

**POSITIVE DEVIANCE BEHAVIOUR IN
CORPORATE ENVIRONMENTAL REPORTING
PRACTICES: THE INFLUENCES OF CEO's AND
BOARD OF DIRECTOR's PAST
ENVIRONMENTAL RELATED EXPERIENCE**

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UNIVERSITI SAINS MALAYSIA

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by

AMAR HISHAM BIN JAAFFAR

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LIST OF ABBREVIATIONS

BOD	Board of Director
CEO	Chief Executive Director
CER	Corporate Environmental Reporting
CSR	Corporate Social Responsibility
DOE	Department of Environmental
DOS	Department of Statistic
DV	Dependent Variables
ESI	Environmentally Sensitive Industries
GHG	Greenhouse Gas
GRI	Global Reporting Initiatives
IV	Independent Variables
MaSRA	Malaysia Sustainability Reporting Awards
MSWG	Minority Shareholder Watchdog Group
NAICS	North American Industry Classification Systems
NGO	Non Governmental Organization
NIT	Neo – Institutional Theory
OECD	Organization for Economic Cooperation and Development
PLCs	Public Listed Companies
POS	Positive Organizational Scholarship
UNFCCC	United Nations Framework – Convention on Climate Change

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**PERLAKUAN PENYIMPANGAN POSITIF DI DALAM AMALAN
PELAPORAN ALAM SEKITAR KORPORAT: PENGARUH PENGALAMAN
BERKENAAN ALAM SEKITAR KETUA PEGAWAI EKSEKUTIF DAN
AHLI LEMBAGA PENGARAH**

ABSTRAK

Pelbagai tekanan institusi seperti kesedaran alam sekitar global terhadap kesan kelestarian alam sekitar; keperluan mandatori maklumat berkenaan CSR; bimbingan dan latihan berkenaan dengan isu kelestarian kepada pembuat keputusan tadbir urus korporat; dan garis panduan pelaporan alam sekitar sukarela telah memberi kecenderungan yang tinggi terhadap syarikat sensitif alam sekitar Malaysia untuk menerbitkan pelbagai topik maklumat dalam amalan pelaporan alam sekitar korporat. Walaupun tekanan institusi seharusnya membawa kepada isomorfisme organisasi dalam amalan pelaporan alam sekitar korporat, namun tahap dan kualiti amalan pelaporan alam sekitar adalah jauh tidak konsisten di mana terdapat beberapa syarikat yang masih tidak memaparkan maklumat pengurusan alam sekitar di dalam mekanisme pelaporan mereka (perlakuan penyimpangan negatif); beberapa syarikat memaparkan maklumat pengurusan alam sekitar dengan tujuan untuk patuh kepada tekanan institusi (perlakuan kepatuhan); dan beberapa syarikat memaparkan maklumat pengurusan amalan pengurusan dengan cara proaktif di dalam mekanisme laporan mereka melebihi keperluan tekanan institusi (perlakuan penyimpangan positif). Kajian ini mengkaji takat semasa amalan pelaporan alam sekitar oleh syarikat sensitif alam sekitar Malaysia berdasarkan indeks strategik yang berdasarkan perlakuan syarikat terhadap amalan pelaporan alam sekitar korporat. Kajian ini juga meninjau peranan ketua pegawai eksekutif dan ahli lembaga pengarah yang memiliki

pengalaman berkaitan alam sekitar dan hubungannya dengan perlakuan penyimpangan positif di dalam amalan pelaporan alam sekitar. Kajian ini menjalankan pendekatan interpretasi analisis kandungan data sekunder seperti laporan tahunan dan kelestarian syarikat serta lain-lain pelaporan dari laman web syarikat yang dikumpulkan dari 209 syarikat sensitif alam sekitar di Malaysia dari tahun 2010 hingga tahun 2014. Keputusan analisis menunjukkan bahawa dari tahun 2010 hingga tahun 2014; 36 peratus daripada syarikat telah menyimpang secara negatif daripada tekanan institusi, 49 peratus daripada syarikat telah mematuhi tekanan institusi; dan 14.8 peratus daripada syarikat telah menyimpang secara positif daripada tekanan institusi berkenaan dengan amalan pelaporan alam sekitar korporat. Syarikat yang menyimpang secara positif di dalam amalan pelaporan alam sekitar korporat ini memaparkan amalan pengurusan alam sekitar mereka yang boleh mengubah masyarakat ke arah kesedaran mengenai alam sekitar yang lebih lestari. Selain itu, hasil kajian juga menunjukkan pengalaman berkenaan alam sekitar yang berasaskan proses dan kandungan yang dimiliki oleh ketua pegawai eksekutif dan ahli lembaga pengarah mempunyai hubungan positif yang signifikan dengan perlakuan penyimpangan positif dalam amalan pelaporan alam sekitar korporat. Kesan interaksi ketua pegawai eksekutif dan ahli lembaga pengarah yang memiliki pengalaman berkaitan alam sekitar mewujudkan sinergi negatif kepada perlakuan penyimpangan positif syarikat di bawah keadaan syarikat yang lebih tua dan mempunyai prestasi kewangan yang lemah, manakala bagi syarikat yang muda, hasil dapatan kajian adalah sebaliknya. Berdasarkan dapatan-dapatan ini, implikasi teoretikal dan praktikal berjaya diperoleh.

POSITIVE DEVIANCE BEHAVIOUR IN CORPORATE ENVIRONMENTAL REPORTING PRACTICES: THE INFLUENCES OF CEO'S AND BOARD OF DIRECTOR'S PAST ENVIRONMENTAL RELATED EXPERIENCE

ABSTRACT

Various institutional pressures such as global environmental awareness toward sustainability mega forces; CSR mandatory requirement, sustainability guidance and training provided to firm's key governance decision makers; and voluntary reporting guidelines have been associated with a heightened tendency for Malaysian environmentally sensitive companies to publish a variety of information topics in corporate environmental reports. Although these institutional pressures should lead to organizational isomorphism in CER practices (the growing similarity of organizations' CER practices in a field), nevertheless the extent and the quality of Malaysian firms CER practices are significantly inconsistent where there were some firms which still do not publish environmental information in their reporting mechanism (negative deviance behaviour); some firms disclosed their environmental information in order to comply with various institutional pressures (compliance behaviour); and some firms disclosed their proactive environmental management practices in their reporting mechanisms beyond what is required by institutional pressures (positive deviance behaviour). This study examines the current extents of CER practices of Malaysian environmentally sensitive industry based on environmental strategically-framed index which can capture firm behaviours in CER practices. This study also explores the roles of CEO's and board of director's past environmental related experiences and its relationship with Malaysian environmentally sensitive firm's positive deviance behaviours in CER practices. This

study conducts interpretative approach of content analysis of secondary data such as published annual and sustainability reports, and others disclosures from company websites obtained from 209 Malaysian environmentally sensitive companies from year 2010 to year 2014. The analysis results revealed that from year 2010 to year 2014, 36 percent of the firms have deviate negatively from institutional pressures, 49 percent of the firms have comply with institutional pressures; and 14.8 percent of firms have deviate positively from institutional pressures related to CER practices. Firms' which deviate positively from institutional pressures in their CER practices provide their environmental management practices which can shifting society towards becoming more environmental sustainable rather than less environmental unsustainable. Furthermore, results also revealed that the process-based and content-based past environmental related experience of CEO and board of directors incite firm to deviate positively in CER practices. The interaction effect of CEO and board of directors with past environmental experience create negative synergies to firm's positive deviance behaviour in CER practices under the specific firm contingencies such as older and lower financial performance firms, while in young firms the result is otherwise. Based on these findings, theoretical and practical implications were delineated.

CHAPTER 1

INTRODUCTION

1.0 Introduction

This chapter provides an overview of the present study including the background of the study, problem statement, research objectives and research questions. The significance of the study including theoretical and practical contributions are also presented. The organization of research approach is introduced at the end of this chapter.

1.1 Background of the study

This study examines the relationship between key governance decision maker's (e.g. CEO and board of directors) past environmental related experiences and its relationship with Malaysian environmentally sensitive firm's positive deviance behaviour in corporate environmental reporting practices (after this CER practices). CER practices can be regarded as a "mean (or set of means) used by different companies to reveal their environmental practices to their stakeholders, which simultaneously serve as a decision-making tool for interested stakeholders" (Rosa, Lunkes, Hein, Vogt, & Degenhart, 2014, p.250). Positive deviance behavior in CER practices can be referred as set of information regarding to firm's beyond compliance environmental management practices and performance which 1) exceed minimal norms; 2) deviate from others within the field; 3) go beyond what is required by regulation; and 4) associated broader scale changes (Sadler-Smith, 2013; Spreitzer & Sonenshein, 2004; Walls & Hoffman, 2013). This study uses the measurement of positive deviance in CER practices based on the levels of firm's environmental management practices since CER practices are manifested in the increasingly useful levels of environmental management strategy such as: 1) non-compliance; 2)

compliance; and 3) beyond-compliance (e.g. pollution prevention, product stewardship, and sustainable development) (Albertini, 2013a; Rupley, Brown, & Marshall, 2012). The motivation behind this study is to examine the behaviour of the Malaysian environmentally sensitive firms in CER practices due to the growing concern over the inconsistencies of the extent and the quality of CER practice among Malaysian firms. Furthermore, this study also inspired by the important undetermined question of theoretical and practical importance is whether the increasing prevalence of CER practices is an increase in actual corporate transparency and accountability or merely symbolic action (Marquis, Toffel, & Zhou, 2016). This study presumes that the inconsistencies may occur due to firm's strategic responses to institutional pressures and corporate environmental performance (Doshi, Dowell, & Toffel, 2013; Lewis, Walls, & Dowell, 2014; Walls & Berrone, 2015).

This study is important as today's business operate in a world increasingly influenced by sustainability mega forces. The mega forces are expected to increase demand for public disclosure by companies in fulfilling their social and environmental obligations. Moreover, there is absolutely necessary for research in CER practices to scrutinize the quality of environmental disclosures, particularly in an environmentally-sensitive sector, in order to determine whether such disclosures are merely public relations gimmicks to attain legitimacy or tools to assist companies to discharge their accountability to a broader group of stakeholders. Hence, while the institutional factors influence organizational strategy, the firm's key governance decision makers (e.g. CEO and board of directors) may influences the organizational outcomes with respect to CER practices.

1.1.1 Sustainability Mega Forces

As demonstrates in Figure 1.1, today's businesses operate in a world increasingly shaped by social and environmental mega forces. Environmental issues such as ecosystem decline; deforestation; climate change; energy and fuel; material resource scarcity; water scarcity; population growth; wealth; urbanization; and food issues make humans become more worried about their futures. Issues regarding to climate changes such as the increasing of average surface temperature, expeditiously expanding deserts, melting Artic sea ices, ocean acidification, extreme weather events and unpredictable diseases patterns already provide what scientists all over the world believe to be unequivocal evidence that human activities are fundamentally altering the earth's climate. The business community particularly multinational ones over the past forty years have been accused to contribute significantly to global resource depletion and pollution. In responses to those appeals, the corporate sector has introduced the term of "green business". Business community can be regarded both as part of environmental problems and as a part of the solution of the severe environmental sustainability challenges we currently face. To cope with these environmental pressures, business community need to involve in 1) energy and resource efficient operation; 2) sustainable supply chain management; 3) strategic sector partnership; and 4) invest into innovation related to sustainable product and services (KPMG, 2012). More importantly, an integral part of a business community' corporate environmental management practices is the reporting of its practices and their impact on the environment, society, and economy. Recent research revealed that the increased awareness of majority G250 companies with respect to environmental sustainability mega forces may increase CSR, sustainability, and environmental reporting practices worldwide. Furthermore, the formation of relevant

standard of reporting such as Global Reporting Initiatives, provided business community with a set of norms that firms can follow in their reporting practices.

Figure 1.1: Ten Sustainability Mega Forces. Source: KPMG, 2012



Malaysia also is increasingly vulnerable to the sustainability mega forces. Disasters often cause Malaysian and other South-East Asia countries into serious social and economic implications, which can affect the country stability as well as the region. Reading about Typhoon Haiyan in the Philippines (CNN, 2013); major water crisis in the highest populated states in Malaysia (Goh, 2014), severe floods face by east coast state particularly in Kuala Krai and Gua Musang recently (Post Magazine, 2015); and air pollution caused by forest fire in Kalimantan and Sumatera (The Wall Street Journal, 2013) had adversely affecting the society and country. It is also important to realize that hazards such as geophysical (earthquakes, tsunamis, and volcanic eruptions); hydro-meteorological (floods, tropical cyclones, rain triggered landslides); climatological (droughts and temperature extreme); or biological (plague and epidemics) which all of their impacts in Asia-Pacific region exceed the hazards' consequences anywhere else in the world (ESCAP & UNISDR,

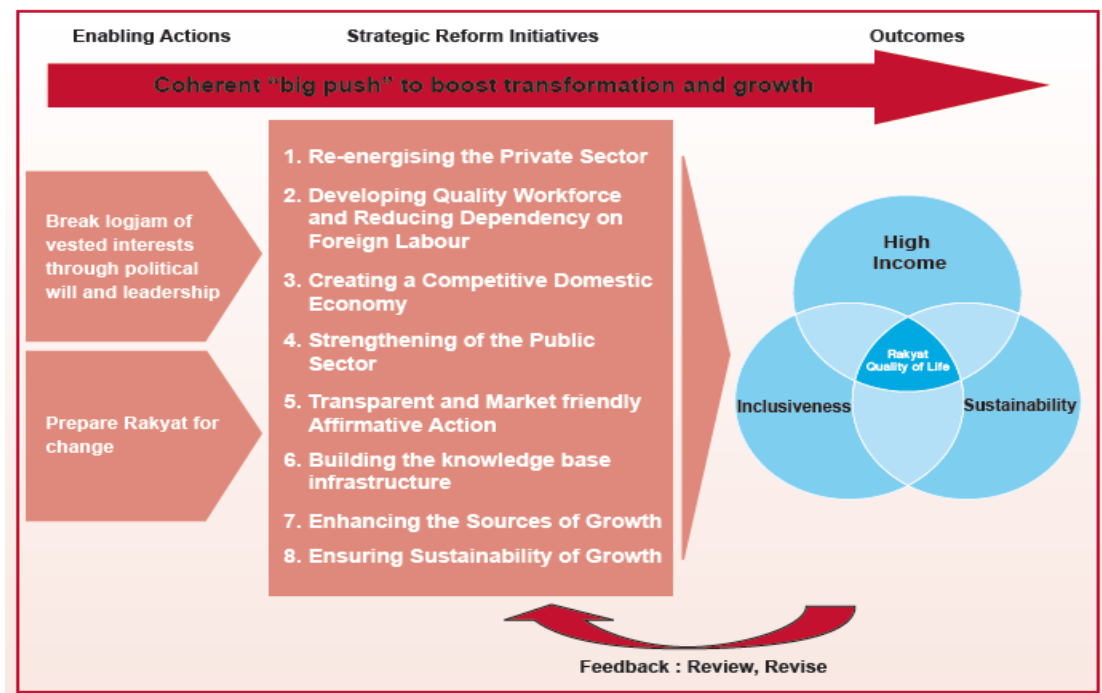
2012). Recent study by the Asian Development Bank (2013) showed that disasters losses have outpaced the region's economic growth and will continue to threaten any development gains in the emerging markets.

Corporate social responsibility (CSR) and sustainability practices including CER are often mooted as part of the solution in dealing with those aforementioned environmental sustainability mega forces. This practice extends firm's responsibility to stakeholders other than shareholder including communities, society, and the environment as well as provides them what environmental sustainability means and what is actually is weak versus strong environmental sustainability practices. CSR and sustainability practices also are increasingly regarded as being within the scope of corporate governance (Walls, Berrone, & Phan, 2012). There are substantial demands for corporate governance decision makers to be proactive in their governance roles with respect to environmentally sustainable practices including CER practices (Robertson & Barling, 2013; Walls & Hoffman, 2013). It also have been evidenced that capital market shows high interest on environmental dimensions of sustainability reporting practices compare to other dimension such as social and economic (PwC, 2013b). The reason is that firm's environmental implications are easier to quantify and integrate into valuation model (Eccles, Krzus, & Serafeim, 2011). Firm from environmentally sensitive industries have been found to have greater extent and better quality of environmental disclosures compare to those firms from non-environmentally sensitive industries. As consequences, recent studies in CER practices have largely focused on firm from environmentally sensitive industries (e.g. Cormier & Magnan, 2015; Stacchezzini, Melloni, & Lai, 2016; Yunus, Eljido-Ten, Abhayawansa, & Vesty, 2016).

1.1.2 The importance of Environmental Sensitive Industry and Corporate Environmental Reporting Practices

In Malaysia, the environmentally sensitive firms can be classified into eight sectors including 1) Industrial Products (which include oil and gas, metal manufacturing, chemical etc.); 2) Consumer products; 3) Plantation; 4) Property; 5) Trading and services; 6) Construction; 7) Mining; and 8) Infrastructure (Sulaiman, Abdullah, & Fatima, 2014). Environmentally sensitive industries are important in Malaysian economy. This is evidenced by the importance of this industry in Twelve National Key Economic Areas (NKEAs) in Tenth Malaysia Plan such as in construction; property; oil, gas and energy; palm oil and rubber; electronics and electrical; and agriculture (Tenth Malaysian Plan, 2013). Moreover, it has been found that the substantial amount of money was spent by Malaysian companies for their environmental protection in 2012 which 63.1 per cent (RM 1,463.9 million) allocated to their operating expenditure (DOS Malaysia, 2013). It is worth noting that most of the companies are from environmentally sensitive industry including the agriculture; forestry and fisheries; mining and quarrying; and construction.

Figure 1.2: New Economic Model: Enablers and Strategic Reform Initiatives.
Source: New Economic Model, 2010.



Beside that, based on Figure 1.2, the sustainability aspect including environmental elements has been recognized as one of the pillars of national transformation programme (New Economic Model, 2010). Sustainability reporting, including CER practices can be regarded as an integral part of Malaysian strategic reform initiatives since the government have focused on transparent and market friendly affirmative action, as well as ensuring sustainability of growth (New Economic Model, 2010). In fact, Bursa Malaysia also required all Malaysian Publics Listed Companies (PLCs) to report on CSR: 1) community; 2) workplace; 3) environmental; and 4) marketplace (Bursa Malaysia, 2006) in annual report as part of the listing requirement effective from 2007 (Bursa Malaysia, 2011). Nevertheless, the framework has been developed loosely without any specification on the actual content and format of reporting. Indeed, there are no specific standards issues by the Malaysian Accounting Standard Board (MASB) or under the Companies Act 1965

requiring disclosure of environmental information to the public. Thus, CER in Malaysia can be considered as voluntary as it does not contain a standard set of information which vary in terms of content and information. Furthermore, there is lack of coercive pressure with respect to mandatory framework of environmental information, except for requirement to disclose CSR information as a part of listing requirement. The normative pressure or cognitive pressure may play important role in Malaysian firms' CER practices. Thus, apart from the study of the macro level, the study from the organizational level will provide more understanding of the CER practices in Malaysia. This study is important as there are huge concerns whether corporation use CER practices to increase their transparency and accountability or merely to enhance their image (Bebbington & Larrinaga, 2014; Marquis et al., 2016).

1.1.3 Corporate Governance and CER Practices

CER practices can be regarded as one of the element of good corporate governance (Oba & Fodio, 2014). In fact, firm behaviour toward CER practices are closely associated with corporate governance practices (Kim, 2013). The Malaysian Code on Corporate Governance (MCCG), first issued in 2000, marked a significant milestone in corporate governance reform in Malaysia. The MCCG Code was later revised in 2007 to strengthen the roles and responsibilities of board of directors, audit committee, and the internal audit function. Five years later, Malaysian Code on Corporate Governance 2012 (MCCG 2012) has been introduced to strengthen board structure and composition by recognising the role of directors as active and responsible fiduciaries. MCCG 2012, emphasized that board of directors have a duty to effective stewards and guardians of the corporation, not just in setting strategic direction and overseeing the conduct of business, but also in ensuring that the corporation conduct itself in compliance with laws and ethical values, and maintains

an effective governance structure to ensure the appropriate management of risks and level of internal controls (MSWG, 2012).

Apart from code of corporate governance, Bursa Malaysia also has offers various sustainability guidance or training to Malaysian public listed companies' key governance decision makers since 2009 including 1) Bursa Malaysia's Business Sustainability Program as well portal of Powering Business Sustainability – A Guide for Directors in 2010; 2) Corporate disclosure guide in 2011; and 3) Corporate governance guide: towards boardroom excellence in 2013 (Bursa Malaysia, 2014). Furthermore, recently, MyCarbon Reporting Programme, a voluntary reporting mechanism initiated by Ministry of Natural Resources and Environment (NRE) in collaboration with United Nations Development Programme (UNDP) Malaysia was launched in December 2013 (Economic Planning Unit, 2015). This programme aims to encourage and facilitate private entities especially Malaysian firms to measure and report their GHGs emissions.

PwC (2013a) on their sustainability practice survey of 211 corporations from ASEAN-5 countries (e.g. Malaysia, Thailand, Indonesia, Philippines and Vietnam) found that only three percent of corporations have strong leadership structure in house to drive sustainability effectively. Those corporations have been found to have multiple sustainability governance groups at board, senior leadership and operational levels. The involvement of the key governance actors (CEO and Board of Director) are very important to sustainability practice as it sends a signal internally that sustainability is valued (PwC, 2013b). Identically, KPMG (2013) of their survey on 4100 corporations across 41 countries worldwide, revealed that CSR and sustainability reporting are taken more seriously than ever a core business issue by the world's largest corporations, with around two thirds (69 percent) of corporations

which report on CSR and sustainability information clearly identify who has ultimate responsibility for sustainability reporting at the corporations. For instance, twenty four percent of reporters highlighted that company's board have responsibility on CSR and sustainability reporting; twenty percent of company naming a specific individual on the board either the CEO or another board member in non-sustainability function (such as the chief financial officer, chief operating officer, audit or risk); and seven percent of reporting companies state the person ultimately responsible is the Chief Sustainability Officer, who also be a member of board. Thus, by all means, key governance actors (e.g. CEO and Board of Directors) have strong influence on CER practices.

1.1.4 The Inconsistencies of CSR, Sustainability and Environmental Sustainability Reporting Worldwide Including Malaysia

KPMG (2013) revealed that almost all Fortune Global 500 (G250 companies) issued CSR and sustainability reports, but the extent and quality of reporting are inconsistent. For instance, 1) most of Fortune Global 500 (G250 companies) score most highly for target indicator criteria while score lowest on reporting on suppliers and the value chain criteria; 2) corporations in the Americas and Asia Pacific score lowest on stakeholder engagement criteria; 3) environmental sensitive Fortune Global 500 (G250 companies) such as oil and gas; metals; engineering and manufacturing; and construction and building materials sectors that face significant sustainability risks and opportunities, and have significant potential social and environment impacts, are publishing reports with scores below the global average; and 4) European Fortune Global 500 (G250 companies) in the electronic and computer; mining; and pharmaceuticals sectors produces the highest quality in sustainability reports. KPMG (2013) suspected that there were lacks of consistency

in how the GRI has been used worldwide and this is reflected in reporting quality worldwide.

In Malaysia as well, the extent and quality of environmental disclosures commonly were low or average or incomplete or incomprehensive; descriptive and in qualitative forms; and only focus on environmental compliance categories (Ahmad & Haraf, 2013; Ahmad & Mohamad, 2013; Amran, Ooi, Nejati, Zulkafli, & Lim, 2012; Darus, Yusoff, Azhari, & Khadijah, 2013; Fatima, Abdullah, & Sulaiman, 2015; Iatridis, 2013; Mojilis, 2013; Mokhtar & Sulaiman, 2012; Rahman, Ishak, & Ramali, 2012; Said, Omar, & Abdullah, 2013; Sallehuddin & Fadzil, 2013; Samuel, Agamuthu, & Hashim, 2013; Haslinda Yusoff, Darus, Fauzi, & Purwanto, 2013; Haslinda. Yusoff, Othman, & Yatim, 2013). Nevertheless, there were some companies that provide exceptional CER practices (ACCA, 2013, 2014; Iatridis, 2013; PwC, 2013a) by showing their proactive environmental behaviour to improve their environmental performance beyond the compliance requirement in their CER practices. This company disclosed their proactive environmental management practices which include 1) their waste minimization performance; 2) green product design performance; 3) product stewardship performance; 4) enforcement of environment criteria for suppliers and distributors; 5) endeavours to protect natural inhabitants and restorations measures of affected habitats; 6) restricting products that could harm human or environmental health although the actions are costly; and 7) innovative environmental modification such as prevention technologies, eco-design or reserve logistics in their CER practices. Therefore, the inconsistencies of the level, extent and quality of CER practices remain widespread particularly in Malaysia although the institutional pressures should lead to organizational isomorphism in CER practices (the growing similarity of organizations' CER practices in a field).

1.2 Problem Statement

Since Bursa Malaysia introduced a mandatory requirement for Malaysian public listed companies to disclose their CSR activities or practices in their annual report, the current amounts of CER practices in Malaysia was increasing dramatically. This mandatory requirement has been regarded as an importance governance mechanism which either complementing or substituting for a firm's own governance related to CER practices (Cormier, Lapointe-Antunes, & Magnan, 2014). Besides that, Bursa Malaysia also has offered various sustainability guidance or training to Malaysian firms' key governance decision makers since year 2009 which include: 1) Bursa Malaysia's Business Sustainability Program as well portal of Powering Business Sustainability – A Guide for Directors in 2010; 2) corporate disclosure guide in 2011; 3) corporate governance guide: towards boardroom excellence in 2013 (Bursa Malaysia, 2014); and 4) MyCarbon Reporting Programme, a voluntary reporting mechanism initiated by Ministry of Natural Resources and Environment (NRE) in collaboration with United Nations Development Programme (UNDP) Malaysia (Economic Planning Unit, 2015). These regulations, policies, and training programmes create regulative, normative and cognitive pressures to Malaysian firms to engage in CSR and sustainability reporting practices including CER practices (Ali & Rizwan, 2013; Amran & Haniffa, 2011). As these pressures should lead to CER practices increase in homogeneous manners (isomorphism in CER practices), nevertheless, the extent and the quality of CER practices are diversely inconsistency. This situation lead various stakeholders become bewildered or unclear regarding to the credibility and values of Malaysian firm's CER practices whether the environmental practices disclosed by firm just intended to align public perceptions with respect to institutional demand related to CER practices, or truly have been

integrated within firm level and then being disclosed as a part of their CER practices (Perez-Lopez, Moreno-Romero, & Barkemeyer, 2013). Furthermore, as the increasing of CER practices should lead to the improvement information set for stakeholder decision-making (including how effective and efficient the business entities use the environmental scarce resources) (Jeffrey & Perkins, 2014), the inconsistencies of CER practices lead to suspicion that the CER practices has been utilized by firms as a green washing mechanism and just to gain legitimacy. These inherent problems in CER practices become one of the biggest threats to the success of accountability standards nowadays, particularly in environmental accountability practices (Bebbington & Larrinaga, 2014; Marquis et al., 2016; Tupputa, Toppinen, & Puumalainen, 2015).

The extent and quality of Malaysian firms' CER practices generally was low or average or incomplete or incomprehensive; descriptive and in qualitative forms; and only focus on environmental compliance categories (Ahmad & Haraf, 2013; Ahmad & Mohamad, 2013; Amran et al., 2012; Darus et al., 2013; Fatima et al., 2015; Iatridis, 2013; Mojilis, 2013; Mokhtar & Sulaiman, 2012; Rahman et al., 2012; Said et al., 2013; Sallehuddin & Fadzil, 2013; Samuel et al., 2013; Haslinda Yusoff et al., 2013; Haslinda. Yusoff et al., 2013). Nevertheless there were some Malaysian firms particularly from environmentally sensitive industries which have go above and beyond the regulatory requirement and exceed the minimal normative practices; deviate from other within the field by producing exceptional CER practices which address the environmentally issues not just as "deficit gaps" (characterized by identifying problem and generating solution) to instead addressing environmental sustainability as "abundance gaps" (identifying the highest potential and understanding enablers of such potential) (ACCA, 2013, 2014; Iatridis, 2013; PwC,

2013a). As firm's environmental management strategies should guide its CER practices (Alrazi, de Villiers, & van Staden, 2015), it is imperative to examine on how firm respond to institutional demands as being substantive or symbolic (Marquis et al., 2016). One of the possible explanations regarding to the inconsistencies in Malaysian environmentally sensitive firms' CER practices is the measurement approach of the disclosure variables used on the studies of CER practices in Malaysia which include 1) mechanistic approach (word counts, sentence, counts ,summed page proportion, frequency of disclosure, and high or low disclosure ratings); and 2) interpretive approach (quality, richness, or qualitative character of the narrative which focus on interpretation of text) (Joseph & Taplin, 2011). As the CER practices reflected the firm's environmental strategy and management, it is essential to examine the environmental disclosure according to firm's environmental strategies to which they related (Albertini, 2013a; Calza, Profumo, & Tutore, 2014; Rupley et al., 2012). The comprehensive and strategically-framed CER practices index is able to distinguish the level of corporate environmental management strategies of Malaysian firms whether at the level of beyond-compliance proactive environmental strategies (including: pollution prevention, product stewardship, and sustainable development) or at the level of reactive environmental management strategies (compliance or non-compliance) (Albertini, 2013a; Calza et al., 2014; Rupley et al., 2012).

Furthermore, although previous studies of corporate governance and CER practices in Malaysia have focused on formal composition and structure of corporate governance mechanisms including: 1) board characteristic; 2) board's human capital (age, knowledge background and proportion of female directors); 3) ownership structure (managerial ownership, institutional ownership, Muslim ownership); 4) auditor types (Amran et al., 2012; Iatridis, 2013; Said et al., 2013; Sallehuddin &

Fadzil, 2013; Sulaiman et al., 2014), nevertheless those studies did not able to elucidate the inconsistencies of CER practices of Malaysian firms particularly from environmentally sensitive industry. Recently, corporate governance research has shifted to the behavioural aspects of governance research which focus on the interaction of key governance decision makers' human capital and social capital and the effectiveness of their key decision making processes (e.g. Barroso-Castro, del Mar Villegas-Periñan, and Casillas-Bueno, 2015; Diestre, Rajagopalan, and Dutta; Sundaramurthy, Pukthuanthong, and Kor, 2014; Westphal & Zajac, 2013). The interaction between key governance decision makers' human and social capital also shed light on the concept of socially embedded change agency; strategic perspectives and institutional perspectives (Geng, Yoshikawa, & Colpan, 2015; Greenwood, Raynard, Kodeih, Micelotta, & Lounsbury, 2011; Westphal & Zajac, 2013).

As CER practices can be regarded as one of the element of good governance (Oba & Fodio, 2014), the inconsistencies of CER practices may originated from the key governance decision maker's strategic agency which driven by their human and social capital aspects. This study suggests that one of the strong indicators of CEO and board of directors human and social capital in relation to CER practices are past environmental related experiences (Rodrigue, Magnan, & Cho, 2013; Walls & Berrone, 2015; Walls & Hoffman, 2013). Past experiences shapes the board director's and CEO's thinking and mental models (Huff, 1982), and allow them to develop specific skills and procedural knowledge about how a specific industry operates (Becker, 1993; Harris & Helfat, 1997; Nahapiet & Ghoshal, 1998). Furthermore, past experience can be regarded as a key cognitive filter through which information is processed and understood (Hambrick, 2007; Starbuck & Milliken, 1988). For that reason, past environmental related experience of CEO's and board of

director's may influence firm's behaviour toward various institutional pressures related to CER practices whether to deviate positively or negatively in their CER practices or just confirm to institutional norms.

The extent of research on the CEO-board relation generally captured a control perspective with a focus on the power dynamics between the CEO and the board (agency logic) (Fama, 1980; Fama & Jensen, 1983), while giving limited attention to the advice and collaborative elements of this relationship (neo-corporate logic) (Daily & Dalton, 1994; Haynes & Hillman, 2010; Salancik & Pfeffer, 1978; Zajac & Westphal, 1994). However, in order for the board to fulfil its monitoring and resource-provision roles, it is essential that CEO and the board have a constructive relationship and function in a context in which their respective expertise, opinions, and networks are fully leveraged (McDonald, Khanna, & Westphal, 2008). In this respect, the interaction between the past environmental related experience of the CEO and board of director are relevant particularly in explaining the behaviours of the firm toward institutional pressures related to CER practices (Diestre, Rajagopalan, & Dutta, 2014; Sundaramurthy, Pukthuanthong, & Kor, 2014).

Furthermore, as the previous research of CER practices has recognized how organizational characteristics (e.g. establishment location; structure; industry characteristics and firm's efficiency and regulatory environment) moderate firm's responses to a external environmental pressures (Doshi et al., 2013), the interaction effect of CEO's environmental experience and board of director's past environmental related experience also may depending on specific contingency such as 1) firm's age (liability of newness); 2) firm's financial performance (vulnerability to market speculations about firm future prospects); and 3) firm's absorptive Capacity (Diestre et al., 2014; Sundaramurthy et al., 2014). Those examples of the contingencies may

influence the interaction effect of CEO's environmental experience and board of director's environmental experience with respect to CER practices and may enlighten why some Malaysian firms deviate positively in their CER practices or just to confirm to institutional norms. This study proposes firm's age (firm's exposure to liability of newness) and firm's financial performance (firm's vulnerability to market speculation) as the specific contingencies factors which influence the relationship between the interaction effect of CEO's environmental experience and board of director's environmental experience since the CER literature informed those factors have significant influence to CER practices (Brammer & Pavelin, 2008; Chitambo, 2013; Choi, 1999; Robert, 1992).

For this reason, this study proposes several attempts to explain why some Malaysian firms particularly Malaysian environmentally sensitive industries, deviate positively in their CER practices from other firms which just comply or ignore the institutional pressure related to CER practices. In brief, firstly, this study proposes it is imperative to examine the CER practices of Malaysian environmentally sensitive firm's CER practices based on the measurement which reflect their strategic implications for environmental behaviour. Secondly this study suggests that key governance actors' (CEO and board of director) past environmental related experience may influence firm's positive deviance behaviour toward CER practices. Thirdly the interaction effect of CEO's environmental experience and board of director's environmental experience as well the contingencies factors (e.g. firm's age and firm's financial performance) may have significant effect on firm's positive deviance behaviour toward CER practices. Those efforts may shed light on whether Malaysian environmentally sensitive firms utilizing CER as an external communication device (legitimacy purpose or conformance to norms) or by truly

integrating proactive environmental management practices in their business strategy and disclosed it as a part of their CER practices (positive deviance in CER practices).

1.3 Research Question

1. What are the current CER practices of Malaysian environmentally sensitive industry?
2. Does the key governance actor's (e.g. CEO and board of directors) past environmental related experiences lead to positive deviance behaviour in Malaysian environmentally sensitive firm's CER practices?
3. Does there any differences between the effect CEO's past environmental related experience and board of director's past environmental related experience on their relationship with positive deviance behaviour in Malaysian environmentally sensitive firm's CER practices?
4. Does there any interaction effect between CEO's past environmental related experiences and board of director's past environmental related experiences and it relationship with the positive deviance behaviour in Malaysian environmentally sensitive firm's CER practices?
5. Do the contingencies effect of Malaysian environmentally sensitive firm including firm's age and firm's financial performance influences on the relationship between the interaction effect of both CEO's and board of director's past environmental related experiences and positive deviance behaviour in Malaysian environmentally sensitive firm's CER practices?

1.4 Research Objective

1. To examine the current CER practices of Malaysian environmentally sensitive industry.
2. To investigate the past environmental related experience of key governance actors including CEO and board of directors and its relationship with positive deviance behaviour in Malaysian environmentally sensitive firm's CER practices.
3. To investigate the variances between the effect CEO's past environmental related experience and board of director's past environmental related experience and its relationship with positive deviance behaviour in Malaysian environmentally sensitive firm's CER practices.
4. To investigate the interaction effect of both CEO's past environmental related experiences and board of director's past environmental related experience and its relationship with the positive deviance behaviour in Malaysian environmentally sensitive firm's CER practices.
5. To examine whether the contingencies effect of Malaysian environmentally sensitive firms including firm's age and firm's financial performance influences on the relationship between the interaction effect of both CEO's and board of director's past environmental related experiences and positive deviance behaviour in Malaysian environmentally sensitive firm's CER practices.

1.5 Significant of the study

1.5.1 Theoretical Contribution

This study contributes to the streams of theory including Institutional Theory, Positive Organizational Scholarship (POS), Corporate Governance, and Strategic Management. In relation to Institutional Theory, firstly, this study contributes to Institutional Theory by demonstrating that organizations are not passive in their CER practices and are able to configure social meaning in order to influence the institutional pillars and thus create conditions favourable to them in the long term (Greenwood, Oliver, Sahlin, & Suddaby, 2012). The findings of the study proved that there are some Malaysian environmental sensitive firm's CER practices which 1) exceed minimal norms; 2) deviate from others within the field; 3) go beyond what is required by regulation; and 4) associated broader scale changes (Sadler-Smith, 2013; Spreitzer & Sonenshein, 2004; Walls & Hoffman, 2013). Secondly, this study contributes to Institutional Theory by focusing on the institutional elements associated with internal context such as cognitive perspective related to individual level including key governance decision maker's past environmental related experience in relation to CER practices, since study of CSR and sustainability practices particularly reporting practices are largely paid attention to external institutional elements rather than internal institutional elements that shape organizational responses towards institutional pressure (Athanasopoulou & Selsky, 2015; Chaney, Ben Slimane, & Humphreys, 2015; Colyvas & Maroulis, 2015; Fassin et al., 2015; Friedrich & Wüstenhagen, 2015; George, Chattopadhyay, Sitkin, & Barden, 2006; Gray, Purdy, & Ansari, 2015; Hoefer & Green, 2015; Voronov & Vince, 2012; Yin, 2015). Thirdly, this study contributes to Institutional Theory by

showing that contingencies effect such as firm's age and firm's financial performance influence the internal institutional elements of CER practices whether create positive or negative synergies to the interaction between CEO and board of director with past environmental related experience.

With respect to contribution to Positive Organizational Scholarship (POS), this study contributes to POS by demonstrating that the beyond compliance environmental management information provide in CER practices facilitates various stakeholders to understand that corporate environmental management practices should go beyond the managed destruction or regeneration of the natural world (Hoffman & Haigh, 2011) and all human must have environmental virtuousness in order to sustaining the whole earth system's integrity and stability (Sadler-Smith, 2013). With regard to corporate governance, this study contribute to an emerging stream of work on behavioural governance by considering the role of CEO's and board of director's experience as a mechanisms of governance that go beyond traditional agency theory consideration which can be consider as under-socialized (Westphal & Zajac, 2013). This study also demonstrates that the interaction of key governance actors' (CEO and board of director's past environmental related experiences) may create positive and negative synergies to firm's CER practices. This study also contribute to developing area of environmental governance that has uncovered a need to understand the complex role CEO and board of directors play for environmental and social outcomes of firms (Rodrigue et al., 2013). This study also contribute to the emerging stream of literature on the intersection between corporate governance and environmental management (Walls, Berrone, & Phan, 2012).

Lastly, this study contributes to strategic management literature by explaining how the heterogeneity of cognitive capabilities among key governance actors may lead to differential firm performance in CER practices. This study also emphasizes the importance of strategic management process in CER practices. Key governance decision makers' environmental past experience which act as cognitive filter to them in strategic management process (e.g. environmental scanning, strategy formulation, strategy implementation, and strategy evaluation) have strong influence on CER practices (Hahn, 2013). By examining environmental disclosures based on firm environmental strategies to which they relate, this study also provides insight on the importance of strategic management process in CER practices.

1.5.2 Practical Contribution

The study's findings provide various stakeholders (primary and secondary stakeholder) insight regarding to the advantages of positive deviance in CER practices. Positive deviance in CER practices leads to 1) positive behaviour changes toward environmental sustainability practices; 2) information gathering related to in-depth inquiries and environmental management practices norms studies (e.g. the process of elevation of organizational and industry norms with respect to environmental sustainability practices); and 3) social mobilization of stakeholders to have positive and virtues of environmental sustainability practices and understand environmental management practices which beyond the managed destruction or regeneration of the natural world (Cameron, 2013; Hoffman & Haigh, 2011; Sadler-Smith, 2013). Positive deviance in CER practices will disseminate the environmental virtuousness (transcendent, elevating behaviour of the organization's member and feature of the organization that engenders virtuousness on the part of members to primary and secondary stakeholders. Moreover, the positive deviance behaviour in

CER practices will incites the process of elevation of organizational and industry norms with respect to environmental sustainability practices. For instance, positive deviance in CER practices will incite other firm to implement proactive environmental management practices and disclosed it to their stakeholders. Among the example of proactive environmental management disclosed by firms that have deviate positively in their CER practices are 1) firm's waste minimization performance; 2) firm's green product design performance; 3) firm's product stewardship performance; 4) firm's enforcement of environment criteria for suppliers and distributors; 5) firm's endeavours to protect natural inhabitants and restorations measures of affected habitats; 6) firm's effort on restricting products that could harm human or environmental health although the actions are costly; and 7) firm's innovative environmental modification such as prevention technologies, eco-design or reserve logistics (Albertini, 2013a, 2013b; Aragón-Correa, Martín-Tapia, & Hurtado-Torres, 2013; Fraj, Matute, & Melero, 2015; Menguc & Ozanne, 2005; Scruggs & Van Buren, 2014). In the global context, the CER practices which deviate positively will contribute to improved of worldwide information set for stakeholder decision-making, and more effective and efficient use of environmental scarce resources (Jeffrey & Perkins, 2014). Moreover, positive deviance in CER practices will contribute to scientific community's interest in issues related to environmental management corroborates the concerns raised by both mass movements and social and political debates pertaining to sustainable development (Rosa, Lunkes, Hein, Vogt, & Degenhart, 2014). In Malaysian context, positive deviance in CER practices will increase the transparency and market friendly affirmative action as well as ensuring sustainability of growth, which is one of the agenda of Malaysia National

Transformation Programme (New Economic Model, 2010). Thus, in overall, positive deviance in CER practices will increase the value of CER practices.

This study also provide insight to practitioners that the appointment of key governance actor's (e.g. CEO and Board of Directors) which possessed past environmental related experience will incite firms to pursue beyond-compliance proactive management strategies which subsequently produce exceptional CER practices. Furthermore, this study provides insight to Bursa Malaysia regarding to the need to oblige Malaysian environmentally sensitive firms to appoint key governance decision makers which have expertise in environmental matters likewise their previous effort to strengthen the board structure and composition (MCCG, 2012). In addition, as past environmental related experience originated from human and social capital, the CEO and board of director which have expertise in environmental matter can share their knowledge to other key governance members or public through training, seminars and other platforms. Bursa Malaysia also needs to provide greater regulation and explicit guidelines to Malaysian firms regarding to the description of the CER practices which could make shareholders more confident about the CER practices and prevent Malaysian firms using this means of communication just as a legitimacy tool.

1.6 Definition of Term

CEO's and Board of Director's Environmental Experience

CEO's and board of director's past environmental related experience focused on both content and process based experience in environmental matters (Walls & Berrone, 2015). In terms of content-based environmental experience, this study used: 1) the extent of CEOs and board of directors involvement in environmental activities at