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THE EFFECT OF CORPORATE SUSTAINABILITY PERFORMANCE ON CORPORATE PERFORMANCE: A CONCEPTUAL PAPER

Mahmoud Zayed Ibrahim Shatnawi[1]
Abdullah Mohammed Ayedh[2]
Mohd Adha Ibrahim[3]
Rosnia Masruki[4]

[1]Ph. D. Student, Accounting, Universiti Sains Islam Malaysia (USIM), maahmoudshatnawi@yahoo.com
[2]Associate Professor, Accounting Department, Islamic Science University of Malaysia (USIM), Abdullah.mohammed@usim.edu.my
[3] Associate Professor, Accounting Department, Islamic Science University of Malaysia (USIM)
[4]Associate Professor, Accounting Department, Islamic Science University of Malaysia (USIM)

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Abstract: *The study aimed to identify the impact of Corporate Sustainability Performance on Corporate Performance. and presenting the reviews of the literature on the Corporate Sustainability Performance and analyses the three factors that will influence the Corporate Performance. As Corporate Sustainability Performance becomes increasingly more important to Corporates, the present paper seeks to better understand the role of "Corporate Sustainability Performance" and its elements (-Corporate Social Performance (CSP) Corporate Environmental Performance (CENP) Corporate Economic Performance (CECP)) on corporate performance. The conclusion that was drawn is that, Corporate Sustainability Performance has a positive effect on the Corporate Performance.*

Keywords: *Corporate Sustainability Performance, Corporate Performance, Review Paper*

Introduction

Corporate Sustainability (CS) is now integral to the vernacular of the society of business all over the world. CS comprises a concept that is primarily associated with the Brundtland report (1985) which delineates the notion of "sustainable development" which encompasses the integration of the triple end results, namely long term economic prosperity, social equity, and environmental accountability, into the operational practices and management embraced by firms (Bansal, 2005). All over the world, sustainability is a big concern, and as mentioned by Zyadat (2016), sustainability has great linkage to the elements and makings that assure the earth's life persistence.

Being a contemporary issue, sustainability is also incorporated with the entire facets of human life including the environmental, economic, and social aspects; these aspects were consequently regarded to be the three pillars of sustainability (Kocmanová & Dočekalová, 2014). The official use of the term "sustainability" began in the 80s of the last century when highlighting humanity existence on the planet, and it is the most common sustainability concepts (Tarmuji, Maelah, and Tarmuji, 2016). Brundtland report (1985) presented the notion of sustainability development, and it requested the institutions and companies to present the plans that demonstrate their environmental and social activity in their whole strategy, through the establishment of a separate management for sustainability and this new management is approved for the regulatory framework (Schaltegger & Wagner, 2006).

As noted in by Baumgartner and Ebner (2010), sustainability encompasses a strategy of sustainable development process. According to Kocmanová and Dočekalová (2014), sustainability of businesses and sustainable performance are describable as a combination of environmental, social and economic performance. As explained by Bansal (2005), the delineation of "sustainable development" encompasses the combination of the triple bottom line (i.e., long-term economic prosperity, social equity, and environmental responsibility) into the operational practices and management of a company.

Equally, the concept of corporate sustainability is also defined as a heuristic multi-criteria approach containing the dimensions of economic, social and environmental performance (Baumgartner & Ebner, 2010). There has been increasing interest among academicians and other parties towards Corporate Sustainability Performance Measurement (CSPM). Still, the information on which the aspects of corporate sustainability should be regarded as representing CSPM is still inadequate (Antolin-Lopez, Delgado-Ceballos, & Montiel, 2016). At present time, countless of stakeholders including investors, governments, customers, investors, and the civil society are also showing interest in the company's social and environmental performance, not just its economic performance (Hill, 1998).

Accordingly, the primary purpose of this work is to examine the impacts imparted by corporate sustainability performance on corporate performance. Where the researcher linked the variables of the study logically, where the selection of these two variables in order to believe the researcher the existence of a logical effect, and because of the researcher's knowledge of the weakness of application in the Arab countries, especially Jordan.

Literature Review

As indicated in the hypotheses, this study has a number of variables i.e. corporate sustainability performance namely (corporate social performance, corporate environmental performance, and corporate economic performance), corporate performance, organizational culture and religiosity. The following explains how these variables were measured.

Corporate Sustainability

Corporate Social Performance (CSP)

The organization performance for its social performance, economic performance, environmental performance, and applying national and international norms into business practices (Manasakis, Mitrokostas, and Petrakis 2013).

Corporate Environmental Performance

The duty of companies to set limits on the environmental impact of their processes, products, plants and equipment, to reduce waste and emissions, to raise production efficiency and resource consumption, and to reduce practices that may adversely affect the lives of future generations (Mehraj and Qureshi 2016).

Corporate Economic Performance

The constant commitment of business to ethical conduct and to contribute to economic development and work to improve the quality of living conditions of the workforce and their families (Choudhary and Singh 2012).

Corporate Performance

As The extent to which companies can absorb new technology, modern product quality and environmental changes that contribute to increasing market share and thus increase competitive advantage (Eding and Scholtens 2017).

Organizational Culture

As the underlying beliefs, assumptions, values and ways of interacting that contribute to the unique social and psychological environment of an organization (Alvarado-Herrera et al. 2017).

Religiosity

As Is religion in which belief systems and rituals are systematically arranged and formally established (Barboza, 2013).

Corporate Sustainability Performance and Corporate Performance

As reported in Griffin and Mahon (1997), the relationship between sustainability performance and financial performance has been under scrutiny and criticisms for countless of years under corporate social. Still, it is yet to be affirmed as to whether there is a positive, negative or no relationship at all existing between these two variables. However, grounded upon the stakeholder theory, the majority of associated literature demonstrates a positive relationship between corporate sustainability performance and financial performance. Introduced in 1960, stakeholder theory did not become popular until the 80s. In fact, as reported in Chen and Wang (2011), Freeman (2004) was the person that marked the systematic and formal construction of stakeholder theory.

Deliberations on corporate sustainability performance resulted in the affirmation of 4 relationship types between corporate environmental, social, and economic performance and financial performance as follows: negative, neutral and positive, correspondingly. As posited by neoclassical theory, the company has no obligation to disregard the increase of profits to their shareholders and owners. This means that by increasing the cost relating to social, and economic responsibility, profitability will be decreased (Friedman, 1962). According to the majority of researchers, this theory contributes to the negative relationships. Furthermore, there are studies including Vance (1975) who presented empirical support towards this theory that Friedman had established. In addition, through the comparison between the two groups of companies listed in two separate indices namely Dow Jones Sustainability Index and Dow Jones Global Index, the adverse impacts of using corporate sustainability practices on financial performance have been documented by Lopez, Garcia, and Rodriguez (2007) for the short term.

Besides, mixed outcomes have been reported by several relevant studies (e.g., Margolis & Walsh, 2003), and the majority of these studies did not take into account the likelihood of looking at the mediating or moderating impact that might occur between both variables. In this regard, this work is unique in a sense that it considers the construct of organizational culture that moderates the effects between corporate sustainability performance and financial performance.

The obligation carried by corporate managers towards many different stakeholders is linked to the current analysis of the effect of the strategies of CSR on economic, social, and environmental concerns and strategies for doing good Nevado-peña, 2015). In striving for the maximization of stockholders' wealth, among the additional considerations include increased social awareness and accountability, more regard for the common good of every stakeholder, and more regard for the environment (Kolk, 2016). Relevantly, the increase of social concerns did not happen overnight, and CSP's history has proven a stable progression of socially accountable acts since the 1950s.

Meanwhile, scholars including Figge, Hahn, Schaltegger, and Wagner (2002) acknowledged the lack of integration between economic, social and environmental performances as a prime challenge in the attainment of sustainability. The research promptly stressed the significance of the stakeholders. Nonetheless, the strategies appear to have no close relation with the stakeholders owing to the persistent usage of the balanced scorecard framework. As such, this study has chosen the three dimensions of corporate sustainability performance (i.e., social, environmental, and economic performance) and their impact on corporate performance as its focal points, with organizational culture as moderator. The following section highlights their relationship as found in the literature reviews.

Corporate Social Performance and Corporate Performance

Corporate social performance (CSP) encompasses the formation of a business organization regarding the principles of social accountability, processes of social responsiveness, and policies, programs, and discernible outcomes considering that all these have linkage to the societal relationships of the organization (Chen & Wang 2011). CSP is measureable by the level to which principals stimulate the CSR acts of companies, the degree of utilization of socially reactive processes by companies, the presence and disposition of established policies and programs in the management of the societal relationships of the companies, the impact of the actions, programs, and policies embraced by the companies on the society.

Meanwhile, in the work of Venkatraman and Ramanujam (1986), the notion of corporate performance is describable the financial feasibility of the company or the level to which the companies attain their economic goals. In theory, the outcome-based financial indicators are reflective of the achievement of the economic goals of the companies. These indicators are (among others): sales growth, profitability (revealed by ratios including return on investment, return on equity and return on sales), earnings per share and share price.

Corporate social performance greatly affects the economic and environmental performance of the company. With the addition of the environmental factor, the economic performance of the company is increased for the long-term. Additionally, good economic performance imparts firm with the base for the environmental and social facets, implying that a company can generally benefit from proper operation and the adoption of principles in human resources, employee health, occupational safety, as well as ecology. Meanwhile, the social dimension shows significance in the relationship with human resources. From the perspective of

economy, the performance of man is measurable, for instance, the amount of work executed over specific time period. Further, work efficiency of man is measurable with productivity of labour, which also includes the quantitative and the qualitative constituents, just like work. Lastly, the social perspective highlights the readiness and ability of man in performing optimally, which leads to the attainment of work efficiency, providing that man uses his full potential, experiences personal self-fulfilment and satisfaction, and builds up his personality.

A vital social performance element is "Occupational health and safety management systems and the "Safe Company" program, whereas the trend that stresses on social facets of sustainable development encompasses the concept of Corporate Social Responsibility. According to Venkatraman and Ramanujam (1986), there are many domains that can be impacted by corporate social responsibility and they differ based on the operation arena of the company, both in terms of culture and geography.

As posited by stakeholders' theory, organization leaders should be accountable for the effect imparted by their actions on societies and all levels of shareholders alongside the maximization of shareholders' affluence (Brower & Mahajan, 2013). As mentioned in Fassin (2012), stakeholder's theory carries several implications in terms of ethics, discretion, altruistic accountabilities, regard for ethical, environmental, and social issues or causes, and regard for all stakeholder groups. Apart from that, this theory underpins the supposition of the necessity of organization leaders to be aware of their stakeholders, implement the strategies of CSR that support them while also constructively contributing to the financial performance of business undertakings (Krumwiede et al., 2012).

Those embracing stakeholders' theory are of the view that organizations have a moral and social obligation that supersede profit maximization (Harjoto et al., 2015), and that the theory is legitimatized by the viewpoint and expectations of stakeholders (Hassan & Kouhy, 2015). As such, the implementation of CSR initiatives that increase productivity in operations, enhance the morale of employees, and stimulate creativity and innovation in product development would benefit the organization financially (Benavides-Velasco, Quintana-Garcia, and Marchante-Lara 2014).

The three suppositions of the stakeholders' theory in literature presents that support the significance of the theory in CSP-CFP relationships have association with the following assumptions: the notion of *open systems*, intrinsic value and ethical concerns, and, the significance of stakeholders' relationships. As posited by the first assumption, organizations encompass open systems which involve interaction with the broader outside environment in which they are present (Montiel, 2008). Meanwhile, the second assumption posits that all groups of stakeholders demonstrate interests with equal intrinsic value, prioritising on ethical concerns (Montiel, 2008). As for the third assumption, the supposition is that the relationships of stakeholders are associated with organizational strategies and the results expected (Montiel, 2008).

Also, the three assumptions are all in support to the necessity to take into account the effect of managerial strategies on the utilization of slack resources, and at last, the organization's financial performance. Those advocating slack theory imply highlight the accessibility of resources to contribute to CSP, as there are surplus financial resources (surplus financial resources encompass a funding source for socially accountable projects' investment) (Chen et al., 2014). Higher CFP can positively affect the amount of financial slack resources that are accessible to organization leaders. Hence, as reported in Chvatalov'a et al., (2011), opportunities to implement CSR initiatives have been increased. Contrariwise, Lee, Singal, and Kang (2013) highlighted the less stable and efficient economic circumstances among

some organizations in addition to the likelihood of having restricted funds in investing in CSR projects as opposed to others with conditions that are more stable and efficient.

Meanwhile, supervisory bodies including Council on Economic Priorities (CEP) have long assessed the performance of company utilizing a range of social dimensions. Accordingly, CEP has issued an extensively circulated guide titled "Shopping for a Better World" to guide the concerned consumers in making purchasing decisions. Apart from that, there exist independent services that assess the social performance of companies across a broad array of “social" activities and the information obtained of these companies would be sold to the investment community, which led to the accessibility of ratings for the investment community which investors could use as input to their decisions. It appears that these ratings services impact some investment decisions. This has in fact been proven in studies that documented the favourable inclination of institutional investors toward companies with higher corporate social performance, when other factors are kept constant with the accessibility of independent information regarding CSP (Graves & Waddock, 1994).

However, as reported in Ullmann (1985), the associations between CSP and financial performance are still greatly blurred. For instance, several past works (Chintrakarn et al., 2017) reported an ambiguous relationship. Not only that, even when a positive association is formed (Brammer et al., 2007), it remains unclear if financially successful companies merely have additional resources to devote to CSP and thus achieve greater standard (a slack resources theory) or if better performance along diverse CSP dimensions itself have led to better financial results (which is categorized as good management theory) (Ullmann, 1985; S. A. Waddock & Graves, 1997).

The early scrutiny of the CSP-CFP relationship brought to light the key domains of concerns (Watson et al., 2004). The first one relates to the effect of the approach and level of values of research in relation to the general and specific assumptions, utilized methodologies, and analysis and construal of research outcomes. Other domains are as follows: unpredictability of outcomes, effect of the wide-ranging research assumptions, and the contrasting construal of theoretical perspectives and applied research methods (Baden & Harwood, 2013; Kevin Huang & Yang, 2014). Relevantly, the additional commended characteristics to improve the holistic assessment of the CSP-CFP relationship include taking into account the size of organization and the level of financial Rivera et al., (2017). Such addition could also assist decreasing the inconsistency of the study outcomes.

The association between corporate social performance and corporate financial performance has sparked great amount of interest among scholars from diverse disciplines (Flammer, 2015; Luo, Wang, Raithel, & Zheng, 2015). Furthermore, considering that managers are coping with growing pressures from groups of activist and the media to improve CSP and from investors to deliver the desired CFP, understanding such association is even more crucial. However, empirical researches have presented inconsistent findings pertaining to the CSP-CFP relationship (Orlitzky et al. 2003), and it is possible that these findings are factored by the intricate relationships between CSP and CFP, and the differences of institutional and organizational exigencies.

Inconsistencies in study findings have been the focal point of many empirical works on CSP and CP (Shahzad & Sharfman, 2015). For instance, a positive relationship has been affirmed by some studies (Sun 2012; Shahzad & Sharfman, 2015), while some reported a negative linkage between these two constructs (Sun 2012; Youn, Hua, & Lee, 2015). There are also those that documented a mixed association (Youn et al., 2015). Studies that reported a

negative CSP FP relationship (Sun 2012; Youn et al. 2015) appear to be advocators of the perspective that social responsibility encompasses incurring extra operating costs, that the extra costs lead to profit drop, and extra costs diminish the wealth shareholders (Sun 2012).

Corporate Environmental Performance and Corporate Performance

The more environmentally friendly a company's behaviour is, that are incurred activity companies and vice versa – the greater the damage a company causes to the environment, the poorer its corporate environmental performance. For companies, if their aim is to generate a high market value, then, the management would be obliged to concentrate on all aspects of the company's impacts which will consequently offer an inclusive view of the company itself. The aforementioned impacts comprise the environmental behaviour exhibited by the company specifically the accountability for the environment.

In addition, the environmental initiatives have also been evidenced to generate economic advantages. With the accessibility of cleaner technologies, optimization of technologies which decrease the necessity of resources, environmental management systems (EMS) including ČSN EN ISO 14 001, EMAS and other voluntary instrument, a safe upgrade in the environmental status of the company becomes more attainable. The incorporation of quality with environmental management systems has opened up fresh chances for companies to reduce resource usage, while enjoying better relationships with external investors such as local communities, the authorities, and so forth (Kocmanova, Němeček, 2009).

The last few decades have seen an increased focus on the environmental condition among government sectors, policy makers, companies, non-governmental bodies, as well as the public globally. The hindrance of the occurrence of environmental issues has motivated business strategies and practices to prevent more intervention and regulation, and pricy project postponements. Advanced companies have started to recognise that environmental concerns are business concerns and therefore should be included in their strategies, policies, and practices of business (Epstein & Roy, 2001). Also, to the majority of executives, environmental predicament must not be ignored even when it would harm business profits or delay product introduction (Soana, 2011).

In the work of Albatayneh (2014), executives were found to have considerable concern over humanitarian activities and community relations. Meanwhile, there are two sub-themes to corporate environmental orientation, and as mentioned in Shrivastava (1995), the first sub-theme revolves around on the ethical behaviour exhibited by company, company value, and environmental safeguard. On the other hand, Gladwin, Kennelly, and Krause (1995) mentioned that the second sub-theme displays the cognizance of manager of the needs of stakeholder through the fulfilment of these stakeholders' interest and reacting to their needs.

In a study by James (1994), 6 distinct frameworks for measuring environmental performance were proposed and they are as follows: production, auditing, ecological, accounting, economic and quality. As also reported by several authors (Tyteca et al., 2002; Lamberton, 2005), the increasing amount of corporate reporting is a sign of activities being in tune with the performance measurement and reporting. Accordingly, three underlying pressure or standardization can be apportioned as follows: the sanctification of environmental management, accountancy practice and interests, and 'right to know' support.

Additionally, the analysis of firm's environmental performance as well as the linkage between environmental and financial performance has an extensive scope. In addition,

several indicators employed in the analysis of firm's environmental performance have been reviewed in the works of Azzone and Manzini (1994) and Tyteca (1996), and there are several classes to these performance indicators as follows: environmental management, environmental achievements, prevention costs and environmental investment, operating environmental costs, contingent environmental liabilities, compliance indicators, and physical indicators.

Environmental performance and financial performance appear to have no relation with one another (Tarmuji, Maelah, & Tarmuji, 2016; Cho and Patten 2013). However, past researchers were mostly grounded upon the selections of companies within UK and US, such as the S&P 50029, Fortune 500 or FTSE Index. Meanwhile, in Scandinavia, the Sustainable Investment Research Platform (SIRP) centred in Umea University in Sweden appears to be the most well-known establishment of research within this domain. Somehow, nearly all of SIRP's research is grounded upon global or European stock indices, while studies that look into the linkage between CEP and CFP in the context of Swedish companies appear to be rather inadequate.

Within the abovementioned context, the available studies are primarily descriptive studies linked with the Swedish government's Environmental Objectives Council (Miljömålsrådet) or the Swedish Agency for Economic and Regional Growth (NUTEK), such as a study by NUTEK which employed the method of survey on 14,000 small enterprises and interviews with companies of small and mid-sized. The study conducted by NUTEK demonstrated the profitability of environmental work. However, the potential issue associated with the usage of self-reported data as a source was not addressed. As studies in Swedish context have been lacking, this thesis is employing primarily foreign studies as the frame of reference.

Albeit the existence of large amount of past relevant studies, the linkage between environmental management and financial performance is yet to be certain. In fact, based on past works, environmental management can have positive linkage (Kagai 2016; Chen, Ong, and Hsu 2016), or negative linkage (Schaltegger and Synnestvedt 2002; Chen et al. 2016) or neutral linkage (Gilley et al. 2000; Watson et al. 2004), to the performances of companies. On the other hand, the meta-analyses are showing that the linkage between environmental and financial performances is more likely to be positive. However, the methods of analysis, variables employed, time, and countries from which the data were attained also impart influence (Horvathova, 2010; Albertini, 2013).

Also, environmental protection has been traditionally expressed using extra costs that the government imposes. This, according to Friedman (1970), would wear down the competitiveness of a company while also diverting the accountability of manager in maximizing the profitability of the firm. Nonetheless, the decrease of pollution has been recently found to be able to strengthen the competitiveness of firm via better market accessibility, differentiation of products, the sale of technologies for pollution reduction, better management of risk and stakeholder, and decrease of costs in materials, labours, and capital (Stefan & Paul, 2008). As mentioned in Wagner, Schaltegger, and Wehrmeyer (2001), the connexion between environmental and financial performances is describable in three primary manners. Studying 35 companies in Malaysia and 45 companies in Singapore (2010–2014), Tarmuji et al. (2016) concluded that CEP did not significantly impact CP.

Corporate Economic Performance and Corporate Performance

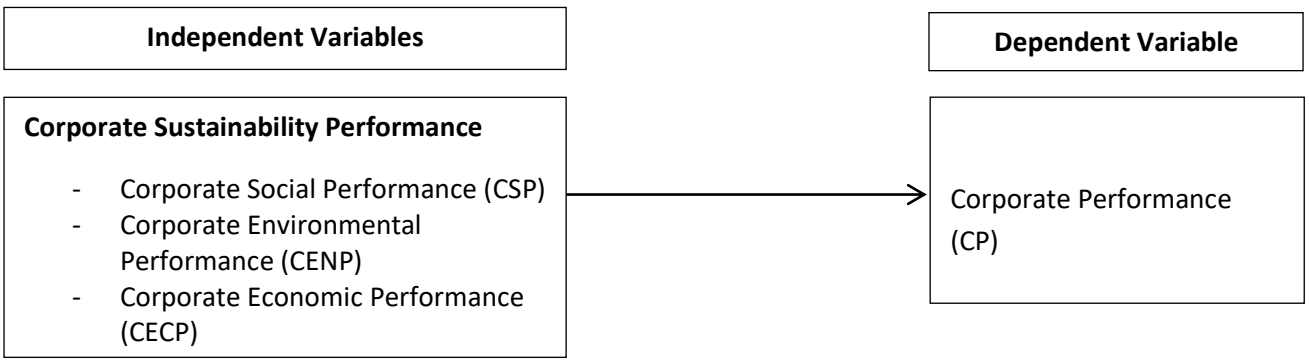
The utilization of traditional or modern financial indicators of corporate economic performance to evaluate sustainability has inadequate informative value. In this regard, Synek

(2004) suggested the selection of non-financial indicators to be based on long-term objectives and the strategy of each company. It is suggested that non-financial indicators are in direct relationship with long-term, strategic objectives, while the indicators' fulfilment should be denoted by the achievement of the objectives. In their work, Kocmanova, Dovcekalova, and others (2014) elaborated the method to ascertain if in the future there would be a change, either desirable or otherwise in them, or there would be no change altogether. In other words, an issue of indicator measurability exists.

As there is a need to evaluate and analyse corporate economic performance, there are countless techniques that have been developed to achieve this purpose. Among investors and firm owners, it is their primary desire to improve the economic performance using methods that are speedy and simple. Also, they highlight the importance of ascertaining if the firm could increase its value which in turn would impart them with sufficient return on their investments. For most businesses, their mainly seek to maximize and increase market value in the long-term.

There are countless of available approaches for evaluating corporate performance as can be seen in practice and in the literature (Kocmanova, Dovcekalova, and others, 2014). For these approaches, their usage is dictated by the existing situation in the market given owing to the fact that the performance criteria react to market development. Meanwhile, the evaluation of corporate performance in Czech Republic is done mainly using the traditional approach that depends on the monitoring of customary indicators of the return on equity (ROE), return on assets (ROA), return on capital employed (ROCE) and the return on sales (ROS); ROE, ROA, ROCE and ROS are popular among managers as they are fairly simple to construct and the construal of their outcomes facilitates the company's directed management.

Somehow, the generation of value has been progressively used in evaluating corporate performance. Currently, countless methods have been proposed in value measurement, and economic value added (EVA) indicator is particularly popular amongst scholars. Meanwhile, the application of classical or modern financial indicators of corporate economic performance in the evaluation of sustainability provides inadequate informative value.



This study offers comprehensive literature reviews of the subject of corporate sustainability performance, to explore the effect of corporate sustainability performance on corporate performance. For countless of years, the linkage between sustainability performance and corporate performance have been deliberated under corporate social responsibility but an agreement of whether the linkage between these two variables is positive, negative, or non-existent, is yet to be reached. However, as can be seen in the extant literature, most studies that advocate stakeholder theory are showing a positive linkage between these two variables.

Appositely, stakeholder theory, which was initially established in 1960s, was not popular amongst scholars until the 1980s. Still, Freeman (2004) was the scholar responsible in systematically and formally establishing this theory. Further, the three factors of Corporate Social Performance, Corporate Environmental Performance, and Corporate Economic Performance were reviewed and analysed. The outcomes affirmed the positive impact imparted by Corporate Sustainability Performance on Corporate Performance.

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