

Corporate Sustainability Initiatives on Employees and Financial Performance

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ABSTRACT

This study investigates relationship between corporate sustainability initiatives on employee and financial performance. The study adopted a GMM statistical model using a 6-year panel data from 253 companies in Malaysia. Findings from the study reveal the effect of corporate sustainability initiatives on employee and financial performance. Specifically, the study establishes the relationship between employee welfare, employee human rights, employee health and safety, employee training, employee workplace and financial performance. The implication of the study is that enhancing corporate sustainability initiatives on employees promotes productivity and ultimately financial performance as such manager of firms should promote employee welfare, workplace, health and human rights as a means to enhance productivity and financial performance.

Keywords:

Employee human rights, employee health and safety, employee training and development, employee welfare, employee workplace

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1. Introduction

There is a general belief that corporate sustainability initiatives on environment has been adequately represented in literature as most of the studies on corporate sustainability have been centered on environmental and economic dimension [1,5,30,33] while studies on social dimensions remain poor. Corporate sustainability initiative on employees is one aspect of social dimensions not adequately represented in literature despite its relative importance as a major internal stakeholder [38].

According to World Bank [41], 308,834 highly skilled Malaysians have moved overseas. The most alarming and disturbing about the report is that the trend is increasing as the numbers of Malaysians moving abroad have increased by 300% in the last two decades. According to World Bank [41], two out of every ten skilled Malaysians prefer to work abroad; this has led to brain drain. The reason for brain drain according to World Bank [41] is poor employee welfare especially among fresh and inexperience graduates. The effect of this is that companies based in Malaysia will not have the best employees to work with and this is capable of affecting productivity and corporate financial performance. If the trend remains unchecked, Malaysia may end up being a training

ground for other countries without benefiting from such training; this may have a devastating effect on corporate financial performance of companies operating in Malaysia.

In addition, there are widespread human rights discriminations against employees in Malaysia. Discriminations across gender, age and ethnic groups are prevalent. Reports by Women's Aid Organization and Women, M. O. F., & Development [42,43] indicate that more than 40% women have experienced gender discriminations in workplaces while discriminations along ethnic lines are also high. The effect of discrimination against employees can result in low self-esteem, halt career growth, slow down productivity and ultimately affect corporate financial performance hence the need for this study.

Given the gap in literature and practical problems highlighted above, this study investigates the relationship between corporate sustainability initiatives on employee (CSIE) and financial performance. Thus, this study investigates CSIE along five dimensions of Employee Welfare (EWF), Employee Workplace (EWP), Employee Training and Development (ETD), Employee Health and Safety (EHS) and Employee Human Rights (EHRs). EWF explains issues relating to employees welfare, remuneration and income while EWP describes workplace environment. ETD explains employees training and career development over time to meet management's expectations. In addition, EHS explains health and safety of employees while EHRs describes fundamental right of employees.

2. Literature Review

2.1 Empirical Studies on Corporate Sustainability Initiatives and Financial Performance

Aggarwal [1] used four dimensions of community, employee, environment and corporate governance indicators to measure corporate sustainability. The author found no significant relationship between corporate sustainability and firm performance of sampled companies, measured as proxy of Growth in Total Assets (GTA), Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE) and Profit before Tax (PBT). However, the employee dimension related indicator has negative and direct relationship with ROA, ROCE and PBT (firm performance). Aggarwal [1] aggregated employee dimensions as a single variable while this present study examines sustainability initiatives on employees along five dimensions, namely EWF, EWP, ETD, EHS and EHRs.

Similarly, Brammer *et al.*, [8] found a direct relationship between corporate reputation and social performance. Hence, the relationship equally varied across different dimensions of social performance (community, environmental and employee dimensions). Nonetheless, the impacts of the environmental and employee dimensions of social performance have significant effects on reputation. Ameer *et al.*, [5] also, found relationship between corporate sustainability and firm performance. In a similar vein Maki *et al.*, [23] found long term relationship between corporate sustainability and financial performance.

2.2 Corporate Sustainability on Employee Welfare and Financial Performance

According to Teti [35] employee benefits and welfare policies provided by companies can bring mutual benefits for both employees and the company. This makes it a win-win for both the employees and the company. Indeed, few studies reveal that companies with strong dedication to employees' welfare in terms of good compensation, annual leave and work life balance improve employees' productivity [12,13,22]. The studies examine relationship between employee welfare and its effect on employees' productivity, thus this study went further from previous study by

examining the effect of corporate sustainability on employee against financial performance beyond employee productivity.

In addition, a few studies also confirmed companies that focus on employee welfare enjoy employees' loyalty and retainership [14,18]. Employee welfare gives employer the advantage to retain and preserve talents. According to a study, 75% of employees in companies with high commitment to staff welfare are willing to remain in the organization against 42% of employees in companies that are not sensitive to employee welfare [18]. Thus, the following hypothesis is stated:

H1: There is a positive relationship between firms' corporate sustainability commitment and initiatives in terms of employee welfare and financial performance

2.3 Corporate Sustainability on Employee Workplace and Financial Performance

Workplace environment according to Chandrasekar [10] has immense impact on employees. Good workplace enhances employees' desire to work as well as improves productivity and firm performance. Applying corporate sustainability initiatives through proper workplace design, environment and facilities has positive effect on firm performance [25].

The proper workplace refers to a good workplace provided by employers, which enhances and supports employees' performance at work. In addition green workplace design will boost employees' performance, ultimately leads to productivity, and thus boost firm's performance. According to Naharuddin and Searcy *et al.*, [25,31] employees who have their performances impaired by wrong and improper workplace condition, are those who complaint about discomfort and dissatisfaction in workplace.

H2: There is a positive relationship between firms' corporate sustainability commitment and initiatives in terms of good workplace and financial performance.

2.4 Corporate Sustainability on Employee Training & Development and Financial Performance

Training an employee is an important aspect of social angle of corporate sustainability. Employee training as part of corporate responsibility tilts towards enhancing employees' knowledge and skills required to perform task effectively. There is increasing awareness that organizations with high corporate sustainability in employee training perform better in high sales and productivity [15]. From organizational culture point of view, Samuel *et al.*, [46] opined that organization with culture of training of employees enhance knowledge and intellectual capital, which has the capacity to translate into organizational performance [47].

Furthermore, firms with high level of employee training do better in financial performance. The knowledge and skills acquired by employee can enhance employees' productivity and firms' performance. Investment in employee training and development is important in achieving green technology, which is another dimension of corporate sustainability [15].

H3: There is a positive relationship between firms' corporate sustainability commitment and initiatives in terms of employee training and development and financial performance

2.5 Corporate Sustainability on Employee Health and Safety and Financial Performance

It is believed that making affirmative healthcare commitments as well as safety of workplace promotes employees' well-being, reduces employee work related health issues, reduces cost incurred [11], reduces sick leave and eliminate absenteeism [31] which ultimately improves

employees productivity [11] which may result in improved performance of the company. According to Fabius *et al.*, [11] employers can enhance business performance by enhancing employee health and safety in workplace. They also found a significant drop in medical cost by \$3.27 and absenteeism cost of \$2.73 per employee in a review of 22 research studies. Loeppeke *et al.*, [21] also, discovered similar findings. Thus, the following hypothesis is tested:

H4: There is a positive relationship between firms' corporate sustainability commitment and initiatives in terms of employee health and safety and financial performance.

2.6 Corporate Sustainability on Employee Human Rights and Financial Performance

Brammer *et al.*, Gond *et al.*, and Voegtlin *et al.*, [7,13,37] linked sustainability initiatives on workers' right with human resource management. However, these studies failed to establish employee's human rights against firm performance. The effect of discrimination on employees can result in low self-esteem, halt career growth and slowdown productivity, which ultimately affects corporate financial performance. Hence, employers that emphasize on employees' human rights expect to gain better corporate performance. Thus, this hypothesis:

H5: There is a positive relationship between firms' corporate sustainability commitment and initiatives in terms of employee human rights and financial performance

3. Methodology

The sample size of this study is 253 companies listed on Bursa Malaysia, which includes all sectors except banking and financial institution for a 6-year panel data from 2010 to 2015. The study uses the dynamic panel Generalized Method of Movements (GMM) estimators. This method is most suitable and only applicable to panel data with large cross sectional time series observations, the sample of this study falls within this purview. This method is superior over other dynamic panel estimators in terms of addressing the challenges from simultaneity, individual country effect and dynamic panel bias, and the probability of obtaining consistent parameter estimates even in the presence of measurement and endogeneity of regressors [44,45]. Banking and financial institution were excluded from the study because of their unique peculiarity and strict regulations [1,33,36].

The study measures three main variables as follows:

- a. Corporate sustainability initiatives on employee
- b. Corporate financial performance
- c. Control variables

Lin *et al.*, [20] opined, that in contrast to market-based measures, accounting based measures reflect company's internal decision-making process. This becomes important considering the fact that employees are internal stakeholders in sustainability discourse. Thus, this study measures Net Profit Margin (NPM), Earnings per Share (EPS) and Return on Equity (ROE).

The review of some literature [5,34], GRI 2014, and selected annual reports culminated into identification of some sustainability variables that were adapted and modified for this study. These variables are proxy to measure corporate sustainability initiatives on employee as independent variables. This study categorized the variables into five identifiable headings as follows; EWF, EWP.ETD, EHS and EHRs (see appendix 1). Disclosure on any of the items is assigned one while non-disclosure is assigned zero.

Prior studies examined the relationship between firm size and sustainability disclosure [4,6,9,16,27,28,32]. In addition, numerous studies examined the relationship between corporate age and sustainability disclosure [3,24,29]. Past studies also found out that environmental disclosure influences financial performance [19,39]. Thus, this study controls for size, age and environmental disclosure. The study measured size as proxy of total assets and age from the date of incorporation while environmental disclosure measured based on global guidelines of 40 environmental disclosure items.

4. Results

4.1 Corporate Sustainability on Employee Welfare and Financial Performance

The relationship between EWF the three proxy of financial performance indicates high level of significance, this implies that disclosure on sustainability initiatives on employee welfare has significant bearing on financial performance. There is a strong relationship between EWF and NPM, ROE and EPS. It explains strong and consistent relationship between EWF and measures of financial performance. The consistency in result could be because of improved employee disclosure as result of mandatory disclosure [26].

4.2 Corporate Sustainability on Employee Workplace and Financial Performance

The result of relationship between EWP and financial performance show mixed findings as the relationship between EWP and NPM as well ROE show insignificant relationship while the result between EWP and EPS indicate a strong and positive relationship. This implies that EWF does not influence NPM and ROE. The result of the relationship between EWP and NPM as well as ROE does not support the findings of Searcy *et al.*, [31] where there is empirical evidence that good workplace boosts employees' performance; this may in turn have positive affect financial performance. On the contract, the relationship between EWP and EPS supports the findings of Searcy *et al.*, [31].

4.3 Corporate Sustainability on Employee Training & Development and Financial Performance

From the available statistical results, ETD has significant but negative relationship with NPM, ROE and EPS; this explains a significant negative influence on NPM, ROE and EPS. Interestingly, the findings of this study contradict the findings of Jehanzeb *et al.*, [15] where commitment to employee training and development have positive effect on firms' performance in terms of market share, market growth, employee retention and employees' career growth. In a similar vein, the findings of the study also contradict the finding of Kim *et al.*, [17].

4.4 Corporate Sustainability on Employee Health, Safety, and Financial Performance

The statistical result shows a positive and significant relationship between EHS and NPM while insignificant relationship exist between EHS and ROE as well EPS. The result of positive and significant relationship between EHS and NPM is consistent with findings of Fabius *et al.*, [11]. According to Fabius *et al.*, [11], employers can enhance business performance by enhancing employee health and safety in workplace.

4.5 Corporate Sustainability on Employee Human Rights Financial Performance

EHRs appear to be positive and significant with NPM and ROE while EHRs relationship with EPS appears to be significantly negative. Human Rights disclosure appears to have significant impact on the NPM, ROE and EPS but while the impact was positive on NPM and ROE, it appears negative on EPS.

Table 1

Results of multiple regression analysis ***sig. level at 1%, **sig. level at 5% *Sig. level at 10%

Variables	NPM			ROE			EPS		
	Coefficient	t value	P value	Coefficient	t value	P value	Coefficient	t value	P value
EFW	0.0073714	5	0.000***	0.0276383	2.15	0.032**	1.557791	4.33	0.000***
EWP	-0.002281	-0.14	0.889	0.0151272	1.11	0.265	1.426938	4.56	0.000***
ETD	-0.050507	-3.94	0.000***	-0.0312775	-2.43	0.015**	-1.552682	-4.66	0.000***
EHS	0.0272412	1.98	0.048**	0.0144314	0.94	0.348	-0.0200413	-0.06	0.953
EHRs	0.017077	2.08	0.037**	0.0316793	2.14	0.033**	-1.093341	-2.85	0.004***
LSIZE	0.0367481	1.43	0.153	0.0532167	2.10	0.036**	-1.434977	-2.01	0.044**
LAGE	0.0449271	2.01	0.044**	0.0113236	-0.62	0.537	4.872478	7.24	0.000***
LENS	0.0116539	0.820	0.820	0.2333616	5.57	0.000***	7.452453	5.46	0.000***

5. Discussion

EFW has significant relationship across all the three dimensions of financial performance. The findings are consistent with findings of some past studies. The finding of this study is also consistent with the findings of [30] where sustainability disclosure that includes employee disclosure influences financial performance especially ROA and ROE.

In a similar vein, Ameer *et al.*, [5] found a positive and significant association between corporate sustainability and financial performance which is consistent with findings of this study where EFW appears to have strong association with NPM, ROE and EPS. Lepak *et al.*, [18] found out that employee welfare remains a strong motivating factor towards employees' productivity, which impact significantly on firms' financial performance. The empirical findings in this study is however contrary to the findings of Aggarwal [1], where employee dimension of sustainability was found to have significant but negative relationship with ROA, ROE, ROCE, and PBT. The difference may due to the different number of samples and years of the information collected. The present study used 253 samples for a 6-year panel data while Aggarwal [1] drew 20 samples for a single year data. In addition Aggarwal [1] aggregated the various dimensions of CSIE while this study examines each dimension individually. The implication is that improved employee welfare will address brain drain challenge in Malaysia.

In addition, the finding, reveals a negative and insignificant relationship between EWP and NPM (coefficient value of -0.002281, p-value 0.889 and t-value of -0.14), a positive but insignificant relationship with ROE (coefficient value of 0.0151272, p-value 0.265 and t-value 1.11) and a positive and significant relationship with EPS (coefficient value of 1.426938, p-value 0.000 and t-value 4.56). This implies that EWP does not have any form of significant influence on NPM and ROE. This result appears contradictory with the findings of Searcy *et al.*, [31], where there were some empirical evidence to suggest that good workplace improves employee productivity with attendant effect on employee productivity, which may affect corporate financial performance. The relationship between EWP and EPS is however consistent with the findings of Searcy *et al.*, [31]. In same vein, the relationship between EWP and EPS appears to be consistent with the findings of Chandrasekar and Yusoff *et al.*, [10,40]. In same vein, the relationship between EWP and EPS appears to be

consistent with the findings of Naharuddin *et al.*, [25], which measured employee workplace by way of job work aid and workplace environment and the findings found out that workplace environment significantly boost employee performance.

ETD has significant but negative relationship with NPM, ROE and EPS; it implies that ETD has a significant negative influence on NPM, ROE and EPS. The findings of this study contradict the findings of Jehanzeb *et al.*, [15] where commitment to employee training and development have positive effect on companies' performance in terms of market share, market growth, employee retention and employees' career growth. In a similar vein, the findings of the study also contradict the finding of Kim *et al.*, [17] where internal training directly affect companies' financial performance. The major reason why the findings of this study seems to be at variance with Kim *et al.*, [17], is that it measured ETD with particular interest on internal dimension while this study measured both internal and external dimension of ETD. The most likely reason is that external ETD is much expensive than Internal ETD.

The summary of empirical findings between EHS and NPM indicate a positive association while insignificant relationship exists between EHS and ROE as well as EPS. The result of positive and significant relationship between EHS and NPM is consistent with findings of Fabius *et al.*, [11]. On the contrary, findings of Fabius *et al.*, [11] do not support the result of relationship that exist between EHS and ROE and EPS as it appears that EHS has insignificant relationship with EPS and ROE. Loeppke *et al.*, [21] also, found positive and significant association with the findings of this study.

Empirical findings of this study indicate a significant and positive association between EHRs and NPM as well as ROE with EHRs having insignificant negative relationship with EPS. The impact of EHRs on NPM and ROE appears positive while the reverse was the case with EPS. There are few studies that establish link between both variables; however, the few studies available try to establish a link between workers right with human resources management [17,13,37].

6. Conclusion

In conclusion, this study tested the relationship between CSIE and FP and find out that that there are positive and strong relationships between EWF and NPM, ROE and EPS, EHS and NPM, EHRs and NPM, ROE, EWP and ROE. On the other hand, there are strong but negative associations between ETD and NPM, ROE and EPS, as well EWP, NPM, and ROE. The effect of size, age and environmental disclosure as control variables tested with varying degree of mixed result in line with prior studies.

7. Recommendations and Implication of Study

From findings, this study suggested the following recommendations. These recommendations will be useful to potential employees, employers, companies' management, accountants, auditors, investors, potential investors, lobby groups, government, regulatory agencies, and industrial unions as well legislative arm of Malaysian government.

Poor EWF was the main reason why brain drain is high in Malaysia, as such from the findings of this study, EWF, EHS, EHRs influences the financial performance. As such, there is a need to encourage companies to improve on EWF to stem the challenges of brain drain, as improved employee welfare will improve financial performance and address brain drain challenge in Malaysia. Thus, this study recommends that the government give a tax concession to companies who invest on employee welfare.

On the part of companies' management and owners of business, this research calls for more proactive attention towards corporate sustainability initiatives on employee in meeting stakeholders' expectations. This study also calls on government to come up with legislation on disclosure of corporate sustainability initiatives on employee similar to what is obtainable in the UK where employee disclosure is compulsory by legislation. The Malaysian legislative arm of government should also enact laws that will criminalize human rights abuses and discriminations in workplaces.

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Appendix 1

Construct of measurement of sustainable disclosure of employee

S/N	Dimension	Employee sustainable disclosure	Source
1	Employee Welfare		
1	Employee Welfare	Pension	Taru Vuontisjrvi [34], Williams and Adams [38], GRI.
2		Remuneration	Taru Vuontisjrvi [34], Williams and Adams [38], GRI.
3		Gratuity	GRI, Taru Vuontisjrvi [34]
4		Payment of overtime allowance	GRI, Taru Vuontisjrvi [34], Williams and Adams [38].
5		Timely payment of allowances and remuneration	The author.
6		General Insurance/scheme cover	Taru Vuontisjrvi [34], Williams and Adams [38], GRI.
7		Employee Provident Fund	Taru Vuontisjrvi [34], Williams and Adams [38].
8		Employee social security	GRI, Taru Vuontisjrvi [34], Aggarwal [1].
9		Child delivery subsidies	Present work
10		Medical benefit	GRI, Taru Vuontisjrvi [34], Williams and Adams [38].
11		Disclosure on wages and salaries	Annual reports, Taru Vuontisjrvi [34], (2006), Williams and Adams [38].
12		Financial inclusion: employee share plan	Annual report, GRI, Taru Vuontisjrvi [34]
13		Disclosure on profit sharing/bonus	Annual report, GRI, Taru Vuontisjrvi [34]
2	Employee Workplace		
14	Employee Workplace	Workplace design	Searcy et al., [31], GRI.
15		Thermo comfort temp	Searcy et al., [31], GRI.
16		Office dimension	Present work
17		Access to nature, view and daylight	Present work
18		Noise control and crowd	Present work
19		Employee engagement	Searcy et al., [31], GRI.
20		Whistle blowing mechanism	Searcy et al., [31], GRI.
21		Indoor air quality	Searcy et al., [31], GRI.
22		Availability of work tools	Searcy et al., [31], GRI.
23		Ambience	Searcy et al., [31], GRI.
24		Provision for working aid for physically challenged	Searcy et al., [31], GRI.
25		Information sharing between management and employee	Searcy et al., [31], GRI.
26	Work and family balance	Searcy et al., [31], GRI.	
3	Employee training and Development		
27	Employee training and Development	Creation of learning environment	Searcy et al., [31], GRI.
28		Seminar and workshop on career growth	Searcy et al., [31], GRI.
29		Training policies and programmes	Searcy et al., [31], GRI,
30		How often are employees trained?	Taru Vuontisjrvi [34], Searcy et al., [31], GRI, Williams [38].
31		Innovation and friendly employee policy	Taru Vuontisjrvi [34], Searcy et al., [31]

				, GRI, Williams [38].
	32		In-house training course	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38].
	33		Out- door training (out sourced)	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38].
	34		Promotion and career development	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	35		Disclosure on appraisal process	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38].
	36		Average training hour by company per employee	Present work.
	37		Training that support continuous employability during after resignation/retirement	Present work.
	38		Disclosure on employee training cost/Profit ratio.	Present work.
	39		Summary of 5 year performance output	Present work.
4		Employee health & safety		
	40		Health insurance cover for staff	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	41		Safety policies and measures	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	42		Provision of safety equipment such as safety shoes	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	43		Disclosure on health leave aside maternity leave	Present work
	44		Workshop and seminar on health	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38].
	45		Provision of medical facility in workplace	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38].
	46		Training on safety rules and measures	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38].
	47		Constitution of health safety committee in workplace	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38].
	48		Regular health screenings	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	49		Programme towards needs of older employees	Taru Vuontisjrvi [34]
	50		Disclosure of work related hazard	Taru Vuontisjrvi [34], Searcy et al., [31],
	51		Promotion of health awareness among employee	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	52		Disclosure of health provision at workplace for the disabled	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
5		Employee Human Rights		
	53		Employment of employee with physical disability	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	54		Non-discriminatory policy on HIV infected employee	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	55		Observing public holidays and working within time required per day	Present work
	56		Adherence to labor laws in laying off staff	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	57		Non- discriminatory employment policy	Taru Vuontisjrvi [34], Searcy et al., [31]

				, GRI, Williams [38]
	58		Terms and conditions of employment	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	59		Ethnic diversity	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	60		Age diversity/non age discrimination disclosure	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	61		Disclosure on forced labor	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	62		Compliance with minimum wage law	Present work
	63		Gender diversity	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	64		Disclosure on human trafficking	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]
	65		Disclosure on sexual harassment	Taru Vuontisjrvi [34], Searcy et al., [31] , GRI, Williams [38]