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Impact of Sustainability Practices on Share Performance with Mediation of Green Innovation: A Conceptual Paper

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Abstract--- *Corporate sustainability is now becoming an essential part of corporate business strategy. Companies in developed countries are adopting environmental, social, and economic practices to become a social ambassador. In many countries, companies that choose corporate social responsibility by adopting sustainable practices tend to have better financial performance and brand image. Many countries are rapidly adopting corporate sustainability strategies to promote green innovation. Researchers have argued that it is still considered to be a cost for the firm's investors, especially in developing countries like Malaysia. Evidence shows that these strategies show a positive sign in the company's financial performance. However, in some studies, it is still considered to be a sunk cost, particularly in the Asian region. It is challenging, if not impossible, to embed responsible behavior truly. The companies need to promote social, environmental, and economic practices that are considered to be beneficial for external investors. The paper proposes the conceptual model to understand how shareholders will respond if companies adopt sustainability practices, primarily if they invest in green innovation projects. The study is going to develop into a concrete hypothesis for future studies. This study aims to explore the impact of sustainability practices on the company's share performance with the mediation of green innovation. The model serves as a useful guide for adopting corporate sustainability practices to promoting green innovation and how it will affect the firm's share performance.*

Keywords--- *Sustainability, Financial Performance, Green Innovation, Share Price, Corporate Governance.*

I. INTRODUCTION

Corporate sustainability is a growing subject of corporate business strategy. Nowadays, firms are more focused on society and its development in making critical decisions for their success. The firms have diverted their emphasis on social and environmental development rather than earning profits through any cost-saving strategies. Continues technological improvement is needed to have a positive social and ecological externalities, and it is essential to sustain market share and brand image (Eccles & Klimenko, 2019).

The study into consideration proposes the conceptual model to understand the firm’s sustainability practices and its impact on share performance while considering green innovation as a mediator. The mediating role of green innovation will assist in understanding how shareholders will react when the company’s higher management decides to invest in green innovation projects.

The past literature has stressed that sustainability practices are useful to maintain long-term socio-economic and environmental development, and it is also beneficial for companies in the long-run (Frynas & Yamahaki, 2019).

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The fundamental concept of sustainability practices and its impact on the firm's value considers two theories; *Value Creating Theory* and *Value Destroying Theory*. The *Value-Creating theory* predicts that managers have to define long-term corporate strategies that integrate social and environmental responsibilities to create long-term value. Whereas, the protection of surrounding at the cost of shareholders will challenge managers to convince both sides at the same time, which signifies *Value Destroying theory* (Minna & Ronald, 2017). On the other hand, the literature identifies sustainability as a sunk cost that is being decided by senior management to promote their company's image in the market(Laskar & Maji, 2017; Mckibben, 2014).The prior results were inconclusive and context-dependent; therefore, further investigation is essential. In this study, sustainability will be introduced as a new dimension using green innovationas mediation to investigate its impact on a company's share performance instead of profitability.

The proposed study will consider sustainability practices as independent variables and share performance as the dependent variable. The sustainability practices will be measured by using three main components, namely; social, environmental, and economic responsibilities from annual sustainability reports of the company. These widely accepted practices consider the surrounding with a firm's capacity to gain profits, which is known as a triple bottom approach (Zorio-Grima, Sierra-García, & Garcia-Benau, 2017). The mediation of green innovation helps in explaining the relationship between dependent and independent variables. Investment in research and development projects helps in measuring green innovation(Schiederig, Tietze, & Herstatt, 2012). The share prices, market capitalization, and trading volume are considered to measure share performance(Walker, 2013).

The study will be useful to assist managers, analysts, investors, and researchers regarding shareholders' behaviors on green innovation. Similarly, the results will help government officials and legal institutes in making critical decisions to encourage firms to promote sustainability practices.

II. Literature Review

Sustainability reporting serves as an outlook of impacts fostered by any corporation as a result of its economic, environmental, and social properties (Incrop-Asia, 2019). Moreover, sustainability reporting is gradually becoming an essential mechanism for organizations in the world due to growing concerns for environmental protection. These reports assure commitment by a company to its sustainable or 'green policies.' Presently, an increasing number of businesses are connecting with their stakeholders on sustainability subjects, considering and listening to stakeholders' opinions on sustainable operations (Herft, 2018). By definition, If a company consumes resources to generate higher income or revenues with lowering its cost is known as financial performance(Kenton, 2019). Therefore, integrating outlook combining sustainability reporting with the financial performance of an organization is established as to how well do an organization produces its revenues. It also indicates a firm's coverage for damages and positives caused to the environment.

The study by Cantele and Zardini, (2018)shows the relationship between sustainability reporting and the financial progress of an organization. The sample of 348 small and medium-sized Italian manufacturing firms is studied to see the social and economic practices recognize the sustainability dimension. The findings indicated that such aspects' have a positive impact on a competitive edge; this edge than had a constructive influence on companies' financial positions in the market. In addition to that, the research conducted by Shad et al., (2019)reiterated that by merging stakeholder's theory and the modern portfolio theory, it was concluded that sustainability reporting positively promotes

competitiveness and improves the value generated by the organization. Another study conducted by Hussain, Rigoni, and Cavezzali (2018), shows that by analyzing sustainability with the financial performance of 100 top-notch firms in the United States. The findings specified a substantial and significant correlation between variables considered for sustainability and business progress. The variables measured were environmental outputs in comparison with the direct financial performance of organizations.

In addition, a study highlighted by Moneva and Hernández-Pajares (2018), sustainability reporting has two significant reasons posing as vital for organizations all over the world. Firstly, it is due to the interests of the stakeholders and secondly for organizations to legitimize their profits and performance from societal perspectives. It seems that out of the two reasons mentioned above, the first reason pertains more to the finances of the company, as return on investments and future profitable projections are crucial variables to investors. It implies that sustainability reporting could act as an investment prospect for investors. Since the performance of a company is a measure of productive output, profits, and market standings(Egbunike & Okerekeoti, 2018). As mentioned in the literature above, sustainability reporting and activities can affect firm performance.

The role of regulatory and monitoring authorities on global and regional grounds has been commendable in promoting sustainability reporting as a norm among corporations. For this purpose, the renowned bodies such as the United Nations and European Union direct corporations operating under their rules to publish their sustainability reports (Niemann & Hoppe, 2018). Almost the entire world's biggest 250 corporations enlisted, consistently produce sustainability reports (Yusof, Aris, & Zaidi, 2018), affirming their organization's commitment to financial gains with environmental concerns. This regulatory aspect by authorities has contributed to an increase in sustainability reporting mentioned by Herft (2018).

In the case of a renowned and dominant automobile manufacturer, Nissan Motors also emphasizes on affiliates of sustainability and financial performance. Nissan Motors, in its report for 2018, has highlighted a sustainability reporting program as Nissan Sustainability 2022 (Nissan, 2018). Environmental, social, and governance dimensions are the central part of the Nissan sustainability program. The report highlights the environmental initiatives, as zero commitments of Nissan's social action. It explains the program as ProPILOT to reduce casualties from road accidents. The top executive in charge of sustainability at Nissan has expressed a relation of sustainability and financial performance as a 'trust-acquiring' and a 'value-generation activity' (Nissan-Global, 2018). An energy corporation named Enel examines a similar case, Enel in their sustainability report for last year records it as central 'value-chain function. Enel joins it with innovation, and for 'balanced growth of businesses. Its green bond investments have been around 3.5 billion euros for investors for their funding of low-carbon projects(Enel, 2018).

Cases of Nissan and Enel demonstrate that sustainability reporting is gaining status as an annual 'routine activity' with other yearly reports such as financial statements. A contrasting view of this issue persists that such reporting does not have a mediating or a neutral authority to monitor; hence, facts sometimes are misrepresented. After analyzing sustainability reports of 100 corporations in Romania and their impact on financial performances, results reiterated that out of all companies with sustainability reporting mechanisms, most profitable are the ones who perform such activities to a greater extent than others, activities were categorized as corporate giving, waste management, health and safety and employee training (Hategan, Sirghi, Curea-Pitorac, & Hategan, 2018).

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The recent study conducted by Merrill Lynch in 2019, found that firms with Economic, Social, and Governance (ESG) reporting systems have a higher year to year returns. Due to the higher returns, they are more likely to become high performing stocks; they are less likely to have significant price declines. By considering this view, it becomes highly unlikely for these stocks to go bankrupt. The relative significance of the ESG factors varies from country to country. While observing the European portfolios, it seems that governance is the most crucial component to determine the performance. Whereas, for the North American portfolios, environmental factors were observed to be an essential factor (Eccles & Klimenko, 2019).

The business strategy needs to consider the ESG factors; the study is conducted to investigate the standard sustainability practices and strategic sustainability practices and their effect on financial performance. The "common" sustainability practices are mutual practices of every industry, whereas "strategic" sustainability practices are specific crafted strategies that are not used by other companies. The data set from 2012 -2017 from 3800 companies were analyzed. The results show that the companies that are using standard sustainability practices have no association with return on capital and market valuation. The companies which are using sustainable strategic practices have a positive association with the return on capital and market valuation (Ioannou & Serafeim, 2019). The contradictory results documented in the African region by considering the effect of Environmental Sustainability Orientation (ESO) on the financial performance of the firm. The study uses data from 269 firms in Ghana. It finds that the firms incorporating differentiation strategies can have a positive effect on the performance with ESO practices. The results also find that the firms can employ low cost integrated strategies to get a higher impact on financial performance with ESO. It shows that firms do not need differentiation strategies; with integrated strategies, they can boost the performance with ESO (Danso, Adomako, Amankwah-Amoah, Owusu-Agyei, & Konadu, 2019).

The organizations have diverted their strategies toward sustainable practices to achieve a competitive advantage, brand image, reputation, and to get benefit from economies of scale (Herft, 2018). Sustainability is not just a concept; companies have taken it as a part of their corporate strategy. The profits which the company achieves through sustainable practices are for their good future. However, sustainable practices are part of the long-term success of the company, society, economy, and environment. According to Klynveld Peat Marwick Goerdeler (KPMG) report; the number of companies publishing sustainability reports is increasing as compared to the previous years. It reflects that the majority of companies are following the Global Reporting Initiative (GRI) framework(KPMG, 2017).

Corporate sustainability is a part of the firms' strategy. To consider the triple bottom approach, companies must have to engage in social, environmental, and economic benefits. The Organization for Economic Co-operation and Development (OECD) has motivated the companies to focus on society. Whereas, companies must focus on their core objectives, which are to create a long-term economic benefit for shareholders (A.Mallin, 2010). The fundamental concept of sustainability and its impact on the firm's value considers two theories; *Value Creating Theory* and *Value Destroying Theory*. The *Value-Creating theory* predicts that managers have to define long-term corporate strategies that integrate social and environmental responsibilities to create long-term value. On the other hand, the protection of surrounding at the cost of shareholders will challenge managers to convince both sides at the same time, which signifies *Value Destroying theory* (Minna & Ronald, 2017).

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A similar study was conducted in the US investigating Corporate Social Responsibility (CSR), environmental responsibility, and firm performance (Lu & Taylor, 2018). This study considers the impact of environmental performance (EP) and environmental discourse (ED) with the firm's performance (FP). The research shows positive significance between EP and ED, which states that firms with higher environmental performance also have a higher level of environmental disclosures while reporting. However, EP has a negative relationship with firm performance. The findings also suggest that the firm size positively correlates with environmental performance and disclosures. The research shows an in-line connection with the article "The green wave" by an economist, which identifies two waves of sustainability practices by companies. Where first waves (2000-2008) show, sustainability performance shows positive links with firm performance or called economic performance. However, in the second wave (2008-2013), it is more of the cost, which is resulting in lower profits while cutting sustainable firms at risk(Mckibben, 2014).

A similar study was conducted in India to investigate the relationship and quality and level of sustainability and firm performance. The study considered the quality and level of sustainability as significant factors of success (Laskar & Maji, 2017). The findings identified that the firms had disclosed 88%, whereas the quality of disclosure was 80%. The disclosure practices are helpful for stakeholders in making the right decisions based on a financial report. Besides, to investigate the impact of CSP on firm performance was investigated using pooled regression analysis. The findings revealed that CSP significantly correlates with firm performance. The disclosure and quality of disclosure were significant at a 1% confidence level, whereas, level of disclosure and quality of disclosure have no significant difference in firm performance. The findings also revealed that larger companies have a good customer base and sufficient capital to diversify product range. The analysis used leverage as a control variable; the findings revealed that larger companies have sufficient financial resources; those companies do not need to rely on external funding.

Another study in the same context used determinants of CSP. The study observes Dow Jones (US) sustainability world index. It shows that firms with higher disclosure are large firms having a higher level of growth and return of equity (Artiach, Lee, Nelson, & Walker, 2010). The results are consistent for developed and developing countries. However, most of the studies in the same setting suggest that CSP has no power of explaining the changes in firm performance than other accounting measures (Artiach, et al., 2010; Lourenço, Branco, Curto, & Eugénio, 2012; Zorio-Grima, et al., 2017). The discussion emphasized the need for further investigation to analyze its impact on firm performance. The performance of the firm is correctly considered to be an internal performance measure, whereas share price service as a component of external performance, which is a good measure for share investors.

Prior researchers have studied sustainability and firm performance using two theoretical lenses. First, the value-creating theory reduces the risk and creates long-term value if a company strategy integrates the environment and social responsibility. Second, the value-destroying theory, which states that managers focus more on social and environmental activities on shareholder's expenses (Monks & Minow, 1996).

A study on Dow Jones Sustainability Index(DJSI) was conducted using data from 1999 – 2013 (Minna & Ronald, 2017). The study was built to test the relationship between a firm's sustainability practices and business performance. It focuses more on countries with high investor protection and high financial transparency. The results are analyzed by using Tobis Q. The DJSI was considered as the primary variable of concentration, whereas, firm size, cross-listing, debt to equity, and CAPEX were the control variables.

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The findings revealed that firms with a high level of social responsibility have a higher valuation. Thus, findings provided a positive association between sustainability and firm value. The research gets support from the evidence of higher corporate sustainability performance (CSP) is now larger in number, which shows higher growth and sustained return on equity (Artiach, et al., 2010).The results of investor's protection and firm performance also tend to show positive signs. Based on the identified results, the study supported the value-enhancing theory on value-destroying theory for firm sustainability practices and its value. The results also support the evidence of higher transparency and firm value, as it shows that valuation premium for the firm which follows good sustainability practices and financial transparency (Monks & Minow, 1996).

The concept of corporate sustainability is not yet extensively studied in terms of the triple bottom line approach, focussing on social, environmental, and economic settings. In the extensive literature study by Praveen, (2013), observed that only ten papers had discussed sustainability. However, the majority of the articles have considered the non-financial aspect of sustainability. Thus, rest papers were dropped based on different fields of study and the concept of research (Praveen, et al., 2013). The majority of prior literature focused on developed countries in the analysis. The findings of Praveen et al.,(2013), thirty studies were conducted in the US, twenty studies in the UK till 2013.The study shows that from the year 1992 to early 2000, researches on sustainability performance considers only developed countries. However, after the year 2010, the maximum contribution from developing countries was only 24%.

In most literature, the financial performance measurements focus more on internal performance indicators such as Return on Assets (ROA), Return on Equity (ROE), and other income statements and balance sheet indicators. However, shareholders' perspective of firm performance relies on stock market performance(Bauer, Guenster, & Otten, 2004). It can be ignored when firms pursue sustainability-based innovation, such as green innovation, in their business strategy. These strategic decisions reflect in share price and shareholders' confidence. Thus, there is a gap in the literature, which identifies the need for improvement in corporate sustainability by encouraging green innovation practices by firms and which has an impact on share performance. Therefore, this study focuses on investigating the relationship between corporate sustainability and share performance.

To identify the importance of the area and to see the updated developments made on the topic, a separate literature search is being conducted from the year 2014 to 2018. One of the critical concerns in the collection of literature is considering the reports and publications from different areas of interest. There are various firms, articles, text-books, research thesis, and government reports that contains literature related to sustainability. The maximum number of studies by both practitioners and academics use journals to collect the relevant literature (Ngai, 2005). The method to gather literature is limited to the online databases like Springer-Verlag, Elsevier's Science Direct, JSTOR, Emerald Full Text, EBSCOS, and Taylor & Francis

To accurately search the literature from these sources, various keywords are used from the sources mentioned above. These include CSR, Financial performance, Share prices, Equity market, corporate sustainability, green innovation, triple bottom approach, and environmental performance, green invention, and eco-innovation. Paper exploration and examination are based on the selected keyword in the titles, abstracts, keyword list, and full-text resources. After the extensive search by including the study of various resources, 166 useful articles are selected which covers sustainability in the context of social responsibility.

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Most of the omitted resources were talking about sustainability in different settings like country growth, agriculture procedure, religious affairs, and other sciences that are not suitable for this purpose. After the selection of papers, period classification is considered to see the frequency of articles that are published from 2014 to 2018.

The arrangement of studies that are most relevant to the research area considered to find the research gap for the proposed study. The literature is organized and studied to establish a further investigation in sustainability, green innovation, and share performance. **Table 1** identifies the six most important pieces of research that are looking at internal performance measures of the company. Investor's perspective and their behavior are not studied in detail. The literature lacks the knowledge in the identified area; the conceptual model will provide the basis of the research that can be done to analyze the investor behavior.

Table 1: Relevant Literature to Support Research Gap

S.NO	Article	Author/Date	Theoretical/Conceptual framework	Analysis & Results
1	A study of the relationships among environmental performance, environmental disclosure, and financial performance	(Lu & Taylor, 2018)	Environmental performance (EP) and Environmental discourse(ED) with its impact on firm's performance	The study shows positive significance between EP and ED which states that firms with higher environmental performance also has higher environmental disclosures while reporting. However, EP has negative significance with firm performance.
2	Sustainability reporting experience by universities: a causal configuration approach	(Zorio-Grima et al., 2017)	Social, Environmental, Economic and firm performance	Negative relationship with firm performance
3	Corporate sustainability reporting practices in India: myth or reality?	Najul Laskar and Santi Gopal Maji 2016	Literature search based on triple bottom approach	Comparative analysis on CSP and overall firm performance between India and other developed countries may provide a valuable input for the success of an organization.
4	Corporate sustainability performance and firm performance research: Literature review and future research agenda	Praveen Goyal, Zillur Rahman, A.A. Kazmi/2016	Environmental Performance ,Social Performance ,EnP	Most of the research is conducted in developed countries , further empirical research in relation of corporate sustainability performance and firm performance is required in developing countries
5	Voluntary corporate social responsibility disclosure	(Griffin & Sun, 2018)	Corporate social responsibility and firm performance	Shows Negative relationship with firm performance
6	Measuring Corporate Sustainability Performance	Eugen Nicolăescu,Cristina Alpopi, Constantin Zaharia/2015	Corporate performance> Corporate sustainability	These findings highlight the importance of examining the effect of environmentally sustainable operations on firm performance, the rise of ES&G matters as significant determinants of business conduct, and the individual as a crucial power in organizational change.

III. RESEARCH FRAMEWORK

This conceptual paper proposes a framework for sustainability practices and its impact on share performance with the mediation of green innovation. An extensive literature search is conducted to establish a research gap and develop a conceptual framework. Prior literature has proposed to investigate the relationship between sustainability and financial performance. However, those studies considered ROA, ROE, net profits, and sales revenue as measures of firm performance, which reflects as an internal performance measure (Danso, et al., 2019; Jermias & Gani, 2016; Laskar & Maji, 2017). Based on the discussion in the literature section, this conceptual paper will propose an investigation of the relationship between sustainability practices and share performance.

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The share prices show the external performance of the company. This study will also consider the mediating impact of green innovation to measure the strength of the relationship.

As shown in **Figure 2**, the share prices, trading volume, and market capitalization will be used to measure the dependent variable stock performance. The green innovation has a mediating effect on the relationship between sustainability and share performance. Whereas social, environmental, and economic components will be used to measure the independent variable of sustainability.

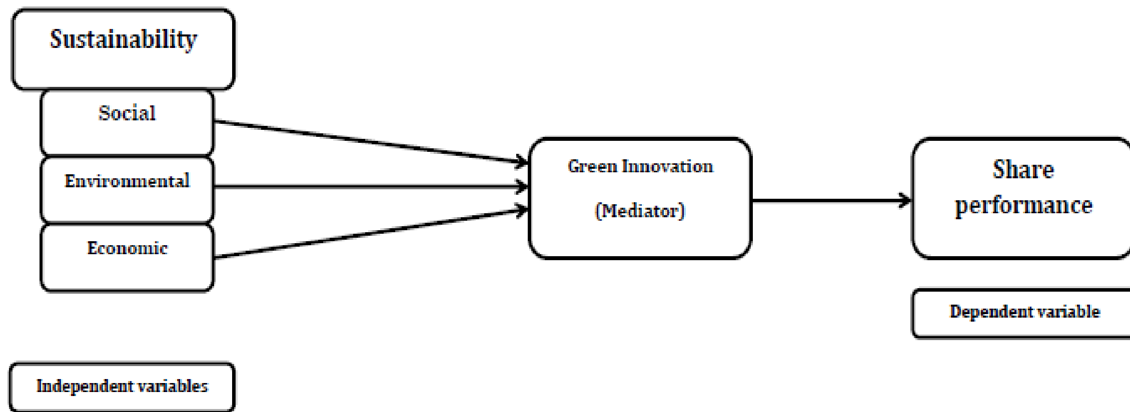

Figure 1: Research Framework

Hypothesis development

Companies that focus more on sustainability practices need to focus on innovation (Schiederig, et al., 2012). These new innovative ideas tend to lower the cost, which helps to increase profits (Praveen, et al., 2013). Capital flows from the investors are better attracted if the company's profits are higher, which ultimately boosts up the company's free cash flow for more opportunities. Green innovations tend to create the right brand image with a reputation in the market for keeping the environment and society into consideration apart from monetary profits. If companies are focusing too much on society and the environment, it can deviate from the primary goal of profit maximization (Minna & Ronald, 2017). It can affect their financial performance, and investors will get reluctant to invest in the company as their capital is not funded to earn profits. The interest of shareholders should balance with sustainable practices of the company if management decides to invest in research and development projects. It helps to promote sustainable projects and green innovation by bringing new ideas, methods, or processes which can attract shareholders/stakeholders with the company's sustainability (Aguilera-Caracuel & Ortiz-de-Mandojana, 2015; Laskar & Maji, 2017).

The studies from developing and developed countries suggest that sustainability practices by companies on environmental, social, and economic levels will distract their performance. The findings of literature also highlights the fact that sustainability practices by the companies has no power of explaining the changes in firm performance (Artiach, et al., 2010; Lourenço, et al., 2012; Mckibben, 2014; Zorio-Grima, et al., 2017)The results from the literature are still inconclusive and still need some evidence to support the relationship between sustainability and share performance. The suggested hypothesis for the research is as follows,

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H1: Green innovation has a significant mediation on the relationship between sustainability practices and share performance

- ***H1a:*** *Green innovation has a significant mediating effect on the relationship between Social practices and share performance*
- ***H1b:*** *Green innovation has a significant mediating effect on the relationship between Environmental practices and share performance*
- ***H1c:*** *Green innovation has a significant mediating effect on the relationship between Economic practices and share performance*

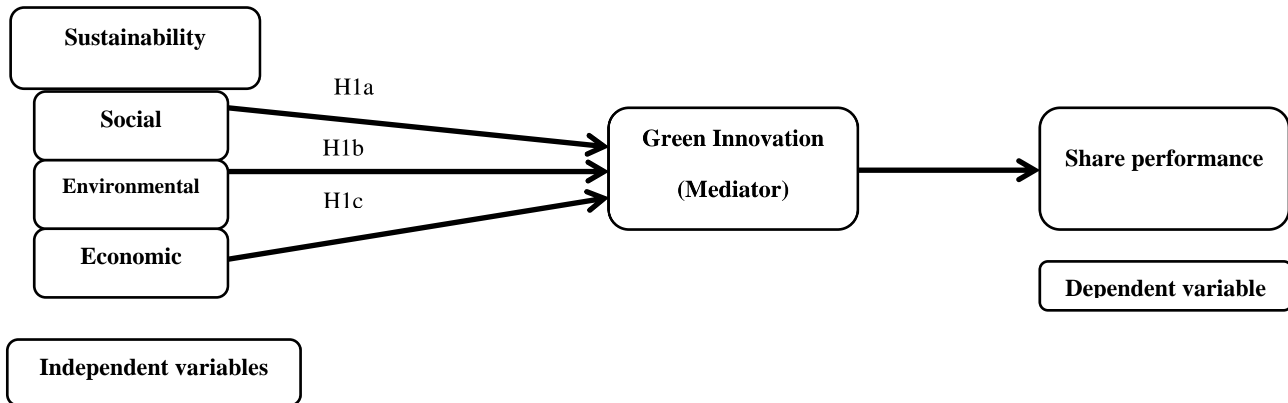

Figure 2: Green innovation mediates the relationship between Sustainability and Share performance (H1)

IV. Conclusion And Future Research

Previous researches have highlighted the importance of sustainability reporting with its impact of internal performance measures like Return on Equity (ROE), Return on Asset (ROA), net profits, and sales growth. Past studies have shown that companies which promote sustainable practices tend to have more year to year return which helps gain the comparative advantage, which helps to attract investors. Whereas, most of the studies showed that companies had used sustainability to promote the importance of brand image, align marketing strategies to increase the market share. The proposed research attempts to provide a new dimension by looking at the investor’s behavior when companies invest in green innovation to promote corporate sustainability practices. The proposed research is specifically looking at the investors of the developing countries and their behavior while companies adopt green innovation. The research will be focusing on the idea of corporate sustainability practices and its impact on the firm's share performance with the mediation of green innovation.

This research could also be expanded to include qualitative measures by looking at the specific behavior of the investors. The study can also incorporate the idea of most common corporate sustainability practices or unique practices of the companies which can assist the higher management in selecting the business model, which attracts the investor.

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