UNIVERSITI PUTRA MALAYSIA

THE EMPIRICAL STUDY OF SUSTAINABILITY REPORTING AND FINANCIAL PERFORMANCE OF MALAYSIAN PUBLIC LISTED COMPANIES

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By

NUR FATIN KASBUN

Thesis Submitted to the Graduate School of Management, Universiti Putra Malaysia in Fulfillment of the Requirements for the Degree of Master of Science

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DEDICATION

This thesis is especially dedicated to my beloved parents:

Ir. Kasbun bin Kamat (Father)

Rohidah binti Ahmad (Mother)

Abstract of thesis presented to the Senate of University Putra Malaysia in fulfillment of the requirements for the degree of Master Science

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Chairman: **Assoc. Prof. Dr. Ong Tze San**
Faculty: **Graduate School of Management, Universiti Putra Malaysia**

This study examines the impact of sustainability reporting on financial performance among Malaysian public listed companies. A lot of companies across the globe have increasingly involved with sustainability reporting in recent years. Widely, it is not necessary because of the mandatory rules or for reputational issues anymore but it is one of the ways to create efficiency in a business and to improve its performance. The current problem of sustainability reporting is that companies are not convinced to report. When it comes to reporting, a company would contemplate of the additional cost and other uncertain issues that might incur. This results to the ignorance of sustainability. Due to the uncertain issues such as high reporting cost and the difficulty of measurements, the reporting has been neglected and certain people are unaware about the importance of sustainability. Another problem of sustainability reporting is that the reporting percentage is very low among developing countries in Asia including Malaysia. There is only a small percentage of reporting even though Malaysia is assumed to be on the highest rank in reporting sustainability among South East Asia countries. The sample of this study involved 200 companies selected from the Malaysian Public Listed Companies as its population.

involved 200 companies selected from the Malaysian Public Listed Companies as its population. Data collection acquired using the data stream, sustainability reports, annual reports and other means disclosing any companies' social, environmental and economic sustainability activities and from year of 2006 and 2013. The operationalization on sustainability data is according to Global Reporting Initiative (GRI) indicators. Content analysis is used to analyze the number of sentences reported by a company. A multiple regression analysis was employed to analyze the relationship of sustainability reporting and financial performance.

The findings from regression analyses demonstrated that sustainability reporting in the fields of economic, environmental and social have a significant relation with companies' financial performance. Convincingly due to sustainability reporting reported by Malaysian Public Listed companies, the results indicate that when a company reports sustainability, it will attract more investors, as it is not only about making profits but to contribute to society as well. The findings suggest that, hence from attracting investors, it should be able to have a better performance financially and able to corresponding to stakeholders, shareholders, and community or citizen needs and remain sustainable in corporate world. Besides that, the findings also showed that sustainability reporting among Malaysian Public Listed Companies has tremendously improved from the year 2006 until 2013. Although the findings are varied, it answered the questions and objectives of this study which emphasized that sustainability reporting plays an important role in affecting financial performance of a company.

Abstrak tesis yang dikemukakan kepada Senat Universiti Putra Malaysia sebagai memenuhi keperluan untuk Ijazah Master Sains

KAJIAN EMPIRIKAL LAPORAN KEMAMPANAN DAN PRESTASI KEWANGAN SYARIKAT TERSENARAI AWAM MALAYSIA

Oleh

NUR FATIN KASBUN

April 2015

Pengerusi: **Assoc. Prof. Dr. Ong Tze San**
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Kajian ini mengkaji kesan laporan kemampanan ke atas prestasi kewangan di kalangan syarikat tersenarai awam di Malaysia. Banyak syarikat di seluruh dunia semakin terlibat dengan laporan kemampanan dalam tahun-tahun kebelakangan ini. Secara meluas, ia tidak perlu untuk memenuhi kaedah-kaedah wajib atau untuk isu reputasi lagi, tetapi ia adalah salah satu cara untuk mewujudkan kecekapan dalam perniagaan dan untuk meningkatkan prestasinya. Masalah semasa laporan kemampanan ialah syarikat-syarikat tidak yakin untuk melaporkan. Apabila ia mengenai laporan, syarikat akan memikirkan kos tambahan dan isu-isu yang tidak menentu lain yang mungkin dikenakan.Ini menyebabkan pengabaian kemampanan. Oleh kerana isu-isu yang tidak menentu seperti kos pelaporan yang tinggi dan kesukaran ukuran, laporan itu telah diabaikan dan orang-orang tertentu tidak menyedari tentang kepentingan kemampanan. Satu lagi masalah laporan kemampanan ialah peratusan laporan adalah sangat rendah di kalangan negara-negara membangun di Asia termasuk Malaysia. Terdapat hanya peratusan kecil melaporkan walaupun Malaysia dianggap berada di tahap tertinggi dalam kemampanan kalangan negara-negara Asia Tenggara pelaporan. Sampel kajian ini melibatkan 200 syarikat dipilih daripada

Syarikat Tersenarai Awam Malaysia sebagai populasinya. Pengumpulan data diperolehi dengan menggunakan aliran data, laporan kemampanan, laporan tahunan dan lain-lain sumber yang mendedahkan aktiviti kemampanan sosial, persekitaran dan ekonomi mana-mana syarikat dan mulai tahun 2006 dan 2013. Pengendalian data kemampanan adalah mengikut panduan Global Reporting Initiative (GRI). Analisis kandungan digunakan untuk menganalisis jumlah ayat yang dilaporkan oleh sebuah syarikat. Analisis regresi berganda telah digunakan untuk menganalisis hubungan laporan kemampanan dan prestasi kewangan.

Penemuan daripada regresi analisis menunjukkan bahawa laporan kemampanan dalam bidang ekonomi, alam sekitar dan social mempunyai hubungan yang signifikan dengan prestasi kewangan syarikat. Ia diyakini kerana dari laporan kemampanan dilaporkan oleh syarikat-syarikat Tersenarai Awam Malaysia, keputusan menunjukkan bahawa apabila sesebuah syarikat melaporkan kemampanan, ia akan menarik lebih ramai pelabur kerana ia bukan sahaja tentang membuat keuntungan sahaja tetapi untuk menyumbang kepada masyarakat juga. Hasil kajian menunjukkan bahawa dengan menarik pelabur, syarikat akan dapat mempunyai prestasi yang lebih baik dari segi kewangan dan dapat penyeragaman dengan keperluan pihak-pihak berkepentingan, pemegang saham, masyarakat atau warganegara dan kekal mapan dalam dunia korporat. Selain itu, hasil kajian juga menunjukkan bahawa laporan kemampanan oleh Syarikat Tersenarai Awam Malaysia telah bertambah baik dengan ketara dari tahun 2006 hingga 2013. Walaupun hasilnya berbeza-beza, ia menjawab soalan-soalan dan objektif kajian ini yang menekankan bahawa laporan kemampanan memainkan peranan yang penting dalam member kesan kepada prestasi kewangan syarikat.

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"In the name of Allah, the most Gracious and the most Merciful"

First and foremost, all praises to Allah the Almighty for his blessings and guidance that gave me strength in completing this thesis. Best prayers and peace be upon Prophet Muhammad.

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Last but not least, thanks a million to those around me who had given me supports and helps in many ways either directly or indirectly. Working on this thesis was difficult, but I learned a lot and I'm grateful for the love everyone gave me, it gave me strength. Thank you.

TABLE OF CONTENTS

TABLE OF CONTENTS (continued)

TABLE OF CONTENTS (continued)

TABLE OF CONTENTS (continued)

LIST OF TABLES

LIST OF TABLES (continued)

LIST OF FIGURES

LIST OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountant
ACE	ACE Market in Bursa Malaysia stands for Access, Certainty and Efficiency
AICPA	American Institute of Certified Public Accountants
ANOVA	Analysis of Variance
ASEAN	Association of Southeast Asian Nations
ASR	Asian Sustainability Rating
BM	Bursa Malaysia
CEO	Chief Executive Officer
CR	Corporate Responsibility
CSR	Corporate Social Responsibility
ESG	Environmental Social Governance
ESO	Environmental Sustainability Orientation
GRI	Global Reporting Initiatives
IAASB	International Auditing and Assurance Standards Board
KLSE	Kuala Lumpur Stock Exchange
KPMG	Klynveld Peat Marwick Goerdeler (Accounting Firm)
MESDAQ	Malaysian Exchange of Securities Dealing and Automated Quotation
PLC	Public Listed Companies
RBT	Resource-Based Theory
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for the Social Sciences
TBL	Triple Bottom Line
UN	United Nation
UNESCO	United Nations Educational, Scientific and Cultural Organization
VIF	Variance Inflation Factor

CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Sustainability reporting has progressively increased in the last recent years. Companies report their sustainable economic, environmental and social performance to present themselves as good corporate citizens and thus to attract investors. As corporate companies, managing accounting or financial information is a major factor, in which if it is not being managed meticulously, it may lead to corporate collapses or losing the investors or stakeholders. For example the downfall of Enron Corporation in the United States in the year of 2002 has reduced investors' confidence in the credibility and reliability of corporations. In response, various governance rules and regulations such as the Sarbanes Oxley Act in the United States and Malaysian Code on Corporate Governance in Malaysia have been developed and implemented by the relevant regulatory authorities. In the year 2006, Bursa Malaysia Berhad urged public-listed companies (PLCs) to integrate corporate social responsibility (CSR) elements into their strategic business management practices in conjunction with the launch of Bursa Malaysia's CSR Framework for PLCs and is a set of voluntary and flexible guidelines. Stakeholders increasingly expect companies to have good CSR as it is the key to business sustainability; it builds business value, increases profitability, enhances companies' reputation and is a driver for innovation and learning. Thus, sustainability is one of the ways to attract investors; a catalyst to improve business conventional management practices. By reporting sustainability, companies essentially provide stakeholders with a reflection on past performance and a view to the future in respect of sustainable economic, environmental, social performance and further attract investors. This study is focusing on the relationship of sustainability reporting and financial performance.

1.2 The Evolution of Corporate Reporting

Over the past decade the nature of financial reporting has evolved, to meet the fluctuating needs of users. Businesses are becoming much more challenging nowadays, with a greater complexity in business world, sources of risk and ambiguity, as well as greater sophistication in how risk occurrence is managed. The reporting of non-financial information has widespread to cater the challenges occurred. From the aspect of financial reporting, disclosure requirements and practices have been evolved from time to time in order to provide more detailed disclosures. This includes disclosures of assumptions, models, alternative measurement bases and sources of estimation uncertainty instead of just disclosing financial positions of a company and other information particularly for stakeholders or users (IAASB, 2011). Financial reporting does play a very significant role as it is the principal means of communication between investors and companies and the accounting standards that guide financial reporting set the terms of relationship between the company and their stakeholders. Nevertheless, financial reporting has changed over time. It is a part of an evolutionary process as it reflects focus upon investment decision making and the need to attract investors to invest in the company in future.

As financial reporting is progressive, financial statements are expected to include a variety of disclosures in addition to the traditional disclosures items. In contemporary financial statements, the disclosures include significant accounting policies, measurement of line-item, factual information about the entity, assumptions or inputs, judgments and reasons, description of internal processes, sources of estimation uncertainty, disclosure of the fair value of an amount recorded on the statement of financial position using a diverse measurement basis, and objectivebased disclosure requirements. According to IAASB (2011), obviously, it shows that financial statements are more probable to include a broad variety of disclosures, some of which may not be resultant from the accounting system and may take into the account of more forward-looking information, disclosures of estimation uncertainty and models. The complexity of disclosures has also increased to deal with disclosures necessary to faithfully represent new and challenging subject areas such as financial instruments, business combinations and off-balance sheet financing. As the complexity of disclosures has increased, the note disclosures in financial statements have increased accordingly. Significantly, the public or users of financial reporting realized there are other things that are much more crucial and essential in building up a perfect or satisfying report. Instead of reporting on financial parts of a company, it would be much meaningful if a report includes with statements of contribution to the social community. Corporate Social responsibility (CSR) has been developed to describe the need for companies to integrate their stakeholder engagement processes into daily activities. The framework is claimed to be designed to help users to establish systematic stakeholder engagement process that generates the indicators, targets and reporting systems needed to ensure its effectiveness in overall companies' performances.

Within the development time of financial reporting, the next initiative has been developed in order to cover the full range of companies' disclosures and related performance. The developed initiative is the sustainability reporting. Sustainability began as the primary framework for governmental, international development and business organizations to guide their programs in meeting the needs of the current generation without losing to meet the needs of future generation. It provides a multi-disciplinary viewpoint by linking the individual into community or companies and to the society at large such as market, economy and industry as well as national and international or global concerns. According to ACCA (2005), historically, corporate public reporting has been developed as follows:

Table 1.1: Evolution of Corporate Reporting

Type of Reporting	Timing
Financial accounting & reporting	From the 1850s
Financial aspects of corporate governance	From the early 1990s
Environmental reporting	From the early 1990s
Social accounting & reporting (CSR included)	From the late 1990s
Sustainability reporting (reporting on environmental, social and wider economic impacts)	From early 2000 until currently

Source: ACCA Malaysia – Sustainability Reporting Guidelines for Malaysian Companies (2005)

Basically, corporate reporting has been developed in both range and complexity since the 1850s. Public reporting has been developed from disclosing only the core financial data to including detailed information encompassing the environmental, social and economic impacts of their operations and products, as well as other non-financial data for some companies (ACCA, 2005).

1.3 Sustainability Reporting

Sustainability is defined as the ability to be maintained at a certain rate or level (Oxford dictionaries). According to Bruntland (1987), to national and international definitions of sustainability started from the 1987 United Nation (UN) definition; Sustainability is the meet that needs of the present without conceding the capability of future generations to meet their own needs. Generally, according to Global Reporting Initiatives (2013), sustainability is to meet the needs of the presents and future generations. Sustainability report is an organizational report that gives information regarding economic, environmental, and social performance. There is an increase in the number of market regulators and policy makers that have established guidelines and requirements to encourage sustainability reporting.Sustainability is where the companies have to endure or to maintain based on performance in these three key areas; economic, environmental and social (Global Reporting Initiatives, 2013). Specifically, a sustainability reporting should provide a balanced and precise representation of the sustainability performance of the reporting companies, including both positive and negative contributions (Henderson, 2012).

The awareness of sustainability issues are increasing worldwide, with the increment, the level of sustainability disclosures and demands for sustainability reporting and information by stakeholders are increasing especially for a developing country like Malaysia. Basically, by following closely with their developed counterparts, it can enhance competitive advantage among developing countries. Companies could present themselves as a good corporate citizen and attract investors to invest in their companies by reporting on environmental, economic and social sustainability. Sustainability reporting has been developed as a common practice of 21st century business. Previously sustainability reporting was the field or matter of a few unusually green or community-oriented companies. Today it is one of the best practices employed by companies worldwide. It is described as one of the best practices because sustainability reporting is proven to create new opportunity and enhance competitive advantage as companies are branding their sustainability reports to reflect companies' personalities and business strategy (Deloitte, 2013). A focus on sustainability helps companies manage their social, environmental and economic impacts. It improves operating efficiency and natural resource stewardship, and it remains a vital component of shareholder, employee, and stakeholder relations (Boston College Center, 2013). Sustainability reporting is a good way to communicate companies' efforts as it comprises the balance between engaging with the readers and to communicating the details. A good sustainability reporting can be produced with the help of a comprehensive guideline, as the reporting is used to convey the details in a clear and comparable style while communicating the values of business. Through sustainability reporting, company reports on the things they can contribute to the society or community in long run. It is also a vital component to communicate with the stakeholders and it solely shows on how company acts to improve well-being.

Basically, sustainability reporting is the continuity of Corporate Social Responsibility (CSR) which has been expended to the environment and economic dimensions instead of only on social responsibility disclosure. It gives comprehensive sustainability details of a company. CSR recognized the current concerns not only about the citizens but including the matter of climate change, global warming, conservation of biodiversity and a lot more things along with the matters regarding human rights which concern social equity in the globalized socio-economy. To meet with the growing demands of transparency, companies are publishing reports, mostly annually but sometimes more or less frequent. They go by different names such as Corporate Environmental Reports, Corporate Responsibility Reports, Social Responsibility Reports, Corporate Citizenship Reports and more (Ernst and Young, 2012). Sustainability report also refers to Corporate Social Responsibility (CSR) reports, Corporate Responsibility (CR) Reports, Corporate Citizenship Reports and any other terms that are understood to describe the similar type of reporting linked, at least in part to the concept of sustainability expansion (ACCA, 2010).

According to KPMG (2012), sustainability reports are also called Corporate Social Responsibility (CSR), Environmental Social Governance (ESG) or Triple Bottom Line (TBL) reports. These three reports deliver information about a company's economic, environmental and social impact that is progressively being issued in conjunction with financial reports. Stakeholders use them often in evaluating the long term capability of a company.Some companies report sustainability activities on their websites as the internet offers an economic and fast communication medium (Joseph, Pilcher, and Taplin, 2014), some companies attach sustainability reports within annual reports and a lot of other ways on reporting sustainability. Even though there are many terms used to describe sustainability reporting, with different kind of means to report, we refer to them collectively as sustainability report or sustainability reporting. Sustainability reporting satisfied the need for a more wide-ranging approach to corporate reporting on performance, beyond the solely financial disclosure. The improvised reporting can enhance the internal management and increase the efficiency. Thus, when a company reports on its sustainability, decision making will take financial, social, environmental risks into consideration, obligations and opportunities and ultimately will lead to a better financial performance. Sustainable businesses are flexible and can create economic assessment to an organization, healthy ecosystems and sturdy communities. Sustainable businesses survive over the long term because they are closely associated to healthy economic, social and environmental systems (Kiron, Kruschwitz, Haanaes, Reeves and Goh, 2013).

According to GRI (2013), countries such as Australia, China, Denmark, the European Union, France, India, Germany, Norway, Spain, Sweden and the USA have all established governmental policy initiatives regarding sustainability. Other stock exchanges such as in China, India, Malaysia, Singapore, Pakistan and South Africa are also playing crucial role in demanding or recommending listed companies to reveal sustainability information. A report or an explanatory approach offers all large companies the transparency and guidance needed to progress towards sustainability, while eliminating the uncertainties and misperception surrounding purely voluntary reporting whether encouraged by government legislation, stock exchange listing requirements or policy initiatives. Basically, businesses and other related parties must have realized the needs of sustainability reporting not only to generate profit and maximize its shareholders wealth but it helps them to achieve their businesses' aims and boost up their companies' efficiency. Sustainability related data is often used by companies to make strategic and tactical decisions, for example such as identifying new markets and making operational improvements of their companies. At the end of the day, sustainability reporting is a tool for stakeholders' engagement, giving them the visibility into company practices and help improve the communication between companies and society. Figure 1 shows the three elements of sustainability reporting and respective performance indicator briefly based on ACCA Malaysia. The three elements are the environmental reporting, economic reporting and social reporting. These elements have their own indicators, and by using guidelines, companies report their sustainability in the form of report either a stand-alone report or a report attached within annual reports.

Figure 1: The Three Elements of Sustainability Reporting and Respective Performance Indicators

Source: ACCA Malaysia – Sustainability Reporting Guidelines for Malaysian Companies (2005)

1.4 Global Reporting Initiatives (GRI)

The sustainability reporting should be balanced, reasonable and even transparent for all various ranges of stakeholders including business, labor, non-governmental organizations, investors, accounting people and other related parties. The GRI Reporting Framework is intended to serve as a generally accepted framework for sustainability reporting. Overall, the GRI intends to advance a voluntary reporting framework that attempts to encourage sustainability reporting practices to a level of requirement to that financial reporting in consistency, comparability, above all its universal acknowledgment. In the last two decades, corporate sustainability reporting did not exist. Corporate environmental reports hardly entered onto the market in 1990 and 1991. Social reports began to be published from the mid-1990s until its late (ACCA, 2005). The first few true sustainability reports were published at the end of the decade as it is parallel with the establishment of the Global Reporting Initiatives (GRI) and the issuance of the first set of GRI sustainability reporting guidelines in 1999. It is nearly 200 years for financial reporting to reach its current stage of maturity and GRI has come a long way accordingly in a remarkably short time in terms of developing a wholly new corporate reporting framework (ACCA, 2005). The number of companies using the Global Reporting Initiatives (GRI) has increased throughout the past decade. GRI is a multi-stakeholder process and independent institution whose mission is to improve and spread globally applicable sustainability reporting guidelines. The guidelines prepared by GRI are for voluntary use by companies for reporting on the economic, environmental and social dimensions of their activities, services and products (GRI, 2013). It promotes sustainability performance reporting using a standardized format that promotes adequacy, comparability and consistency across reports.

GRI has received an overwhelming extensive support at the governmental and institutional levels as a total tool which has the potential to provide the transparency and accountability (ACCA, 2005). Previously, only a few dozen companies have referred to the GRI in its first few years but with the environmental sustainability movement at its core, it has speedily assembled momentum. According to Ernst & Young (2013), as of today, thousands of companies, from all over the globe, are publishing sustainability reports. GRI reporting guideline is in the form of principles and indicators. Those principles and indicators are provided without any charges, made for the public (GRI, 2013). In order to ensure the highest degree of technical quality, relevance, and credibility, the GRI Reporting Framework was developed and it had continuously improved through intensive multi-stakeholder engagement that involved reporting companies, sector experts, and information searchers, who developed review together and test content for the Reporting Framework (Henderson, 2012). Apparently, the practice of GRI framework played an important role in refining corporate social disclosures (Said, Tan and Tallaha, 2011), along with the environmental and economic disclosures.

The GRI framework is structured into sections as follow:

i. Vision and Strategy – description of the reporting companies' strategy with regard to sustainability, including a statement from the CEO.
ii. Profile – overview of the reporting companies' structure and operations, and of the scope of the report.
iii. Governance Structure and Management Systems – description of organizational structure, policies, and management systems, including stakeholder engagement efforts.
iv. Performance indicators – measures of the impact or effect of the reporting companies divided into integrated, economic, environmental and social indicators.

Basically, there are a few reasons for using the GRI framework, as opposed to any other framework, as the origin for analyzing the relation between sustainability activities, impacts on sustainability and financial performance (Weber, Koellner, Hebegger, Steffensen and Ohnemus, 2005):

i. Many companies from all across the globe use it. GRI is widely accepted in the commercial world. According to Ernst & Young (2013), more than two-thirds of reporters specify that their companies engage with the GRI framework in the reports preparation.

ii. GRI framework and indicator cover the whole range including economic, environmental, and social as well as governance aspects of sustainability.

iii. The indicators can be divided into a few categories. The triple bottom line categories include economic, environmental, and social. Whilst the social grouping is sub-categorized into labor-practices, human rights, society and product responsibility.

However, it is not compulsory for companies to follow GRI framework and indicator. GRI is indeed a comprehensive guideline on sustainability reporting as it does not only consist of performance disclosures in terms of economic, environmental and social but also includes disclosures of companies' profile and its governances (ACCA, 2005). GRI basically continued to grow strongly in sustainability reporting, increase interest in what leaders identify as critical sustainability topics, increase interest from report users for transparent-presented and accessible information, harmonize reporting tools and systems and increase integration of financial and sustainability reporting (GRI, 2013).

1.5 Problem Statement

Malaysia is the country that presently has the highest number of companies producing and publishing sustainability reports (ACCA, 2010). The budget speeches by Malaysia's government began focusing on Corporate Social Responsibility (CSR) from 2006 but whilst the government has made positive and optimistic statements with respect to inspiring CSR, it has not been acquainted with any mandatory requirements and it became a voluntary basis to date. As the CSR is becoming increasingly essential to business, sustainability reporting is becoming increasingly integral to business as well. According to ACCA (2010), even though Malaysia is the highest in reporting sustainability, the percentage of those reported sustainability is low than the overall number of companies operating with only 38 out of 900 companies reported sustainability. According to Bursa Malaysia (2014), there were only 22 companies from Bursa Malaysia Top 100 companies that currently have a stand-alone sustainability report. Despite the requirement of voluntarily report corporate sustainability has been made by Bursa Malaysia effective in 2006, after 9 years to-date, the reporting percentage is still progressing slowly for Malaysia.

Additionally, reporting is relatively low among developing nations especially countries from Asia. Malaysia is no exception. As sustainability reporting is subject to plenty of uncertain issues such as high reporting cost, incur additional cost, difficulty to measure, time consuming and management and operational matters that need to be managed, measured and reported on, it led to the low percentage of reporting and sustainability reporting remains in its infancy phase (Teh, Chong, Yeap and Ong, 2012). The fact that Malaysia is still in an infancy stage (Hamid, 2004) is because of the difficulty to convince the companies to be proactive in sustainability reporting. Furthermore, some companies perceived it as an additional cost; requires additional resources such as time and finance, when there is a possibility that there will be a bigger cost to pay, if a report is not published. According to Sawani, Zain and Darus (2010), the GRI guidelines were assumed as very complex, time-consuming and very expensive. However, Malaysian companies are realizing the need to embark into sustainability, but without concrete evidence in proving whether sustainability reporting indeed led to a good business performance, companies will not even try to be proactive in sustainability reporting. Interpretation of sustainability can be explained into two broader distinct social disclosures, either weak or strong sustainability (Laine, 2005). Weak sustainability refers to a situation where social and environmental problems are assumed to be less important than economic agendas whereas strong sustainability refers to adoption of sustainability that is motivated fundamentally by non-financial factors rather than any economic gains (Joseph and Taplin, 2012).

As Malaysia wants to achieve Vision 2020 and becomes a high-income nation, it is important to make sustainability as a core underlying principle, sustainability as the attention thereby ensuring Malaysia is capable to achieve high growth without compromising the ability of future generations to meet their needs. This may result in a shift in emphasis from the predominantly financial focus of the past, to a broader and more complete approach of doing business in the future, changing from the single bottom line which is the profit-oriented to a triple bottom line that embraces the economic, environmental and social aspects of a company's activities (Marx and Dyk, 2011). Sustainability reporting is becoming the nature of reporting as countries and companies are becoming progressively involved in sustainability. The reporting produced is not solely because of the compliance or any reputational issues anymore but because it is one of the ways to improving business performance, fostering innovation and providing other forms of business value (Ernst & Young, 2012). Despite that, sustainability reporting in Malaysia is low compared to other Asia's developed countries such as South Korea and Japan. South Korea and

Japan have been employing sustainability reporting a decade before Malaysia did back in 1990 compared to Malaysia in 2002 (ACCA, 2010). South Korean companies are leaders in Asian sustainability reports and they have had the highest average in 2011. The addition of new, poorly performing companies and the inconsistency of reporting detained back Malaysia's score and that was enough to result in a decline in the average of the country, although its rank stayed the same among South East Asian countries (Asian Sustainability Rating, 2011).

However, with the strong support and encouragement for improvements in sustainability reporting by Bursa Malaysia, this average is possible to improve in future years, although the improvement is not tremendously improved. It must be noted that improvement has basically been achieved when Bursa Malaysia required all listed companies to disclose their CSR in 2006 which later expands to covering environmental and economic sustainability dimensions. Moreover, companies in Malaysia seem to lack the awareness in sustainability reporting. The companies that reported stand-alone sustainability reports are far lesser than companies that are listed on Bursa Malaysia. Based on ACCA (2010) report, in just recent years, even though Malaysia is ranked the highest in reporting sustainability with the total of 49 companies reported in 2011 compared to other South East Asia countries, the percentage of reporting is small compared to the overall number and the reporting is not consistent in recent years.

Table 1.2: Stand-Alone Sustainability Disclosures/Reporting amongst Malaysian Companies

Listed Companies	38
Private Companies	11
Total	49

Source: ACCA Sustainability Reporting, Sustainability disclosure amongst companies in selected ASEAN member countries and responses from stakeholders (2011)

Up to the current date, there are 906 public listed companies in Bursa Malaysia (Bursa Malaysia, 2014). The total of 38 companies who report on comprehensive sustainability in recent year shows there are less than 5% of Malaysian public listed companies reporting on sustainability. Some Malaysian companies that report sustainability are not consistent with the reporting, where there are only a few from those 49 companies that reported for the latest year 2013. This shows that Malaysia is indeed in a very minimal-compliance in sustainability reporting. All listed companies have to produce CSR since 2006 voluntarily but the amount of companies producing a stand-alone (self-declared) sustainability reports are very minimum compared to CSR reports.

The previous study conducted by Zain (1999) revealed that the amount of disclosure on environment issues amongst Malaysian companies was low. The degree of participation by companies in activities concerned with the physical environment was very limited. Most of the studies show that the level of disclosure is still in infancy stage, although the trend in reporting is increasing (Yussri, Mustaffa and Faizah, 2010). Sustainability reporting is still generally based on the voluntary basis in many countries around the world, Malaysia is included (ACCA, 2005).

In developing countries, the enthusiasm for sustainability reporting also depends on the degree of enforcement level (Zain, 2004). The quantity and the quality of disclosure will tend to be better in the country with the strict regulatory requirements and enforcement. In this regards, according to Nik Ahmad and Sulaiman (2004), in their environmental reporting study suggested that companies in Malaysia would probably undertake environmental reporting seriously if it is made mandatory and done for the stakeholders' interests. Besides, when evolving environmentally conscious market, the desire for eco-friendly products and services will increase and lead to new sales opportunities.

Thus, this research intends to investigate the significant relationship between sustainability reporting and financial performance in order to convince Malaysian companies to be more proactive and positive in sustainability reporting, one of the ways is to provide an empirical evidence to relate the financial benefits and sustainability disclosures.

1.6 Research Gaps

Recent studies have suggested that both sustainability practices or activities and solid financial performance come from good management causing a righteous cycle which is an action to increase sustainability practices then trigger a good financial performance (Gaspar, 2013). Sustainability managers in a company play an important role to identify the factors contributing to the sustainability of a company. Lack of sustainability encouragement from a company and even the sustainability managers in the worst case can lead to increased internal risks and operating costs, unplanned loss of reputation, and potentially loses shares buyers and supports of its products and services (White, 2008).

Besides that, other gaps from previous study such as the less progress in sustainability reporting because of the strong resistance by corporate managers, often assumed that the more transparent the company is, the more it would erode their competitive advantage (Aras and Crowther, 2008). Adams and McNicholas (2007) further added, most of the senior executives interviewed by them argued that the main motive of sustainability reporting was to boost corporate legitimacy. Even though some managers felt that sustainability reporting will be counter-productive to achieving corporate legitimacy due to widespread skepticism to corporate announcements at the time of the study.

At present, thousands of companies from around the globe are publishing sustainability reports as it is becoming a part of business. Companies are encouraged to report for different reasons, either to show their companies' good reputations, to attract investors and stakeholders, to contribute to the society and environment, to increase competitive advantage and even as human obligations to the world. Large companies are more possible to report on sustainability than small companies. As they are assumed to have the cost allocation for sustainability activities and also to take risk for more investing activities as the higher the risk, the higher profitability might be and they appear to be influenced more than small companies by expectations of transparency with stakeholders and competitive diversity. Public listed companies are influenced by stakeholders to a greater level than privately held companies, suggesting increased influence of stakeholder perspectives (Ernst and Young, 2013). Findings of comparative studies in environmental and social reporting between Malaysia and other Asian countries show that the degree of disclosure within the region is lagging behind (Chapple and Moon, 2005). The demands for reliable report among stakeholders contribute to the increase in sustainability reporting (Gibson and O'Donovan, 2007). Despite the increase in sustainability reporting, there is a scarce academic research in this area particularly in Malaysia (Yussri, Mustaffa and Faizah, 2010). Since the last two decades, there has been extensive research on the sustainability reporting and assurance practices, especially in developed countries in contrast to the developing countries (Islam and Deegan, 2008). Anyhow, there is still a paucity of research relating to sustainability reporting in Malaysia (Nik Ahmad and Sulaiman, 2004).

A study of environmental reporting quality has indicated that environmental information of Malaysian companies was not well published in the annual report, besides that, it does not even provide details of specific events. Even in recent years, CSR is not published comprehensively, where some of the company reports only one sentence to describes their CSR or sustainability activities instead of explaining it in details. Based on the findings, sustainability reporting is observed as in an up-and-coming level in Malaysia. Most cases reporting were integrated in mandatory annual report and companies hardly prepare a stand-alone report but this practice is seen to be slowly being followed. Stand-alone sustainability reporting was perceived as a comprehensive reporting style that enable the preparer to provide more sustainability information as compared to incorporating it within mandatory annual report that has limited volume (Yussri, Mustaffa and Faizah, 2010). Despite the low level of sustainability and corporate sustainability reporting due to low level of awareness, the majority of the respondents assumed that sustainability can improve the internal and external reporting for companies.

According to Aras and Crowther (2009), sustainability is inadequately understood; hence any evaluation is flawed and simplistic. Certainly it is a dejected reflection on the academic accounting community that in the almost quarter of the century since the Bruntland Report World Commission on Environment and Development (1987) was published, drawing attention to the global need for sustainability, it is still possible to say that sustainability is insufficiently understood, and that by implication the potential contribution of corporate sustainability accounting is reduced or should be abandoned because it cannot be defined (Burritt and Schaltegger, 2010). Furthermore, conventional accounting continues to disregard corporate sustainability reporting and leads to distorted information being provided to managers as a basis for their decision-making (Burritt and Schaltegger, 2010).

1.6.1 Research Questions

Based on the identified gaps in the previous section, the research questions to be addressed in this study are:

i. To what extent does sustainability reporting affect financial performance?
ii. Does economic sustainability reporting affect financial performance?
iii. Does environmental sustainability reporting affect financial performance?
iv. Does social sustainability reporting affect financial performance?

1.6.2 Research Objectives

The objectives of this study are:

i. To investigate the relationship between sustainability reporting and financial performance of Malaysian Public Listed Companies.
ii. To identify whether economic sustainability reporting has a positive relationship with financial performance of Malaysian public listed companies.
iii. To identify whether environmental sustainability reporting has a positive relationship with financial performance of Malaysian public listed companies.
iv. To identify whether social sustainability reporting has a positive relationship with financial performance of Malaysian public listed companies.

1.7 Significance of the Study

Researches on sustainability reporting or sustainability disclosures that have been undertaken in Malaysia are still insufficient, this study intends to add in more values to the research of sustainability reporting in Malaysia by covering more recent and comprehensive data. The research is different from other previous sustainability studies in Malaysia because of the use of Global Reporting Initiatives (GRI) as the benchmark. It aims to be more comprehensive as the data of the year of 2006 and 2013 are being compared. Data from the year 2006 is taken because Corporate Social Responsibility (CSR) reporting has begun reported voluntarily whilst 2013 was the latest year to obtain the full companies' sustainability reporting or disclosures.

The possible significances from this research are; the contributions as of practices; this research will encourage companies in Malaysia to implement and enhance sustainability reporting and convince on how sustainability reporting would definitely play an immense part in affecting financial performance of a company. Besides encouraging companies to engage with sustainability reporting, it can also encourage Malaysian companies to do positive changes of their organization towards contributing to the future generation. Whilst encouraging companies to do so, the intention is to increase the awareness of the importance of sustainability reporting among Malaysian companies from different sectors. Besides that, this research contributes to the sustainability field by increasing the understanding of sustainability reporting especially it should be understood deeper by not only the Malaysian companies who are practicing business but, sustainability should also be understood by overall Malaysian society.

The contributions in terms of knowledge are that, this study adds in values to sustainability research in Malaysia. It is different as this study is using GRI as the benchmark instead of Bursa Malaysia's guides that has been used in previous studies, thus this study will provide an empirical evidence of sustainability reporting in Malaysia. The contribution as of policy is that, the awareness of sustainability will eventually lead to the increasing of sustainability reporting. When Malaysian companies improve their sustainability reporting, it can improve Malaysia's ranking in Asian Sustainability Rating and Malaysia will be on the same level in terms of reporting on sustainability with other developed and sophisticated countries that are already sturdy in this field such as Japan and South Korea. One way to show to the public the total commitment towards sustainability is to create and improve awareness relating to sustainability reporting. Theoretically, this study will reveal the relationship between sustainability reporting and financial performance of Malaysia Public Listed Companies and proves how sustainability reporting have a huge impacts on financial performance which most research authors agree that strategies and practices to manage environmental, social and sustainability will influence the performance of operations (Melnyk, Sroufe and Calantone, 2003).

1.8 Chapter One Summary

Chapter one has explained the basic gears about sustainability reporting, what is sustainability meant for, the evolution of corporate reporting until the existence of sustainability reporting employment to the current date, and the details on Global Reporting Initiatives (GRI). Other parts in this chapter described the problem statement of this research, research gaps, research questions and objectives, and the significance of this study. The next chapter will look into the literature reviews of this study and hypotheses made from the reviews.

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