

**SUSTAINABILITY REPORTING AND
ORGANIZATIONAL CHANGE:
A CASE STUDY OF A MALAYSIAN PUBLIC
LISTED COMPANY**

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**SUSTAINABILITY REPORTING AND
ORGANIZATIONAL CHANGE:
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LISTED COMPANY**

by

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LIST OF ABBREVIATIONS

ACCA	Association of Certified Chartered Accountants
CAD	Corporate Affairs Department
CS	Corporate Sustainability
CSR	Corporate Social Reporting
EOD	Estates Operation Department
GLCs	Government-Linked Companies
GRI	Global Reporting Initiative
HRD	Human Resource Department
KPIs	Key Performance Indicators
NIE	New Institutional Economics
NIP	New Institutional Politics
NIS	New Institutional Sociology
NIT	New Institutional Theory
PLCs	Public Listed Companies
RSPO	Roundtable Sustainable Palm Oil
SQD	Sustainability and Quality Department
SR	Sustainability Reporting

**PELAPORAN KELESTARIAN DAN PERUBAHAN ORGANISASI:
SATU KAJIAN KES SYARIKAT AWAM TERSENARAI MALAYSIA**

ABSTRAK

Kajian ini bertujuan untuk memahami bagaimana amalan pelaporan kelestarian (iaitu, proses membangunkan laporan dan laporan kelestarian) mempengaruhi perubahan di dalam sebuah syarikat awam tersenarai yang dikenali sebagai Star Berhad. Kaedah kajian kes secara tafsiran telah digunakan di dalam tesis ini, di mana data dikumpul melalui temubual separa berstruktur, analisis dokumen-dokumen, perbualan tidak formal dan juga secara pemerhatian.

Analisis laporan tahunan syarikat bagi tempoh sebelas (11) tahun menunjukkan bahawa jumlah dan kualiti pelaporan dalam syarikat tersebut telah meningkat dari tahun ke tahun. Perubahan ketara dalam laporan telah berlaku pada tahun 2007, apabila syarikat itu beralih kepada pelaporan kelestarian daripada pelaporan tanggungjawab sosial korporat (CSR). Pada tahun tersebut, syarikat telah memperkenalkan rangka kerja kelestarian mereka dan telah mengumumkannya kepada orang awam. Tekanan daripada pelbagai pihak luar yang berkepentingan seperti NGO, pesaing, pembeli dan pemegang saham, telah mempengaruhi syarikat tersebut untuk melibatkan diri di dalam amalan kelestarian, dan yang paling penting, telah menyampaikan maklumat kelestarian tersebut secara komprehensif kepada orang awam mulai 2007.

Kajian ini telah mengenalpasti bahawa kedua-duanya, iaitu proses membangunkan laporan kelestarian dan laporan kelestarian itu sendiri, sedikit sebanyak, telah mempengaruhi sesetengah ahli organisasi tersebut. Pengetahuan, kesedaran, komitmen, hubungan, persefahaman, mentaliti dan sikap terhadap kelestarian telah

berubah dan meningkat. Ini membawa kepada amalan kemampanan yang lebih baik dalam syarikat, dan seterusnya telah mempengaruhi perubahan di dalam prestasi syarikat.

Tekanan paksaan telah dikenal pasti sebagai penyebab utama syarikat tersebut melibatkan diri di dalam amalan kelestarian, yang telah membawa perubahan dalam sub-sistem dan model reka bentuk syarikat. Walaupun prinsip kelestarian telah diserap dan difahami oleh segelintir ahli organisasi, visi dan misi syarikat masih dikekalkan. Ini menunjukkan bahawa nadi utama Syarikat Star Berhad adalah masih tidak terjejas.

Kajian ini mendapati peningkatan di dalam pemahaman tentang prinsip kelestarian di kalangan pihak pengurusan syarikat telah mempengaruhi mereka untuk menerapkan prinsip kelestarian di dalam operasi mereka dengan lancar. Kejayaan menerapkan prinsip kelestarian dalam operasi syarikat tersebut bahawa menunjukkan proses institusionalisasi prinsip kelestarian ke dalam operasi telah berlaku.

**SUSTAINABILITY REPORTING AND ORGANIZATIONAL CHANGE:
A CASE STUDY OF A MALAYSIAN PUBLIC LISTED COMPANY**

ABSTRACT

This study aims to understand how sustainability reporting practices (the process of developing the reporting and sustainability reporting) might influence changes in a public listed company, known as Star Berhad. An interpretive case study method is used whereby data is gathered through semi-structured interviews, document reviews, informal conversation and observations.

An analysis of the annual reports for the period of eleven (11) years showed that the amount and quality of reporting in the company has increased from year to year. A significant change in reporting occurred in 2007 when the company switched to sustainability reporting from corporate social responsibility (CSR) reporting. During that year, the company introduced their sustainability framework and published it to the public. Pressures from various external stakeholders such as NGOs, competitors, buyers and shareholders, influenced the company to engage in sustainability practices and, most importantly, to communicate the comprehensive sustainability information to the public effective 2007.

The study identified that both, the process of developing sustainability reporting and sustainability reporting itself, to some extent, has influenced some people in the corporation. Their knowledge, awareness, commitment, relationship, understanding, mentality and attitude towards sustainability have consequently changed and increased. These lead to a better sustainability practices in the company and, consequently, influenced changes in the company's performance.

Coercive pressures have been identified as the main reason for the company to engage in sustainability practices, which lead changes in the sub-systems and design archetypes of the company. Despite the fact that sustainability tenets have been absorbed and understood by some of the organizational members, the corporate vision and mission remain unchanged. This indicates that the interpretive schemes of Star Berhad are unaffected.

The study provides insights that increased understanding of the sustainability tenets among the management people of the company has influenced them to smoothly embed the tenets into their operations. The success of embedding the sustainability tenets into their operations signifies the institutionalization process of the tenets into the operations has occurred.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter is organized as follows. It starts with the background of the study, followed by the problem statement and the research questions. Next is the discussion about the theoretical approach and research methodology. Then, the significance and contribution of the study will be presented, and, finally, followed by the summary and organization of the chapters.

1.2 Background of the Study

According to Schaltegger, Bennett, and Burritt (2006, p. 150), companies are key contributors to economic, environmental and social well-being. Activities held by the corporations to enhance their economic performance seem likely to have a bad impact on the environment and other stakeholders at large in the future. The global warming issues that are currently under discussion are probably due to humans' unsustainable behavior and lifestyle, particularly activities conducted by the corporations in meeting their needs. As a result, corporations are required to conduct business in a sustainable way for creating strong businesses for a long period of time without neglecting or causing harm to their surroundings. It is basically about sustainability in the corporation (Schaltegger et al., 2006).

Stakeholders nowadays are increasingly interested to know the approach and performance of corporations that engage in sustainability (environmental, social and

economic) initiatives (KPMG Australia, 2008, p. 832). Adopting a corporate vision and advocating sustainability are important but not enough; this vision must be communicated effectively to the organization's stakeholders (UNEP, 2005). The demand for companies to disclose their social and environmental impact is clearly evident (Aras & Crowther, 2008; Mohamed Zain, 2009; Reilly 2009). According to Aras and Crowther (2008), stakeholders are not only interested in the activities of the corporations but are also concerned about the impact of the activities on the external environment. Information about sustainability impact and sustainability performance is believed to help managers in decision making, planning, implementation and control activities. Previous researchers found that, nowadays, stakeholders, especially investors/shareholders, use non-financial information, such as social and environmental disclosures together with financial information in making decisions (see Chester & Woofter, 2005; Mehdi & Mohammad Ali, 2009). Hence, it is vital for the corporations to communicate their sustainability efforts to various stakeholders as reporting can serve as an evidence of engaging in sustainability practices by the corporations. Sustainability reporting is perceived as an important tool for promoting sustainable development in an organization and has become an essential part of corporate agenda (Reilly, 2009). Mohamed Zain (2009) views that sustainability reporting is generally the way a company can achieve a balance or integration of economic, environmental and social imperatives while at the same time addressing shareholders and stakeholders expectation (p. 92).

Despite the availability of various communication channels, written reports (either printed or on-line) are often chosen as the primary means of communicating corporate

sustainability initiatives to stakeholders, which is evidenced by the increasing number of companies producing sustainability information (see, KPMG International, 2008). This development of reporting also occurred among Asian countries, which shows an increasing result in terms of the number of reporting companies (BERNAMA, Oct 26, 2009). This information is usually reported by the companies in their annual corporate report, or, currently, it can be found in the standalone report known as the “CSR Report” or “Sustainability Report”.

The rise in the number of companies that report on sustainability initiatives is due to various pressures. Studies show that there is significant pressure from various stakeholders on corporations to engage in sustainability reporting practices (Ljungdahl, 2001; Solomon & Lewis, 2001; O'Dwyer, 2003; Belal & Owen, 2007; Boesso & Kumar, 2007; Spence, 2007; Amran & Devi, 2008; Islam & Deegan, 2008; Kok, 2008). Because of these pressures, the companies need to respond by changing the way they do business. For example, they may have to form a new department or committee that is responsible for the sustainability reporting practices or they might need to hire an external consultant to help develop such practices, which may eventually lead to a change in behavior of its employees. Such minor changes occurring in the corporation were identified by Laughlin (1991) as the first order level of change.

The history of sustainability reporting shows that it began with employee reporting, then moved to social reporting, followed by environmental reporting, triple bottom line reporting, and, currently, sustainability reporting (Buhr, 2007). Sustainability reporting covers three dimensions - social, environmental and economic statements, which show how organizations respond to the change and evolve from

internal affairs to a wider scope of various issues. They move from a mere concern about the social issues towards the latest issue of sustainable development. In developing sustainability reporting, the company should go through certain processes of reporting, which might be different from one company to another and depends on the framework used. Previously, confusion might have arise among corporate investors due to the heterogeneity and diversity of reporting styles (Reynolds & Yuthas, 2008). In solving this problem, guidelines have been developed by certain groups by proposing a framework or models for reporting. Among them are the AA1000 (International Accountability Assurance Reporting Standard) and GRI (Global Reporting Initiative – an international sustainability report).

At the national level, sustainability issues have been disclosed extensively by Malaysian multinational corporations in their corporate annual report or even in standalone sustainability reports such as Telekom Malaysia, Petroleum Nasional (PETRONAS), UMW Holdings, UEM Groups and many others. Nevertheless, the crucial issue relating to this practice is whether these companies really embed their sustainability strategies in their day to day business practices. Amran (2006) concludes that the studied companies only make disclosure about sustainability activities at the surface level without institutionalizing them in the business practices. Meanwhile, Adams and McNicholas (2007) found that the case organization in their study, view sustainability reporting as a means of introducing and strengthening sustainability principles throughout the organization. To embed sustainability principles as part of the organizational culture was one of the reasons for the introduction of sustainability reporting in the corporation (p. 397). Adams and McNicholas (2007) view that through

sustainability reporting practices, the organization has integrated sustainability issues into organizational planning and decision making. In short, sustainability reporting is a vehicle to promote and to enhance the sustainability performance in the corporations.

Studies also show that organizations may be involved in minimal or some changes resulting from sustainability reporting practices. For instance, Adams and McNicholas (2007) view that the involvement of various representatives from various departments (internal stakeholder engagement) can be considered as the changes that occur. Changes happen when the members of the committee involved in developing the sustainability report learn new concepts, meanings and standards (new knowledge) throughout the process.

Meanwhile, informal conversation with the GRI Reporting consultant during a workshop revealed that sustainability reporting practices undertaken by the corporations did influence changes in the organization. The consultant viewed that the engagement of Malaysian Public listed companies in sustainability reporting does enhance their understanding of sustainability, and, eventually, increase their sustainability initiatives. Having set the background, the current study aims to investigate how sustainability reporting and the sustainability reporting process have influenced organizations, particularly to see whether any significant organizational changes occur in the case organization. This study plans to examine whether any changes occurred in the organization since their engagement in sustainability reporting practices. The current study, therefore, refers sustainability reporting practices to both sustainability reporting and the sustainability reporting process

1.3 Organizational Change

Based on previous discussions, pressure from various parties may encourage companies to produce the reporting of sustainability information to the public. At the very least for companies that have not produced this type of information before, it can be considered as one of the changes that occur in that particular organization. As described by Smith (1982), as cited by Broadbent and Laughlin (2005, p. 16), changes could be on the surface (make-up) or to the “genetic code” of the organization itself and might happen consciously or unconsciously.

Many studies have been conducted in the field of organizational change. For instance, Broadbent and Laughlin (2005) reported that more than one million studies have been conducted and published by researchers in the field of management, psychology, sociology, education, economics as well as accounting explaining how and why organizations change. Scholars in organizational change described and defined change in several ways. In one study, by Van de Ven and Poole (1995), organizational change was expressed as “an empirical observation of difference in form, quality, or state over time in an organizational entity. The entity may refer to an individual’s job, a work group, an organizational strategy, a program, a product, or the overall organization” (p. 512). Dunphy and Stace (1988) describe change from the Organizational Development Theory perspective as an “effective change is seen to proceed with small, incremental adjustments.” Meanwhile, a successful change project, argued by Lewin (1958), should involve three steps: (1) unfreezing the present level; (2) moving to the new level; (3) refreezing the new level. According to Laughlin (1991),

organizations, for various reasons are naturally reluctant to change and only change when they are forced, or 'kicked' or disturbance exists.

Once the disturbance has happened it will 'track' its way through the organization even though no single end result for any disturbance can be predetermined. Rather, a number of alternative routes might be followed with no guarantee that any particular final end state will be achieved (Broadbent & Laughlin, 2005, p. 9).

Based on these definitions and views, change in organizations can take numerous patterns and measurements. However, generally, for organizations, all these changes focus on the same aspiration, that is, to achieve better results as compared to before.

Business organizations that experienced divergent degrees of internal or external pressure will normally exert positive changes. Pressures received such as from the media (Brown & Deegan, 1998), alteration in the trade agreement (Buhr, 2001), the transformation programme introduced by the government (Norhayati & Siti-Nabiha, 2009), turbulent environments (White, 2000), regulation and new technology (Blum-Kusterer & Hussain, 2001), and/or from NGOs have led organizations to choose or be forced to change. All of these pressures originate from the external environment. The introduction of a new system by the parent company (Siti-Nabiha & Scapens, 2005), or the appointment of new leader are among the internal drivers that lead to some or minor changes in an organization.

With regards to accounting, some studies discussed the organizational and accounting change (such as Hopwood, 1990; Burns, 2000; Broadbent & Laughlin, 2005), management accounting change (Burns & Scapens, 2000; Soin, Seal, & Cullen, 2002; Hassan, 2005; Siti-Nabiha & Scapens, 2005; Norhayati & Siti-Nabiha, 2009) as well as environmental accounting in organizational change (Gray, Walters, Bebbington,

& Thompson, 1995; Larrinaga-Gonzalez & Bebbington, 2001; Larrinaga-Gonzalez, Carrasco-Fenech, Caro-Gonzalez, Correa-Ruiz, & Paez-Sandubete, 2001). Larrinaga-Gonzalez and Bebbington (2001) posited that “organizations can and do change in substantive ways when they respond to the environmental agenda and that environmental accounting is part of the process of enabling these organizational changes.” The developments of environmental accounting may encourage organizational change through changing what is visible (Miller & O’Leary, 1987); or it may have occurred due to demands for change by the society (Meyer, 1986).

Very few studies specifically look into organizational changes attributed by sustainability reporting practices (Adams & McNicholas, 2007; Adams & Whelan, 2009). Adams and McNicholas (2007) view the discomfort that the managers felt at the observation stage of the field work could be considered as “the emotional stir up” by Lewin (1958), which is essential to bring about change, particularly by forcing them to face their lack of knowledge and expertise.

Therefore, in order to understand the extent of how sustainability reporting and sustainability reporting process influence the organization among public listed companies in Malaysia, the current study examined the reporting practices engaged by one of the ACCA MaSRA award winning companies in producing one of the best sustainability reports. The study investigated the potential of sustainability reporting and its reporting process to bring about change in a company and what those changes might include.

1.4 Sustainability Reporting In Malaysia

With the increasing importance of sustainability reporting worldwide, companies in Malaysia have also started to provide social information to the public, especially information that is related to employees and community welfare. Even though the social and environmental reporting movement in Malaysia started quite late compared to that of developed countries, its development among Malaysian corporations is considered significant when compared to other emerging countries (Amran & Che Haat, 2008). The number of Malaysian listed companies that disclose such information has been increasing from year to year.

In order to promote sustainability strategy among corporations, on November 23, 2010, Bursa Malaysia introduced 'Powering Business Sustainability - A Guide for Directors' to assist the board of directors of companies on sustainability practices and reporting on sustainability practices among listed companies in Malaysia. The Guide was issued to aid directors in understanding the growing importance of sustainability practices and how the company should critically engage sustainability within their organizations. It also emphasizes the significance of communicating sustainability initiatives that are transparent, credible and that provide a balanced image of the company's activities against their performance.

Prior to that, Bursa Malaysia required all public listed companies to disclose all the relevant corporate social and environmental information in their annual reports for the year ended 31 December 2007. This requirement was announced on September 5, 2006, by Dato' Yusli Mohamed Yusoff, Chief Executive Officer (CEO) of Bursa Malaysia

Berhad under Bursa Malaysia's CSR Framework. The framework defines corporate social responsibility as:

...open and transparent business practices that are based on ethical values and respect for the community, employees, the environment, shareholders and other stakeholders. It is designed to deliver sustainable value to society at large.

In 2005, Association of Certified Chartered Accountants (hereafter ACCA) published 'Sustainability Reporting Guidelines for Malaysian Companies' to educate Malaysian companies to engage in reliable reporting on the environmental and the social impact of their own business operations (ACCA, 2005).

With the introduction of the Bursa Malaysia's CSR Framework to all public listed companies, they are required to present a report of their sustainability activities. However, no standard reporting method/guidelines were introduced by Bursa Malaysia and, therefore, companies can produce any social report that they think appropriate. Based on previous research, Malaysian listed companies tend to disclose more "good news" type of disclosure as compared to 'bad news' and provide minimal information with respect to quantitative or monetary disclosure (Nik Nazli, Maliah & Siswantoro, 2003; Shariful Amran, Ruslaina, & Wan Nazihah, 2009). In addition, the environmental information was not well published in the companies' annual reports (Romlah, Takiah, & Nordin, 2002; Nik Nazli & Maliah, 2004). The results also indicate that the reports presented were very general and ad-hoc, have no specific format and tend to be a public-relations in nature. Thus, in order to improve the quality of reporting, big companies such as Malaysian Resources Corporation Berhad (MRCB), United Engineers (Malaysia) Berhad, UMW Holdings Berhad and many others have used international frameworks for reporting and auditing purposes, such as GRI (Global Reporting

Initiative – an international sustainability report) to make internationally comparable reports. It was reported that the efforts shown by various parties, such as Bursa Malaysia and the ACCA, in encouraging public listed companies to engage in sustainability initiatives and to report their performance and impact, resulted in increasing disclosure among them (BERNAMA, Oct 26, 2009).

The introduction of the framework by Bursa Malaysia signifies the external pressure that indirectly forced companies to begin engaging with reporting (for companies that had not done so before) or practice better reporting. Because of this, companies have to learn how to report (refer to GRI or Bursa Malaysia framework), which eventually forces them to engage more in corporate social responsibility (hereafter CSR) or sustainability practices. Following this greater business engagement in sustainability practices, company's organizational management and practices may improve. Such an improvement is essential to investigate and to determine a better understanding concerning the impact of sustainability reporting practices.

1.5 Problem Statement

Sustainability reporting is probably the most evident piece of information to showcase sustainability practices. The reporting is supposedly to explain how a company contributes to the economic, social and environmental aspects and aspires towards greater accountability and sustainability. The increasing pressure being put on companies has resulted in an increasing number of them detailing their social initiatives and describing their social, environmental and economic commitment in their report. Nevertheless the crucial issue here relates to the impact of sustainability reporting

practices to an organization. How does the sustainability reporting effect the people in the corporation, the performance and also the operation of the organization? What are the changes that can be observed from the sustainability reporting? Have the organizational members, such as managers, executives, officers and clerks (may be not all), become more aware of sustainability or have learnt something new from their direct or indirect engagement in sustainability reporting practices? Does reporting enhance the company's performance and are the operations of the company improved by them?

Adams and McNicholas (2007) found that the process of developing a sustainability reporting framework itself did result in some organizational change. They viewed that change occurs in the organizations when managers learn something new (concepts, meaning and standards). The study revealed that the most significant impact that occurs in the organization while developing the sustainability report was the integration of sustainability issues into the strategic planning process and an increased focus on KPIs, which, previously, were not reported. Meanwhile, Larrinaga-Gonzalez et al. (2001) found that companies that report the largest amount of environmental information and purposely attempt to control the national environmental agenda and the perception of corporate environmental performance, have little impact on organizational change.

While there is growing literature on sustainability and its reporting globally and locally, relatively little research has been published that investigates the impact of reporting on the organizations. Many of the studies conducted so far, such as by Campbell, Moore, and Shrives (2006), have concentrated on the factors (internal and external) influencing reporting among companies (also see Adams, 2002; O'Dwyer,

2002; Amran, 2006). Nevertheless, currently there are no published research studies from the Malaysian context that investigate the impact of sustainability reporting to organization. Therefore, the current study intends to explore how the sustainability reporting can affect a public listed company. Particularly, this study will identify the changes that occur within an organization due to sustainability reporting practices, and, if there are changes, what exactly are the level of changes that occurred, whether on the surface or at the real heart (genetic code) of the organization. This study also identifies whether or not the sustainability information (sustainability tenets) reported has been embedded and institutionalized in that organization.

1.6 Research Questions

The motivation to undertake this study is basically derived from the desire to understand the impact of reporting on organizations. The sustainability disclosure in the public reports (annual report and sustainability report) of the case company has been analyzed and comprehensive interviews with organizational members were conducted in meeting this objective. In addition, the study also focuses on the process of producing a sustainability report in order to understand the processes involved and to determine the changes that might occur in the organization from the processes involved, as discussed by Adams and McNicholas (2007). The study will also identify the extent of sustainability tenets in the case company, whether or not it has been partially or fully embedded into the organization. Therefore, the main research question for this particular study is how does the sustainability reporting practices influence an organization?

Specifically, the current study tries to answer the following research questions:

1. What are the types of sustainability information disclosed in the company's public report? What are the pattern/changes of reporting throughout 2000-2010?
2. What are the influencing factors for sustainability reporting?
3. How does the company develop its sustainability reporting? Who (i.e. stakeholders) and what are the processes involved in producing the report?
4. How does the sustainability reporting influence organizational change in terms of:
 - i. People in the Corporation
 - ii. Performance (economic, social and environmental)
5. Does the reported sustainability tenet have been embedded into the organization? Has it been fully embedded or partially embedded?

1.7 Theoretical Framework

The findings of the study will mainly be explained from the theoretical lens of the institutional theory. In addition, Laughlin's (1991) framework will be used to give further understanding of the level of change that occurred in this organization. Together both institutional theory and Laughlin's (1991) framework should offer greater understanding concerning the impact of sustainability reporting that might bring change to the organization since one looks into the factors and the other looks into the depth of the instruments.

The institutional theory is selected as the main theoretical lens as this study looks at the impact of sustainability reporting on the organization that resulted from the factors

influencing sustainability reporting and whether or not the sustainability information (i.e. the sustainability tenets) reported has been fully or partially embedded into the organization. The sustainability tenets become institutionalized into an organization when all the organizational members (top level to lower level) embed these principles in their routine operations. The institutionalization of reporting practices may or may not occur in organizations (Bebbington, Higgins, & Frame, 2009). DiMaggio and Powell (1983) argue that institutionalization brings about a homogenization of organizations, which is derived from isomorphism (institutional theory).

There are two prevailing trends in institutional theory - old institutionalism (historical institutionalism) and new institutionalism (neo institutionalism). Table 1.1 shows the differences between the old institutionalism compared to the new institutionalism. The current study only focuses on new institutionalism, which refers to the New Institutional Theory (hereafter NIT), specifically the New Institutional Sociology (NIS), which will be elaborated further in Chapter 3.

Table 1.1: Differences between the Old and the New Institutionalism

	Old	New
Conflicts of interest	Central	Peripheral
Source of inertia	Vested interest	Legitimacy imperative
Structural emphasis	Informal structure	Symbolic role of formal structure
Organization embedded in	Local community	Field, sector or society
Nature of embeddedness	Co-optation	Constitutive
Locus of institutionalization	Organization	Field or society
Organizational dynamics	Change	Persistence
Basis of critique of utilitarianism	Theory of interest aggregation	Theory of action
Evidence for critique of utilitarianism	Unanticipated consequences	Unreflective activity
Key forms of cognition	Values, norms, attitudes	Classifications, routines, scripts, schema
Social psychology	Socialization theory	Attribution theory
Cognitive basis of order	Commitment	Habit, practical action
Goals	Displaced	Ambiguous
Agenda	Policy relevance	Disciplinary

Source: DiMaggio and Powell in The New Institutionalism in Organizational Analysis by Powell and DiMaggio (1991)

The NIS explains social theory that emphasizes developing a sociological view of institutions. It has been used to explicate existing organizational structures and to show the particular operating or reporting policies and structures that might be employed because of pressure from various stakeholders who expect to see particular (and somewhat homogeneous) practices in place (Islam & Deegan, 2008). It describes why businesses end up having the same organizational structure even though they evolved in different ways, and how institutions shape the behavior of individual members. According to Jepperson (1991), an institution represents “a social order or pattern that exposed a particular reproduction process.” This repeating process could be a routine process, which is known as institutionalization. Selznick (1957) defines institutionalization as a process that happens to an organization over time, affecting the

organizations own distinctive history and the people who work with the organization. With regards to the current study, institutionalization of sustainability tenets may arise through the embeddedness of the tenets into daily activities.

DiMaggio and Powell (1983) have identified three mechanisms through which changes could occur - coercive isomorphism, mimetic isomorphism and normative isomorphism. Coercive isomorphism is derived from both formal and informal pressure exerted on organizations by other organizations in which they are dependent upon and by the cultural expectations from society (DiMaggio & Powell, 1983, p. 150). These pressures are exerted through the need for resources, regulations and laws. Mimetic isomorphism is the force that drives organizations to mirror other organizations that are deemed to be successful and worthy of copying. It basically results from the standard responses to uncertainty. When organizations are not sure what to do, they usually look to a successful reference group and imitate what they do (DiMaggio & Powell, 1983, p. 151). Lastly, normative isomorphism stems from professional organizations. This is due to the influence of professions on organizations and their elements.

While the institutional theory could provide a better explanation concerning the institutional factors that influence the reporting and the institutionalization of sustainability tenets within the organization, Laughlin's (1991) framework is used to explain the level of change that occurs in the organizational practices. Laughlin (1991) views that an organization consists of 'interpretive schemes', 'design archetypes' and 'sub-systems'. The interpretive schemes refer to the intangible aspects of an organization, such as beliefs, values and norms. The sub-systems refer to the tangible aspects of organizations, such as people, building and machines. Meanwhile, the design

archetypes refer to organizational aspects that are positioned between the interpretive scheme and sub-systems, for example, organizational structure and communication system. The 'ideal' state for organizations to have these three key elements is to be considered as balance. A disturbance either from the external environment or from the internal organization itself can lead this balanced position to be unbalanced. The instruction imposed by Bursa Malaysia on all public listed companies to disclose CSR information could be considered as an external environment disturbance to this particular case organization.

Laughlin (1991) describes two level of changes - first-order (morphostatic) or second-order (morphogenetic). Morphostatic change involves making things look different while the rest remain unchanged, while morphogenetic change will involve influential changes that penetrate deep into the organization's 'heart' that result in changes to the interpretive scheme (Smith, 1982).

1.8 Research Methodology

In order to understand the organizational change due to sustainability reporting, the study has adopted an interpretive case study in a company that was selected based on the following criteria; an award winning company of ACCA MaSRA award (previously known as ACCA Malaysia Environmental and Social Reporting Awards - ACCA MESRA). The data were gathered through document review, semi-structured interviews, informal conversations and observations. According to Yin (1994), a case study is the best method for answering the 'how' and 'why' forms of research question. As the main objectives of the study are to answer the question of 'how', it is appropriate to use the

case study method. Furthermore, the case study method permits an in-depth description and analysis of how sustainability reporting practices impacted the organization.

In this study, the researcher obtained approval from the Managing Director to conduct a case study in Star Berhad (Name of the Case Organization for the study) in March, 2010. The contact person within Star Berhad is the Senior Manager of Sustainability and Quality Department (hereafter SQD). The first contact with the Senior Manager was made on March 29, 2010 via telephone to discuss the preliminary visit to the company. Thus, a preliminary visit was held in April 2010 with the objectives of the visit being to evaluate the acceptance of the employees towards the researcher and to further discuss the time frame in which the case study would be performed. During the visit, a couple of interviews were conducted to obtain some ideas on the engagement of Star Berhad in sustainability reporting practices. Besides interviews, the corporate annual report, internal bulletins and sustainability reports, revealed that Star Berhad engaged seriously in sustainability efforts in 2007 and reported that information in the 2007 corporate annual report. The interviewees revealed that sustainability reporting did influence their company in many ways, especially on the operational front employees.

Due to the tight schedule of the SQD, the researcher was asked to begin with data collection in September 2010. Hence a full swing data gathering process was performed from September 2010 until March 2011. During the seven (7) months of data gathering, a total number of 41 interviews were conducted with members of the organization, ranging from the Managing Director to the estates workers. The list of people interviewed is provided in Table 4.3 of Chapter 4.

Comprehensive semi-structured interviews were conducted with various people to understand the impact of sustainability reporting practices (to see the changes) and also to understand the process of producing sustainability reporting, especially people from the Estates Operation Department (hereafter EOD) and SQD. The researcher also reviewed related documents, such as annual report, sustainability reports, sustainability handbook, internal bulletins, minutes of meetings (related to sustainability initiatives and particularly sustainability reporting development), organizational chart and other related documents to gather useful data. Informal conversations and observations were also made during the research visits to the case organization (both at the head office and the operating units – estates). All interviews were recorded and the data from informal conversations and observations at the site were recorded in a note book. The interview data were transcribed and the analyses of the data were conducted immediately after the data were obtained using a thematic-network analysis as proposed by Attride-Stirling (2001).

1.9 Significance and Contribution of the Study

The findings of this study have important implications in terms of theoretical contribution, practical contribution as well as methodological contribution. Theoretically, this research will be able to broaden the usage of the institutional theory, specifically in describing the different types of isomorphism influencing sustainability reporting that lead to changes occurring in the organization and also to further explicate the institutionalization sustainability tenets in an organization. There is very little research that uses institutional theory to analyze sustainability reporting (Larrinaga-

Gonzalez, 2007). This study therefore adds to the application of the theory. Secondly, the study also contributes some understanding concerning the application of Laughlin's (1991) framework in explaining the level of change that occurred in the organization due to sustainability reporting. Lastly, this study adds to the richness of the literature in the area of sustainability reporting, particularly in the developing country context.

Practically, the study provides insights that the company's engagement in a comprehensive sustainability reporting to some extent did create changes or have a positive impact on organizational members and performance. Therefore, it is useful for other companies to seriously engage in sustainability reporting as it benefited in many ways. Secondly, the study also provides some ideas or guidelines on how the corporations could begin in developing their sustainability reporting (for the first timers) or come out with better reporting in the future since the findings also discuss the processes involved in developing the sustainability report. Most importantly, the sources of information are obtained from the internal experiences of an award winning company. In addition, the researchers, especially academia, could gain greater understanding concerning how sustainability reports are being produced. They, as a source of information, can disseminate this information widely or can consult or assist other companies in developing sustainability reporting. As viewed by Adams and McNicholas (2007), academics can assist organizations in bringing about improvements to their sustainability reporting. The findings of the study help to understand whether mandatory reporting (as proposed by Bursa Malaysia to all public listed companies) could help improve CSR practices overall. The outcome of the study could also encourage more academic researchers to conduct more in-depth case studies to make a comparison with

other companies or other countries as proposed by scholars to engage in more research that is field based.

Lastly, in terms of methodological contribution, the engagement in the field work provides additional ways in understanding the issues related to sustainability reporting, especially when it is performed in a local company, which offers more insight from a developing country. In addition, this type of research method has been promoted by the CSR scholars that encourage more research to be done in the real field.

1.10 Organization of the Thesis

The thesis is organized into eight (8) chapters. The first chapter deals with the background and objectives of the study. This chapter provides a brief description about sustainability reporting, the organizational change, sustainability reporting in Malaysia, the problem statement, the research questions, the theoretical framework, research methodology and contributions of the study.

In the second chapter, a rigorous discussion of previous studies is presented. A brief history of the evolution of corporate social responsibility (as it is the beginning of corporate sustainability) is discussed in this chapter. The development of sustainability reporting globally as well as in Malaysia and its previous research is also presented (as reporting provides evidence of the sustainability practices among the corporations).

The third chapter of the thesis explains the theoretical framework. The findings of the study are mainly explained through the lens of the institutional theory. Furthermore, Laughlin's (1991) Framework is used to explain the level of changes that occurred in the organization due to sustainability reporting practices.

The fourth chapter discusses the methodology adopted in the study. The ontology and epistemology assumptions will be elaborated upon together with the usage of the interpretive case study method. A brief discussion on gaining access to the case company and its background will be presented in this chapter. It continues with the discussion on the data generation and ends with the data analysis.

The fifth chapter presents answers to research questions one, two and three. From the analysis of both corporate annual reports and sustainability reports, it shows that there is huge development in the sustainability reporting of Star Berhad in which both the amount and quality of reporting are increasing. The most significant changes in the reporting development of Star Berhad occurred in 2007 when the company first reported on its sustainability framework in the annual report together with the inclusion of sustainability targets in the sustainability report. The chapter also explains the factors influencing the case organization for sustainability practices and communicates the sustainability information to their stakeholders via proper reporting, that is, corporate annual report and sustainability report. External pressures have been identified as influencing Star Berhad in its sustainability and its reporting practices.

The sixth chapter explains the processes involved in producing the sustainability reporting and discusses the changes that occurred in the case organization that resulted from the engagement in sustainability reporting. It shows that changes did occur in the members of the corporation and also performance of the company. The study also revealed that the sustainability reporting has had some impact on the organization, such as after the furnishing of the report to the public, the share price of the company consequently increased. Interviews and site observations also evidenced that the

company managed to embed sustainability tenets into their practices, especially on the operations front. However, the level of understanding about sustainability among the organizational members is mixed since the upper level (executives and above) have a higher level of understanding compared to the lower level (clerks and below).

The seventh chapter presents the theoretical discussion of the case findings. The institutional theory and Laughlin's (1991) framework are used to explain and support the case findings. The institutional theory focuses on isomorphism, which influenced the sustainability reporting practices by the case organization and whether or not the reported sustainability tenets have been fully or partially institutionalized in the organization. Meanwhile Laughlin's (1991) framework is used to explain the level of changes that occurred in the organization.

The last chapter presents the contributions and limitations of the study. The theoretical, practical as well as methodological contributions are presented in this chapter. Some suggestions for future research are also presented in this last chapter.