SIZE, AGE, DIV are as explained above whilst $\propto$ represents the constant term, β indicates the beta coefficients of the respective variables, $\in$ is the error term, *i* represents the unit of analysis (individual company), and *t* indicates the respective year of observation (2018-2023).

RESULTS AND DISCUSSION

Results

The sample of *Shariah*-compliant companies indicated a mean EMS of 7.47. The result implies that the companies, on average, are financially stable as the EMS above threshold, 5.85 (Altman, 2005). However, there is a large disparity between the minimum and maximum EMS values, which show that some companies are highly financially stable with the EMS as high as 20.63 whilst some companies are financially unstable with the EMS as low as 1.62. Precisely, the companies under the technology, health care, and consumer products and services sectors reported high EMS whilst the telecommunications and media, energy, utilities and property companies indicated low EMS.

Table1: Descriptive Statistics

	EMS	ENVP	SOCP	GOVP	CONC	MANG	LOGMCAP	LOGAGE	DY
Mean	7.4700	43.8075	58.8495	53.5259	54.5841	4.7906	8.4747	3.1762	2.6364
Max	20.6334	88.6200	88.2000	95.2400	82.2900	56.4500	11.2042	4.6250	25.0000
Min	1.6181	0.2900	13.8900	8.7500	7.2300	0.0000	4.6270	0.6931	0.0000
Std. Dev.	3.4972	19.7069	16.4291	20.5964	18.1351	9.9319	1.6571	0.7023	2.3880
Skewness	1.3108	0.2094	-0.4381	0.0214	-0.5085	2.9999	-0.2018	-0.8520	3.6451

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Kurtosis	4.6940	2.1861	2.4775	2.0583	2.3703	12.8667	1.8338	3.6087	32.5132
Obs.	253								

With respect to SUSP, governance showed excellent performance with the highest score, followed by environmental and social. Nevertheless, on average, the companies only scored 58.85 for social, 53.53 for governance, and 43.81 for environmental. Notably, there were companies with poor performance with score 0.29 in environmental, 8.75 in governance, and 13.89 in social. Surprisingly, all the poor performing companies under each pillar are the technology companies. Clearly, the companies still prioritized the governance pillar such as board member's best practices and protection of shareholders' interest. The social pillar was also given attention by the companies such as taking care of customers and community, and treating well of employees. Nonetheless, the companies are much lacking on the environmental pillar such as concerns on the impacts of companies' operation on the environment, and low mitigation on the environmental risk.

As for the moderating variables, the mean 54.85 percent shows, on average, the companies' ownerships are highly concentrated whereas, the managerial ownership indicated very low mean. Obviously, the disparity between the minimum and maximum is substantial, respectively. That shows some companies are extremely controlled by small number of owners particularly by the institutional investors whilst some are not. Meanwhile, some companies show high ownership by the directors whilst some have negligible or no share ownership by the directors, specifically of the Government-linked or related companies. As for the control variables, the size shows the mean 8.47 with the largest 11.2 and the smallest 4.63. For the age, on average, the companies are approximately 30 years of incorporation. The age disparity of companies is extensive, which indicates some companies are growing and some are maturing. The dividend yields show the disparity between 0 to 25 percent with an average of 2.6 percent. Almost all companies did not pay dividend for the years 2020-2021 because the loss from operations during the period specifically due to the COVID-19 pandemic.

For the data distribution, age, size, dividend and EMS indicate the slightest dispersion from the means, respectively. Meanwhile, for other variables, the standard deviation values range approximately between 10.0 and 20.0, respectively that implied the is more spread out. In term of skewness, all variables show the values near to 0, respectively. This means the data is normally skewed or distributed. Furthermore, the kurtosis indicates the values close to 3, respectively, which implies that the data is normally distributed.

Correlation

All the variables show negative and weak correlations with EMS except for MANG and DY. The negative correlations of the SUSP with EMS could be that the higher the companies commit to the sustainability causes, the more financial and physical resources are required, thus lowering the assets and profits, consequently diminishing the financial stability. In respect to CONC, the larger the ownership concentration the

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lower EMS. This shows the disadvantage of CONC when it is too extreme, which will create gaps in interest and vision between the owners and management. This could adversely affect the management performance, thus reducing the financial stability of companies. Meanwhile, the share ownerships by the CEO, directors and senior management (MANG) are able to align the interest and vision of the owners and management, hence enhancing the companies' financial stability. With respect to the independent and control variables, the correlations are found to be weak and mostly positive except between the MANG and control variables. In sum, there is no strong correlation between the variables, particularly the independent variables, implying that there is no issue of multi-collinearity in the data.

Table 2: Correlation Matrix

Variables	EMS	ENVP	SOCP	GOVP	CONC	MANG	LOGMCAP	LOGAGE	DY
EMS	1.0000								
ENVP	-0.2447	1.0000							
SOCP	-0.1643	0.6251	1.0000						
GOVP	-0.2047	0.2549	0.4026	1.0000					
CONC	-0.2222	0.1321	0.1702	0.1112	1.0000				
MANG	0.1562	-0.0926	-0.0774	-0.0029	-0.1862	1.0000			
LOGMCAP	-0.0799	0.2401	0.1952	0.1148	0.3276	-0.2462	1.0000		
LOGAGE	-0.1145	0.1233	0.0640	-0.0812	0.1122	-0.3158	0.0840	1.0000	
DY	-0.0959	0.0535	0.1644	0.0141	0.0842	-0.0325	0.1937	0.1762	1.0000

Model Selection for Estimation

We performed three tests to determine the best model for the final estimation and analysis on the baseline and moderating models, respectively. First, we regressed using the Pooled Ordinary Least Square (PLOS) model and followed by the Fixed Effect (FE) model. Then, we tested using the Likelihood Ratio (Chow Test) to select the appropriate model between the POLS and FE. The result showed the *p*-value < 0.05, which means to reject the H0 (POLS). In other words, the FE model is appropriate. Next, we regressed using the Random Effect (RE) model. To determine the appropriate model between the RE and FE, we tested using the Hausman (1978). The result indicated the *p*-value > 0.05, which means we cannot reject the H0, thus the RE is more appropriate model for estimation. Lastly, we tested using the Breusch-Pagan LM to determine the most appropriate model between the POLS and RE. The *p*-value, which is < 0.05 means to

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reject H0, showing that the RE is the best model of estimation for our final analysis. Table 3 summarizes the results of the three tests.

Table 3: Results of Tests for Model Selection

Models	Baseline Model		Moderating Model 1		Moderating Model 2	
Tests	Prob.	Conclusion	Prob.	Conclusion	Prob.	Conclusion
Chow Test (POLS vs. FE)	0.0000	FE is appropriate	0.0000	FE is appropriate	0.0000	FE is appropriate
Hausman Test (RE vs. FE)	0.1742	RE is appropriate	0.0800	RE is appropriate	0.4072	RE is appropriate
BP-LM Test (POLS vs. RE)	0.0000	RE is appropriate	0.0000	RE is appropriate	0.0000	RE is appropriate

Diagnostic Tests

We regressed the independent and control variables with the residual (Resid^2) as the dependent variable to check for the heteroscedasticity issue. The results, as presented in Table 4, indicated the *p*-value > 0.05 for each variable. That means all variables did not influence the residual values. In addition, the *p*-value of F-statistic is > 0.05, the R^2 is too small, and the Durbin-Watson statistic close to 2.0, implying that overall, there is constant variance in the residuals. Hence, we conclude that there is no issue of heteroscedasticity in the data. As for the auto or serial correlation test, there is no necessity for the test since we have determined to base our estimation on the RE model, which is also known as the Generalized Least Square (GLS). The GLS model itself remedies the issue of serial correlation in the data (Gujarati, 2003: 475). Likewise, the multi-collinearity test had also been disregarded as the GLS model on the panel data had already overcome the multi-collinearity issue (Gujarati, 2003: 364). Moreover, based on the correlation results as summarized in Table 2, it was proven that there was no issue of multi-collinearity between the independent variables as the coefficients were less than 0.6, respectively.

Table 4: Results for Heterokedasticity

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1465.633	993.3297	1.475475	0.1414
ENVP	-9.13573	7.824222	-1.16762	0.2441
SOCP	-7.69009	9.141345	-0.84124	0.4010
GOVP	-0.57676	5.968605	-0.09663	0.9231
LOGMCAP	-67.5575	90.01471	-0.75052	0.4537
LOGAGE	141.9207	205.1112	0.691921	0.4896
DY	-37.185	40.51192	-0.91788	0.3596
R-squared	0.030481			
F-statistic	1.289032			
Prob(F-statistic)	0.26276			
Durbin-Watson stat	1.627104			

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Regression

Table 5 presents the results of regression based on the RE models. For the baseline model, we used the individual SUSP (ENVP, SOCP, and GOVP) as the independent variables. The results show that none of the independent variables has statistically significant relationship with the dependent variable, EMS. Despite the insignificant results, SOCP and GOVP are found to have positive relationship with EMS whilst the ENVP indicates negative relationship with EMS. Therefore, the H1is not fully supported. As for the control variables, the companies' size and age are negatively related to the EMS. But, both relationships are statistically insignificant. Meanwhile, the dividend yield shows significant positive relationship with the EMS of the *Shariah*-compliant companies.

In the moderating model I, we tested the relationship between the three independent variables and EMS along with the moderating variable, CONC. In addition, we examined how the interaction between the respective independent variables and CONC has affected the SUSP-CFS relationships. Apparently, the results indicate significant negative for ENVP and significant positive for SOCP with EMS, respectively. This partly supports the H1. The CONC shows negative, but insignificant, relationship with EMS. The H2 is not supported. Notably, CONC has significant moderating effects on the relationships between ENVP and SOCP with EMS, respectively. Precisely, CONC is found to worsen the ENVP-EMS negative relationship and weaken the SOCP-EMS positive relationship. Hence, the H4 is partly supported. Meanwhile, CONC has weakening moderating effect on the GOVP-EMS positive relationship, but insignificant. As for the control variables, the results are similar to the baseline model except for the LOGMCAP that shows positive insignificant relationship with EMS.

In the moderating model II, we tested the moderating effects of MANG on the relationship between the respective SUSP and EMS. The results reveal that both ENVP and SOCP have negative relationships with whilst GOVP has positive relationship with EMS, respectively. However, the relationships are not statistically significant. Therefore, the H1 is not supported. Meanwhile, the MANG shows positive relationship with EMS, but insignificant. The result does not support the H3. With respect to the moderating effects, MANG shows significant moderating effect in reducing the ENVP-EMS negative relationship. This partly supports the H5. On the contrary, the interaction between MANG with SOCP and GOVP respectively shows no significant moderating effect. As for the control variables, the results are similar to the baseline model except for the LOGMCAP that shows positive insignificant relationship with EMS. In sum, the baseline and moderating models indicate the significance with *p*-values for F-statistics less than 0.05, implying that all the variables fit well in the models, respectively.

Table 5: Regression Results

	Random Effect Models					
	Baseline		Moderating I		Moderating II	
Variable	Coefficient	Prob.	Coefficient	Prob.	Coefficient	Prob.
C	9.6184	0.0000	9.5707	0.0002	9.0331	0.0002

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ENVP	-0.0137	0.2067	-0.0704	0.0500**	-0.0052	0.6727
SOCP	0.0035	0.7771	0.0749	0.0699*	-0.0079	0.5918
GOVP	0.0023	0.7734	0.0128	0.6058	0.0051	0.5828
CONC			-0.0280	0.3738		
ENVP*CONC			0.0010	0.0874*		
SOCP*CONC			-0.0012	0.0759*		
GOVP*CONC			-0.0002	0.5804		
MANG					0.0340	0.6731
ENVP*MANG					-0.0022	0.0531*
SOCP*MANG					0.0022	0.1427
GOVP*MANG					-0.0003	0.6894
LOGMCAP	-0.0232	0.9076	0.1553	0.4400	0.0276	0.8922
LOGAGE	-0.6473	0.1558	-0.6991	0.1159	-0.6449	0.1963
DY	0.1961	0.0000***	0.2080	0.0000***	0.2006	0.0000***
R-squared	0.0737		0.1440		0.0987	
F-statistic	3.2614		4.0721		2.6488	
Prob(F-statistic)	0.0042**		0.0000***		0.0044**	

***<0.01; **<0.05; *<0.1

Discussion

The empirical results indicate mixed relationships between the respective individual SUSP with the CFS. Despite its insignificance, the governance performance shows consistent positive relationship with the CFS for all models tested. The results imply that the *Shariah*-compliant companies in Malaysia have performed well in the governance aspects, which consequently contributing to the companies' financial stability. This notion is consistent with Lisin et al. (2022), who found that the governance pillar had positive influence on the financial success and stability of the North American countries. Their study further claimed that the governance strengths such as strong board composition and robust shareholders' interest protection would reduce the likelihood of bankruptcy but increase the companies' solvency and survivorship. Our study also supports the finding by and Saidane and Abdallah (2021) on their study in African companies. Their study suggested that by engaging good governance practices particularly the CSR strategy (one of the governance sub-pillars), the companies would be able to enhance their financial stability. In contrast to our result, the study by Habermann and Fischer (2023) concluded that the governance performance had negative impacts on the financial stability. They argued that over emphasis on the governance aspects would distract the management from their core responsibilities in the business. Further, they added that the expenditures incurred to maintain the governance control and structure had vague or no immediate benefits, thus leading towards financial instability.

Meanwhile, environmental performance has negative relationship with the *Shariah*-companies' CFS in Malaysia. The environmental aspects might have exposed the

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companies towards larger risks such as climate change, carbon emission and pollution. Their companies might also be subject to legal actions in the event their business operations caused damaging or harmful effects on the environment or community. Therefore, the companies had to allocate larger funds to mitigate such risks, which adversely affecting their financial stability. This result is consistent with Duque-Grisales and Aguilera-Caracuel (2021) in the case of Latin American companies, Saidane and Abdallah (2021) in their African study and supports Cohen (2023), who argued that the companies in the US had to invest their resources to mitigate the environmental damage they had caused on the surrounding specifically when their financial health and survival were at stake.

The social performance is found to have positive relationship with the CFS. This is true when the companies have treated well their employees, customers and community and emphasized product responsibility; the companies would receive increased supports from and good brand image from their stakeholders. This is in line with the Stakeholder theory (Freeman, 1984), which states that the good values delivered by the companies to their stakeholders would bounce back to the companies. The returned values could be in the forms of stakeholders' approval, enhanced reputation, and improved legitimacy in the market (Cooper & Uzun, 2019; Alodat et al., 2023). Hsiao et al. (2022) claimed the companies that were really concerned on the social issues had been more financially stable. However, this study contradicts the studies by Cohen (2023) in the US and Duque-Grisales and Aguilera-Caracuel (2021) in five Latin American countries, who concluded social performance, had significant negative effects on the firms' profitability and stability. Our study also conflicts Pillai and Al-Malkawi (2018), who noted that the companies' management did not believe by allocating funds for social causes would enhance their competitive advantage but instead that might reduce the financial stability of companies in six GCC countries.

Further, this study examined the influence of ownership concentration and its moderating effects. We found that the CONC alone had significant negative influence on the CFS. The result is in support of Olga et al. (2022) and Gerged et al. (2022), who argued strict monitoring and supervision by the large concentrated owners, in order to protect their interests, negatively influenced the management performance, motivation and efficiency and consequently the CFS. This study is also in agreement with Faisal et al. (2020) and Nurim et al. (2017), who claimed large CONC contributed to conflict between majority and minority shareholders, thus leading to corporate financial instability of Indonesian companies. Moreover, the presence of CONC would significantly weaken the positive relationship between social performance and CFS whilst worsening the negative relationship between environmental performance and CFS of Malaysian *Shariah*-compliant companies. The results signified the drawbacks of companies with highly concentrated ownership. High CONC has hindered the sustainability practices by the companies that might lead to financial instability. The block owners might not see the funds allocated on the sustainability initiatives would enhance their wealth as argued by Pillai and Al-Malkawi (2018). The weakening moderating effects of CONC are consistent with Buertey (2021), who found the CONC reduced the positive relationship between board gender diversity and the CSR reporting assurance. The result is also in support of Ang et al. (2022), who claimed the

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CONC weakened the positive influences of the CSR practices on the financial performance of companies.

On the other hand, the MANG alone was found to have positive relationship with the CFS but insignificant. On its moderating effects, MANG significantly weakens the negative relationship between environmental performance and CFS. However, MANG has insignificant moderating effect between social performance and governance performance with CFS, respectively. Despite its insignificance, the MANG is found to strengthen the negative relationship between the social performance and CFS whilst reducing the positive relationship between governance performance and CFS. This result is not consistent with Tristanto et al. (2023), who found MANG significantly strengthened the impact of the SUSP (economic, social and governance) on the Banking companies' performance in Indonesia. Our results also contradict Wu et al. (2022), who claimed that the MANG strengthened the positive influence of the SUSP on the companies' value in China. The insignificant results of our study on MANG might be because of the negligible percentage of MANG in the majority of the *Shariah*-companies in Malaysia.

CONCLUSION

Conclusively, the sustainability performances have mixed relationships with the corporate financial stability of the *Shariah*-compliant companies. Despite insignificance, the results can be indicative that the management and owners in Malaysian *Shariah*-compliant companies still lack of concern on the sustainability performance particularly related to the environmental and social issues. The results also signify that they did not fully value the importance of sustainability performance in improving the financial stability. There might be various reasons, which among others include the ESG requirement by the regulators on the companies is still not finalized amid the unclear ESG framework and regulations for corporate implementation. In addition, the cost and commitment concerns on the companies' side for the sustainability initiatives along with the conflicts between the shareholders (principals) and managers (agents) could also contribute to insignificance of the sustainability performance. Therefore, the government must come up with a clear-cut ESG framework and policies in order to be implemented by the companies. The government also needs to find effective ways either through giving incentives or allowances to boost the sustainability practices among the corporate sector. The companies also need to pay great attention to the sustainability issues by having effective ESG policies and plans integrated into their business strategies. The companies should believe that by investing in the sustainability practices will improve their visibility, reputation, recognition and competitive advantage among the various groups of stakeholders. The owners or shareholders should play their roles in encouraging the management to engage in the sustainability practices. This, in turn, will benefit the companies in terms of increase in sales, reduction in cost and risks, improvement in their financial performance and stability, which ultimately maximizing the shareholders' wealth. This study has limitations. First, this study only focused on the Malaysian corporate sector specifically the *Shariah*-compliant companies. Second, this study covered the period from 2018 to 2023 with unbalanced panel due to incomplete data in the database. This study employed the

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static panel data analysis instead of the dynamic panel data analysis that might give different results. Therefore, future studies are suggested to extend the sample into non *Shariah*-compliant companies as robustness. The ESG variables also can be further disaggregated to have more detailed results of sub-pillars effects on the corporate financial stability. The moderating effects of other ownership structures such as institutional, government, family and foreign can also be tested in future studies. Last but not least, different methods of analysis and different proxies for the corporate financial stability can be applied to generate robust results in the future studies.

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