SUSTAINABILITY REPORTING IN MALAYSIA: IMPRESSION MANAGEMENT AND THE INFLUENCE OF INTERNAL RESOURCES

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SUSTAINABILITY REPORTING IN MALAYSIA: IMPRESSION MANAGEMENT AND THE INFLUENCE OF INTERNAL RESOURCES

by

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

Page

LIST OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountants
ASEAN	Association of Southeast Asian Nations
CEO	Chief Executive Officer
CPA	Certified Practicing Accountant Australia
CSR	Corporate Social Responsibility
EMS	Environmental Management System
ESG	Environment, Social & Governance
ESS	Sustainable Stock Exchange
EU	European Union
F4GBM	FTSE4Good Bursa Malaysia
FTSE	Financial Times Stock Exchange
FBM100	FTSE Bursa Malaysia 100 Index
GAAP	Generally Accepted Accounting Principles
GRI	Global Reporting Initiative
ICCSR	Indian Centre for Corporate Social Responsibility
IFC	International Finance Corporation
INR	Indian Rupee
ISE	Corporate Sustainability Index (Brazil)
ISO	International Organisation for Standardization
KLCI	Kuala Lumpur Composite Index
KPI	Key Performance Indicator
MESRA	Malaysian Environmental and Social Reporting Award
NACRA	National Annual Corporate Report Awards

PA	Presenting Actions
PDF	Portable Document Format
RM	Ringgit Malaysia
ROA	Return on Assets
SME	Small and mid-size enterprise
SPSS	Statistical Package for the Social Sciences
TCFD	Task Force on Climate-Related Financial Disclosures
UK	United Kingdom
US	United States
VIF	Variance inflation factor
VRIO	Value-rarity-imitability-organisation
WS	Writing style
XML	Extensible Markup Language

LAPORAN KELESTARIAN DI MALAYSIA: PENGURUSAN TANGGAPAN DAN PENGARUH SUMBER DALAMAN

ABSTRAK

Bursa Malaysia mewajibkan persembahan penyata kelestarian dalam laporan tahunan bagi syarikat tersenarai awam pada tahun 2016. Kajian ini adalah untuk meneliti tindak balas syarikat-syarikat terhadap kewajipan ini, dengan memberi tumpuan kepada tahap pematuhan dan pengurusan tanggapan dengan tujuan menilai kesediaan syarikat-syarikat terhadap laporan kelestarian yang mandatori sama ada ketelusan serta keaslian mereka tidak terjejas. Kajian ini juga meneroka impak teori berasaskan sumber terhadap pengurusan tanggapan, mencadangkan bahawa syarikat-syarikat dengan prestasi kelestarian yang kukuh mungkin tidak menggunakan pengurusan tanggapan jika mereka menggunakan sumber yang mencukupi dalam operasi kelestarian mereka. Kajian ini menggunakan kaedah campuran untuk menangani soalan penyelidikan. Pertama, analisis kandungan dilakukan untuk mengkaji penyata kelestarian bagi 100 syarikat tersenarai awam terbesar di Malaysia untuk menganalisis tahap pematuhan dan tahap pengurusan tanggapan mereka. Analisis regresi kemudiannya dilakukan untuk menguji pengaruh sumber dalaman terhadap tahap pengurusan tanggapan dengan menggunakan kewujudan jawatankuasa kelestarian, visi dan misi kelestarian, prestasi kewangan, penggunaan sistem pengurusan alam sekitar, pengalaman dalam laporan kelestarian secara sukarela dan pemenang anugerah berkaitan dengan kelestarian sebagai pembolehubah tidak bersandar. Setelah itu, temubual dijalankan untuk memberikan pandangan lanjut mengenai hasil yang diperoleh di atas. Keputusan menunjukkan bahawa tahap pematuhan dianggap memuaskan, tahap pengurusan tanggapan berbeza-beza dalam

kalangan industri tetapi rendah secara keseluruhan, ini menandakan persediaan terhadap laporan kelestarian yang mandatori dan keaslian pelaporan. Teori berasaskan sumber disokong sebahagian di mana ia mempunyai pengaruh tidak langsung terhadap pengurusan tanggapan. Syarikat-syarikat yang kekurangan sumber menghadapi cabaran dalam mengumpul data yang relevan untuk laporan manakala tekanan luaran mengakibatkan penggunaan pengurusan tanggapan yang lebih banyak dalam pelaporan. Kajian ini mampu memberikan pihak berkuasa pandangan dan amalan laporan kelestarian yang mandatori dalam kalangan syarikat-syarikat dan dengan itu menunjukkan cara untuk meningkatkan kualiti laporan kelestarian di Malaysia.

SUSTAINABILITY REPORTING IN MALAYSIA: IMPRESSION MANAGEMENT AND THE INFLUENCE OF INTERNAL RESOURCES

ABSTRACT

Bursa Malaysia mandated the presentation of sustainability statements in annual reports for public listed companies in 2016. The research attempts to study companies' reactions to this requirement, focusing on their compliance and impression management levels aiming to evaluate if companies are prepared for mandatory sustainability reporting and if their transparency and authenticity are intact. This research explores the impact of resource-based theory on impression management, suggesting that companies with strong sustainability performance might not resort to impression management if they deploy sufficient resources in their sustainability operations. The study uses mixed methods to address the research questions. Firstly, content analysis is done to study the sustainability statements of the top 100 largest public listed companies in Malaysia to analyse their compliance level and impression management level. Regression analysis is then performed to test the influence of internal resources on the impression management level by using the existence of a sustainability committee, sustainability vision and mission statement, financial performance, adoption of an environmental management system, experience in voluntary sustainability reporting, and sustainability related award winning as the independent variables. Next, interviews are conducted to provide further insight into the results obtained above. The result has shown that the compliance level is considered good, the impression management level varies among industries but is low overall, signifying the readiness towards mandatory sustainability reporting and the authenticity of the reporting. Resource based theory is partially supported, and it has

an indirect influence on impression management. Companies that lack resources are facing challenges in gathering relevant data for disclosure, while external pressure results in further use of impression management in reporting. This study provides authorities with insight into the practices of mandatory sustainability reporting among companies thereby demonstrating how to enhance sustainability reporting in Malaysia.

CHAPTER 1

INTRODUCTION

1.1 Background of Study

The avocation of the sustainability development concept can be formally found as early as 1987 by the United Nations (UN) World Commission on Environment and Development. Sustainability development is defined as "*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*" (Brundtland, 1987). It is later supported by the reports published by Indian Centre for Corporate Social Responsibility (ICCSR) (2007) and International Finance Corporation (IFC) (2007) that many companies do try to meet the needs of communities and societies in which they operate with their business activities.

Despite using it as a tool for providing sustainability information for stakeholders (Bowers, 2010; Jones et al., 2007), sustainability reporting can act as a tool to examine the sustainability development status of a company (Laine, 2005). It is therefore worth looking at whether the mandatory sustainability reporting has assisted in the sustainability development agenda.

Looking at sustainability development, Bebbington (2001) has advocated the strong and weak sustainability concept, giving the definition that strong sustainability perceived environmental and social issues are more important than economic agenda and vice versa for weak sustainability. This has provided a benchmark for analysing the sustainability development of a company. Furthermore, the corporate's attitude towards sustainability development and concept can be observed in sustainability reporting, corporate publications, executive speeches and advertisements (Laine, 2005).

There is an increasing trend in voluntary Corporate Social Responsibility (CSR) or sustainability reporting observed in recent years as a result of increasing demand for more accountable corporations (KPMG, 2011), thanks to increased social and environmental awareness, media attention, and pressure from multiple stakeholder groups (Einwiller et al., 2016). In spite of the rising awareness of sustainability, corporations still need a proper alignment to ensure all disclosures are able to serve as a communication tool to stakeholders (Jain & Winner, 2016). Inconsistency in disclosure may confuse the stakeholders, and they might not be getting comparable information from the companies (Manetti, 2011). Therefore, to harmonise the comparability and transparency of voluntary CSR reporting, the introduction of the Global Reporting Initiative (GRI) has made great progress internationally (Fortanier et al., 2011). Mandatory reporting is likely to be more effective in promoting sustainability disclosure as better results are shown after a legal requirement is in place (Ernst & Young, 2014; PricewaterhouseCoopers, 2013).

The development of regulations on sustainability reporting motivates the need to study the current mandatory sustainability reporting practices in Malaysia. This research would further contribute to enhancing sustainability development as directed by Bursa Malaysia and the Malaysian government.

1.1.1 Global Mandatory Sustainability Reporting

In the report published by Bartels et al. (2016), about 80% of the governments worldwide have introduced different extend of regulations to make sustainability disclosure compulsory in different instruments. It has been found that most of the countries that adopt sustainability reporting are mandatory rather than voluntary and less than one-third of the mandatory countries apply the regulation to public listed companies, while the other applies to all companies or government agencies. Like in

Malaysia, mandatory sustainability reporting is implemented in the financial markets by the local securities exchange authorities. Significant improvement has been observed worldwide, thanks to the awareness created by the local authorities. However, the reporting instruments covered in the report refer to all types of disclosure, not only pointing to separate sustainability reporting. More than half of the disclosure is in the form of inclusion in the annual report, while 36% are having mandatory standalone sustainability reporting.

Looking at regional and economic factors, it has been found that developed nations such as America: the United States (US), Brazil, Argentina; Europe: the United Kingdom (UK), Spain, France, Italy, Switzerland, Turkey, Greece; and Asia Pacific: China, Japan, Australia, and India have made sustainability mandatory, while South Africa is the only country that excels in mandatory sustainability disclosure through integrated reporting (Bartels et al., 2016). Mandatory standalone sustainability reporting is still at a developing stage, which some developed countries are merely starting to implement. Example such as the European Union (EU) has just started the amendment to the EU Accounting Directive (2013/34/EU) which took effect in 2018 reporting, while Singapore Exchange has also mandated sustainability reporting in 2017 reporting.

1.1.2 Mandatory Sustainability Reporting in Malaysia

Generally, every company listed in the stock exchange should produce an annual report including the financial performance of the company in accordance with the International Financial Reporting Standards or US Generally Accepted Accounting Principles (the GAAPs) (Eccles & Saltzman, 2011). However, CSR and sustainability reporting is not common and merely voluntary, as it is not a focus of stakeholders and companies, especially in third world countries like Malaysia **(Ioannou & Serafeim,**

2016). The number of companies that voluntarily produce CSR reporting was still considered unsatisfactory in 2006 but the number has been increasing, especially after 2007 when it was made mandatory (Ahmed Haji, 2013).

In 2007, Bursa Malaysia made an amendment to various enhancements. Under the amendment in Appendix 9C, a new provision 29 is added to the listing requirement. It is the first time Bursa Malaysia has required listed companies to produce a statement related to corporate social responsibility activities.

Following the enforcement in 2007, Bursa Malaysia made some major steps in promoting sustainability practices among the listed companies in 2015. The first step started in December 2014, when Bursa Malaysia took the lead in the Association of Southeast Asian Nations (ASEAN) by introducing a globally benchmarked Environment, Social & Governance Index (ESG Index), the FTSE4Good Bursa Malaysia ESG Index (F4GBM index), in December 2014. After which, in the effort of embedding sustainability awareness in the capital markets, Bursa has also joined in the Sustainable Stock Exchanges' (ESS) voluntary commitment to the effort.

Under the mandatory CSR disclosure in 2007, Bursa Malaysia has produced a CSR Framework for the listed companies to refer to. Companies are required to disclose information regarding CSR activities pertaining to the marketplace, workplace, community, and environment. However, it has been found that such requirements only touch on the social and community activities of businesses and there is very little value creation when companies only disclose philanthropic activities without addressing sustainability issues of the company (Bursa Malaysia, 2018). This is merely the foundation for more comprehensive sustainability reporting (Bedlow & Yap, 2016).

According to Bursa Malaysia (2015), global organisations have been shifting beyond CSR over the past fifty years and developing new strategies to integrate sustainability. Therefore, after nearly a decade, a mandatory sustainability statement was planned as an enhancement to replace CSR disclosure. Under the new regulation, the main focus is on three pillars, i.e. economic, environmental and social and not only disclosing the relevant activities but also comprehensive actions taken to manage the three pillars and the associated risk.

The promising effort was put into action by enforcing the legislation in October 2015. This amendment has updated mainly Practice Note 9 in the Listing Requirements by replacing the existing requirement of producing CSR disclosure with a sustainability statement. The law enforcement has been communicated well through the Sustainability Reporting Guide and Toolkits (the Guide). The Guide was first issued in 2015 and a second edition was published in 2018 to add in more case studies as a reference. The third edition was published in 2022 to enhance the sustainability reporting framework by requiring disclosures based on the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), three-year comparison of quantitative data and guidelines on assurance of the sustainability reporting. The Listing Requirement and the Guide spell out that all public listed companies must produce a sustainability statement that includes economic, environment and social risk opportunities. The summary of the regulation is as follows:

Table 1.1 Summary of Listing Requirement pertaining to mandatory sustainability reporting

Who to comply?	Main Market listed issuers with market capitalisation of Ringgit Malaysia (RM) 2 billion and above	Main Market listed issuers with market Capitalisation (excluding treasury shares) of RM1 billion and above, but below RM2 billion	Main Market listed issuers other than mentioned before and Ace Market listed corporations
When to comply?	Financial year ended 31 December 2016 or after.	Financial year ended 31 December 2017 or after.	Financial year ended 31 December 2017 or after.
How and what to disclose?	A narrative statement of the listed issuer's or listed corporation's management of material economic, environmental and social risks and opportunities ("Sustainability Statement").		

Source: Bursa Malaysia (2018)

The requirement of the regulation is in line with what defined by FTSE4Good Index, i.e. to demonstrate Environment, Social and Governance practices. Besides, the Association of Chartered Certified Accountants (ACCA) and Certified Practicing Accountant Australia (CPA) have also covered the same scope under the definition of sustainability reporting. Both bodies demand disclosure of the scope for the purpose of improving the organisation's performance and sustainability development (ACCA, 2010). To define it in a general prospect, it must disclose any activities which have to meet the current needs that may impact the needs of future generations (Brundtland, 1987). This is also adopted by International Organisation for Standardization (ISO) in ISO 26000 which serves as a guidance on social responsibility.

Under the amendment, the sustainability statement must not be incorporated in the chairman's statement, but should be produced separately by the board of directors in the annual report. The sustainability information stated should be material, balanced, comparable and meaningful as stipulated in the Guide. Materiality is defined in the amendment as any activities that may have a significant impact on social, environment and economic as well as be substantively influential on stakeholders' decision making processes. An important note stated in the amendment is that it gives GRI supreme status, so firms that follow the GRI Sustainability Reporting Guidelines can ignore the content requirement stated in the amendment. The amendment is effective to annual reports for the financial years ending on or after 31 December 2016 to 2018 depending on the size of market capitalisation of a firm.

After the implementation of mandatory CSR reporting in 2007, Fatima et al. (2015) has conducted a research whereby environmental disclosure quality was examined in 2005 and 2009, comparing the disclosure before and after mandatory CSR disclosure was implemented by Bursa Malaysia in 2007. The research has concluded that companies tend to improve the quality of CSR reporting except for the risk and negative aspects to avoid creating a negative corporate image, with the support of legitimacy theory. The result has been supported by Zainal et al. (2011) whereby significant improvement can be seen before and after mandatory CSR reporting was implemented. Bakry et al. (2023) have also conducted research to study the impact of the implementation of the Guide on CSR reporting and its assurance. They concluded that legislation played an important role in motivating the disclosure of environmental issues in companies' annual reports. Burritt and Schaltegger (2010) also agreed that compliance as well as management play a very important factor in sustainability reporting development.

A study like this may contribute in assessing the impact of the government's effort to promote sustainability through legislation after the legislation takes place. The research can therefore be extended by looking at the impact after the 2016 enforcement of mandatory sustainability reporting and further improved by studying further the factors behind the implication so that the authorities can provide direction on how to improve after the law enforcement.

1.2 Problem Statement

With the regulation in place in South Africa, a lot of studies have been done and found that even with detailed guideline, different countries may still have different style of integrated reporting, different motives in preparing and different information disclosed (Steyn, 2014). This is due to the "comply or explain" approach used which gives companies room to be flexible in reporting (Jensen & Berg, 2012). Applying the case to Malaysia, though the same regulation is applied throughout the diverse range of companies, sustainability reporting and strategy are much influenced by the personal perspective and integrity of the management team (Adams & McNicholas, 2007). The challenging part of implementing regulation is to ensure compliance and the purpose of making sustainability reporting mandatory is met, though evidence has shown that compliance is not always achieved (Vormedal & Ruud, 2009) and some may even adopt impression management or hypocrisy (Bansal & Kistruck, 2006) instead of promoting sustainability development (Schaltegger et al., 2003) and providing reflective information for stakeholders' decision making (Diouf & Boiral, 2017).

Companies fail to align their actions with sustainability goals, leading to reports filled with false claims and unfulfilled promises, instead of demonstrating genuine strategies and efforts to address substantial issues by using impression management (Adams et al., 2016; Martins et al., 2020; Melloni, 2015; Wu et al., 2022). It is recognised that the use of impression management strategies will impair the quality of reporting as it sacrifices the accountability and integrity of a firm and causes capital misallocation (Wu et al., 2022). The significant gap between corporate sustainability and actual implementation highlights the need for bridging this gap (Cho et al., 2015).

It is essential for the authority (Bursa Malaysia in this study) to understand the factors causing the difference in quality and extent of sustainability reporting after regulation is in place. Piecyk and Björklund (2015) have raised questions about the reason for the low percentage of disclosure in sustainability reporting, unsure whether it is due to a lack of tools and resources or limited expertise and information technology applications to manage the reporting. The question is pointing to the internal context and resources of the corporate itself, which may indicate an area for improvement, especially for those who find difficulty in complying and those who are unable to meet the objectives of producing a sustainability report.

Based on the literature review, there are six commonly known resources that have a direct and positive impact on the quality and extent of sustainability reporting. This includes the board of directors (Amran et al., 2016; Chams & García-Blandón, 2019; Nazari et al., 2015), mission and vision statement (Amran et al, 2014; Bartkus & Glassman, 2008), financial resources (Cormier & Magnan, 2003; Sulaiman et al., 2014), existence of an environmental management system (Jose & Lee, 2007; Nazari et al., 2015), experience of voluntary sustainability reporting (Chan & Kent, 2003; Cowan & Gadenne, 2005) and award recognition (Anas et al., 2015; Haniffa & Cooke, 2005). By identifying the important internal resources that may potentially affect the quality of reporting, which may be distorted by impression management, the result of the study can therefore provide a suggestion to authorities and firms on what needs to be improved, especially when strengthening the internal resources of a firm.

However, it has been found that mandatory sustainability reporting is only effective in advocating sustainability development in those countries with strong government enforcement (Ioannou & Serafeim, 2016). There is a chance that the regulation may indirectly require companies to apply hypocrisy and develop façades in order to meet conflicting stakeholders' requirements instead of improving business action (Cho et al., 2015). By doing so, the firms gain flexibility in talk, decision and action (Christensen et al., 2013). This may create the problem of limiting the reporting to be substantive (Cho et al., 2015) and sustainability development may deteriorate.

The style of presenting the sustainability statement, will show the attitude of the management towards this requirement (Sandberg & Holmlund, 2015). The Guide provided by Bursa Malaysia only outlines the content to be disclosed and only provides examples of how it should be disclosed. Based on previous research, most companies disclose sustainability issues in their annual reports for the purpose of reputation and image enhancement and merely as a public relations tool (Anas et al., 2015). This attitude may defeat the purpose of having such a listing requirement for better sustainability development in Malaysia, similar to hypocrisy and façades. Therefore, the research is going to be extended to study the impression management of the impacted companies so as to understand their reaction and attitudes towards the regulation.

In short, the study would therefore look at the current reporting outcome after it is made mandatory to find evidence of compliance and the level of impression management, as well as the internal resource factors which may result in the use of impression management tactics in disclosing sustainability information. This will provide an empirical result that will serve as a reference for the authority on what should be done after the implementation of regulation in order to improve further and to react to any limitations found in the existing requirement.

1.3 Research Objectives

With the aim of seeking improvement in sustainability reporting among the listed companies, Bursa Malaysia has amended the listing requirement to mandate disclosure of sustainability issues in 2015 (refer to Appendix A). The main objective of this research is to examine the implications after the mandatory requirement. Similar research has been done after mandatory CSR was implemented in 2007 (Fatima et al., 2015) whereby environmental disclosure has significantly improved after the amendment of the listing requirement. Therefore, with the newly introduced mandatory sustainability reporting, the research is extended with the following objectives:

RO1: To investigate the compliance level in the sustainability reporting among public listed companies in Malaysia.

RO2: To examine the impression management tactics employed in the sustainability reporting practices among public listed companies in Malaysia.

RO3: To examine the influence of internal resources (committee for sustainability matters, sustainability focused vision and mission, financial performance and environmental management system, voluntary reporting experience, sustainability related award recognition) on the impression management level of sustainability reporting among public listed companies in Malaysia.

1.4 Research Questions

The research questions are developed from the research objectives mentioned above.

1. Do the sustainability reporting practices of public listed companies in Malaysia comply with the listing requirement issued by Bursa Malaysia?
2. What kind of impression management tactics are employed in the sustainability reporting of public listed companies in Malaysia?
3. Do internal resources affect the impression management level of sustainability reporting among public listed companies in Malaysia?
    a. Does the committee for sustainability matters affect the impression management level of sustainability reporting among the public listed companies in Malaysia?
    b. Do sustainability focused vision and mission affect the impression management level of sustainability reporting among the public listed companies in Malaysia?
    c. Does financial performance affect the impression management level of sustainability reporting among the public listed companies in Malaysia?
    d. Does the environmental management system affect the impression management level of sustainability reporting among the public listed companies in Malaysia?
    e. Does the past experience in voluntary reporting affect the impression management level of sustainability reporting among the public listed companies in Malaysia?
    f. Does the recognition of sustainability related performance or reporting affect the impression management level of sustainability reporting among the public listed companies in Malaysia?

1.5 Scope of Study

The study's focus is on the implications of the mandatory requirement introduced by Bursa Malaysia. Therefore, the scope has been narrowed down to the public listed companies in Malaysia. There were 805 companies listed in the main market in 2017. For this research purpose, only the constituents of the Financial Times Stock Exchange (FTSE) Bursa Malaysia Top 100 Index will be chosen as representatives for the analysis.

To carry out the study for answering the research question, data evidence is first collected from the available sustainability reporting from fiscal years 2016 and 2017 in order to study the implementation of the requirement on all annual reports published for these two years after the enforcement of regulation.

Secondary data is mainly collected from the sustainability statement embedded in annual reports. Those that produce separate stand-alone sustainability reporting will also be examined. To study certain variables of the study, other information in annual reports will be collected as well such as financial ratios and environmental management systems.

Besides, interviews are used to collect qualitative data to elaborate on and provide further insights with regard to the results derived from the quantitative analysis. Therefore, the preparers of the sustainability statement collected from the companies selected above are invited as the interviewees of this research.

1.6 Outline of Study

Basically, the study can be divided into two major stages. Stage 1 is to carry out the first two objectives of the study. The sustainability statement and stand-alone sustainability reports shall be analysed to determine whether compliance is found in the reporting and whether impression management tactics are used. Secondly, the other determinants of producing better sustainability reports are examined through a mixed methods using statistical analysis and interviews.

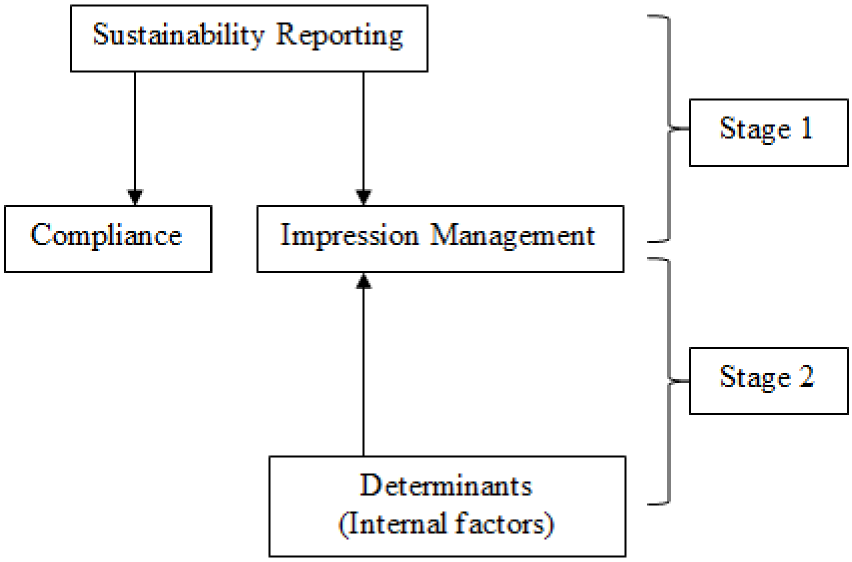

Figure 1.1 Research Flow

1.7 Significance of Study

This study seeks to contribute both theoretically and practically in a way to understand the causes of producing better sustainability reports and therefore to provide solutions to them.

1.7.1 Theoretical Significance

Traditionally, legitimacy theory (Akintoye & Kassim, 2022; Deegan et al., 2002; Nik Ahmad & Sulaiman, 2004; O'Donovan, 2002; Tilling, 2004) and stakeholder theory (Amran & Ooi, 2014; Dögl & Behnam, 2015; Husillos & Álvarez-Gil, 2008) are used to explain the motivator of voluntary sustainability reporting. Besides, institutional theory isomorphism is also explored, which appears to be effective in improving reporting quality (Fatima et al., 2015). This research has continued to empirically test the effect of coercive isomorphism from a regulatory perspective, not only on quality but also compliance.

There are existing evaluation methods on impression management used in narrative reporting (Falschlunger et al., 2015; Hooghiemstra, 2000; Merkl-Davies & Brennan, 2007; Sandberg & Holmlund, 2015) but they are based on a case study and are not being used in quantitative regression analysis. This study is set to understand the impression management level across sustainability reporting disclosed by the 100 largest companies and relate it to internal resources.

As financial resources have been studied in a few studies with different outcomes (Haniffa & Cooke, 2005; Sulaiman et al., 2014), resource based theory is rarely explored in terms of how it may impact reporting. This theory represents the internal factors that may have an impact on reporting compared to other external factors. Internal resources are represented by six proxies, namely the sustainability committee, mission and vision statement, financial resources and environmental management system, voluntary reporting experience and sustainability award recognition. This study hopes to provide a reference for the authorities to improve on current regulations in promoting the quality of sustainability reporting by eliminating hypocrisy and helping companies develop internal resources for better compliance and quality sustainability disclosure.

1.7.2 Practical Significance

It has been found that the CSR disclosure for all public listed companies has improved and the quantity of information disclosed has also increased since the mandatory requirement in the year 2007 (Fatima et al., 2015). However, the variation in the level of reporting quality is still observed even with a governing regulation. With similar expectations for mandatory sustainability statements, the research tries to focus on finding the differences in sustainability statements produced under the same regulation. This will then contribute to the impact of mandatory disclosure on how the legislation may create a homogeneous or heterogeneous effect on reporting.

Besides looking at the external pressure from legislation, organisational responses can also be understood by investigating the resource effect (Amran et al., 2016) on sustainability progress. Stakeholders who use the report may have a reference for their expectations on different internal resources possessed by different firms. This will then provide useful information for the authority to review existing processes on assisting different experiences, management structures, financial resources and management systems to comply with the listing requirement so as to continue promoting sustainability agendas in the country and provide comparability.

Last but not least, to look at whether sustainability development is flourishing with mandatory sustainability reporting, the research is extended to the way companies produce the reporting through impression management. As voluntary reporting expects plenty of impression management tactics to be used in the disclosure due to legitimacy (Corazza et al., 2020), it is worth looking for evidence of impression management used in mandatory reporting. This will actually present whether companies produce sustainability statements for hypocrisy and image building or the attitude of driving the company towards sustainability.

In short, practical wise, this research tends to give an insight on what is happening after mandatory sustainability reporting. While looking at the impact of regulation on reporting, this study is set to find out whether resources are essential for compliance with minimum impression management. Without proper resources, maintaining the quality of compliance might be very challenging or even unachievable. This will at least provide the authorities with some other factors to consider besides a guide on how to report. Besides, studying the disclosure pattern through impression management may also provide a picture of firms' attitudes towards this regulation and whether sustainability development has improved since then.

1.8 Definition of Key Terms

Sustainability reporting is reports that include quantitative and qualitative information on their financial/economic, social/ethical and environmental performance in a balanced way (KPMG, 2002).

Sustainability statement contains information that is balanced, comparable and meaningful by referring to the Sustainability Reporting Guide issued by the Exchange (Bursa Malaysia, 2018). This term is used interchangeably with the term "sustainability reporting".

Mandatory sustainability reporting refers to sustainability reporting that is required by the authority through a set of laws. In the Malaysian context, it refers to the requirement stated under Practice Note 9 in Listing Requirement by Bursa Malaysia to include a sustainability statement in the annual report.

Resources can be tangible or intangible assets that a company may control to carry out strategies (Barney & Hesterly, 2006).

Sustainability committee is a component of the board of directors and consists of a small group of directors addressing regulations, policies, and standards of various issues pertaining to sustainability (Bebbington et al., 2008).

Vision statement is a concise declaration that outlines an organisation's aspirations and long-term goals. It articulates the desired future state that the organisation aims to achieve, providing a sense of direction and purpose. (Kotler & Armstrong, 2018).

Mission statement defines the fundamental purpose and reason for the existence of an organisation. It communicates the organisation's core values, objectives, and primary activities, reflecting its identity and guiding principles. (Kotler & Armstrong, 2018).

Environmental management system (EMS) is a collective internal effort on policy making, assessment planning and implementation that enables firms to continually reduce their impact on the environment (Darnall & Edwards Jr., 2006).

Impression management refers to the purposeful effort to control the information that others perceive about a particular person, object, idea, or event. In simpler terms, it involves shaping how others see or think about something. It often involves presenting a biassed, socially desirable response to create a favourable impression (Schlenker et al., 1996).

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

This chapter started with the definition of sustainability reporting and other common terms used interchangeably in other research and mentioned in this study. It is then continued by reviewing the international and Malaysian literature on the development of sustainability reporting.

Malaysian studies on sustainability reporting were mainly reviewed after 2007 when CSR reporting was made mandatory and mostly found that the quality of CSR reporting has improved. Then the CSR reporting framework is put together with the newly introduced sustainability reporting guide to compare what has been changed and gain a little insight into the reason for the change.

Next, quality and determinants of sustainability reporting are studied as it is the main issue of the theme of this study. The quality of sustainability reporting is generally assessed using GRI guidelines and Bursa Malaysia's guide has also taken GRI as a reference. For the purpose of this study, the quality is assessed using the Guide from Bursa Malaysia, as it is specifically designed as a reference for mandatory sustainability reporting in Malaysia and the impression management tactics employed. On the other hand, determinants are viewed based on three categories: corporate characteristics, general context and internal context (Adams, 2002).

Consequently, the importance of sustainability reporting is reviewed to show the significance of the study and the gap is identified, which then links to the framework of the study. The theoretical framework examines the influence of institutional theory and resource based theory on sustainability reporting quality. Impression management theory is then discussed as part of the impact of the above mentioned theories. It is then followed by the conceptual framework. The quality of sustainability reporting is discussed using compliance and impression management. The development of the conceptual framework of this study is then presented. Lastly, hypotheses are formed based on the framework.

2.2 Sustainability Reporting

It is widely known that sustainability is the key to the long-term success of both commercial entities and the communities in which they operate (Galpin et al., 2015). The community has a broad context, including environment (Çalışkan & Esen, 2016), social welfare, education (Chatelain-Ponroy & Morin-Delerm, 2016), culture (Al-Akra et al., 2009) indigenous welfare (Gallhofer & Chew, 2000), religion (Abeydeera et al., 2016). It has become increasingly common for companies to include information about corporate interaction with the community and the social and environmental impacts of their operations (Sandberg & Holmlund, 2015). Sustainability reporting indicates the importance of corporate values and the underlying importance of such values to the company (Gray, 2006).

Sustainability or sustainability reporting has no universally accepted definition and it continues to develop as time passes (Dissanayake et al., 2016). The definition of sustainability that is commonly used is the one outlined in Brundtland (1987), i.e. development through sustainability is the development that fulfils current needs without compromising the ability of future generations to meet their own needs. On the other hand, sustainability reporting is defined by Gray (2000) as "the preparation and publication of an account about an organisation's social, environmental, employee, community, customer and other stakeholder interactions and activities and, where possible, the consequences of those interactions and activities". Even with the introduction of GRI, the development of reporting is still different among countries.

The main reason for this is different countries have different levels of sustainability reporting due to legislation on such reporting and the government's efforts to encourage sustainability reporting. Such efforts include reporting guidelines (Kolk, 2004) like what Malaysia is having now.

Besides the definition given by Gray (2000) and Global Reporting Initiative (2013), Kolk and Perego (2010) suggested that sustainability reporting should include corporate environment and social policy, objectives, initiatives and performance and preferably attach a third party assurance statement. This suggestion is similar to what Bursa Malaysia is expecting in the listing requirement, whereby the report should include governance structure, scope, and how sustainability matters are dealt with. Although assurance was not required when mandatory reporting was first introduced in 2015, it is now strongly recommended in the third edition of the Guide to produce an assurance statement on the sustainability statement after seven years in 2022.

Sustainability reporting is usually used with other terms. For example, Amran and Haniffa (2011) used CSR reporting and sustainability reporting interchangeably in their paper and Morhardt (2010) mentioned the terms health, safety and environment report on top of the CSR report. Daub (2007) has also acknowledged that social reporting, corporate social and environmental reporting and environmental reporting is synonymously known as sustainability reporting because they share the same objective of reporting on corporate responsibility to its shareholders. Furthermore, Elkington (2008) has also defined the scope of sustainability to include economic, social and environmental performance and the term corporate social responsibility is used interchangeably with sustainability. Therefore, for the purpose of this research, the scope of the literature review has been extended to those researches on CSR reporting, social reporting and environmental reporting as they share many similarities.

There are several ways in which companies report their sustainability activities including annual reports, company websites and other media of communication (Amran & Haniffa, 2011). For example, Swedish and Norwegian companies are legally required to embed environmental information in the board of directors' statements in annual reports and Danish companies are required to produce a separate "green report" (Nyquist, 2003). For stand-alone sustainability reporting, there are still many companies that choose to use online disclosure with 'replicas' of paper-based sustainability reports such as Portable Document Format (PDF) while the era has pushed companies towards internet-based reporting with multiple links and complex hypertext structures such as Extensible Markup Language (XML) (Isenmann, 2006). Comparing the environmental information embedded in annual reports with those that produce stand-alone reports, it has been found that firms producing stand-alone reports have better disclosure (Frost, 2007).

Corporate organisations' sustainability disclosures show and guarantee their businesses' contribution to sustainable development (Liao et al., 2018). Especially at the strategic decision level, sustainability reporting has become a crucial component of the corporate agenda in modern business (Zahid et al., 2020). According to Harjoto et al. (2018), challenges relating to sustainability practices have attracted the attention of regulators and legislators, making sustainability disclosure an important component of governance processes and a top priority for corporate organisations. In fact, corporations have been persuaded to include sustainable practices in their mission, vision, strategies, and decisions as a result of stakeholder knowledge and demand (Zahid et al., 2020).

2.3 International Studies on Development of Sustainability Reporting

Three decades ago, sustainability reporting was merely a newborn issue when Elkington (1997) introduced the three bottom line, i.e. people, planet and profit which then developed into a fundamental accounting framework of social, environmental and economic which are the three pillars of sustainability. The framework has also been adopted by the GRI in publishing the guidelines for sustainability reporting. Back in the 1990's sustainability reporting was still at an experimental stage and it is still far from widely adopted by companies today (Zadek, 1998). According to Milne and Gray (2007), ten years after the introduction of the three bottom line, only 3% of the total of 60,000 multinational companies worldwide disclose sustainability information. However, the number of businesses publishing social, environmental and sustainability reports has continuously increased since 1990 (Milne & Gray, 2007). According to ACCA (2004), more than 1,500 reports were generated annually in 2003, up from fewer than 100 corporations doing so internationally in 1993. In the same time frame, by 2005, up to two-thirds of reports were produced electronically (usually in the form of a PDF or HTML file), whereas early reports were in the form of printed reports. We are seeing a rapid development of sustainability reporting as time passes. The majority (around 95%) of the world's largest multinational companies in G250[1] had adopted sustainability reporting by 2011 (KPMG, 2011).

Using the basic principles introduced by Elkington (1997) and GRI mentioned, the development of sustainability can be discussed in three aspects (Bansal, 2005). Under environmental integrity, the development is to reduce the erosion of the earth's

[1] The G250 companies are drawn from the Fortune Global 500 List in 2010 and represent more than a dozen industry sectors. Financial services, insurance, and securities companies dominate the sample, followed by consumer markets (trade and retail), oil & gas, electronics & computers, communications & media, automotive and utilities. Two-hundred-and-eight of the 250 are publicly traded enterprises (KPMG, 2011).

resources from human activities. The compromising of natural resources may also deteriorate human life's quality (Bansal, 2005). Social equality, on the other hand should ensure business activities ensure all needs of the present and future can be fulfilled as the right of all human beings (WCED, 1987), whereby everyone should enjoy the right to have equal opportunity and access to all the available resources (Hopwood et al., 2005). Last but not least, economic growth should advocate quality of life via the productive capacity of organisations and individuals in society (Holliday et al., 2002). In short, firms should embed all three considerations in the policy in order to develop sustainability within the organisation.

Sustainability reporting is closely related to sustainability development and performance (Herbohn et al., 2014). In order to have transparent sustainability performance and development, good sustainability reporting is needed as a disclosure tool to inform the stakeholders and the public regarding the way businesses are conducted and their impact to the environment, social and economics (Asif, et al., 2013). With this principle, sustainability reporting is gaining global importance and has started to grow and succeed in the past two decades (Kozlowski et al., 2015). Comparing 2006 to 2016, the number of mandatory and voluntary sustainability reporting instruments has increased around 5 times worldwide (Bartels et al., 2016). The result really shows a significant improvement in the development of reporting.

Nonetheless, we can still see that different nations have developed sustainability reporting at varying rates. The government's initiatives to promote sustainability reporting and the laws governing such reporting are two major causes of such differences (Kolk, 2004). Mandatory sustainability reporting is indeed important and it has been adopted by a lot of countries such as Denmark, Finland, Pakistan, Malaysia, the US, the UK, Japan, Korea and Canada (Ernst and Young, 2014). For