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The State of Sustainability Disclosure and Effects on Companies' Financial Performance

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ABSTRACT

In Malaysia, the disclosure of sustainability information is lacking since it is not a common practice for companies in this country compared to developed countries. Sustainability disclosure consists of three dimensions, namely, economic, environmental and social disclosure. This study examined the extensiveness of sustainability disclosure in terms of quality and quantity. In addition, the relationship between sustainability disclosure and financial performance, which was measured by return on assets (ROA) and earnings per share (EPS), was also investigated. The annual reports and stand-alone reports from 2007 to 2010 of 24 public companies listed on Bursa Malaysia (Malaysian Stock Exchange) participated in the ACCA Sustainability Reporting Awards (MaSRA) were analysed using content analysis. Meanwhile, the signalling hypothesis was used to address the relationships of the variables. It was found that the quantity of sustainability disclosure increased from year to year with the highest number of sentences of disclosure in the social dimension. In addition, companies provided comprehensive disclosure in the economic dimension in the forms of qualitative, monetary and non-monetary. Using multiple regression analysis, the results revealed no relationships between the sustainability dimensions and the financial performance of companies except for the economic dimension and ROA with negative effect. The present study contributes to the current literature on sustainability, particularly inasmuch as prior studies mainly focus on corporate social reporting issues.

Keywords: Financial performance, Sustainability disclosure

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INTRODUCTION

The World Commission on Environment and Development defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED, 1987). It is the idea of maintaining a better quality of life through using the natural resources prudently, enhancing social development and stabilising economic growth. Meanwhile, sustainability reporting is the practice of the management of companies in delivering accountability to the wider group of stakeholders through the disclosure of information for enhancing organisational performance to meet the goal of sustainable development (Global Reporting Initiative [GRI], 2011). The information can be reported as part of the corporate annual report or as a stand-alone report.

Many companies were found to continuously report sustainability information such as those in Germany, the United Kingdom, Japan, the United States and France (Burhan & Rahmanti, 2012). The information includes information concerning economic, environmental and social dimensions. However, according to the Chairman of the Environmental Quality Council Malaysia, Datuk Kok Wee Kiat, sustainability reporting in Malaysia is in a "poor shape". Since sustainability reporting is not mandated in Malaysia, the information is hardly reported by companies listed on Bursa Malaysia (Sustainability Reporting in Poor Shape, 2009). Datuk Kok urged the government to make sustainability reporting compulsory for all companies in Malaysia. Besides that, Sumiani *et al.* (2007) found that the level of environmental and sustainability disclosure of 50 listed companies in Malaysia in 2003 was low and mainly qualitative term. Accordingly, this study examined the development of sustainability disclosure by companies in Malaysia through annual reports and sustainability reports between 2007 and 2010. It is interesting to determine the current state of the practice of corporate sustainability reporting in Malaysia in response to the statement of Datuk Kok. While it was found that many studies had examined the initiatives of corporate social responsibility and financial performance (such as Hillman & Keim, 2001; Saleh *et al.*, 2011; Setiawan & Tjiang, 2012), literature examining sustainability initiatives and financial performance is lacking, particularly in the Malaysian context (Ramasamy *et al.,* 2007). Thus, this study also examined the relationship between corporate sustainability reporting and financial performance.

This study makes several contributions. The results on the state of sustainability reporting of companies in Malaysia can be used as a benchmark by other companies in determining their position in sustainability reporting. The findings may also be used by policymakers or regulators in setting rules and regulations concerning sustainability disclosure, which is still voluntary in Malaysia. The empirical results may also be useful to companies concerning the importance of extending the current financial reporting practices to non-financial information disclosure such as sustainability information.

Sustainability Reporting

Sustainability reports include disclosure of information concerning the economic, social and environment performance of a company and provide a useful tool to measure the sustainable performance of companies. The reports also act as a mechanism to show the commitment of companies in sustainability development (Tregidga & Milne, 2006). They can also be used to communicate the economic, social and environmental performance of a company and provide a benchmark of its compliance with the laws, codes of conduct, standards and voluntary initiatives (Global Reporting Initiative, 2000-2012).

Some countries such as Denmark and the Netherlands have made it mandatory for companies to disclose environmental information, albeit only for certain industrial sectors. However, Japan was the first country to adopt triple bottom line reports. In 2001, the government of France regulated listed companies to disclose environmental and social activities in their annual reports (Schadewitz & Niskala, 2010). In Malaysia, sustainability reporting is a voluntary practice. According to Amran and Haniffa (2011), the main motive for sustainability reporting by companies in Malaysia is for legitimate purposes relating to their public relations strategy for competitive advantage or government institutionalisation. Companies such as Plus Highway Berhad, DRB-Hicom Berhad and Pharmaniaga Berhad depend on business contracts from the government. Thus, to secure such projects, they prepare reports to depict themselves as being socially responsible.

Sustainability reporting is still in its infancy in Malaysia. Siwar and Harizan (2009) found that one third of the companies in Malaysia are socially responsibly active, yet more than one tenth of the companies in Malaysia do not disclose information pertaining to their social responsibility activities. This is further supported by Low *et al.* (2012), who discovered that companies in Malaysia usually disclose their social responsibility activities in their annual reports but not as a stand-alone report, which is more comprehensive. Additionally, huge costs and unclear positive returns to companies relating to the disclosure of sustainability hinder the continuity of such disclosure practices. Indeed, although a number of prior studies revealed the existence of a positive relationship between social reporting and financial performance in developed countries, it is unclear in the Malaysian context (Ramasamy *et al.,* 2007).

Sustainability Disclosure and Corporate Performance

The level of disclosure of the economic, social and environmental dimensions by companies in Malaysia is generally low in quantity and varies according to different business sectors. Sumiani *et al.* (2007)

examined the environmental disclosure of 50 listed companies in Malaysia in the annual reports for 2003 and found that the disclosure level had low extensiveness. In addition, Aini and Sayce (2011) found that the level of disclosure of social information is low for the property investment sector and higher for information concerning corporate philanthropy than environmental information. Sustainability reporting by companies in Malaysia is far behind other countries such as New Zealand and Australia. The low level of social and environmental disclosure by companies in Malaysia may be because it is not required by law (Siwar & Harizan, 2009), the huge cost needed to disclose the information or because there is no guarantee of an immediate return (Low *et al.* 2012). While Raar (2002) found that environmental disclosure of firms listed in Australian Stock Exchange was extensive and in the forms of qualitative, quantitative and non-monetary, Sumiani *et al.* (2007) and Azim *et al.* (2009) studied companies in Bangladesh found otherwise. The quality of information disclosed is general and qualitative in nature.

The impact of social and environmental reporting on corporate financial performance has also been studied by researchers. However, prior findings indicated that such relationships are inconclusive (Wahba, 2008). Beurden and Gossling (2008) carried out a meta-analysis of prior studies on corporate social reporting and financial performance. They found that the majority of prior studies obtained a positive relationship between corporate social performance and financial performance (68%), while only 26% showed an insignificant result and 6% indicated a negative relationship.

For example, Ameer and Othman (2012) found a positive relationship between sustainability disclosure of companies and financial performance. Using the sustainability reports of 100 companies, the results showed that environmental information represents 53.8% of the total sustainability information disclosed. In addition, companies with sustainability practices such as waste management and pollution control policy have higher financial performance than those without sustainability practices. Vijfvinkel *et al.* (2012) examined the relationship between environmental sustainability and the financial performance of 177 manufacturing firms in the Shanghai region and 180 companies in Rotterdam, Netherlands. The results showed that the revenue of the companies increased and their sustainable image improved after implementing the policy on reducing pollution. This is derived indirectly from the reduction of cost in manufacturing their product and the reuse of materials in production, which enable companies to save on the costs of the product and increase profit. Other studies that have found positive relationships between corporate sustainability disclosure and financial performance include those Saleh *et al.* (2011) and Burhan and Rahmanti (2012) in Malaysia and Indonesia, respectively. Such positive relationships have been proven in the studies of companies in Singapore (Khaveh *et al.* 2012) and the United States (Lo, 2010).

In contrast, other studies also revealed a negative relationship between sustainability reporting and financial performance. Wagner *et al.* (2002) found a negative relationship between the environmental performance and economic performance of 37 European paper manufacturing companies. Consistently, Crisóstomo *et al.* (2011) found that 296 companies listed on the Brazilian stock market had a significant negative relationship between the employees and environmental activities, and the value of the firms. Makni *et al.* (2009) who also discovered a negative impact of corporate social performance and financial performance on Canadian firms, asserting that this might be due to the trade-off theory in which firms involved in corporate social responsibility would experience lower profit, and thus lower shareholders' wealth. This is supported by Hillman and Keim (2001) who found that 308 firms participating in social issues had a negative influence on shareholders' wealth. This result is consistent with the findings of Saleh *et al.* (2011).

Meanwhile, a number of studies found no relationship between social and environmental activities and corporate financial performance, such as those by Crisóstomo *et al.* (2011) in Brazil, and Mehar and Rahat (2007) in Pakistan. The results of a study by Adams *et al.* (2010) showed that corporate sustainability has no impact on the financial performance of firms. In addition, short run sustainability efforts (i.e., less than 5 years) do not result in higher stock prices or enhance the return to shareholders. However, corporate sustainability efforts assist the firm to build brand loyalty and corporate reputation in the long term, which consequently maximises long-term shareholders' wealth. They concluded that corporate sustainability has no impact on corporate financial performance in the short term but has an opposite effect if it is in the long term.

Since sustainability reporting is not mandated in Malaysia, it is interesting to identify the extensiveness of the disclosure level by companies in this country. Therefore, the present study was carried out to discover the quality and quantity of the sustainability disclosure by companies in Malaysia. In addition, mixed results were found in prior literature concerning the relationship between corporate social disclosure and financial performance. The present study was undertaken to provide further evidence, specifically on the relationship between sustainability disclosure and corporate financial performance.

Theoretical Framework

According to Ahmed *et al.* (2012), prior researchers view that corporate social and environmental initiative by companies is both a predictor and consequence of company's financial performance. For example, corporate sustainability efforts by companies can signal the capital markets of the overall quality of companies' products and services. Thus, based on signalling hypothesis, capital market participants may be expected to pay premium for the shares of companies that emphasise sustainability efforts. This may allow firm to achieve high profitability and increased shareholders' wealth maximisation (Adams *et al*., 2010). Accordingly, the following framework is developed.

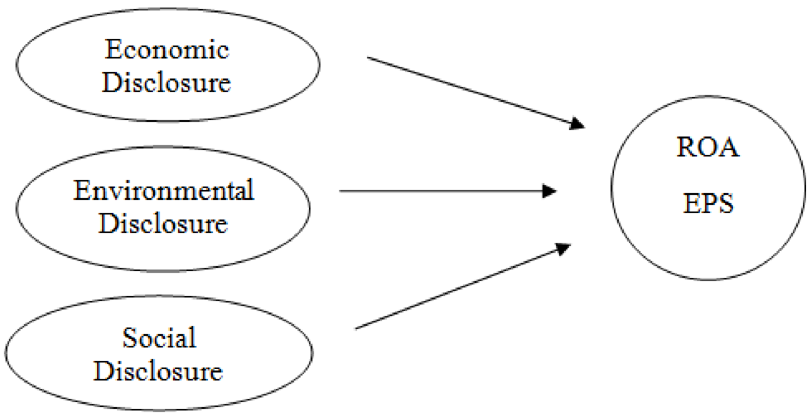

Fig.1: Theoretical Framework

Deegan *et al.* (2002) found that managers are motivated to disclose social and environmental information as they wish to continue surviving within society and believe that it is their responsibility. They also perceive that by undertaking sustainable development, their financial performance will also increase. This means that the company can operate successfully as it remains within the boundaries of socially responsible behaviour (O'Donovan, 2002). Accordingly, the research framework drawn above inferred that the economic, environmental and social sustainability dimensions are expected to have a relationship with the financial performance of companies. The economic sustainability dimension disclosed in the report such as financial growth, dividend policy and other economic conditions are essential information for the users of financial statements. The information is expected to contribute to the economic development of companies. Indeed, according to Burhan and Rahmanti (2012), the economic sustainability disclosure has a positive relationship with financial performance. Thus, the following null hypothesis is addressed:

H_1: There is no relationship between economic sustainability disclosure and corporate financial performance.

The environmental sustainability dimension concerns the initiatives taken by a company such as to conserve the natural environment and carry out energy saving programmes. The activities of companies may have a negative impact on the living and non-living features of the land, air and water. Thus, it is important for companies to carry out environmental activities to preserve the environment. Prior studies by Burhan and Rahmanti (2012), Khaveh *et al.* (2012) and Wibowo (2012) indicated that environmental sustainability disclosure has a positive relationship with financial performance. There are also several studies such as those Crisóstomo *et al.* (2011), Saleh *et al.* (2011) and Wagner *et al.* (2002) which found a negative relationship between environmental sustainability disclosure and financial performance. Therefore, the following null hypothesis is addressed:

H_2: *There is no relationship between environmental sustainability disclosure and corporate financial performance.*

The social sustainability dimension is related to the contribution of the organisation of the society development. It is divided into five aspects, which consist of contribution to the community, human resource development, human rights, products responsibility and governance issues. A number of researchers, such as Lo (2010), Ameer and Othman (2012), and Ahmed *et al.* (2012), indicated that social sustainability disclosure has a positive relationship with financial performance. Therefore, the following null hypothesis is developed:

H_3: *There is no relationship between social sustainability disclosure and corporate financial performance.*

RESEARCH METHODOLOGY

The sample frame was derived from among the 39 public- and non-public listed companies participating in the ACCA Malaysia Sustainability Reporting Awards (MaSRA) 2011. The award is given to companies that have carried out environmental and social performance, and contributed towards the advancement of sustainable development and performance (ACCA, 2011). However, since only the sustainability or annual reports of public-listed companies were available, the final number of the sample was 28. The reports from 2007 to 2010 were obtained, and, thus, 112 observations were included in the study. Since the number of companies in Malaysia that published stand-alone sustainability reports was limited, the sustainability information provided in the annual reports and corporate social responsibility (CSR) reports of companies was also considered.

Measurement of Variables and Regression Model

In this study, sustainability information disclosure has three dimensions – economic, social and environmental – as independent variables. The sustainability checklist items specified in the study by Sobhani *et al.* (2011) were adopted in collating sustainability information from the published reports of companies (the checklist can be obtained from the corresponding author). The economic dimension explains the organisation's activities that can affect the wider stakeholders to enable them to understand the financial viability of companies. In addition, the social dimension reports on the social performance of companies and how this can influence the sustainability of companies in carrying out their business. Finally, the environmental dimension concerns the impact of the organisation on the living and non-living natural systems which include water, air, land and the ecosystem.

The dependent variable in this research is financial performance, which is measured by accounting returns. Two different accounting returns were used: return on assets (ROA) and earnings per share (EPS). ROA is a variable that can express economic performance effectively (Dincer, 2011). It explains how efficiently a company turns its assets into net income. The higher the ROA, the higher the profit earned by the company. The formula for ROA is:

$$ROA = \frac{\text{Net Profit}}{\text{Total Assets (average)}}$$

EPS is also used in the studies by Ahmed *et al.* (2012) and Lo (2010). EPS is one of the indicators of the profitability of companies, which indicates a portion of the company's profit allocated to each outstanding share of common stock.

Meanwhile, firm size is used as a control variable as it can influence the level of sustainability disclosure in a company (Siwar & Harizan, 2009; Choi *et al.,* 2010). Large firms are usually older firms that invest in CSR to gain greater economies of scale. In addition, having a better financial position allows the larger organisations to undertake greater social responsibility activities to remain sustainable. Therefore, it is necessary to control firm size to determine its financial performance. Firm size is measured by the logarithm of total assets. In order to examine the relationships between the variables, the hierarchical multiple regression method was used. Thus, the following equation was developed:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4LTA + e$$

Where,

Y = Return on Assets (ROA)/Earnings per Share (EPS)
a = Constant
b = Regression coefficient
X_1 = Economic disclosure
X_2 = Social disclosure
X_3 = Environmental disclosure
LTA = Logarithm of total assets (firm size)
e = Error

Content Analysis

Content analysis is a method to systematically analyse the details of information content and other aspects of a message. Content analysis reads the message itself and creates a logical observation and records procedure for the quantitative illustration of the content of communication (Zinkmund, 2010). Content analysis is widely used in research on corporate social reporting (for example, Raar, 2002; Ameer & Othman, 2012; Setiawan & Tjiang, 2012). A number of approaches have been adopted by researchers. Among other, Ameer and

Othman (2012) assigned scores from +4 to 0 based on the wording of the sustainability report – a score of +4 is assigned if there is a major tangible positive contribution, a score of +1 for no contribution and a 0 score for the non-disclosure of information. After rating the items, they summed up the total scores for the events to obtain the precise index value of the company. Meanwhile, Setiawan and Tjiang (2012), and Raar (2002) used the number of sentences to determine the importance of the CSR items disclosed by companies. Prior studies proved that measuring sentences to examine the extent of disclosure is more reliable than measuring by the number of pages. The change in the number of pages may be due to the print size, column size and other reasons (Sobhani *et al.* 2012). The usage of sentences is easier for the coding method and it is comparative (Amran & Devi, 2008). As this study examines the quantity and quality of the sustainability of information, the measurement used by Raar (2002) is adopted (refer to Appendix 1). The higher the number of sentences, the more strongly the company emphasises the disclosure. Meanwhile, the quality of disclosure is assigned using different codes based on the form of the disclosure. The score ranges from 1 to 7, whereby 1 is assigned when the information is disclosed in monetary / currency term. The highest score 7 is given to a more detail disclosure which include descriptive prose, financial and numeric terms. The detail measurement of sustainability disclosure is attached in the Appendix 1.

ANALYSIS OF FINDINGS

Data collection process

The sustainability and social responsibility reports, and annual reports of 28 companies from 2007 to 2010 were examined. However, a thorough screening process led to the data of only 24 companies being obtained because three companies lacked prior stand-alone reports and annual reports, while one company was removed due to the existence of outliers when examining the relationship between sustainability disclosure and financial performance.

The collection of data began by reading the sentences from the front page to the last page of the reports line by line. The data were initially tabulated in Microsoft Excel before examining the relationships between the sustainability dimensions and corporate financial performance in SPSS. The data collected included the number of sentences related to each GRI item to measure the quantity of sustainability disclosure and the form of the information being disclosed to measure its quality. The data collection process took three months to complete.

RESULTS

Descriptive statistics

TABLE 1
Total number of sentences for sustainability disclosure based on year

Year	2007	2008	2009	2010
Economic	192	180	202	236
Environment	632	730	929	1299
Social	4337	4735	5174	5847
Total number of sentences	**5161**	**5645**	**6305**	**7382**

Table 1 shows the disclosure level for each sustainability dimension between 2007 and 2010. The results showed that the environmental and social sustainability dimensions had an increasing trend of disclosure. This indicates that as companies move forward, they are more involved in sustainability activities, which are disclosed in their reports. Although the number of sentences for the economic dimension reduced in 2008 compared to 2007, the difference was small. The information being disclosed for economic dimension included comparative financial growth and contribution to infrastructural and institutional development. Additionally, the companies concentrated more on the importance of environmental protection and invested in various programmes or initiatives to reduce environmental problems. Social information dominated the information being disclosed by companies within their reports, which might be due to the wider aspect of social issues defined by companies.

TABLE 2
Total number of sentences for sustainability disclosure based on three dimensions

	Number of Sentences	**%**
Economic dimension	**810**	**3.31**
Environmental dimension 1. Energy Consumption and Savings	559	2.28
2. Natural Environment	3031	12.37
	3590	**14.65**
Social dimension 1. Contribution to the Community	3752	15.32
2. Human Resource Development	3104	12.67
3. Human Rights	1951	7.97
4. Product Responsibility	925	3.78
5. Governance Issue	10361	42.30
	20093	**82.04**
Total number of sentences for three dimensions	**24493**	**100**

Table 2 provides the sub-categories of the three sustainability dimensions. Within the 4 years, the highest level of disclosure was social dimension, which was approximately 82% of the total sustainability disclosure. The information included contribution to the society in terms of providing education, committing to human resource development, helping the needy, establishing good corporate governance, establishing health and safety procedures in the workplace, organising social awareness programmes and many others. Public Bank Berhad contributed the highest level of social disclosure compared to the other corporations. The company offered training for its employees and there was also a high level of disclosure on customer service information. In contrast, IJM Land Berhad disclosed the least sustainability information.

Economic sustainability only contributed 3.31% of the information being disclosed within the four-year period. This might be due to the limited items listed concerning the economic dimension. Most of the companies did not disclose their economic activities as stated in the GRI, and mainly reported information on comparative financial growth. Puncak Niaga Holdings Berhad had the highest disclosure while Guinness Anchor Berhad had the lowest disclosure on the economic dimension. Indeed, Guinness Anchor Berhad did not report any economic information related to GRI items since 2008, the year when the company adopted the CSR reporting system.

Fifteen per cent of the sustainability disclosure during the four-year period was related to the environmental dimension. One of the companies that made a significant environmental contribution was YTL Corporation, which had organized various environmental friendly programmes and many initiatives to reduce energy consumption. IJM Land Berhad had the least environmental disclosure. Surprisingly, the company did not disclose information related to energy which can conserve the environment.

Quality of sustainability disclosure

This study also analysed the quality of sustainability disclosure. As shown in Table 3, economic information was disclosed mainly in the forms of qualitative, monetary and non-monetary. As for the environmental and social dimensions, the information was largely in qualitative form, which is descriptive in nature with no quantitative and monetary information.

Specifically, majority of the economic disclosure was in the monetary form with a percentage value and further elaboration of the issues concerned. It also gradually increased from one year to another. Meanwhile, the environmental information included information related to environmental initiatives, energy consumption and savings, which were briefly described in quantitative form such as kilowatt savings and so forth. Concerning the social sustainability dimension, the majority of the sentences were related to corporate governance such as directors' profile and corporate profile. Therefore, the information was disclosed only in the qualitative form and the quantity of information continuously increased throughout the years. Additionally, the quantitative and monetary social information included the description about the number of people involved in social activities or the number of people who would gain benefits. The most common information was the employee benefit such as the number of annual leave days. The companies also reported information such as scholarship, education and donations to the community.

TABLE 3
Quality of sustainability disclosure based on three dimensions

	Economic		Environment		Social	
	Number of Sentences	**%**	**Number of Sentences**	**%**	**Number of Sentences**	**%**
Monetary	69	8.52	0	0	0	0
Non-monetary	0	0	1	0.03	19	0.09
Qualitative only	132	16.30	2672	74.43	14732	73.32
Qualitative & monetary	198	24.44	111	3.09	610	3.04
Qualitative & non-monetary	106	13.09	722	20.11	2625	13.06
Monetary & non-monetary	0	0	0	0	0	0
Qualitative, monetary & non-monetary	305	37.65	84	2.34	2107	10.49
Total	**810**	**100**	**3590**	**100**	**20093**	**100**

Inferential statistics

Hierarchical multiple regression was used to analyse the relationship between sustainability dimensions and financial performance, while company size was controlled. Preliminary analyses were conducted to ensure no violation of the assumptions of normality, linearity, multicollinearity and homoscedasticity. Firm size was entered at Step 1, explaining 8.5% and 4.4% of the variance in the dependent variables of ROA and EPS, respectively. After entering all the three sustainability dimensions in Step 2, the total variance explained by the models as a whole was 12.4% and 6.8%. The three sustainability dimensions further explained the variance in ROA and EPS.

TABLE 4
Coefficient table

	ROA		EPS	
	Standardized coefficient	**Sig**	**Standardized coefficient**	**Sig**
Company size	-0.261	0.014	0.304	0.006
Economic	-0.278	**0.012**	-0.207	0.067
Environment	-0.004	0.969	0.013	0.906
Social	0.113	0.298	-0.071	0.526

The coefficient table shows two variables that make a statistically significant contribution at a significant value less than 0.05. The size of the firm and economic dimension influence ROA, but none of the sustainability dimensions affects EPS. Additionally, the results showed an inverse relationship between economic dimension and ROA, which means that higher economic sustainability disclosure leads to a low return on assets. Thus, hypothesis 1 is rejected.

The higher economic disclosures refer to the comparative financial growth, as well as the infrastructural and institutional development undertaken by companies. It will result in a lower return on assets as the investor has a different perception on the financial growth of the company. High disclosure on comparative financial growth provides details of the information of the company. Investors may refuse to invest in a company that has poor economic conditions, which then leads to poor financial performance. In addition, the infrastructural and institutional development established by the company incurs higher cost and results in low financial performance. For example, in 2008, MRCB Corporation contributed to the economic development by building roads, bus stops and other types of community infrastructure.

DISCUSSION AND CONCLUSION

The quantity of disclosure for the sustainability dimensions increased from one year to another. This is consistent with a study carried out by Aini and Sayce (2010), in which companies in Malaysia are currently emphasising the disclosure of sustainability and environmental practices in their reports. Sobhani *et al.* (2011) and Wibowo (2012), in their studies, also found that sustainability and CSR disclosure increased year by year. The improvement of sustainability disclosure in terms of quality and quantity indicates that companies realise the importance of being socially responsible. Apart from meeting society's expectations by being socially responsible, companies can boost their reputation and maintain successful businesses (O'Donovan, 2002).

In addition, the results showed that the social sustainability dimension had the highest disclosure among the three aspects of sustainability dimensions. This is consistent with a study conducted by Sobhani (2011) who found that the social theme, particularly the disclosure on human resource development, is the dominant disclosure for banks in Bangladesh. Indeed, according to Aini and Sayce (2010), companies in Malaysia emphasise on social sustainability such as corporate philanthropy compared to environmental issues. The economic sustainability disclosure had the least sentences being disclosed. This result is in contrast with Burhan and Rahmati (2012), who found that economic performance had the highest disclosure among the three sustainability dimensions among companies in Indonesia.

However, the economic information had been disclosed by companies comprehensively in the forms of qualitative, monetary and non-monetary, which might be due to the nature of the information. Economic disclosure, especially concerning the financial aspect, is an essential means for management to communicate firm performance to financial statement users and enable them to use the information for economic decisions. In contrast, the quality of environmental information disclosed in the reports was relatively low when companies mainly reported the environmental information in qualitative form. Similarly, Sumiani *et al.* (2007) also identified the low quality of environmental disclosure by companies in Malaysia. With regards to the social sustainability dimension, the results are supported by Azim *et al.* (2009) and Sobhani *et al.* (2011) who found that corporate social information is mainly disclosed in the qualitative form. Usually, the report briefly disclosed the social activities of the companies.

Further analysis on the relationships between sustainability dimensions and financial performance (measured by ROA and EPS) revealed that only the economic sustainability dimension affects the ROA of companies. There is an inverse relationship between the two variables, which means that higher economic disclosure leads to lower ROA. The majority of the companies disclosed their economic sustainability dimension pertaining to information on financial growth, dividend policy, institutional and infrastructure development. The inverse relationship might be due to the poor economic condition disclosed by the company that affected the investment decision of the investor, which then resulted in low financial performance, as measured by ROA. For example, Faber Group Berhad, which disclosed very detailed information concerning its review of financial performance in its annual report for 2010, had a lower ROA. Risk adverse investors will not make investment decisions if there is uncertainty in the outcome. In addition, institutional and infrastructure development, as specified in the descriptive analysis, may also result in low financial performance as the developments require an output of substantial costs. The costs incurred for such development are usually huge and significant. The results of the present study contradict that of Burhan and Rahmanti (2012) who found no relationship between economic sustainability and ROA. According to Sitepu (2009), economic sustainability disclosure has a positive relationship with ROA. The other sustainability dimensions have no relationship with financial performance. Some prior studies such as those by Burhan and Rahmanti (2012), Aras *et al.* (2010), Mehar and Rahat (2007) and Adams *et al.* (2011) revealed similar results. The insignificant results in the present study may also be due to the small sample size. A smaller sample size may jeopardise the effect of the corporate sustainability dimensions on financial performance.

Nevertheless, the results of the descriptive analysis revealed in the present study demonstrated that companies in Malaysia should be more transparent and comprehensive in delivering sustainability information to the users of the reports. MaSRA and other similar rewards should continue to be offered to encourage corporate involvement in sustainability initiatives. The study also signals the regulators to formulate policies on sustainability practices by companies. Due to the importance of sustainability development, the government has the responsibility to set the rules and regulations for the adoption of the disclosure. In addition, this study may also contribute to the extant literature on sustainability reporting.

The authors acknowledge that the present study has its share of limitations. First, the sample of 24 companies limits the generalisability of results. Nevertheless, the results still offer some insights into the state of companies' sustainability disclosure participated in MaSRA in 2011 and effects of such disclosure upon companies' financial performance. Second, the content analysis approach used in the study may subject to human error because the sentence is categorised and computed based on researchers' judgments (Hackston & Milne, 1996; Thompson & Zakaria, 2004). This was mitigated through a second reader during pilot test of the study. Future research may increase the number of companies being investigated to resolve the issue of generalisation and use recent annual reports or stand-alone reports to have latest findings. Finally, a longer of five to ten years data may offer better results to gauge the impact of sustainability disclosure and companies' financial performance.

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APPENDIX

Appendix 1. Measurement of information disclosure

Quantity of disclosures	Quality of disclosure	Quality definition
1= sentence	1 = monetary	Disclosure is monetary/currency term
	2 = non-monetary	Quantified in numeric terms of weight, volume, size, etc. but not financial/currency
	3 = qualitative only	Description prose only
	4 = qualitative and monetary	Description prose and currency
	5 = qualitative and non-monetary	Description prose and numeric terms
	6 = monetary and non-monetary	A combination of currency and numeric terms
	7 = qualitative, monetary and non-monetary	Description prose, financial and numeric terms

Source: Raar (2002)