

CORPORATE SUSTAINABILITY REPORTING: MALAYSIAN EVIDENCE

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ABSTRACT

Sustainable development has become part of the ordinary business to meet expectation from stakeholders due to the increasing of public concerns regarding these issues. This study examines the sustainability practices in the annual reports of public listed companies in Bursa Malaysia for the year 2014. This paper explores the corporate sustainability reporting disclosure practice by Public listed companies of Bursa Malaysia. Specifically, the objective is to examine the factors that influence the corporate sustainability reporting in public listed companies in Malaysia. This study postulates that ownership structure (managerial, block and government holdings) and type of industry influence the level of sustainability reporting. Development of research hypotheses are based on legitimacy theory and agency theory. Results show a significant association between government ownership structure and the level of sustainability reporting among listed firms in Malaysia. Results also do indicate that industry are significant in explaining the variability in CSR. Findings should provide input to the regulatory bodies especially the government on types of sustainability information disclose on the annual reports by listed firms in Malaysia.

Keywords: Voluntary information, Sustainability reporting, ownership structure, Malaysia

INTRODUCTION

In the recent years, sustainability issues have captured the public's interest as well as business organisations (Sharifah, 2010). The engagement to sustainability activities is seen as an important agenda to be considered as such engagement may result in the sustainability of not only the business firms, but also the sustainability of the environment in which they operate (Muttalib et al. 2014). Many companies which have been credited with contributing to economic and technology progress have been criticised for creating social problems. Issues such as pollution, waste, resources depletion, product quality and safety, the rights and status of workers and the power of large corporations have become the focus of increasing attention and concern (Hussainey & Walker, 2009). In order to cope with such issues, sustainability engagement has become a vital plan in dealing with such matters (Muttalib et al. 2014).

All Malaysian listed firms have been required by the Malaysian Government to disclose their sustainability activities in their annual reports starting from the year 2007. This requirement has also been gazetted in the Bursa Malaysia Listing Requirements under Appendix 9C, Para 29 (Ministry of Finance, 2006). Therefore, it is crucial to examine if the corporate sustainability reporting practice in Malaysia is comply with reporting regulations imposed by The Malaysian government and Bursa Malaysia and what are the factors that influence Malaysian public listed companies to disclose their sustainability activities in the annual reports.

Many of the corporate sustainability (CSR) studies have been carried out in other countries such as (Clarkson et al. (2008), Isaksson (2009); Sutantoputra (2009); Zeng et al. (2010); Suttipun & Stanton (2012), Hahn & Kuhnan (2013)). These studies provide insight on the types of sustainability information reported and understanding the development of CSR in those countries. Similar study need to be carried out in Malaysia, since the social, economic, and political environment in Malaysia are different from other countries. Malaysia is unique in the sense that even though it follows and adopted an accounting system similar to other developed capital markets but the firms' ownership structure differs from them. The developed capital markets have more dispersed ownership structure while Malaysia has more concentrated ownership structure. Prior studies provide evidence that more concentrated ownership structure usually associated with less information disclosure (Nazli & Weetman, 2006). The finding from the Malaysia's study will add on to knowledge and provide better understanding of CSR practices throughout the world. Results would also provide input to the regulatory bodies and financial analysts on type of information disclose by companies in the annual reports in Malaysia.

Sustainability reporting is also used synonymously with other terms such as, citizenship reporting, social reporting, and triple bottom line (TBL) reporting that encompass the economic, environmental, and social aspects of an organization's performance (Corina Joseph, 2014). This study focuses on corporate sustainability reporting (or CSR) practices in Malaysia. This study defines CSR as commitments undertaken by the firms, which covers the non-financial aspects, such as the environmental and social disclosures, with the intention to preserve a sustainable future in order to serve the rights of the stakeholders. Providing more sustainability reporting on the annual report is expected to increase firms' chances to attract investors and analysts to give better analysis.

A few studies have investigated several sustainability reporting issues in Malaysia. Amran and Devi (2008) investigate the influence of government and foreign affiliates, particularly; multinational companies on corporate social reporting (CSR) development in an economy, where CSR awareness is low coupled with weak pressure group activism. Saleh et al. (2010) explore corporate social responsibility (CSR) disclosure and its relation to institutional ownership (IO) of Malaysian public listed companies (PLCs). Results which confirmed earlier estimations indicated that there are positive and significant relationships between CSR disclosure (CSR D) and IO. Muttalib et al. (2014) examine the availability, extent and quality of Sustainability Reporting (SR) by Malaysian firms subsequent to the mandatory disclosure. Based on an across-industry sample of 300 firms in 2011, the results indicate that despite the mandatory disclosure, 3% of the sampled firms failed to make such reporting. Meanwhile, firms in the infrastructure, finance and plantation industries perform the best of extent and quality of SR, while firms in hotel industry marks the poorest in quality and lowest in extent of SR.

Abdullah et al. (2011) determine whether board independence and ownership have any influence on the decision on CSR disclosure. This study finds that boards of family owned firms are negatively associated with the level and the quality of CSR disclosure. Finally, firm's size, performance and leverage are found to have significant effects on CSR. Corina Joseph (2014) explore the understanding of sustainable development and sustainability reporting concepts among Malaysian local authorities' personnel. The research involved interviews with 23 respondents from 16 selected councils in Malaysia. The respondents

indicated the importance of educating people on the awareness of sustainable development in their understanding on this concept. Consistent with the western values, 13 councils (81 per cent) agreed with the definition by GRI.

Issues such as pollution, waste, resources depletion, product quality and safety, the rights and status of workers and the power of large corporations have become the focus of increasing attention and concern (Hussainey & Walker, 2009). In order to cope with such issues, sustainability engagement has become a vital plan in dealing with such matters. (Muttalib et al., 2014). This study defines CSR as commitments undertaken by the firms, which covers the non-financial aspects, such as the environmental and social disclosures, with the intention to preserve a sustainable future in order to serve the rights of the stakeholders. It is still not clear what really motivates Malaysian companies to disclose sustainability reporting, the low awareness for such issues and demand for the information (Amran, 2006). The percentage of CSR reporting is only 0.31 of their income. This is low compared to European countries which contribute at least 1 % of profit for community (Prathaban, 2005). It is crucial to examine if the CSR in Malaysia is compliant with reporting regulation imposed by the Malaysian government and Bursa Malaysia and what are the factors that influence Malaysian public listed companies to disclose their sustainability activities in their annual reports.

This study extends prior studies by investigating the level of CSR in year 2014 and factors that influence the corporate sustainability reporting in public listed firms in Malaysia. To complement these prior researches, the current study provides relevant input in these four contributions: (1) using a more recent data, which is the CSR in the 2014 annual reports; (2) examine the factors that influence the CSR by Malaysian firms by using the annual report (3) across-industry sampling and analysis; and (4) measurement of CSR by using Global Reporting Analysis (GRI) using both the extent and quality measures.

Specifically, the objectives of this study are as follows:

1. To determine the practice of CSR among listed companies in Malaysia. Particularly this study will investigate the level and nature of information reported on the annual report.
2. To determine factors that may influence the level of CSR. In particular, we focus on the factors of ownership structure (managerial, block holder and government) and type of industry.

This paper proceeds with literature on corporate sustainability reporting in the next section. Section two will discuss literature review and Section three will discuss hypotheses development. The methodology will be presented in section four. Section five will present results and discuss research findings and finally section six will conclude overall paper.

LITERATURE REVIEW

Corporate Sustainability Reporting

A sustainability report provides a balanced, objective and reasonable representation of the sustainability performance of a reporting company, including both positive and negative contributions (KPMG, 2008). CSR is primarily due to the extended scope of annual reports, which no longer simply provide financial information, but also have “concomitantly begun to provide relevant information to a more comprehensive community of stakeholders” (Peiyuan, 2007). Sustainability accounting, reporting and standardization is following a slow process that is not much over a hundred years old. The process begins with employee reporting and

then moves on to social reporting, environmental reporting, Tripple Bottom Line reporting and eventually sustainability reporting (Corina Joseph, 2014). Despite the various terms associated to sustainability, the ultimate focus is the same, which is to preserve the current world condition for the benefit of future generations through fulfilling the needs of not only the shareholders, but also the stakeholders as well, by complementing the financial performance with environmental and social commitments (Mutalib et al., 2014).

The World Commission on Environment and Development (WCED) 1987 defined sustainable development as “development that meets the need of the present without compromising the ability of future generations to meet their own needs”. Sustainability reporting is the practice of measuring, disclosing and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development (GRI 2006). Sustainability reporting involves measuring, accounting and disclosing an organization’s economic, environmental and social performance to improve organizational performance and advance sustainable development (Association of Chartered Certified Accountants, ACCA 2005). Environmental sustainability can be referred to as resource and energy use such as a waste, pollution or use of hazardous materials (Gimenez et al., 2012). Social sustainability means that organisations provide equitable opportunities, ensure the quality of life and provide democratic processes and accountable government structures (Gimenez et al., 2012). Terms such as corporate social responsibility and triple bottom line reporting are synonyms to sustainability in this study.

Sustainability Reporting in Malaysia

The Malaysian private sector has been under much pressure to accept social responsibility since the 1980s (Said et al., 2009). Although theory and practice in CSR and Sustainability has evolved rapidly over the past decade, previous studies have found that CSR reporting in Malaysia is still generally low and has developed at a slower pace (Manasseh (2004); Shaw Warn (2004); Mohamed, Zain & Janggu (2006)).

A comparative analysis of CSR awareness among Malaysian and Singaporean firms by using levels of corporate social disclosure revealed a low level of awareness in both countries, although Singaporean companies exhibited a higher level of awareness. Ramasamy & Ting (2004). In comparison to other Asian countries such as Singapore, Thailand and South Korea, CSR in Malaysia lags behind (Accountants Today, 2006).

Hypotheses Development

This section discusses the development of hypotheses in this study. This study postulates that ownership structure and type of industry influence the level of sustainability reporting (SR) among firms in Malaysia. The overall theoretical framework of this study is based on the legitimacy theory (Freeman, 1984) and agency theory that linked disclosure behaviour of firm with ownership structure and type of industry (Jensen & Meckling, 1976).

Ownership Structure

Different classes of stakeholders will demand different type of information (Hossain, Tan & Adam, 1994). Stakeholders also influence the level and quality of disclosure in the annual report (Smith & Peppard, 2005). This study investigates the effect of managerial ownership, block ownership, and government ownership of firm on the level of CSR.

Managerial Ownership

This study postulates that the level of CSR is determined by the level of managerial ownership of firms. According to agency theory, the increase in managerial ownership affects the degree of congruence between the interests of owners and management (Jensen & Meckling, 1976). If management ownership is high, managers will be more likely to choose investment project that maximizes shareholders' wealth, therefore reducing the agency cost. Jensen and Meckling (1976) proposed that as management ownership increase, the management-shareholders conflict decrease, therefore reducing the need to monitor managers' activities through transparent reporting (Hossain et al., (1994); Kelton & Yang, (2008)). On the contrary, if the managerial ownership is not significant, the information asymmetry is higher, therefore increasing the agency conflict and cost. Without proper monitoring, manager may behave opportunistically maximizing their own wealth. As a result, outside shareholders may demand more information to monitor managers' behaviour and performance and to reduce agency cost. Hence, it is expected that the level of CSR will increase if the managerial ownership is not significant.

Existing literature provides evidence of the negative relationship between managerial ownership and the quality of disclosure (Kelton & Yang, 2008; Eng & Mak, 2003). Nazli & Weetman (2006) also found that companies that have their executive directors holding a high proportion of shares disclose less voluntary information in their annual reports. Accordingly, the first hypothesis, H_{1A} is stated as follows.

H_{1A}: The level of management ownership in firms is negatively associated with the level of firms' CSR.

Block Ownership

Wide dispersion of ownership by outside parties increases the agency cost that prompted firms to disclose more information (Chau & Gray, 2002; Haniffa & Cooke, 2002; Fama & Jensen, 1983). The disclosure of more information is to mitigate conflict, and to fulfil diverse information needs. The same scenario is also predicted for SR in which SR disclosure is expected higher in firms where the ownership of firm is more disperse. The existence of block ownership (holding of more than 5%) by individuals, companies and other institutions, reduces agency cost since block holders have the knowledge and expertise to monitor and evaluate management activities (Short, Zhang & Keasey, 2002). If the ownership of firms is concentrated among a few (block) shareholders, the level of CSR reporting is expected to be low, because shareholders can get information directly from the firm. Hence the second hypothesis, H_{1B} is stated as follows.

H_{1B}: The level of block ownership in firms is negatively associated with firm's SR.

Government Ownership

Government ownership in any business organizations will affect not only the development and implementation of business and social related policies in that organization, but also affect the reporting practice of financial and non-financial information of the organization. The government interest can be seen as a control mechanism to reduce agency cost and information asymmetry problems between owners and managers of firm (Eng & Mak, 2003; Gul, 1999). Therefore, agency conflict between managers and owners would be reduced (Gul, 1999). The government of Malaysia may be viewed as being sensitized to the needs of CSR (Amran, 2006). In Malaysia, the government holds shares in certain companies. Government

shareholding plays an important role in sustainability reporting in Malaysia. Studies by Amran and Devi (2008) and Mohd-Ghazali (2007) find a significant influence of government shareholding and the company that depends on the government with sustainability reporting. The public companies that disclosed more social and environmental information than private companies since publicly-owned companies are politically supported by the government, such companies tend to disclose more environmental and social information in order to be seen as 'legitimate' (Cormier and Gordon's 2001). Thus, legitimacy theory would predict that companies that have government ownership would disclose more sustainability information to show their accountability to the citizens. Findings from past literature shows a positive relationship between government ownership and SR (Eng and Mak, 2003; Mohd-Nasir and Abdullah, 2004, Amran and Devi 2008, Ghazali 2007). Therefore, we predict a positive relationship between government ownership and level of CSR. Thus the hypotheses are as follows:

H₂: There is a positive association between government ownership and the extent of CSR

Type of Industry

Sustainability reporting may be influenced by industry types. For instance, companies in manufacturing, plantation and industrial products sectors has been extensively reporting sustainability information compare to other industries (Bursa Malaysia, 2008) as the activities of the firms in these types of industry may have huge impact to the environment (Amran & Devi, 2008). Companies in environmentally sensitive industries such as chemical, construction, plantation, transportation, mining and resources, petroleum, and industrial products (Wilmshurst and Frost, 2000; Deegan et al., 2002; Ahmad et. al, 2003; Campbell et al., 2003; Jaffar, 2006; Manaf et al., 2006) have more pressure to disclose environmental information than those in the less sensitive industries (i.e. banking and consumer products) because activities of companies in environmentally sensitive industries tend to have a greater impact on the environment (Deegan et al., 2002; Patten and Trompeter, 2003).

Therefore, these industries tend to disclose more on their environmental information in corporate annual reports as compared to companies in less environmentally sensitive industries (Raar, 2002; Buniamin, 2010). The argument is based on the theory of 'legitimacy' in which companies agree to operate within certain boundaries and norms of the society in order to stay legitimate, or as a corporate survival strategy (Campbell et al., 2003; Deegan et al., 2002; Wilmshurst and Frost, 2000). Therefore, the hypotheses are as follows:

H₃: Types of industry is significantly associated with the level of firms' CSR.

METHODOLOGY

The first aim of this study is to examine level of corporate sustainability reporting (CSR) among listed firms in Malaysia. The second aim is to investigate factors influencing the CSR level. Therefore, the dependent variable is the CSR which is measured based on a disclosure index. Stratified random sampling was used to select sample of this study comprise of top 100 companies listed on main board of Bursa Malaysia and data was collected from the company annual report for the year 2014. This approach is consistent with previous studies by Clarkson (2008) and Aras et al. (2010).

Measurement of Variables

The dependent variable in this study, corporate sustainability reporting (CSR), is measured based on Global Reporting Initiatives (GRI2) performance indicator. The indicator is considered to be a valid and suitable measure of CSR because it contains comprehensive measure of social and environmental performance (Sutantoputra, 2009). This study adopts CSR disclosure rating by Sutantoputra (2009) and Clarkson (2008), which has 83 total score of disclosure items for social performance and 95 total score for environmental performance. This rating system is developed based on GRI 2002 guidelines which categorized the score based on two categories: hard disclosures and soft disclosures. The CSR score in this study was obtained by content analysed annual reports of selected sample companies.

Regression Model

The aim of the regression model is to provide empirical evidence on the second objective of this study, that is, to find factors influencing the level of CSR among listed firms in Malaysia. Therefore, the dependent variable is the corporate sustainability reporting or CSR. The independent variables of interest include management ownership (MOwn), block ownership (BOwn), government ownership (GOwn) and industry (IND). We include two control variables commonly found significant in prior studies examining disclosure level issue, that is, firm size (SIZE) and firm income (INC). Below is the full regression model utilised in this study. Measurements for all Independent Variables of Interest are shown on Table 1.

$$SR_{it} = \beta_0 + \beta_1 MOwn_{it} + \beta_2 BOwn_{it} + \beta_3 GOwn_{it} + \beta_4 IND_{it} + \beta_5 SIZE_{it} + \beta_6 INC_{it} + \varepsilon_{it}$$

where:

$VIFR_{it}$ = is Sustainability Reporting level for firm i at time t

$MOwn_{it}$ = is Management Ownership for firm i shareholders at time t

$BOwn_{it}$ = is Block Ownership for firm i shareholders at time t

$GOwn_{it}$ = is Government Ownership for firm i shareholders at time t

IND_{it} = is 1 for firm belongs to industry expected to report high level of CSR and 0 otherwise, at time t

$SIZE_{it}$ = is log of total assets for firm i at time t

INC_{it} = is income after tax over total assets (or return on assets) for firm i at time t

ε_{it} = is error term for this regression model

Table 1: Measurements for all Independent Variables of Interest

Management ownership MOwn	=	Percentage of shares owned by highest management level such as Executive Chairman, CEO, Executive Director, Managing Director (Eng & Mak, 2003)
Block ownership BOwn	=	Percentage of shares owned by shareholders at 5% or more (Eng & Mak, 2003)
Government ownership GOwn	=	Percentage of shares owned by the government (Eng & Mak, 2003)
Type of industry IND	=	1 for industry expected to report higher level of voluntary financial reporting and 0 for others in the sample. Low reporting industries include technology, industrial products, consumer products, and trading and services (Debrecey et al., 2002; Noor-Azizi & Mahamad, 2000; Xiao et al., 2004). High reporting industries include construction, property, plantation and infrastructure (Wilmhurst & Frost 2000; Muttalib et al., 2014; Haron et al., 2006, Saleh et al., 2010).

RESULTS AND DISCUSSION OF FINDINGS

Descriptive Statistics

Table 2 present descriptive statistics of variables in this study. The statistics include mean, maximum value, minimum value, and standard deviation. Statistics show that sample firms have quite a high level of concentrated ownership, with management ownership at as high as 72% holdings, government at 87% holdings and block at 74% holdings, as expected among firms in Malaysia capital market. This is especially confirmed by the mean value of almost 33% ownership for block-holdings among sample firms. Corporate sustainability reporting (variable CSR) seems to be still at the lower end with a minimum of 4 item and a maximum of only 52 items disclose for each firm.

Table 2: Descriptive Statistics of All Variables (N=100)

Variables	Mean	Minimum value	Maximum value	Standard deviation
CSR (actual disclosure)	15.40	4.000	52.000	10.541
Mown	9.467	0.000	72.61	18.634
BOwn	33.45	0.000	73.77	20.948
Gown	13.27	0.000	86.80	20.469
SIZE	8.90	7.962	10.09	0.506
INC	0.270	-0.300	9.998	2.887

Table 3 represents the range of social performance score of selected companies for financial year ended financial year 2012. This SP score is for the social and environmental rating. The table shows that 76% of sample companies have SP score of 1% to 20% or less. Only 4% of overall company score more than 41 score rate. Majority of the company score in the range of 1 to 20. This indicates that majority of public listed companies have low level of sustainability reporting. The result shows that most of the companies from the sample focus their sustainability programme on community.

Table 3: Corporate Sustainability Reporting Score

Range CSR score rate	No of companies	Percentage
1-10	46	46
11-20	30	30
21-30	15	15
31-40	5	5
>41	4	4
Total	100	100%

Multicollinearity Issue

To check for multicollinearity issue, Pearson correlation was undertaken among independent variables. Table 4 shows that the correlation found was between -0.045 to 0.062. Multicollinearity issue is considered under control because it is still below 0.80 (Cooper & Schindler, 1998; Griffiths, Hill & Judge, 1993).

Empirical Evidence

For empirical evidence, Table 5 provides result of regression analysis show that none of the ownership variables (MOwn, BOwn) significantly associated with VIFR. Hence H_{1A} , H_{1B} ,

are all not supported. While, variable GOwn show positive significant association with SR (β at 0.050) with p-value at less than 5% level in at less than 5% level. This result support H_{1C}.

Table 4: Pairwise Correlation among All Variables (N=100)

	Gown	SIZE	INC	Mown	BOwn
SIZE	-0.045				
INC	-0.104	-0.064			
Mown	-0.203*	0.059	0.562		
BOwn	-0.452**	-0.134	0.184	-0.436**	
Gown	1.000	-0.045	-0.045	-0.203*	-0.452**

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

Variable IND show positive significant association with SR (β at 0.0249 with p-value at less than 5% level). For our control variables, both variables (SIZE and INC) do not show a significant association with SR (β at 0.133 and 0.702 with p-value at less than 5% level).

Table 5: Result of Regression Analysis on Independent Variables

Independent variables	Model Coefficient (t value)
Constant	0.537
Mown	0.257(1.140)
BOwn	0.332 (0.976)
Gown	0.048** (2.00)
IND	0.0249** (-3.170)
SIZE	0.133 (-1.653)
INC	0.702 (0.384)
F value	3.132
Adj. R ²	0.172
N	100

*, **, *** Denote significance at the 10%, 5%, and 1% (two-tailed) levels, respectively

DISCUSSION OF FINDINGS

Ownership variables (variables Mown and BOwn) show negative signs as expected, however GOwn ownership shows positive associations and with sustainability reporting model in Table 5. Therefore, results do not support H_{1A}, H_{1B} but supports H_{1C} hypotheses on ownership structure. Findings also consistent with prior studies on the significant of government ownership influence towards sustainability reporting (Nazli 2007, Azlan & Devi 2007; Eng & Mak, 2003).

Industry (variable IND) show significant positive associations with sustainability reporting models. In this study, industries expected to provide high level of sustainability reporting include plantation industry, industrial products, construction and consumer products. Finding is consistent with prior literature on the same issue (Deegan et al., 2002; Ahmad et al., 2003; Manaf et al., 2006). Findings generally suggest that different level of industries having a different level of influence on sustainability reporting in annual report.

Limitation of Study

The finding might be limited to results because the sample data consist of 100 firms. Especially with regards to industry issue, the vast difference in number of firms within each industry group might limit inferences on the findings to some extent.

CONCLUSION

This study investigates level of sustainability reporting in the annual reports as well as factors influencing the level of the reporting among listed firms in Malaysia. The factors examine include management ownership, government ownership, block ownership and industry. The results provide very interesting and important findings. One of the finding is that management ownership and block holder ownership variables do not show a significant association with sustainability reporting in the annual report. Only government ownership shows a significant association with sustainability reporting. The second major finding is that type of industry shows a significant association with CSR. One argument is that the quality of CSR by the firms in the different industry may be due its nature of greater exposure to risks (Amran, Rosli, & Hassan, 2009), which may explain the act of disclosing the CSR activities during the time period of this study based on such more information may be demanded by the stakeholders. It is suggested that future research should update data from this study and investigate more factors that might influence sustainability reporting and future research should investigate on capital market reaction towards the reporting of sustainability information by using other medium of communication such as sustainability reporting on the internet.

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