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Sustainability Reporting and Financial Performance of Malaysian Public Listed Companies

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Abstract: *Sustainability reporting has become increasingly common in recent years for companies across the globe. It is seen as an approach that can integrate and balance the performance of a business' economic, environmental and social dimensions. The main issue now is not solely about complying with the mandatory rules or ensuring the company's reputations, but sustainability to promote efficiency in business and improve productivity. Although sustainability reporting is not a new concept, its implementation is still unsystematic. Management, it appears, is not convinced on the importance of sustainability reporting due to high costs and difficulty of measurements. These have resulted in ignorance, negligence and unsystematic nature of economic, social and environmental reportage on sustainability in Malaysia. Reporting percentage in Malaysia remains very low despite it being ranked the highest in Southeast Asia. Despite the rise in the sustainability reporting globally, there is limited academic research on sustainability reporting in Malaysia while conventional accounting practices somewhat reduced the need for sustainability reporting. This research investigates the relationship between sustainability reporting and financial performance of Malaysian Public Listed Companies. In the summary of findings, the regression results suggest that economic, social and environmental sustainability reporting is positively associated with financial performance measured using Return on Assets and Return on Equity.*

Keywords: *Economic disclosures, environmental disclosures, return on assets, return on equity, social disclosures, sustainability reporting, Malaysia*
JEL classification: G34, M14, M41

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1. Introduction

Sustainability reporting is an organisational report on economic, environmental, and social performance of a company. Companies have to ensure or maintain performance based on the following three key dimensions; economic, environmental and social (Global Reporting Initiatives, GRI, 2013). Basically, the report provides a balanced and precise representation of the sustainability performance of the companies, including its positive and negative contributions (Henderson, 2012). As awareness of sustainability issues increases worldwide, the level of disclosures and stakeholder demands for sustainability reporting and information are increasing which can enhance the competitive advantage of developing countries like Malaysia. Sustainability reporting is proven to create new opportunities as companies brand their sustainability reports to reflect personalities responsible for the company's success as well as their business strategies (Deloitte, 2013). Sustainability reporting, among other things, outlines the companies' Corporate Social Responsibility (CSR) activities in particular, its contribution to society or communities. It is a dynamic component of communication especially to stakeholders. This study's research questions are twofold: (i) to what extent does sustainability reporting affect financial performance? (ii) Do economic, environmental and social sustainability reporting affect financial performance of a company? Therefore, the objectives of this research are to investigate the relationship between sustainability reporting and financial performance of Malaysian Public Listed Companies and to identify whether economic, social and environmental sustainability reporting have a positive relationship with financial performance of Malaysian Public Listed Companies.

Basically, sustainability reporting is an extension of Corporate Social Responsibility (CSR) to include the environmental and economic dimensions instead of only social responsibility disclosures. It provides comprehensive sustainability details of a company and CSR now includes matters such as climate change, global warming, animal rights, conservation of biodiversity and human rights as well as social equity. Over the past decades, reporting has evolved to meet the fluctuating needs of users. Public reporting has developed from disclosing only core financial data to include detailed information encompassing environmental, social and economic impacts of company operations and products, as well as other non-financial data (ACCA, 2005).

Global Reporting Initiatives (GRI) offers a comprehensive guideline on sustainability reporting namely company performance disclosures in the economic, environmental and social areas as well company profile and its governance efforts (ACCA, 2005). The GRI has continued to grow strongly in sustainability reporting, with increased interest in critical sustainability topics, transparent and accessible information, harmonisation between reporting tools and systems and increased integration of financial and sustainability reporting (GRI, 2013).The sustainability reporting should be balanced, reasonable and even transparent for all various categories of stakeholders which includes business, labour, non-governmental organisations, investors, financial analysts and other related parties. Overall, the GRI intends to advance a voluntary reporting framework that attempts to encourage sustainability reporting practices to a level required so that financial reporting is consistent, comparable and above all, has universal acknowledgment.

According to ACCA (2010), even though Malaysia scored the highest in the developing countries category in Southeast Asia, the percentage of those who reported on sustainability is low compared with the number of businesses in the country. The low percentage of reporting is due to many factors such as high reporting cost, difficulty in measuring performance, difficulty in convincing the companies to be proactive in sustainability reporting, lack of awareness and companies' assumptions of additional cost and resources required for reporting, poorly performing companies and inconsistency in reporting. Thus, sustainability reporting in Malaysia remains weak. The new additions are, poorly performing companies and the inconsistency of reporting which have retained Malaysia's score on sustainability in developing countries' category.

This research contributes to sustainability reporting literature on Malaysia. It is also aimed at encouraging firms in Malaysia to engage in, create awareness as well as understand economic performance, social performance and environmental sustainability. Thus, this article examines the relationship between economic, social and environmental sustainability reporting and financial performance.

2. Literature Review

2.1 Sustainability Reporting and Sustainability Dimensions

According to GRI (2013), a sustainability report is similar to financial reporting. Its compliance is voluntary. Sustainability reporting shows that the company takes responsibility over its economic, environmental and social performance. It is similar to corporate social responsibility (CSR) which is also voluntary in terms of compliance. Sustainable growth via sustainability reporting has a positive impact on a company's financial performance (Costea, 2012). Sustainability reporting may accurately and reasonably reflect a firm's financial performance (European Business Review, 2012).

Various studies over the last decade investigated the relationship between sustainability reporting and its effects on financial performance. Results ranged from positive to negative and even to insignificant relationships (Aggarwal, 2013). Four benefits of CSR or sustainability reporting are highlighted in these studies; reduces direct costs (energy, materials, time loss, etc.); improves productivity of workers (increased motivation, low absenteeism, reduced turnover); reduces management risk (easier access to credit, increased value of the assets for investors, support by stakeholders, etc.); and improves the competitive image of the firm (Albu et. al, 2011).

The effects of sustainability reporting is seen by the companies as one of the means to introduce and reinforce sustainability principles throughout the organisation by refining their integration into planning and decision making leading to improvement in sustainability performance. Hence, sustainability reporting would have influence on companies' performance and enhances their efficiency (Adams & McNicholas, 2007). Naturally, stakeholders and shareholders as potential investors look for lower risks and higher returns if they want to invest. Thus, sustainability reporting would increase share price in two ways: a) increasing revenue, net profit and thus inspiring better financial performance; b) assuring shareholders of the safety of their investments (Khaveh, Nikhashemi, Yousefi & Haque, 2012). According to Newport, Chesnes and Lindner (2003), social investors, via their success, have revealed that sustainability is a decent indicator for a company's growth and its financial performance.

There is a difference between economic sustainability disclosures and financial performance of a company. Information pertaining to economic sustainability is taken from either sustainability reporting or corporate social responsibility (CSR) that have been outlined based on specific guidelines such as the GRI or Bursa Malaysia's sustainability reporting guideline in Malaysia. Financial information is gleaned from financial statements of a company that focus on its financial performance. Economic sustainability refers to the responsibility of a company to generate profit to preserve its capability as an organisation (Roxas & Chadee, 2012). According to GRI (2013), the requirement for economic sustainability disclosures include direct economic value generated and distributed, the financial implications and other risks and opportunities for the companies' activities due to climate change, coverage of companies' defined benefit plan obligations and significant assistance received from government.

Malaysians are aware of the importance of environmental protection; this is evident from the events subsequent to high-profile Malaysian cases, such as the 1993 collapse of Highland Towers and the 1997 haze. Malaysian companies were widely held to be partly responsible for the increased pollution, and the associated loss of natural habitat and eco-system (Malcolm, Khadijah & Marzuki, 2007). Refining corporate environmental performance could sustain the efficiency of a company, improve its financial situation and meet the demands of its stakeholders (Moneva & Ortas, 2009). The environmental issue is often not taken seriously by a company. Most companies ignore environmental issues at their own peril which could lead to a loss of competitiveness in the long run. The demand for additional environmental information indicates that environmental sustainability disclosures influence investment decision making of stakeholders and shareholders (Villiers & Staden, 2012).

Social sustainability plays an important role in broader contemporary sustainability treatise. In order to meet the challenges of living sustainably, the community needs to participate and involve in a process of social learning, enhancing and increasing their ability to make appropriate choices about complex issues. Social sustainability is when the formal and informal processes, systems, structures and relationships dynamically support the capacity of current and future generations to create healthy and liveable communities. To create social sustainability, community structures and processes need to be democratic, encouraging participation and presence, with governance prioritising transparency and accountability (Barron & Gauntlett, 2002).

Remarkably, sustainability performance does significantly influence company’s financial performance that may support company’s decision to improve its performance in managing sustainability. Improving sustainability performance and reporting of a company is as important as improving its financial performance (Aggarwal, 2013). Although the findings are varied, evidence supports the contribution of sustainability reporting on financial performance of a company. This is due to the fact that these activities are anticipated to be beneficial to companies. Therefore, it is assumed that the higher the amount of sustainability information disclosed, the more it impacts on the financial performance, efficiency, communications and also competitiveness of a company. Hence, it is reasonable to test the following hypotheses:

H1: Sustainability reporting positively influences financial performance of a company.

H2: Economic sustainability reporting positively influences financial performance of a company.

H3: Environmental sustainability reporting positively influences financial performance of a company.

H4: Social sustainability reporting positively influences financial performance of a company.

3. Methodology

3.1 Research Design

The sample population of this empirical study is 200 Public Listed Companies in Bursa Malaysia (Bursa Malaysia, 2014). The sample was selected using random sampling method and stratified sampling method among the 900 Public Listed Companies listed in Bursa Malaysia. Random sampling method is meant to be unbiased representation of a group, while stratified sampling method captures the key population characteristics of the sample of 200 companies from different sectors selected for this study. According to Hair et al. (2010), a sample size of 100 or greater is large enough to produce reliable factors for a study.

3.2 Data Collection

This study utilises secondary data obtained from published Sustainability Reports (within annual reports or stand-alone reports), Corporate Social Responsibility Report (annual reports or stand-alone reports) and companies' websites. Annual reports are considered as the main source for this study besides stand-alone sustainability reports because the former are regarded as the main form of communication with shareholders as well as the public (Lev, 1992; Stanton and Stanton, 2002). Corporate annual reports contain financial statements and financial disclosures as well as sustainability and corporate social reporting of selected companies for this study. Financial performance data from 2006 to 2013 and information were sourced from Data Stream. The following five accounting-based measures have been used as proxies to study financial performance of a company, namely Return on Assets (ROA), Return on Equity (ROE), Return on Capital Employed (ROCE), Profit before Tax (PBT), and a growth variable - Growth in Total Assets (GTA). The various measures to examine a firm's Sustainability Performance are GRI-based Disclosure Index Scores, Existence of firms' GRI Sustainability Reports, etc. (Aggarwal, 2013).

Content analysis approach is used to collect sustainability data from the sample. This method extracts specific information from the text and examines it based on certain criteria. For this study, content analysis is used based on number of sentences and GRI indicators. Content analysis transforms qualitative data to quantitative one but a number of methodological concerns have been expressed over its use in sustainability research (Vourvachis, 2007). The sustainability information reported by companies was counted manually to obtain its number of sentences. The metric used to determine the number of sentences to indicate the quantity of the activities reported by companies, and the quality of sustainability reporting should be verified at an early stage before the publication of reports by an external verifier (UNEP, 2013). Most previous studies have done this by using number of sentences as measurement method (Hackston & Milne, 1996; Nik Ahmad & Sulaiman, 2004; Raar, 2002).

3.3 Variable Measurements

For the purpose of this study, the operationalisation of the three variables: independent variables, dependent variables and control variable are presented in Table 1. Based on GRI G3.1, standard disclosure and performance indicators are used to indicate sustainability categories. Since Malaysia is still lacking in a few areas of sustainability, some of the indicators are merged with related indicators.

Independent variables are related to the sustainability indicators. The economic sustainability reporting indicators are EC1, EC2, EC3 and EC4, with each focusing on compliance with national laws and regulations, fair treatment and responsibility to people and eco-system. The environmental sustainability reporting indicators are EN1, EN2, EN3, and EN4, with each covering a company's interactions with its environment at large. The social sustainability reporting indicators are SO1, SO2, SO3 and SO4, with each reflecting the company's human right records. Operationalisation specifically refers to each indicator for the three sustainability reporting indicators.

Table 1: Variables Operationalisation

Variables	Operationalisation	Reference
Independent Variables:		
Economic Sustainability Reporting	Content analysis Based on number of sentences on;	Roxas and Chadee (2012), Siddiqui (2013), AICPA (2013), Bowers (2010), Herath (2005), Quinn and Dalton (2009), Fung, Weil and Graham (2007)
EC1	Distribution of revenues, Employee compensation and benefits, investment made for employees.	GRI G3.1 Standard Disclosure: Performance Indicators
EC2	Compensation for causing damages (climate change, erosion, contamination, loss of animals' habitats).	

EC3	Spending on local suppliers, hiring local community as workers.	
EC4	Infrastructure investment and services for public benefits (commercials or engagement with community).	
Environmental Sustainability Reporting	Content analysis Based on number of sentences on;	Malcolm, Kadijah, Marzuki (2007), Kleine and Hauff (2009), Dangelico and Pujari (2010), Moneva and Ortas (2009), Porter and Kramer (2006), Villiers and Staden (2012), Roxas and Chadee (2012), Theyel and Hoffmann (2012), Sumiani, Haslinda and Lehman (2006)
EN1	Practice 3R recycle, reuse and reduce, recycling waste, product and services are degradable/eco-friendly, has waste management system.	GRI G3.1 Standard Disclosure: Performance Indicators
EN2	Energy-saving initiatives for energy consumption, renewable energy.	
EN3	Water-saving initiatives, recycling water initiative, compensation for air, water and noise pollution.	
EN4	Green-tech oriented buildings, green-tech technologies; animals' habitats are protected, conserving environments, reforestation and rehabilitation, initiative to control greenhouse gas, other gas emissions.	
Social Sustainability Reporting	Content analysis Based on number of sentences on;	Galinsky et al. (2008), Barron and Gauntlett (2002), Mather, Denby, Wood and Harrison (2011)
SO1	Employment; equality in gender, no gender discrimination, occupational health and safety, concern on injuries, diseases, work-related fatality, provide training and	GRI G3.1 Standard Disclosure: Performance Indicators

	educations to employees, concern on employees' family (handicapped children/spouse, etc.).	
SO2	Human rights; no discrimination among different races, religion or marital status, not engaging with child/illegal labours, securities are trained.	
SO3	Initiatives to provide comfort to community, helping less-fortunate communities, charity and donations.	
SO4	Marketplace; product and services responsibility, concern on product quality, true product/services labelling and information to customers, clients, stakeholders, etc.	
Dependent Variables:		
Return on Equity (ROE)	Net income/average common stockholders' equity	Makarfi Ibrahim et. al. (2009), Wingard and Vorster (2001), Frezatti (2007), Nyamongo and Temesgen (2011), Weber, Koellner, Hebegger, Steffensen and Ohnemus (2005).
Return on Asset (ROA)	Net income/average assets	Kabajeh, Al Nuaimat and Dahmash (2012), Joo, Nixon and Stoeberl (2011), Masood and Ashraf (2012), Jung (2008), Byard and Cebenoyan (2007), Jamal et. al. (2012).
Control Variables:		
Company Size	Logarithm of total assets	Hossain and Hammami (2009), Dalnial, Kamaluddin, Sanusi and Khairuddin (2014).

4. Findings and Implications

The sample was drawn from various industries as presented in Table 2 which indicates that consumer category tops the list of sample with 33%. This was followed by industrial product and trading and services both at 17.5%. The lowest is the others at 0.5% representing only one company.

Table 2: Type of Industry

Type of Industry	Frequency	Percentage (%)
Properties	16	8.0
Construction	32	16.0
Consumer	66	33.0
Industrial Product	35	17.5
Trading & Services	35	17.5
Technology	15	7.5
Others	1	0.5
TOTAL	200	100

The study uses regression analysis to estimate the influence of sustainable reporting on industry performance. With both ROE and ROA being the dependent variables, all the sustainability reporting variables were analysed to assess their influence on company performance while controlling for firm size. Table 3 and 4 reports the results of the estimation for Model 1 and 2 for 2006 and 2013 respectively.

Table 3: Regressions of Sustainability Reporting and ROE

Independent Variables		Model 1 2006			Model 2 2013	
	Coefficient	*t*	Sig.	Coefficient	*t*	Sig.
EC1	.089	.234	.815	-.203	-.547	.585
EC2	59.677	4.369	.000***	8.229	.655	.513
EC3	-9.325	-.462	.644	-8.745	-.662	.509
EC4	-1.643	-1.319	.189	8.229	3.388	.001***
EN1	.021	.069	.945	-.084	-.213	.832
EN2	1.179	.387	.699	1.329	2.384	.018**
EN3	-1.084	-.263	.793	.682	.604	.547
EN4	-.116	-.300	.764	-.723	-1.621	.107
SO1	.413	1.874	.062*	.090	.586	.558
SO2	-2.125	-.161	.872	-.255	-.447	.655
SO3	.394	1.589	.114	-.324	-1.720	.087*
SO4	-.782	-1.897	.059*	.651	1.577	.116
LgSize	-2.909	-4.823	.000***	.127	.315	.753
Constant	5.067	1.433	.154	8.625	1.980	.049
R^2	.206			.132		

Notes: ***Significant at 1% level, **Significant at 5% level, * Significant at 10% level

Based on the results of Model 1, it is confirmed that EC2 is highly significant in influencing ROE at 1% level. This result suggests that, EC2 in relation to compensation for causing any damages to the climate, erosion, contamination, loss of animals' habitat does have a significant bearing on financial performance (ROE) of the firms. Furthermore, SO1 and SO4 is moderately significant in influencing ROE positively at 10% level. These results show that social sustainability disclosures (SO1 and SO4) reflecting employment and marketplace are important for performance. Thus, hypothesis H1, H2 and H4 is supported.

In Model 2, further analysis indicates that EC4 is highly significant in influencing financial performance. The result suggests that, EC4 which represents infrastructure investment for public benefits has a significant bearing on ROE. The EN2 significantly influences ROE at 5% level (EN2 relates to energy saving initiatives and green energy technology). Additionally, SO3 also significantly influences ROE at 10% level. Therefore, hypotheses H1, H2, H3, and H4 are all accepted for Model 2.

Table 4: Regression of Sustainability Reporting and ROA

Independent Variables	**Model 1 2006**			**Model 2 2013**		
	Unstandardised Coefficient β	***t***	**Sig.**	**Unstandardised Coefficient β**	***t***	**Sig.**
EC1	.000	.164	.870	-.152	-4.938	.00***0
EC2	.199	4.289	.000***	-.690	-.660	.510
EC3	-.057	-.830	.408	.687	.625	.533
EC4	-.008	-1.810	.072*	-.124	-.615	.540
EN1	.000	.123	.902	.045	1.386	.167
EN2	-.002	-.219	.827	-.046	-.981	.328
EN3	.004	.263	.793	-.100	-1.064	.289
EN4	-.001	-.633	.528	.013	.357	.722
SO1	.000	.474	.636	.001	.065	.949
SO2	.008	.184	.854	-.032	-.673	.502
SO3	.001	1.124	.262	.013	.846	.399
SO4	-.001	-.496	.621	.004	.104	.918
LgSize	-.001	-.277	.782	.020	.582	.561
Constant	.030	2.491	.014	.872	2.407	.017
R^2	.118			.120		

Notes: ***Significant at 1% level, **Significant at 5% level, * Significant at 10% level

In summary, the regression results suggest that economic, social and environmental sustainability reporting is positively associated with a company's financial performance especially on ROE and ROA. In 2006, H1, H2 and H4 hypotheses are supported as sustainability reporting is positively associated with financial performance (ROE). In 2013, all of the hypotheses are accepted as all the sustainability reporting is positively associated with ROE. This shows that sustainability reporting has improved in 2013 compared with 2006 and the disclosure does have a significant relationship with financial performance measured by ROE. As for ROA as the financial performance, only H1 and H2 are accepted given that economic sustainability reporting has a positive significant relationship with ROA. Although only one indicator is positively associated, H1 is accepted as the indicator as part of the three indicators (Economic, Environmental and Social) under sustainability reporting.

5. Conclusion

There is still insufficient evidence to conclusively show that companies which disclosed or reported on economic, social and environmental sustainability have a better financial performance compared with those who do not disclose or practise sustainability reporting. This could be due to insufficiency of reporting in Malaysia. Additionally, sustainability reporting is also inconsistent in Malaysia compared with other developed countries due to lack of sufficient implementation and consistent sustainability reporting. This study found that some companies reported on economic, social and environmental sustainability in previous years but did not report in the current year. The situation is similar with CSR reporting whereby the reports are insufficient with companies only reporting a few sustainability activities and only reported on sustainability generally without focusing on each of the sustainability dimensions (economic, social and environmental). As Malaysia is an emerging economy that has experienced an impressive economic growth in the past decades, with less government intervention compared with other Asian countries, it is not impossible for companies to achieve a better sustainability performance and report it to the public. It is encouraging when the number of sustainability reporting and reports published in Malaysia in recent years has increasingly seen benefit. As stakeholders are provided with essential sustainability reports that reflect on past performance and a view into the future with respect to economic, environmental and social performance, it is often used by companies to make strategic and tactical decisions such as improvements in operating techniques and identification of new markets for venture purposes.

This study has provided insights into how economic, social and environmental sustainability reporting can enhance a company's financial and non-financial performances. Malaysian companies reporting on the former are encouraged to enhance and increase awareness of the importance of sustainability performance.

The limitation of this study is that the sample size was reduced due to the unavailability of some secondary information from Data stream and reports. Hence, the findings may not precisely portray the sample of Malaysian companies that report on sustainability. In addition, this study had only used financial data that was obtained from Data stream and sustainability data that was obtained from other various sources are not comprehensive. Thus, other sustainability reporting elements were not included.

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