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Product Quality and Corporate Financial Performance of Bursa Malaysia

Yasir Abdullah Abbas[1], Yousif Mousa Sabti[2], Mohammed Basim Mohammed Al-Jazaeri[3], Hussein Ali Hadi Abu Khadher[4] & Buppachat Taengkliang[5]

[1,3,4]College of Administration and Economics, Department of Business Administration, Almaaqal University, Basrah, Iraq

[2]Department of Health Administration, College of Health & Medical Technology, Sawa University, Samawah, Iraq.

Faculty of Management Technology, Rajamangala University of Technology Srivijaya, Nakhon Si Thammarat Campus, Thailand.

Corresponding Author: Yasir Abdullah Abbas, **Email:** yasir.abdullah@almaaqal.edu.iq

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ABSTRACT

The goal of this paper is to determine the influence of the product quality on the corporate financial performance (CFP) of Bursa Malaysia (BM) as a developing market. This study employs secondary data derived from the content analysis of the Datastream and annual reports of 140 sampled listed on BM for the period of 2008–2018 and utilises the OLS and WLS regressions. The consequences illustration that there is a positive and important link among product quality with CFP. To the researchers' best knowledge, this study makes a significant contribution in terms of product in BM firms.

Keywords: Product quality, corporate financial performance, Bursa Malaysia.

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INTRODUCTION

The interaction of firms with this group could involve engagements in ethical procurement, supporting of products, practices, and supplier development. This interaction is achieved in a very responsible manner. This benefits us to understand that when the firms are involved in product development, it benefits in adding value to their reputation and performance. Product is a prominent subject of discussion in the firm setting. The society in general has paid very few attention on the product (Abdullah et al., 2021). For a majority of firms, entering into Bursa Malaysia (BM) is an essential breakthrough in making the needed funds for financing important projects. Last 5 years or so, managers assume that product is nothing but max the value of the firm above a long time, since, in the long run become financial problemes (Ar & Abbas, 2020).

Responsible business is common in the context of concerns of firms for developing strong and responsible business link with stakeholders, suppliers, and customers. Responsible business stays concentrate on the affect of environment factors on firms. Hence, this study focuses on responsible business (Abdullah et al., 2021).

Earlier studies on the link among quality of product and CFP showed weak findings as seen in the study of Sofian and Muhamad (2020). Therefore, the effect of product on financial performance could be the finding of prior high performance. The results on the product-CFP link in earlier studies presented mixed results. A majority of the studies (e.g., Chang et al., 2017; Kumarasinghe et al., 2018) found a positive link among product and CFP. There is also a revelation of mixed consequences in the context of CFP in Malaysia. Ramasamy et al. (2007) investigated the link among the product performers and financial performance in association to other firms in the same capital market. The results indicated no statistically important changes, despite the product portfolio performing improved than the market. However, the study showed that firms with robust product could perform better than firms with weak quality of product (Ramasamy et al., 2007).

This present study proposes to test the quality of product by BM in their annual reports (AR) within the period of 2008–2018. Through most earlier studies on product as well as those in the Malaysia context had concentrated mostly on the non-financial industry (e.g., Sadou et al., 2017), this study goes on a diverse path by sampling BM from the “non-financial industry”. While “the number of studies on product is increasing, experimental tests on the practice of

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product by BM firms in developing markets particularly Malaysia are still scarce". Other studies argued that there is a small number of studies documented in relations of the firm performance of Malaysian BM (Abu Bakar & Rosbi, 2016). Product is declining judging from its poor detection level. Although not being a general disclosure category in the annual reports of BM, researchers and regulators might still profit from more research on the effect of product on the CFP of BM. Unusually, the prevalence of poor product level is not particular to only Malaysia, but other Asian countries as well for example India and Bangladesh ("Aman-Ullah, Aziz, Ibrahim, Mehmood, & Abbas, 2021" & Kansal et al., 2014; Abdullah et al., 2019). Hence, by applying the "Global Reporting Initiative" (GRI) for quality of product as measurement as well as the return on equity (ROE) as a measure for CFP, this paper endeavours to fill the gap by investigative the effect of quality of product on the CFP of BM in the Malaysian context.

This paper marks many contributions to quality of product with CFP literatures. Firstly, it tests CFP in a developing market whereas earlier research had concentrated on developed markets. Secondly, it extends CFP literatures by testing the existence of product. Thirdly, this study measures the CFP employing the return on equity (ROE) of BM. Fourthly, there are very little studies focusing on the quality of product as best had focused mostly on the extent of product. Hence, product of quality is tested in this study utilizing the "annual reports" of 140 firms in the BM cover the period from 2008 to 2018. The remainder of this study proceeds as follows. Section 2 extends a summarized evaluation of the literature with concerns to quality of product and CFP literatures. Section 3 summaries the research methods. Section 4 reports the results of the new study. "Lastly, Section 5 calculations up the findings and discussion of the study".

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Product and Corporate Financial Performance

Product performs are suitable more and more important for the long-term and continued existence of firms. Concerning society, BM spreads its support to firms as they are a part of the overall community. The term environment drives the product emphasis of firms on many attentions. Employees' morale and obligation towards productivity can be better through many growing incentive schemes and programmes.

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The link among product and CFP was test by earlier studies and the findings reported a positive connection (e.g., Saleh et al., 2011). Furthermore, the Bowerman and Sharma (2016) reported that the evidence of the agency theory through is that firms have to gain some profits from product appropriate to justify and continue their developments of product. Therefore, the details behind the businesses' interest in undertaking deliberate product can be clarified by utilizing the agency theory. Managers are moreover insensitive when it approaches to on condition that product voluntarily for the drive of growing CFP when they act in accordance with the agency theory (De Klerk et al., 2015; Mehmood, Mohd-Rashid, Abdullah, Patwary, & Aman-Ulla, 2022).

The results on the link amony products with CFP in earlier studies presented mixed findings. As per several studies (e.g., Abbas et al., 2022a; Chang et al., 2017; Saleh et al., 2011; Sofian & Muhamad, 2020), there is a positive connection among product with CFP. Nevertheless, some other studies (e.g., Crisóstomo et al., 2011) reported that the two are negatively associated. There are also other research (e.g., Iqbal et al., 2012) that found no link at all. Nevertheless, there is until now any study on the link among product quality and CFP in the context of Malaysian firms. Hence, the present study fills this gap by since such link. The next is hypothesized:

H1. The product quality is positively association with the CFP of BM.

RESEARCH METHODS

This section explains the sample size and data such as the variables and regression models utilising in this study.

Data and Sample Size

This study utilises the data of BM from 2008 to 2018. BM launched the product Framework for PLCs on 5 Sep 2006, but compulsory product disclosing only came into full influence in 2008. Through, all PLCs are obliged to reveal their product actions in their AR. The ROE data was composed from Datastream start from 2008 to 2018. This study selected the period till 2018 due to differences in product quality activities in annual reports in 2018. This paper does not include the last years of data and miss the data; financial firms are therefore removed from the sample. The concentration of this study is on the Main-Market and ACE-Market i.e. the two highest markets in Malaysia, which list 140 non-financial BM". "All the compulsory information

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concerning product is collected from the BM. The AR listed on the BM are utilized to find the data from 2008 to 2018".

Measurements of Variables

In order to determine the last sample of this paper, these set criteria must be observed: (1) the firm must be registered on the Malaysian Main Market or the ACE Market, (2) "the ROE data on the Datastream database essential be made available from the year of register. Finally, 140 BM are decided as the "final sample cover the period of 2008-2018. There is a year-to-year difference in the number of businesses as per the type of investigation and time windows supposed.

The accounting-based measure is the more prominent one. Hence, this present paper utilizes the ROE to measure CFP. The favorite for this technique arises since it has enjoyed times of reputation and has developed significantly over the way of the earlier period. One major different between ROE and ROA is debt.

The requests of BM are also taken into thought in approving that the index covers items cover the variables revealed earlier. For instance, the modified index utilized in this present study includes of 5 items for product quality (Table 1) as utilized in past studies on Malaysian annual reports (Saleh et al., 2011; Sadou et al., 2017).

Apart from the independent variable stated earlier, numerous control variables are applied in the current study for instance (educational background, stock ownership, and financial expertise). This is to display that this study controls the potential link among product with the CFP of BM firms. A meaning of every control variable is shows in this section. The selection of possible control variables relies on earlier suggestion in Malaysian environments (e.g., Mehmood, Mohd-Rashid, Ong, & Abbas, 2021; Chang & Kwon, 2020; Ibrahim & Ismail, 2012) and some of the earlier studies link to the CFP as displays in this section. In this present study, nevertheless, CFP, product quality, and control variables measurements are utilised, as clarified in Table 2:

Table 1: *List of Product Quality Items*

No	Product quality items.
1	Products development.
2	Product safety.
3	Green product.

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4	Product quality.
5	Consumer satisfaction.

Table 2: *Variables Measurements*

Variable Name	Measurement
Dependent Variable	
ROE	$ROE=\frac{\text{Net Income}}{\text{Total Equity}}$
Independent Variable	
Product	"Quality of product is measured utilizing GRI an index with a scale of 0 to 2, where a score of 2 is for quantitative disclosure, 1 for general qualitative disclosure, and 0 for non-disclosure".
Control Variables	
Educational Background	"Total number of directors at the BM date".
Stock Ownership	"The percentage of corporate shares owned by executive directors".
Financial Expertise	1 indicates for disclosing and 0 otherwise.

Regression Model

One experimental model is employed to test the link between product quality and CFP. This study employs a many regression method utilizing the "ordinary least squares" (OLS) with its robust and weighted least squares (WLS) methods. This study's proposed results are practical employing this model to confirm their comparability to that of other studies. The regression model below defines the connection.

$$CFP_{it} = \beta 0 + \beta 1\ PRO_{it} + \beta 2\ EB_{it} + \beta 3\ SOWN_{it} + \beta 4\ FE_{it} + \varepsilon$$

RESULTS AND DISCUSSION

Descriptive Analysis

Table 3 shows the descriptive statistics for all the variables and the sample of 140 BM, which show the results for the first goal. The CFP i.e. the main variable is measured by using the ROE from the period 2008-2018. Table 3 presents that the CFP mean for the sample is 24.55 with a max of 10.30, and min of -15.35, which shows the Malaysian CFP during the period of study.

Table 3: *Descriptive Analysis*

Variable	Obs	Mean	Std. Dev.	Min	Max	Skewness	Kurtosis
CFP	140	24.55	19.88	-15.35	10.30	-2.93	4.51

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PRO	140	0.14	0.24	0.00	1.40	2.69	9.25
EB	140	0.42	0.14	0.12	0.85	0.54	3.59
SOWN	140	8.56	10.93	0.00	0.52	1.83	6.24
FE	140	0.86	0.37	0.00	1.00	-1.86	4.43

Note: This table displays the descriptive statistics of the dependent, independent, and control variables of the BM utilized in this study"". The CFP= Corporate financial performance, and PRO = Product; EB = Educational background; SOWN = Stock ownership, FE = Financial expertise; n =140.

The second variable involves the product quality variable, which are measured by the GRI. Earlier researches utilized the purposive sampling technique which is calculated at large-sized firms while the present study utilizes it on BM chosen from several industry types. With concerns to the themes of product quality, in terms of product, the mean index score for product is mostly informed to be 0.14.

The third variable involves the control variables which contain educational background (EB), stock ownership (SOWN), and financial expertise (FE). From the descriptive statistics, the range for the EB is large where the min is 0.12 and the max is 0.85. For SOWN, the mean for the firms under observation is 8.56, with a min of 0.00 and a max of 0.52. Lastly, for FE which is a dummy variable, the mean for the firms is 0.86, with a min of 0.00 and max of 1.00.

Correlation Analysis

The "strength direction, and importance" of the link between the variables in this study are determined employing the correlation analysis. The Pearson coefficients correlation among the dependent variable, control variables, and independent variables are presented in Table 4 with a high correlation between the disclosure scores. The following discusses these tests in detail.

The quality of the product, whether with or without interaction, is investigated in the same model since their utilize of GRI as a measure for the quality of product. For instance, multicollinearity is not a issue in the current study. The link values of all the variables in this study display that a serious issue of "multicollinearity" does not find as their values are less than 0.80 (Hair et al., 2010). There are some correlations among "independent variables and the dependent variable". As showed in Table 4, the product is positively and important connected with CFP. EB, SOWN, and FE are negatively connected to CFP.

Table 4: *Correlation Analysis*

Variables	CFP	PRO	EB	SOWN	FE
CFP	1.000				

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PRO	0.277***	1.000			
EB	-0.049	0.000	1.000		
SOWN	-0.074	-0.073	-0.052	1.000	
FE	-0.020	-0.061	-0.133	-0.082	1.000

Note: ***Correlation is “”significant at the 0.01 level (two-tailed); **Correlation is significant at the 0.05 level (two-tailed); *Correlation is significant at the 0.10 level (two-tailed)””.

Regression Analysis

Many “regressions are applied to exam the study hypothesis, but earlier to that, one basic hypothesis main to OLS regression is measured”. These contain of the test for “collinearity between the “normality independent variables, (Table 3), and heteroskedasticity for the model”. “To verify the collinearity problem, the variance inflation factors (VIF) are calculated”. “In all the circumstances revealed in Table 5, the VIF values are fewer than 10 suggesting the non-found of any multicollinearity problem”. “Statistically, the data applied for regression analysis is careful to be normally distributed in relations of the skewness and the kurtosis. The Breusch-Pagan examinations utilize to examination heteroscedasticity in this study show p-values of less than alpha (5%), showing a huge extent of heteroscedasticity in the model utilizing”” the ordinary least square (OLS) as exposed in Table 5. This study thus utilizes the weighted least squares (WLS) and OLS robust to avoid any problems with normality, heteroscedasticity, and outlier. OLS cannot aim particular areas; hence WLS works well for this duty as it highlights particular areas in the study by giving these areas improved weight than others (Shalizi, 2015).

Table 5: *Regression Results*

CFP	OLS		OLS Robust		WLS		VIF
Variables	t.stat	sig	t.stat	sig	t.stat	sig	
PRO	0.06	0.972	0.04	0.099*	0.25	0.098*	1.68
EB	-0.44	0.087*	-0.43	0.0845*	-0.44	0.083*	1.27
SOWN	-0.68	0.676	-2.55	0.026**	-0.70	0.651	1.16
FE	0.42	0.695	0.36	0.090*	0.46	0.082*	1.32
Constant	-0.22	0.845	-0.29	0.951	-0.34	0.913	
OLS Heteroskedasticity		0.117					
n		140		140		140	
R2 (%)		31%		35%		32%	
Adjusted R2 (%)		67%				70%	
F-value		0.43		1.07		0.31	
p-value		0.96		0.41		0.99	

The reported consequences for the model in Table 5 disclose surprising results regarding product which displays that quality of product has a positive and important connection with CFP (t=0.04,

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0.25, p-value=0.099, 0.098). As a finding, hypothesis H1 which forecasts that product quality is positively linked to CFP. Malaysian controllers could advantage from these results in their endeavour to perform an enhancement method on product to growth its quality. Moreover, the results can also be utilized to define effective product.

DISCUSSION AND CONCLUSION

This study aims to test the impact of quality of product on the corporate financial performance of BM. The link between product quality and CFP is established employing regression analysis. A key outcome is that the quality of product is positively connected to CFP based on the ROE as measurement. This study also utilizes (i.e. educational background, stock ownership, and financial expertise) as the control variables and found a positive and negative link with CFP. The analysis consequences explain that businesses emphasize on CFP development by including greater product reporting in their annual report (Abbas et al., 2022b).

Quality of product is highly significant in the achievement of responsible business essentially for successful CFP meanwhile their significant role as decision makers that conclude the long-run achievement of their businesses. The consequences of this study improve the present body of information on the connection among CFP and BM firms. It tests the influence of the quality of product on the CFP of BM. Many studies had examined the connection between product applies and the CFP of Malaysian businesses (e.g., Wan Ahamed et al., 2014 & Saleh et al., 2011) . Nevertheless, there are very restricted studies on the link among quality of product and the CFP of BM. The results of this present study show that product practices growth CFP. Mostly, this study shows that quality of product does have an influence on BM firms.

The regulatory bodies are main responsible for making sure that the BM listed firms conform to the quality of product. These regulatory bodies promise also to continue knowing of the attributes of BM achievement due to the ongoing changes on the product policies complete by the BM listing requirements. The results give valued insights to investors about how other investors perceive the significance of product in CFP. Policy recommendation, the regulatory bodies should also continue knowing of the attributes of CFP attainment due to the ongoing variations on the product reporting policies made by the BM listing requirements. So that they can guide BM issuers and investors about the important of product. Therefore, investors might

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take product as evidence to take this element into consideration when making BM investment decisions.

For the future research, the present study only investigated quality of product reporting made on the businesses' annual reports, future studies could focus on matching the level on the annual reports with that of websites or stand-alone reports. Such link might provide better-off insights of the methods applied by the businesses in reporting their quality of product information to stakeholders. The concentration of the current study is only on Malaysian firms. In the future studies are proposed to manner a cross-sectional evaluation among Malaysia and Asian countries .A evaluation among advanced and developing countries" could also increase understanding about the connection between quality of product by utilizing GRI as a measure and other measures and the CFP of BM firms i.e. information that can significantly contribute to the field of study.

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