

CORPORATE SUSTAINABILITY PRACTICES AMONG PUBLIC LISTED COMPANIES IN MALAYSIA

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ABSTRACT

In October 2015, Bursa Malaysia launched a new Sustainability Framework that replaced its CSR Framework and amended its 'Listing Requirements'. Indicators disclosed in the economic, social, and environmental aspects of sustainability show the quality of the organization's sustainability reporting. This study investigates the implementation of corporate sustainability reporting (CSR) practice by Malaysian public listed companies following the three dimensional (economic, environmental, and social) framework of CSR. The data was collected from 257 companies' annual reports for three years starting from 2014 until 2016. The content analysis method was used in collecting the data using the disclosure checklist. The results show that the overall reporting is low, but having upward trends over time. Among the three dimensions, economic are on its least and social dimension has priority in the level of disclosures. The findings of the study can be used as a reference by the authorities such as Bursa Malaysia, the Security Commission and, CEOs of the listed companies to improve their organizational practices and reporting quality of corporate sustainability reporting.

Keywords: Keywords: Sustainability reporting, sustainability development.

INTRODUCTION

Corporate sustainability reporting is considered as a tool to build a good reputation in the eyes of stakeholders (Nurulyasmin Ju Ahmad, Afzalur Rashid & Jeff Gow 2017). Therefore, the number of companies that disclose corporate sustainability reporting in the annual report increased significantly over years. One of the reasons is due to the rules set by the government (Hafizah Abd Mutalib, Che Zuriana Muhammad Jamil & Wan Nordin Wan Hussin 2014). In the Malaysian context, the CSR has become a listing requirement on Bursa Malaysia in 2006. Bursa Malaysia has mandated all listed public companies to disclose corporate social reporting in the company's annual report (Ministry of Finance 2006). This requirement has been gazetted in the listing requirements of Bursa Malaysia under Appendix 9C, Para 29 which from 2007 onwards, public companies listed in Malaysia must disclose corporate social reporting in the company's annual report containing four dimensions namely society, environment, workplace, and market (Hafizah Abd Mutalib et al. 2014).

However, there are no comprehensive guidelines on what and how this information should be disclosed. As a results, the level of CSR by Malaysian companies are not extensive and poor in quality and low in quantity (Hafizah Abd Mutalib et al. 2014, Abdifatah Ahmed Haji 2013; Nazli Anum Mohd Ghazali 2007). Most companies only disclosed what they want to disclose and the reporting also concentrates on social and community aspects. The nature of reporting is merely narrative or a declarative statement (Nik Nazli Nik Ahmad & Ahmed Salat

Ahmed Haraf 2013). The companies do not provide proper and comprehensive guidelines on what and how sustainability information should be disclosed (Abdifatah Ahmed Haji 2013). Thus, Bursa Malaysia and the Securities Commission Malaysia have taken several steps to raise awareness among public listed companies by launching the Sustainability Framework on 31 December 2015 comprising amendments to the Listing Requirements (paragraph 29, part A of Appendix 9C, Main Market LR and practice note 9, Main Market) and the issuance of a Sustainability Reporting Guide (SRG) and Toolkits, in October 2015. This Sustainability Framework is adapted from the Global Reporting Initiative (GRI) 2013 as a guideline for listed companies in terms of practice, commitment and reporting of corporate sustainability as a replacement of corporate social reporting (Cho, Michelon, Pattern & Robert 2015). Thus, it is expected that the CSR of Malaysian listed companies will be more extensive and of high quality of reporting. Therefore, the objective of this study is to examine the implementation of corporate sustainability reporting (CSR) practice by Malaysian public listed companies following the three-dimensional (economic, environmental, and social) framework of CSR.

This study contributes in two ways. Firstly, the study used the most recent corporate sustainability reporting information conducted by the latest corporate sustainability reporting framework released by Bursa Malaysia in 2015. This study differs from previous studies because previous studies investigate from the aspects of social and environmental reporting only. However, this study is more comprehensive because it focused on the aspects of social reporting, environmental reporting, and economic reporting. The paper is organized as follows: a review of CSR literature in Malaysia followed by a discussion on research methods. Next, this paper reports the findings and discussion, the study limitations and suggests avenues for future research.

LITERATURE REVIEW

The development of corporate sustainability reporting in Malaysia

Corporate sustainability reporting is defined by Bursa Malaysia (2015) as the company's commitment to operate in a socially, environmentally, and economically sustainable manner while balancing the interests of various stakeholders. CSR in Malaysia is still far behind compared to other developed countries due to a lack of awareness among the companies to disclose CSR (Fathilatul Zakimi Abdul Hamid, Rohaya Atan, Md Saleh & Md Suhaimi et al. 2014). Therefore the government has taken an effort to encourage sustainable development through the establishment of the Malaysian Institute of Integrity (IIM) established under the National Integrity Plan in 2004. The effort also taken by the Accounting professional bodies such as ACCA Malaysia launched the ACCA Malaysia Environmental and Social Reporting Award (MESRA) in 2002 to recognize companies that make corporate sustainability reporting. Bursa Malaysia also launched the corporate social reporting framework in 2007 as a guideline for Malaysian listed companies seeking to implement corporate sustainability reporting. This framework contains four parts, namely society, environment, market, and workplace (www.bursamalaysia.com). In October 2015, Bursa Malaysia launched a new corporate sustainability framework containing amendments to existing listing requirements as well as providing sustainability guidelines to companies listed in Malaysia. The amendments to the listing requirements are effective for three years from 31 December 2016 to 31 December 2018. This new corporate sustainability framework will provide guidelines to companies listed in Malaysia to improve their corporate sustainability reporting.

The prior studies found that the CSR reporting was very low, however, due to some factors, the level of corporate sustainability reporting is increasing over time (Ahmed Haji 2013; Abu Bakar et al. 2019; Hafizah Abd Mutalib et al. 2014). This is due to the efforts taken

by the government and other authorities to increase the awareness of listed companies to disclose CSR. There is also a tendency for companies to disclose their CSR due to pressure from the environment and society (Hafizah Abd Mutalib et al. 2014). The companies disclose their CSR in order to fulfill the expectation of the stakeholders for the company to be accountable and more transparent in reporting the company's activities. Apart from that, the company also needs support for the long-term continuation of the company as well as improve the company's image and reputation (Dalilawati Zainal & Suria Zainuddin 2013). Past researchers have also studied the motivations and factors that influence corporate sustainability reporting in Malaysia. Nik Nazli Nik Ahmad and Maliah Sulaiman (2004) found that the absence of mandatory reporting standards resulted in a lack of uniformity and lack of information reported by the company. Their study did not support the theory of legitimacy in motivating companies to report on corporate sustainability as most companies were found to still lack the awareness to report their CSR activities to the public. Reporting is more of a mere form of descriptive statement which means the company is showing less accountability to the community and reporting is more about improving the image and reputation of the company.

METHODOLOGY

The population for this study consists of companies listed on the Main Market of Bursa Malaysia as at 31 December 2014. There are a total of 801 companies listed in the main market of Bursa Malaysia in 2014, 2015 to 2016. A total of 56 companies out of the total number of companies are financial companies. Finance companies are excluded from this study because they are subject to their own rules and regulations that require different studies to be done (Fathilatul Zakimi Abdul Hamid & Ruhaya Atan 2011). Therefore, the population for this study is shown in Table 3.1 which consists of 745 non-financial companies.

Table 3.1 Research population

		Number of companies
Companies listed on the Main Market of Bursa Malaysia (2014)		801
(-) Companies in financial sector		56
Total	non-financial companies (research population)	745

The stratified random sampling method is used to select a sample consisting of several sectors based on weighted rates by population sector to represent the entire population (Blumberg, Cooper & Schindler 2008). For example, if a total of 223 companies are categorized in the industrial products sector. This means that the weighted rate for this sector is 30% $(223/745) \times 100$].

The weighted rate calculation formula representing each sector is as follows:

$$\frac{\sum \text{no of companies in each sector}}{\sum \text{Population}} \times 100$$

Table 3.2 shows the number of companies that have been selected as a sample for each industry. Industrial products constitute the majority of the total sample (30%). This is because industrial products are the industry of the highest companies listed in the Malaysian stock exchange during the study. Infrastructure is the lowest industry selected as the study sample. Mining and hospitality is the smallest industry listed on Bursa Malaysia has been removed from the study sample because the number of companies for the hospitality industry is 4 companies while there is only one company for the mining industry. This is in line with the study of Che Zuriana Muhammad Jamil, Kasumalinda Alwi and, Rapih Mohamed Rapih (2003) who found that the hospitality and mining industry did not report on corporate sustainability. This may be due to the perception that their operation do not give huge impact to the society. The number of industry-based study samples is shown in Table 3.2. The following discussion is related to the descriptive analysis conducted.

Table 3.2 Research sample

Types of industry	No of observation	No of sample	% sample
Construction	48	16	6
Consumer product	108	36	14
Industrial product	234	78	30
Infrastructure	6	2	1
Plantation	45	15	6
Property	99	33	13
Technology	30	10	4
Trading or services	201	67	26
Total	771	257	100%

Measurement of corporate sustainability reporting

This study uses GRI performance indicators to measure social sustainability variables. Through GRI performance indicators, measurements are made based on the actual results of the company's CSR activities. The measure of corporate sustainability in this study is divided into three ratings. The first rating was adopted from the social reporting rating system developed by Sutantoputra (2009). These ratings have been developed to evaluate the company's social sustainability performance (Sutantoputra 2009). The second rating focuses on environmental reporting ratings developed by Clarkson, Li, Richardson, and Vasvari (2008). Companies are given a score of 1 if corporate sustainability reporting information is reported and a score of 0 if not reported. This method is in line with the study of Shamsul Nahar Abdullah et al. (2011); Elinda Esa & Zahari Abd Rahman (2016); Khan (2010); Roshima Said et al. (2009). The overall score for each reporting rating is 147 points of which the total score for social sustainability reporting is 82. The total environmental sustainability reporting score is 51. The third rating is the economic sustainability reporting rating. The economic reporting index has a total score of 14 items. The calculation of the total score is as follows:

$$\text{Rating score (social, environment, economy)} = \underline{82+51+14}$$

$$\text{Total score rating (social, environment, economy)} = 147$$

FINDINGS AND DISCUSSION

DESCRIPTIVE ANALYSIS

Table 4.1 shows that the average score for the overall corporate sustainability reporting in Malaysia is 6.52% with the maximum score being 73% and the minimum score is 1.00%. The average social sustainability reporting score was 4.44% with a maximum score of 32% and a minimum score of 1%. The descriptive analysis for the average environmental sustainability reporting score was 1.97% with the maximum score being 31% and the minimum score is 0%. While the average score of economic sustainability reporting is 0.19% with a maximum score of 15% and a minimum score of 0.00%. This indicates that there are companies that do not provide CSR information due to a lack of awareness among the companies to disclose their economic reporting.

Table 4.1 Descriptive analysis (N=771)

Variables	Min	Max	Average	Standard deviation	Kurtosis	Skewness
% CSR	1	73	6.52	6.21	4.33	28.70
Social (%)	1	32	4.44	3.46	3.03	-14.60
Environment(%)	0	31	1.97	3.25	3.25	42.32
Economy (%)	0	15	0.19	0.20	1	0.58

CORPORATE SUSTAINABILITY REPORTING ANALYSIS

Social sustainability reporting score

Corporate sustainability reporting is measured based on corporate sustainability reporting indicators based on the Global reporting initiative 2013. Sustainability reporting indicators are divided into three, namely social, environmental, and economic sustainability reporting. The total score for social sustainability reporting is 82. The total score for environmental sustainability reporting is 51 and the total economic sustainability reporting score is 14. Table 4.2 shows the number of companies based on the range of corporate sustainability reporting scores for the financial year ended in 2014 to the financial year 2016. Table 4.2 shows that 93% of companies (2014), 89% (2015), 91% (2016) have social reporting scores in the range 1 to 10. Only 1% of all companies scored more than 21 scores for the year (2014 and 2015) and increased to 2% in 2016. This indicates that the majority of public listed companies have a very low level of CSR (social) reporting.

Table 4.2 Number of companies based on social sustainability reporting score range

CSR range	2014	2015	2016	TOTAL
	No of companies %	No of companies %	No of companies %	No of companies %
1-10	240 (93%)	230 (89%)	235 (91%)	705 (91%)
11-20	18 (7%)	27 (11%)	21 (8%)	66 (9%)
21-82	2 (1%)	3 (1%)	4 (2%)	9 (1%)

Environmental sustainability reporting score

Table 4.3 shows the number of companies based on the range of environmental sustainability reporting scores for listed companies for the financial year ended 2014 to 2016. The total maximum score for environmental sustainability reporting is 51%. Table 5.4 shows that as many as 97% of companies (2014, 2015, 2016) have environmental reporting scores in the range of 0 to 10. There are a total of 50 (19.4%) companies do not make environmental reporting. As many as 1% of companies have a score between 11-20 (2014) and increased to 2% (2015 and 2016). There are 1.5% of companies that get a score above 21 (2014) and decrease to 1% (2015 and 2016). It shows that the level of environmental reporting by Malaysian listed companies still low.

Table 4.3 Number of companies based on range of environmental sustainability reporting scores

CSR range	2014	2015	2016	TOTAL
	no of companies %	no of companies %	No of companies %	No of companies %
0-10	250 (97%)	250 (97%)	250 (97%)	750 (97%)
11-20	3 (1%)	4 (2%)	4 (2%)	11 (2%)
21-51	4 (1.5%)	3 (1%)	3 (1%)	10 (1%)

Economic sustainability reporting score

Table 4.4 shows the number of companies based on the range of economic sustainability reporting scores of companies during the financial year 2014 to 2016. The total maximum score for economic sustainability reporting is 14. Table 4.4 shows that as many as 99% of companies (2014, 2015, 2016) have economic sustainability reporting scores in the range of 0 to 10. Only 1% of companies have a score above 11 (2014, 2015, 2016). It indicates that the economic sustainability reporting by the majority of companies listed in Malaysia is low. The findings of this study is in line with the research of Muhammad Zahid and Zulkipli Ghazali (2015) that found the level of economic sustainability reporting is low when the majority of companies (68.4%) in his study disclose CSR in the range between 0-5 as shown in table 4.4.

Table 4.4 Number of companies based on economic sustainability reporting score range

CSR range	2014	2015	2016	JUMLAH
	No of companies %	No of companies %	No of companies %	No of companies %
0-10	255 (99%)	255 (99%)	255 (99%)	765 (99%)
11-14	2 (1%)	2 (1%)	2 (1%)	6 (1%)

CONCLUSION

In conclusion, the study showed that the average score for corporate sustainability reporting was 6.52%. The maximum score is 73% and the minimum score is 1.00%. Sustainability reporting scores in listed companies in Malaysia can be said to be relatively low. The average score shows that the majority of companies in Malaysia have a reporting score of around 7%. Among the three dimensions, economic are on its least and social dimension has priority in the level of disclosures. It indicates that most companies disclose corporate sustainability reporting but still not as comprehensive as what have been set by GRI. The majority of companies are still reporting on corporate sustainability based on the four elements proposed by Bursa Malaysia in 2007, namely based on the environment, society, workplace, and market. Past studies have mostly examined social and environmental sustainability reporting and do not focus in terms of economic sustainability reporting. However, This study is more comprehensive because it encompasses all three aspects of social, environmental, and economic elements.

This study uses content analysis methods that are based solely on the information in the company's annual report. Therefore, it cannot provide an overview of corporate sustainability reporting practices in Malaysia. In the future, besides reporting in annual reports, other channels can be used to disclose CSR like the company's website, newsletter, 'standalone report' and newspapers, and other social media such as Facebook, Twitter, and so on. Future studies can use samples from the ACE Bursa Malaysia market so that the findings of the research can be generalized. The ACE market replaces the Mesdaq market and serves as an alternative market that is open to various business sizes and sectors of the economy. It can provide an opportunity for stakeholders to know the accountability of the companies in the ACE market through more transparent information reporting in order to fulfill the stakeholder needs. Besides, future research may also consider expanding the study sample to other countries with similar backgrounds to Malaysia (in terms of economic, political, and social background) to test the general applicability of these findings.

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