

**THE EFFECTS OF BURSA MALAYSIA
BERHAD'S 2018 SUSTAINABILITY REPORTING
GUIDE AND ASSURANCE ON CORPORATE
REPORTING AND FIRM VALUE**

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by

BAKRY AHMED ELSAYED AWAD

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LIST OF ABBREVIATIONS

ACCA	Association Certified Chartered Accountant
ACE LR	ACE Market listing requirements
BMB	Bursa Malaysia Berhad
CSR	Corporate social responsibility
CSRR	Corporate social responsibility reporting
DOE	Department of Environment
EES	Economic, environmental, and social
EQA	Environmental Quality Act
ESG index	Environment, Social and Governance index
F4GBM index	FTSE4Good Bursa Malaysia ESG index
FRE	Flesch Reading Ease
FRS	Financial Reporting Standards
GLCs	Government-linked companies
GRI	Global Reporting Initiative
LR	Listing requirements
Main LR	Main market listing requirements
MASB	Malaysian Accounting Standards Board
MCCG	Malaysian Code on Corporate Governance
OSHA	Occupational Safety and Health Act
PLCs	Public listed companies
SDG	Sustainable Development Goal
SRG	Sustainability Reporting Guide
TCFD	Task Force on Climate-related Financial Disclosures

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**KESAN PANDUAN PELAPORAN KELESTARIAN 2018 BURSA
MALAYSIA BERHAD DAN JAMINAN TERHADAP PELAPORAN
KORPORAT DAN NILAI FIRMA**

ABSTRAK

Bursa Malaysia Berhad (BMB) telah menerbitkan edisi kedua Panduan Pelaporan Kelestarian (SRG) pada 2018 bagi menggantikan edisi pertama yang diterbitkan pada 2015 untuk meningkatkan pelaporan tanggungjawab sosial korporat (CSRR) di kalangan syarikat senaraian awam (PLC) Malaysia bagi memenuhi jangkaan pelbagai pihak berkepentingan. Pindaan utama yang diperkenalkan oleh panduan baharu ini menyediakan lebih banyak contoh pendedahan dan panduan jaminan. Oleh itu, penyelidikan ini bertujuan untuk mengkaji kesan pindaan ini terhadap tiga ciri CSRR dan meneroka peranan penyederhanaan asurans CSRR terhadap kesan ini merentasi sampel syarikat dalam kalangan 100 syarikat terbesar mengikut permodalan pasaran bagi tempoh 2017-2020. Ia juga mengkaji samada para pelabur menghargai perubahan dalam CSRR yang disebabkan oleh pelaksanaan inisiatif baharu ini. Oleh itu, regresi pembolehubah instrumental digunakan untuk mengkaji pengaruh nilai ramalan ciri-ciri CSRR ke atas nilai firma. Nilai ramalan ini digunakan berikutan pelaksanaan inisiatif BMB tidak memberikan kesan ke atas nilai firma kecuali melalui pengaruhnya terhadap CSRR. Kajian mendapati bahawa pindaan yang diperkenalkan oleh panduan baharu ini menyebabkan perubahan dalam CSRR, yang seterusnya menjejaskan nilai firma. Implikasi utama kajian ini ialah pindaan garis panduan CSRR bukan sahaja menambah baik corak CSRR tetapi boleh memberi kesan positif terhadap peningkatan nilai firma.

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SUSTAINABILITY REPORTING GUIDE AND ASSURANCE ON
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ABSTRACT

Bursa Malaysia Berhad (BMB) issued the second edition of the Sustainability Reporting Guide (SRG) in 2018 in replacement of the first edition issued in 2015 to enhance corporate social responsibility reporting (CSRR) of Malaysian public listed companies (PLCs) in meeting various stakeholders' expectations. The key amendments introduced by this new guide are providing more disclosure examples and assurance guidance. Hence, this study aims to examine the impact of these amendments on three characteristics of CSRR and explore the moderating role of CSRR assurance on this effect across a sample of companies from the largest 100 companies by market capitalization during the period of 2017-2020. It also seeks to examine whether investors value the change in CSRR caused by the implementation of these new initiatives to determine whether CSRR meets the expectations of stakeholders. Therefore, instrumental variable regressions are employed in this study to examine the influence of the predicted values of the characteristics of CSRR on the firm value. These predicted values are employed in the view that the implementation of BMB's initiatives has no effect on firm value except through its influence on CSRR. It is found that amendments introduced by this new guide result in changes in CSRR, which in turn affect firm value. The main implication of this study is that amending CSRR guidelines does not only improve CSRR patterns, but it can have a positive effect on enhancing firm value.

CHAPTER 1

INTRODUCTION

1.1 Introduction

This chapter starts by providing a background to the study in Section 1.2. It then proceeds with Section 1.3 to describe the problem statement. The research objectives and questions are outlined in Section 1.4. Next, the significance of the study is illustrated in Section 1.5 before providing the definitions of key terms in Section 1.6. The final section outlines the organization of the thesis.

1.2 Background of the study

It is argued that many companies are responsible for societal and environmental issues such as pollution, resource depletion, and violations of human rights (Zainal, 2017). Corporate social responsibility (CSR) has emerged as a crucial strategy for addressing these challenges (Abd Mutalib et al., 2014); hence, the disclosure of such practices has become more prevalent (Hamad et al., 2020).

Stakeholders trust a company that provides corporate social responsibility reporting (CSRR) because such reporting can be a powerful indicator of a company's willingness and propensity to protect the environment (Iswati, 2020; Perry and Sheng, 1999). CSRR also shows that the company aligns its values, effectiveness, and activities with the larger goal of demonstrating the company's sustainability (Brusca et al., 2018). Thus, such reporting is crucial for stakeholders and has an impact on the company's reputation (Branco and Rodrigues, 2008).

With such interest in CSRR, companies all over the world pay attention to such reporting. A KPMG survey of sustainability reporting issued in October 2022

indicates five major trends in sustainability reporting. Firstly, the rates of sustainability reporting among the world's leading 250 companies are at an impressive 96 percent, and those reporting rates are expected to grow as new regulation on non-financial reporting is introduced. Secondly, nearly three-quarters of companies report their carbon targets, although 20 percent do not disclose any link to an external target. Thirdly, less than half of companies recognize biodiversity loss as a business risk, despite growing awareness of this loss as a critical issue. Fourthly, most companies report on the United Nations' sustainable development goals (UN SDGs), with 10 percent reporting against all 17 UN SDGs. Finally, there has been a marked improvement in the number of companies that acknowledge climate change as a risk to their business since 2017. However, less than half of companies report on social and governance risks to their business (KPMG, 2022).

With such a global emphasis on CSRR, some nations were motivated to enact regulations to mandate CSRR. Some countries have enacted certain forms of CSRR through their regulatory or legislative channels, such as stock exchange bodies. The European Parliament 2014/95/EU directive on the disclosure of non-financial and diversity information by certain large undertakings and groups issued on April 15, 2014, has served as a catalyst for the European Union (EU) Member States to align their respective national laws, regulations, and administrative provisions to enhance the relevance, consistency, and comparability of large firms' disclosure.

Within the context of South Africa, all firms listed on the Johannesburg Stock Exchange are required to adhere to the regulatory requirements of the corporate governance code (KING I, II, and III). In addition, they are mandated to present CSRR in their annual reports in accordance with the "apply or explain" approach.

Malaysia is one of the leading Asian countries to have initiated some significant developments encompassing regulatory changes towards CSRR practices (Mamun et al., 2017). Before 2007, the disclosure of CSR information in this country was voluntary; however, there were some rules and guidelines with direct and indirect reference to CSRR. Therefore, such reporting in Malaysia during this period was minimal and of lower quality, as indicated by Teoh and Thong (1984), and Thompson and Zakaria (2004), Haron et al. (2006), and Saleh et al. (2010).

In 2006, BMB made such reporting mandatory for all Malaysian PLCs' annual reports, beginning with the fiscal year ending on December 31, 2007. This requirement was integrated into the listing requirements of BMB, as all Malaysian PLCs were required to embrace a description of the CSR initiatives of the listed firms and their subsidiaries, or a declaration to that effect if none exist. This initiative was launched in response to the appeal of the Prime Minister of Malaysia, Abdullah Ahmad Badawi, who called in a 2007 budget speech on September 1, 2006, that all Malaysian PLCs should be obligated to provide information on CSR practices in their annual reports.

BMB also issued a straightforward CSR framework focusing on four principal fields made up of the environment, community, marketplace, and workplace (Bursa Malaysia, 2007). Many studies (see, e.g., Abd Mutalib et al., 2014; Othman et al., 2011; Zainal et al., 2013) measured the extent and quality of CSRR by analyzing the content of such reporting of Malaysian PLCs after the implementation of this mandatory listing requirement. Such studies showed that this mandatory requirement led to an increase in the extent of CSRR. However, the quality of CSRR during this time was regrettably low, and narrative CSR information predominated

over numerical data as there was a lack of comprehensive disclosure guidelines on the content of CSRR in such regulations.

In order to help Malaysian PLCs meet the sustainability expectations of their stakeholders, introduce funds with a focus on sustainability to the Malaysian capital market, and make it simpler for more Malaysian PLCs to be nominated for the FTSE4Good Bursa Malaysia ESG index (F4GBM index) and other international sustainability indices, BMB launched a new sustainability framework that updated the listing requirements of Malaysian PLCs in 2015 and replaced the 2006 CSR Framework.

This listing requirement specifically mandates Malaysian PLCs to issue a sustainability statement, which is a narrative statement of the management of substantial economic, environmental, and social (EES) risks and opportunities. Therefore, the CSRR mandated by BMB has been shifted from disclosure focused on the CSR dimensions of environment, community, marketplace, and workplace to disclosure concentrated on the EES dimensions.

BMB also released the first edition of SRG to assist Malaysian PLCs in preparing their sustainability statements. It addresses the reporting requirements set out in the listing requirement and provides companies with instructions on how to comply with such requirements, and it offers sample disclosures for each listing requirement.

There are few studies (see, e.g., Bakar et al., 2019; Shad et al., 2018) that examined CSRR after the launch of the first edition of SRG. They focused on examining the extent and quality measures of content analysis in their investigations. They showed that the extent and quality of CSRR gradually increased compared to

those reported by the researchers who examined the effect of the 2007 mandatory listing requirement.

With more emphasis being placed on how companies influence the economy, environment, and society, the UN SDGs, the Task Force on Climate-related Financial Disclosures (TCFD), and other initiatives have all contributed since the release of the first edition of SRG in 2015 to requiring companies to adopt a holistic approach in business management, taking into account EES risks and opportunities in addition to financial implications.

In response to these initiatives, the first edition of SRG issued in 2015 has been replaced with the second edition of this guide issued in 2018; therefore, Malaysian PLCs have begun to refer to this new guide on annual reports issued for the financial year ending on or after December 31, 2019. This new edition was updated in accordance with user feedback gauged from surveys of attendees of workshops on CSRR held by BMB, internal feedback from BMB, and other regional and international advancements in CSRR. More case studies and disclosure examples with more brief explanations, mentions of the SDGs and TCFD guidelines, and an assurance guidance, which contains detailed instructions on the way to conduct assurance of the CSRR (Bursa Malaysia, 2018).

Such amendments are introduced by BMB to improve the characteristics of the CSRR and increase investors' confidence in the financial reports that are being issued; hence, it is important to check whether BMB achieves its objectives of amending CSRR guidelines.

1.3 Problem statement

Research in the area of CSRR pays more attention to the regulatory bodies' rules or guidelines related to CSRR. Investigating the impact of the implementation of such instructions is one of the fascinating CSRR research areas (Erkens et al., 2015).

This issue is very important in Malaysia, as BMB makes big efforts in amending CSRR regulations and guidelines to assist Malaysian PLCs to enhance their CSRR practices and meet the users' expectations. Such efforts have a great effect on the CSRR patterns of Malaysian PLCs, and this is evident in a 2022 KPMG survey of sustainability reporting, which shows that Malaysia has a sustainability reporting rate of 99 percent through the period from 2020 to 2022. It is also presented in this survey that Malaysia is among the leading adopters of stock exchange guidelines, with 95 percent of companies reporting in accordance with stock exchange guidelines (KPMG, 2022).

Although these figures indicate that CSRRs in Malaysia are satisfactory, BMB intends to amend the rules and guidelines it issued to provide clearer instructions to help Malaysian PLCs provide CSRRs with good characteristics. With the great efforts made by BMB to enhance reporting practices through amending CSRR guidelines, it is valid to examine whether there is a change in the characteristics of CSRR issued before and after the implementation of the amended guidelines. It is also vital to determine whether the change in the characteristics of CSRR that could result from following amended guidelines has an effect on investors' evaluation of Malaysian PLCs. This investigation can help in determining whether BMB achieves its objectives of amending CSRR guidelines, as it is stated

that the main objective of issuing the second edition of SRG is to enhance the quality and depth of CSRR and meet the prospects of users of such reporting.

With the amendments introduced by the second edition of SRG, it is valid to ascertain whether the implementation of this new edition of SRG has an impact on CSRR provided by Malaysian PLCs, especially with the lack of studies on the effects of implementing the new guide. Analyzing CSRR patterns before and after the second edition of SRG is implemented is helpful in bridging the knowledge gap about the impact of this new guide on CSRR practices.

In order to properly examine such an effect, it is better to focus on more than one measurement of the CSRR. Based on the content analysis of CSRR, the extent and quality of CSRR are measured. The measurement of the extent of reporting identifies the presence or absence of the items required by regulation (Ghazali, 2007; Haniffa and Cooke, 2005). It also conveys the relevance of a certain item to the reporting entity and indicates the degree of firms' compliance with the regulation (Gray et al., 1995). On the other hand, quality signifies the way of reporting and allows comparability between bad and good disclosure (Freedman and Jaggi, 2005). Numerical reporting is deemed to be of higher quality than narrative disclosure, and it is given higher weights in measuring the quality of CSRR (Sutantoputra, 2009), as numerical or quantitative information is more objective and relevant (Al-Tuwaijri et al., 2004), straightforward (Smith et al., 2005), and can be verified or credited.

These two characteristics were adopted extensively in previous research that examined CSRR among Malaysian companies. This study adds to these studies by considering the readability of CSRR. The content analysis method assesses the consistency of the substance of the content of disclosures against a predetermined

criterion, but it mostly ignores the language employed. Readability research supplements the findings of the content analysis because the content and language of company reports are two crucial but distinct characteristics.

Readability is the textual characteristic that assesses the communicative value of non-financial reporting. Given the qualitative nature of CSRR, managers should keep the wording complexity of such reporting at a level that the majority of people can understand (Bayerlein and Davidson, 2012). Besides, previous research also indicated the effectiveness of CSRR readability on the decisions of stakeholders by showing that the stock market reaction, the decision-making of investors, and firms' credit ratings are positively affected by providing CSRR with a high level of readability (Du and Yu, 2021; Gao et al., 2021; Yu and Garg, 2022). Therefore, it is vital to conduct a readability analysis of CSRR before and after the implementation of the second edition of SRG, especially with the scarcity of studies that have concentrated on the readability of CSRR among Malaysian PLCs.

Based on the stakeholder theory, it is stated that companies are under pressure to adhere to guidelines released by regulatory bodies and use those guidelines as the basis when preparing their reporting (Elijido-Ten, 2007; Roberts, 1992). It can be argued that Malaysian PLCs are under pressure to adhere to the instructions outlined in the second edition of the SRG issued by BMB because BMB is one of the most significant regulatory bodies in Malaysia that regulates all PLCs.

Concerning the influence of the implementation of the new edition of SRG on the extent and quality of CSRR, it can be argued that these characteristics can be enhanced after the launch of this new guide. It is claimed by Abd Mutalib et al. (2014), Ahmad et al. (2003), Bakar et al. (2019), Ghazali (2007), and Haji (2013)

that these characteristics of the CSRR are enhanced by providing more comprehensive and district guidelines. In accordance with the stakeholder theory, Malaysian PLCs refer to BMB guidelines in preparing their CSRRs. As more case studies and disclosure examples are included in the second edition of SRG than in the first edition of this guide, and they are also explained more succinctly, it can be stated that the extent and quality of CSRR issued after the implementation of the second edition of SRG are better than those of such reporting released before the implementation of this new guide.

Conversely, the implementation of the second edition of SRG is stated to negatively influence the readability of CSRR. Consistent with the stakeholder theory and following the guidelines provided in the second edition of SRG, Malaysian PLCs are implied to disclose the extent to which their operations are affected by climate change and their way of managing this issue, as well as how they have prioritized the targets of the SDG, their particular goals to be attained, the applicable indicators, and the recent improvements in accordance with TCFD and UN SDG recommendations. This might raise the quantity of information included in their CSRRs; hence, the length of the CSRR can be increased, which in turn can reduce the readability of such reporting, as it is stated that readability can be negatively affected by increasing the length of reporting (Li, 2008). Therefore, it is stated that the CSRR issued during the period of the implementation of the second edition of SRG is less readable compared to such reporting released before the implementation of this new guide.

As following clear guidelines for preparing CSRR can have a major effect on the characteristics of such reporting, these characteristics can also be influenced by the provision of assurance over CSRR. Assured accounting information is deemed to be more credible and more compliant with the reporting requirements (Simnett et al.,

2009). Assurance can also reduce the possibility of both unintended calculation errors and intended misreporting (Serafeim, 2011). Furthermore, the low readability of financial reports is claimed to have an impact on the process of auditing since auditors consider it a sign of complexity (Hoitash and Hoitash, 2018).

In addition to providing clear guidelines for preparing CSRRs, the second edition of SRG includes assurance guidance, which presents instructions to Malaysian PLCs on how to provide assurance over their CSRRs. This indicates that BMB realizes that the assurance of CSRR can increase the effectiveness of the amendments introduced by this new guide on enhancing the characteristics of CSRR. Therefore, it is crucial to investigate whether the effect of the implementation of the second edition of SRG on the characteristics of such reporting can be moderated by the provision of assurance over CSRR.

With the detailed restrictions on preparing CSRR included in the second edition of SRG and the detailed guidelines for providing assurance over CSRR involved in the assurance guidance, it is asserted that the assurance of CSRR can enhance the positive impact of the implementation of the second edition of SRG on the extent and quality of CSRR. It is also contended that the negative impact of the implementation of the second edition of SRG on the readability of CSRR can be moderated by the provision of assurance over CSRR.

Enhancing the characteristics of CSRR is not only the BMB's objective in releasing the second edition of SRG, but it also seeks this improvement to meet the expectations of users. It is indicated that investors in Malaysia consider social and environmental issues and depend on CSRR in making their decisions and evaluating the firms (Lau, 2019; Mohamad, 2020; Shad et al., 2020). CSRR offers a different

kind of information than financial reports since it shows how well a company can create value over the long term by taking into account its performance in the EES aspects (Lo and Sheu, 2007).

In accordance with signaling theory, it is argued that investors' evaluation of firms is influenced by providing CSRR of better characteristics, as providing such type of reporting with good characteristics helps investors get more relevant information about the company and lessen their confusion about its future operations. Due to capital market participants viewing the high degree of CSRR compliance as an indication of good CSR performance, the high level of CSRR extent is said to create "CSR goodwill" which will raise the firm's market value (Gutsche et al., 2017; Verbeeten et al., 2016). Additionally, information processing costs are reduced, and information efficiency increases when CSRR is presented in a high-quality manner and in an easy-to-read way (Bloomfield, 2002; Cho et al., 2012; Kim and Verrecchia, 1991).

In order to determine whether BMB achieves its objective in issuing the second edition of SRG, it is vital to determine whether the enhancement in the characteristics of CSRR resulted from amendments introduced by this new guide sends a positive signal about the company to the capital market and has an effect on the firm value of Malaysian PLCs.

Since there is no direct effect of the implementation of the second edition of SRG and the provision of assurance over CSRR on firm value, the relationship between them cannot be mediated by the characteristics of CSRR. At the same time, the implementation of the second edition of SRG and the provision of assurance over CSRR can have an effect on the characteristics of such reporting, which in turn can

influence the firm value. Therefore, the interacting influence of the implementation of the second edition of SRG and the provision of assurance over CSRR can act as an instrumental variable affecting the association between the characteristics of CSRR and firm value. In other words, it can be stated that the enhancement on the characteristics of CSRR instrumented by the implementation of the second edition of SRG and the provision of assurance over CSRR can have an influence on firm value.

1.4 Objectives and questions of the study

The main goal of this study is to explore whether BMB achieves its objectives in amending CSRR guidelines, which are to enhance the characteristics of such reporting among Malaysian PLCs and meet the expectations of users of these reports. Therefore, it aims to investigate whether the implementation of the second edition of SRG has an impact on the extent, quality, and readability of CSRR and to examine whether this effect can be moderated by the provision of assurance over CSRR, especially with the great attention BMB pays to providing assurance over CSRR by issuing assurance guidance. To explore whether the enhancement in the characteristics of CSRR that could result from BMB initiatives meets the expectations of users of such reporting, this study also seeks to investigate whether the implementation of the second edition of SRG and the provision of assurance over CSRR have an indirect influence on firm value through enhancing the characteristics of CSRR. Based on these research objectives, this study seeks to answer the following questions:

1- Does the implementation of the second edition of SRG affect the characteristics of the CSRR?

2- Is the effect of the implementation of the second edition of SRG on the characteristics of CSRR moderated by the provision of assurance over such reporting?

3- Despite the non-existence of any direct effect except through influencing the characteristics of CSRR, can the implementation of the second edition of SRG and the provision of assurance over CSRR interactively indirectly influence the firm value of Malaysian PLCs?

1.5 Significance of the study

This study adds to the existing CSRR literature in several ways. First, it presents an overview of Malaysia's current CSRR practices and gives an update on the progress of such reporting in this country. Second, it shows the impact that the implementation of the second edition of SRG has on three different characteristics of CSRR among Malaysian PLCs. Although several studies have examined the influence of different regulations and guidelines on the extent and quality of CSRR among Malaysian PLCs, none have examined the impact of this new guide, nor have they assessed the readability of such reporting of Malaysian PLCs. Third, it examines the moderating role of providing assurance over CSRR on the effect of issuing guidelines with detailed instructions on enhancing CSRR characteristics instead of examining the direct effect of such activity on the characteristics of CSRR. Finally, most previous research focused on the direct impact of reporting guidelines and CSRR assurance on the characteristics of such reporting, but this study adds to these studies by examining the indirect influence of these initiatives on firm value in order to clarify to what extent the improvement in the characteristics of CSRR resulting

from these initiatives affects the decisions of investors in their evaluation of Malaysian PLCs.

Practically, examining CSRR in Malaysian PLCs after an amending in CSRR guidelines issued by a regulatory body was enacted provides policymakers with some insights into the efficacy of the initiatives and guidelines imposed to improve CSRR. It can assist the appropriate authorities in observing the companies' commitment to the current guidelines. It also alerts Malaysian regulatory organizations about the level of readability of the CSRR of Malaysian PLCs, and hence they should urge these companies to enhance the readability of such reporting. The best CSRR practices of sample companies can be used as a model for other companies to improve their reporting practices. This study also notifies the regulatory bodies in Malaysia about the effective role of the provision of assurance over CSRR in providing reports of good characteristics and calls such organizations to take significant steps towards obligating Malaysian PLCs to provide assurance over their CSRR. The results of this study are useful for companies to determine the factors that could enhance investors' evaluations of firms and inform them that compliance with CSRR guidelines and enhancing the quantitative presentation of CSRR can influence investors' confidence in such reporting. The findings have implications for other nations where the government does not oblige firms to reveal their CSR practices.

1.6 Definitions of key terms

The definitions of key terms utilized in this study are illustrated in the following table.

Table 1.1 Definition of key terms

Term	Definition
Second edition of SRG	A guide released by BMB in 2018 to help Malaysian PLCs in their preparation of the Sustainability Statement as required by the listing requirements of BMB. It replaces the first edition issued in 2015 and contains extra recent case studies, references to the recommendations of the SDGs and TCFD, and assurance guidance.
Assurance of CSRR	Participation whereby an independent party is tasked with providing assurance over a CSRR released by an organization (Farooq and De Villiers, 2019).
Assurance guidance	A new chapter added in the second edition of SRG provides guidelines for companies that tend to provide assurance over their reporting to convey a higher level of confidence to users of the reporting. It reviews the process, levels, and scope of assurance, as well as the competence of the assurer.
Corporate social responsibility reporting	Public reporting by companies provides internal and external stakeholders with a picture of the corporate position on activities on economic, environmental, and social dimensions (World Business Council for Sustainable Development, 2002).
Extent	Content analysis measurement that identifies the presence or absence of the items required by regulation (Ghazali, 2007; Haniffa and Cooke, 2005). It also conveys the relevance of a certain item to the reporting entity and indicates the degree of firms' compliance with the regulation (Gray et al., 1995).
Quality	Content analysis measurement that signifies the way of reporting and allows comparability between bad and good disclosure (Freedman and Jaggi, 2005).
Readability	<i>"The ease of reading and understanding a written text" (Harris and Hodges, 1995).</i>
Firm value	An economic measurement that reflects the firm's market value (Reilly and Schwehs, 2004).

1.7 Organization of the thesis

The thesis is organized as follows: a review of related literature, an overview of the theoretical framework, and the development of hypotheses are presented in the next chapter. Chapter 3 outlines the proposed methodology by presenting the

sampling, the measurement of research variables, the data collection method, and the regression models. After research findings are presented in Chapter 4, a conclusion and future recommendations are provided in the last chapter.

CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

Section 2.2 provides background on CSR, Section 2.3 describes the evaluation of CSRR, and the definition and significance of CSRR are outlined in Sections 2.4 and 2.5 respectively. CSR in the context of Malaysia is provided in Section 2.6; a background of CSRR regulations in Malaysia and a review of previous studies are illustrated in Section 2.7; and Section 2.8 shows the relationship between CSRR and firm value. The theoretical framework and hypotheses development are presented in successive Sections 2.9 and 2.10, and the chapter summary is illustrated in the final section.

2.2 Corporate social responsibility (CSR) background

The notion of CSR urges a company to operate responsibly by considering the impact of its activities on the environment, individuals, and society. This concept has attracted the interest of the general public, governments, and academics (Buniamin, 2010). Practicing CSR activities is recognized as a significant initiative that may contribute to the long-term sustainability of not only business institutions but also the communities where they operate (Abd Mutalib et al., 2014).

Despite the popularity of the idea of CSR, there is also a lack of understanding of what it entails. Since CSR is intimately connected with highly complex dynamic processes such as the environment, community, and economy (Sheehy, 2015), there is no universally agreed-upon definition of this term (Campbell, 2007; Lee, 2008). Numerous scholars and professional bodies have

attempted to define CSR. For example, Carroll (1979, p. 500) argued that *"the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time."*

The World Business Council for Sustainable Development (WBCSD, 1999) referred to CSR as *"the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community, and society at large to improve their quality of life."* Meanwhile, CSR is referred to by the Commission for the European Communities (2001) as *"a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis."*

CSR is a company's commitment to utilizing its resources in ways that promote the public by acting as a part of society, considering society as a whole, and increasing society's well-being regardless of direct financial rewards (Kok et al., 2001). It is also defined by Vogel (2007, p. 2) as *"practices that improve the workplace and benefit society in ways that go above and beyond what companies are legally required to do."* Bursa Malaysia Berhad's (BMB) CSR framework describes CSR as clear and transparent corporate practices based on moral values and respect for society, labor, the ecosystem, stockholders, and other interested parties (Bursa Malaysia, 2006).

It has been argued that businesses have societal duties beyond profit maximization (Carroll, 1999; Garriga and Melé, 2004; Rowley and Berman, 2000). According to Jensen and Berg (2012), CSR consists of economic, environmental, and social dimensions; as a result, every firm adopting the CSR approach must consider

all these dimensions. CSR is described as a company's practice with an impact on its social and environmental surroundings (Liong, 2013).

As CSR has become a more important subject of study and has attracted a lot of attention, the disclosure of such practices, known as corporate social responsibility reporting (CSRR), has become more prevalent (Hamad et al., 2020).

2.3 The evolution of corporate social responsibility reporting (CSRR)

Over the last few decades, CSRR has made slow progress. Employee reporting was the first step, followed by social reporting, environmental reporting, triple-bottom-line reporting, and finally sustainability reporting (Joseph et al., 2014). This improvement has been well documented in several literary works; however, numerous scholars have stated that interest in CSRR research among academics has tended to fluctuate for years (Deegan and Soltys, 2007; Gray, 2002, 2010; Hahn and Kühnen, 2013; Mathews, 1997; Owen, 2008; Parker, 2005). This was due to a variety of factors, including a lack of consensus on theoretical approaches to guide systematic research (Gray et al., 1995; Ullmann, 1985); scholars' entering and exiting the field (Mathews, 1997); and the varying prominence of CSRR themes over time (Deegan, 2002; Gray et al., 1995; Mathews, 1997). Despite this, the significance of CSRR research has grown as a result of increased stakeholder concerns about the societal and environmental implications of a company's operations.

During the 1970s, established accounting companies such as Ernst & Young contributed to the growth of CSRR through practical implementation (Rahman et al., 2010). Defects in CSRR had become almost acceptable due to the newly developed notion of CSRR. Despite corporations' poor reporting practices and Friedman's (1970) concept stating that employing CSR in building a good reputation serves the

self-interest of the management at the cost of interested parties, it was observed that there was an increase in the community's demand for better and more thorough social accounting information as a basis for improved decision making (Gibson, 2004). During this period, the majority of practical studies were descriptive in nature and concentrated on societal topics, with little focus on the motives of CSRR. The theoretical framework of such research was underdeveloped (Mathews, 1997).

Companies globally were more sensitive to investors' interests in the ecosystem in the late 1980s by voluntarily disclosing the environmental impacts of their operations in their annual reports (O'Dwyer, 2001). CSRR's research during this period continued to improve, with more quantitative works performed on ecological issues, which grew in popularity. The empirical investigation of specific conceptual frameworks or propositions was a part of these quantitative works (Mathews, 1997).

While CSRR drew a lot of attention in the 1970s and 1980s, it faded away in the early 1990s, attributable to a shift in research priorities, but there has been a resurgence of interest in CSRR since the mid-1990s (Gray et al., 1995; Mathews, 1997). Driven by the establishment of the Global Reporting Initiative (GRI) and its initial set of GRI sustainability reporting criteria in 1999, the initial accurate CSRR was produced at the end of the 1990s. Governments, professional accounting institutions, and companies began to place a larger emphasis on societal and ecological issues in the mid-1990s, resulting in a substantial rise in CSRR research (Deegan, 2002). Despite these efforts at standardizing CSRR, there were significant differences in the content and quality of CSRR among companies with different institutional contexts (Kolk, 2011). Motivations, drivers, reporting methods, forms of disclosure, and multiple parties' responses to or expectations of disclosure practices were among the issues that were investigated in this era.

2.4 Definitions of CSRR

Following the discussion of the evolution of CSRR research, it is vital to go over some of the definitions of this term offered by scholars and professional bodies. One description provided by Gray et al. (1987) was *"the process of communicating the social and environmental effects of organizations' economic actions to particular interest groups within society and to society at large. As such, it involves extending the accountability of organizations (particularly companies) beyond the traditional role of providing a financial account to the owners of capital, in particular, shareholders. Such an extension is predicated upon the assumption that companies do have wider responsibilities than simply to make money for their shareholders."*

In line with Hackston and Milne (1996), CSRR is defined as the act of providing financial or non-financial information about a company's activities concerning its society and environment through various mediums such as annual reports, media, and the company's website. Deegan and Rankin (1999, p. 51) also define such reporting as *"disclosures relating to the interaction between an organization and its physical and social environment, inclusive of disclosures relating to human resources, community involvement, the natural environment, energy, and product safety."*

CSRR has been viewed by WBCSD in their 2002 report, "Sustainable Development Reporting: Striking the Balance," as *"public reporting by companies to provide internal and external stakeholders with a picture of corporate position on activities on economic, environmental, and social dimensions"* (Tewari and Dave, 2012). According to Jenkins and Yakovleva (2006), CSRR covered both voluntary and mandated reporting by businesses on topics that mattered to a broad variety of stakeholders and went beyond economic considerations. In their new G3.1 version

(2011) of Sustainability Reporting Guidelines, GRI defined CSRR as *"the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organizational performance towards the goal of sustainable development."*

CSRR is expressed as *"the provision of information regarding human resource aspects, product and service, involvement in community projects, including philanthropic activities and environmental matters"* (Esa and Ghazali, 2012, p. 292). Aman et al. (2015, p. 288) defined CSRR as *"commitments undertaken by the firms, which cover the non-financial aspects, such as the environmental and social disclosures, with the intention to preserve a sustainable future in order to serve the rights of the stakeholders."*

From the viewpoint of accounting, CSRR refers to a reporting system that emphasizes three key areas: an organization's economic, environmental, and social performance (Choudhuri and Chakraborty, 2009). Since firms will employ communication media such as annual reports, CSR reports, media advertising, and websites to communicate their CSR activities, CSRR can be considered one of the aspects of social accounting. This form of accounting is in principle a framework for recognizing, measuring, and disclosing a company's social and environmental effects to stakeholders (Belkaoui, 2000).

2.5 The significance of CSRR

CSRR is critical for stakeholders since it offers non-financial information that can be used to measure and improve an organization's future financial results (Ballou et al., 2006). In other words, such reporting allows enterprises to share their values, efficiency, and activities with the broader objective of sustainable development by involving stakeholders in the process (Brusca et al., 2018).

Given the significance of CSRR and its influence on companies' reputations, stakeholders trust a company that publishes a CSR report (Branco and Rodrigues, 2008); at the same time, they avoid doing business with a company that has a negative social impact (Hooghiemstra, 2000).

With the CSRR's significance, various countries respond to increased concern about this issue. Within the context of Malaysia, the country has experienced huge growth in this subject with increased people's consciousness of the duties of businesses towards society, and this impelled the government to impose regulations and issue environmental awards. Besides, Malaysia has gradually improved its alignment with worldwide management approaches such as quality control and ISO 9000 during the 1990s and 2000s (Smith et al., 2007).

2.6 The context of Malaysia

Malaysians have become more conscious of the significance of protecting the environment, as evidenced by events following high-profile Malaysian occasions, including the 1993 destruction of the Highland Towers and the 1997 extensive haze. Affected by land deterioration, the Highland Towers fell on December 11, 1993, killing 48 individuals, including the son of the previous Deputy Prime Minister Tan Sri Musa Hitam. Between mid-July and November 1997, the fog caused a massive deterioration in the quality of the air, resulting in the declaration of a state of emergency in Sarawak when the Air Pollution Index surpassed 500. As a result, Malaysian enterprises were widely criticized for the contamination as well as the resulting destruction of natural habitats and the environment (Smith et al., 2007).

The urge for good CSR stewardship and activities is commonly mentioned in the context of numerous speeches provided by community members through

government officials. In a CSR conference held in June 2003 at the PWTC in Kuala Lumpur, then-Deputy Prime Minister Dato' Sri Najib Tun Abdul Razak stated that CSR promotes economic growth, improves the corporate image, and increases the firm's ability to attract top talent, all of which contribute to the firm's market capitalization. In addition, the then Deputy Governor of the Central Bank of Malaysia highlighted that *"the government's priority is to ensure that businesses and public activities pay heed to CSR issues such as eradicating poverty, conserving energy, combating deforestation, managing fragile ecosystems, protecting the health, and managing land resources"* (Yakcop, 2004).

The Malaysian government's efforts to promote CSR may also be seen in its efforts to incorporate CSR practices into Malaysian plans and government budgets. Vision 2020 was presented by the Malaysian government in 1991 with the primary objective of creating a unified country with high ethical and moral principles, as well as a democratic, liberal, open, compassionate, economically fair, equal, innovative, and affluent society (Amran and Devi, 2007). Three of the nine challenges of Vision 2020—a moral and ethical community, a fully caring culture, and an economically just society—reflect CSR values. The 2020 Vision also outlines five strategic objectives, one of which is the need to improve corporate governance and business morals (Najib, 2004).

The necessity of sustainability was addressed in Malaysia's National Report on United Nations (UN) Agenda 21. The details of UN Agenda 21 were introduced and incorporated into the national planning processes of the Sixth Malaysia Plan, which covered the period from 1991 to 1995, and the Seventh Malaysia Plan, which covered the period from 1996 to 2000 (Hasan and Adnan, 2002).