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The Impact of Corporate Sustainability Reporting on the Performance of Telecommunication and Media Sector in Malaysia: A Comparative Study Before and After Mandatory Compliance

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Abstract: Sustainability reporting serves as a public disclosure strategy adopted by companies to provide internal and external stakeholders with a comprehensive overview of the corporate standing across economic, environmental, governance and social domains. In Malaysia, sustainability reporting became mandatory compliance for all publicly listed companies starting in 2016. This study aims to examine the relationship between sustainability reporting and company performance of 11 Malaysian listed companies within the communications and media sector before and after mandatory compliance spanning from the years 2014 to 2017. Through the analysis of pre- and post-reporting data sourced from Sustainability Reports on the Bursa Malaysia website, the research investigates the potential correlation between sustainability reporting and company performance. The findings indicate a negative association between sustainability reporting and company performance; however, the study acknowledges limitations due to the small sample size, highlighting the need for broader analyses in future research endeavours.

Key words: *sustainability reporting, SDG, CSR, company performance*

1.0 Introduction

A sustainability reporting is an organizational report that provides information about the performance of the firm on the economic, environmental, social, and governance levels. Sustainability reporting allows organizations to assess their impact on a wide range of issues, enabling them to gain clarity about the risks and opportunities they might currently face (Christofi, et al., 2012).

In Malaysia, the implementation of sustainability reporting element was started in 2007 when Bursa Malaysia introduced an amendment that included a new provision, namely provision 29, in the listing requirements. This marked the first instance where Bursa Malaysia mandated listed companies to generate a statement pertaining to their corporate social responsibility activities. Building on this enforcement in 2007, Bursa Malaysia took a significant stride in promoting sustainability practices among listed companies in 2015. Pioneering in the ASEAN region, Bursa Malaysia introduced a globally benchmarked Environment, Social & Governance Index (ESG Index) and the FTSE4Good Bursa Malaysia ESG Index (F4GBM index) in December 2014 (Bursa Malaysia, 2024).

As a result of these developments, the inclusion of a sustainability statement in the annual report became obligatory for all listed companies in Malaysia. The modification in Practice Note 9 within the Listing Requirements explicitly specifies that the annual report must feature a comprehensive sustainability statement encompassing economic, social, environmental risks and governance. For detailed guidance, the Sustainability Reporting Guide (SRG) was subsequently issued. This aligns with the principles outlined by the Global Reporting Initiative (GRI) in 1997, emphasizing economic, environmental, and social performance (Ioannou & Serafeim, 2016), and the criteria set by the FTSE4Good Index, focusing on demonstrating environmental, social, and governance practices.

Despite the continued growth of sustainability reporting over the past decade, corporations still face challenges in effectively disclosing sustainability information (Eccles et al., 2012). In

Malaysia, although guidelines and standards for sustainability reporting were enhanced by authorities in 2016, the level of implementation remains low (Bakar A.B.S.A et al., 2019). Additionally, most previous studies on sustainability reporting have focused on examining the extent and quality of these disclosures in annual reports (Bakar A.B.S.A et al., 2019; Ngu & Amran, 2021; Moses et al., 2020). To the best of the author's knowledge, only a few studies have explored the impact of sustainability reporting on company performance. In light of this, a performance analysis was conducted to identify the relationship between sustainability reporting and company performance in Malaysia. The telecommunication and media sector were chosen as the sample for this study since this sector contributed 23.2 percent of the overall Malaysia gross domestic product (GDP) in 2021 (International Trade Administration, 2024). The study's findings are expected to provide valuable insights to companies, authorities, and policymakers, particularly regarding the impact of sustainability reporting on company performance. These insights will enable them to plan and develop strategies to encourage greater sustainability reporting disclosure among companies.

This paper is structured as follows: the introductory section is presented first, followed by a literature review in the second section. The third section outlines the study methodology, while the fourth section delves into the data analysis. The article will conclude with a final section encompassing both the conclusion, implications, and limitations.

2.0 Literature review

The evolution of sustainability reporting (SR) has seen significant shifts over time, marked by distinct phases in its development. In the 1970s, companies in Western countries began to occasionally supplement their financial reporting with social reports, primarily focusing on social issues. By the 1980s, the focus shifted towards environmental concerns, including emissions and waste management. This period marked the beginning of a broader understanding of corporate accountability beyond financial performance (Hahn & Kühnen, 2013). In the 1990s, there was a notable integration of social and environmental measures alongside financial reporting. This shift was partly driven by the development of voluntary standard-setting initiatives such as the Global Reporting Initiative (GRI), which sought to create a standardized framework for sustainability disclosures. Despite these efforts, significant disparities persist among firms from different institutional environments regarding the content and quality of sustainability reports (Fortanier et al., 2011).

Today, sustainability reporting, which includes dimensions such as environmental, economic, social, and governance (ESG), has become a critical aspect of corporate communication, encompassing frameworks like Corporate Social Responsibility (CSR) and the GRI. While the preparation of these reports involves intangible efforts, they provide valuable insights into a company’s overall performance. These insights are crucial for effective decision-making, good corporate governance, comparability, and fostering a competitive business environment (Chvatalová et al., 2011).

Research has consistently shown the positive impact of sustainability reporting, particularly CSR activities, on enhancing an organization's reputation. For instance, CSR reports focusing on environmental control can positively influence consumer perceptions. However, some studies raise concerns about the potential downsides of CSR in sustainability reports. There is evidence suggesting that market participants may prioritize maintaining a reputable brand image over genuinely engaging in CSR activities, potentially undermining the authenticity of sustainability reporting (Isa et al., 2017).

In Malaysia, a rapidly developing nation in Asia, the tension between economic growth and social consciousness, particularly regarding environmental issues, has become increasingly prominent (Sumiani, 2006). This dynamic has heightened the importance of sustainability reporting among Malaysian companies. To address these challenges, the Malaysian government mandated in 2007 that all listed companies disclose their sustainability activities in their annual reports. This requirement was codified in the 2006 Bursa Malaysia Listing Requirements under Appendix 9C, Paragraph 29, issued by the Ministry of Finance (Aman et al., 2015). The implementation of sustainability reporting in Malaysia involves various stakeholders, including accounting professionals, the National Audit Department, and local authorities, to enhance transparency and accountability (Joseph, 2010).

Furthermore, Malaysia's Financial Reporting Standard (FRS) 101 mandates that organizations include additional information in their annual reports if it would assist stakeholders in making more informed decisions (Zulkifli & Amran, 2006). Comparative studies, such as those by Ramasamy and Ting (2004), have highlighted a growing awareness of corporate social responsibility (CSR) among Malaysian firms, partly due to the efforts of non-governmental organizations (NGOs) in promoting social and environmental awareness. Initially, there was no statutory requirement for Malaysian public listed companies to disclose CSR activities, but subsequent regulatory revisions now require the inclusion of information that could impact financial performance.

The effectiveness of these regulatory changes is reflected in a 2017 KPMG survey, which found that 93% of Malaysia's top 100 companies by revenue included sustainability information in their annual reports. This indicates a growing recognition of the value of sustainability reporting for building corporate credibility among stakeholders. However, the survey also revealed that only 5% of the surveyed companies have adopted integrated reporting practices, highlighting a significant gap in the comprehensive approach to sustainability reporting in Malaysia. This gap underscores the need for further efforts to promote integrated reporting and enhance the quality and extent of sustainability disclosures among Malaysian companies.

In summary, the evolution of sustainability reporting in Malaysia mirrors global trends while reflecting unique local challenges and regulatory landscapes. While significant progress has been made in increasing awareness and regulatory compliance, further efforts are needed to improve the adoption and quality of sustainability and integrated reporting practices.

3.0 Methodology

3.1 Theoretical framework and hypothesis development

Deegan (2011) posits that legitimacy theory contends organizations continuously endeavour to operate within societal norms and boundaries, seeking to ensure external perception of their activities as legitimate. This theory emphasizes that organizations must demonstrate consideration for the broader public's rights, not solely those of their investors. Non-compliance with societal expectations may result in sanctions imposed by society. Accordingly, companies might voluntarily disclose their activities if management perceives such disclosures as anticipated by the communities in which they operate.

Stakeholder theory comprises both an ethical (moral) or normative branch and a positive (managerial) branch. The normative perspective of Stakeholder Theory argues that all stakeholders hold the right to equitable treatment by an organization, with stakeholder power issues being indirectly relevant. Irrespective of whether stakeholder management directly leads to enhanced financial performance, managers are urged to manage the organization for the collective benefit of all stakeholders.

Building upon these theories, the framework model presented in Figure 1 illustrates the relationship between variables. The diagram displays the dependent variable company performance affected by the independent variable of sustainability reports, with firm size serving as a control variable in this study.

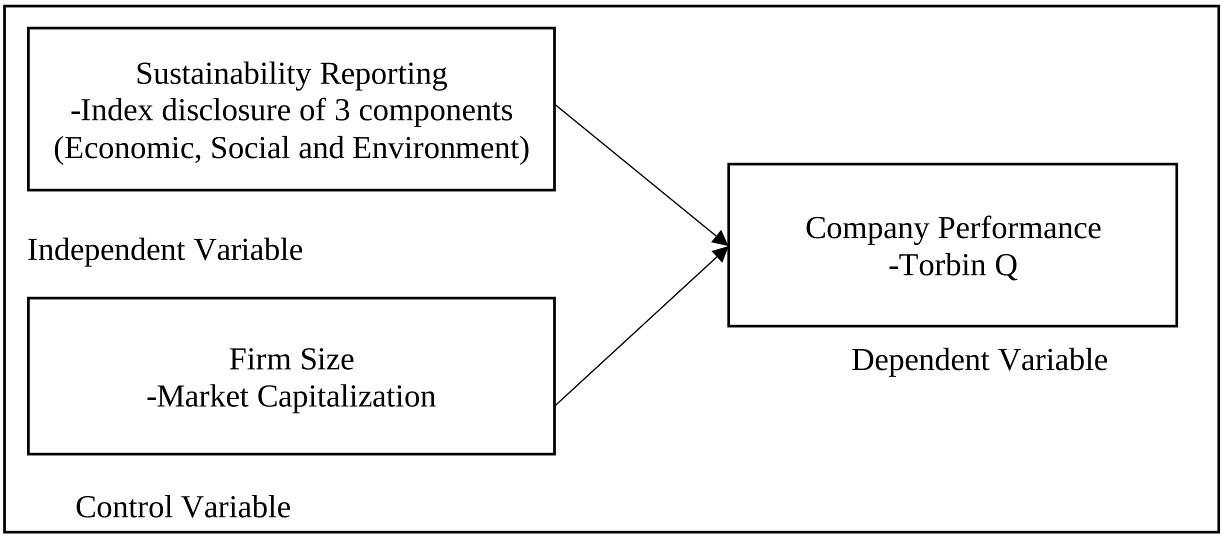

Figure 1: Conceptual framework

3.2 Hypothesis Development

Research on the effect of corporate social performance on financial performance has been conducted in numerous countries. However, the results remain inconsistent. Wright and Ferris (1997) discovered a negative relationship, Teoh et al., (1999) found no relationship between CSR and financial performance, and Aupperle et al., (1985) also found no relationship between Corporate Social Performance and profitability.

In contrast, another study conducted by Nakao et al (2007), obtained results indicating that a firm's environmental performance has a statistically significant positive relationship with financial performance. Lougee and Wallace (2008) compared US companies listed in Domini 400 and S&P 500 indexes, revealing that companies with more CSR investments generated higher return on assets, suggesting that CSR investments are consistent with profit and long-term value maximization. This is supported with Ngwakwe's (2009) research in Nigeria, which found that firms investing in social and environmental areas had higher return on total assets.

In addition, Cortez's (2010) study on the Japanese automotive and electronic companies to explored the relationship between environmental innovations and their impact on financial performance, revealing a linear relationship between environmental innovations and the financial performance of Japanese automotive and electronics firms. Nakamura's (2011) research on 3,237 Japanese firms found that, in the short term, environmental investment did not significantly affect firm performance, while in the long term, environmental investment significantly increased firm performance. While, Sitepu (2009) explored the relationship between corporate social responsibility disclosure and firm's financial performance, finding that economic and environmental performance disclosures have a significant positive relationship with financial performance (measured by ROA), while social performance disclosures do not show a significant relationship.

Based on previous inconsistence findings, the below hypothesis has been proposed using above conceptual framework (see figure 1). Hypotheses will be tested both before and after mandatory implementation by Bursa Malaysia.

H1 - Sustainability reporting has positive significant impact on company performance *(before SR mandatory implementation).*
H2 - Sustainability reporting has positive significant impact on company performance *(after SR mandatory implementation).*

3.3 Empirical Model

For this model, a single linear regression is employed, and the model is presented as follows:
$Y = a + b1X1 + b2X2$,
Where:

- Y = Tobin Q
- a = constant
- b1 = coefficient of regression
- b2 = coefficient of regression
- X1 = sustainability reports index.
- X2 = Firm size

3.4 Population sample and data sources

The population under study comprises all companies listed on the main market of Bursa Malaysia within the telecommunications and media sector during the period spanning 2014 to 2017. While there is a total of 19 companies within this sector, only 11 have been selected as the sample for this research, with details regarding the sample selection provided in Table 1.

Table 1: *Table of Sampling*

Criteria	N
Companies listed on main market at Bursa Malaysia (telecommunication & media sector only)	19
No of companies discard due to the Incomplete data	8
Total Companies selected	11

Data utilized for this research is secondary data and sourced from various platforms including Bursa Malaysia website, companies' websites and Wall Street Journal websites.

3.5 Definition of operational variable

3.5.1 Dependent variable

The dependent variable used to evaluate company performance is Tobin Q, serving as one of the profitability ratios. Tobin Q quantifies the ratio of a company's market value of assets (determined by the collective value of its outstanding stock and debt) against the replacement cost of those assets (Lindenberg & Ross, 1981). Initially introduced by Nicholas Kaldo in 1966, Tobin Q has gained widespread use in various studies as a metric for assessing firm performance (Wolfe & Sauaia, 2003). The formula for Tobin Q is as follows:

$$\text{Tobin Q} = \frac{\text{Total Market Value of Equity}}{\text{Total Book Value of Equity}}$$

3.5.2 Independent variable

Sustainability reports encompass disclosures regarding a company's sustainability performance across four dimensions: economic, environmental, governance and social. The independent variable in this study is the sustainability performance disclosure index, determined by the disclosure of these three elements in a company's annual report. The formula used to calculate the index score is:

Index = n / k
Where:
n = number of components disclosure report by the company.
k = the maximum disclosure which should be disclose by the company.

3.5.3 Control variable

Control variables are those that might impact the outcome and therefore need to remain constant throughout the experiment. In this study, the control variable utilized is firm size based on market capitalization. The firm size data is extracted from the Wall Street Journal website database spanning the years 2014 to 2017.

4.0 Data analysis

4.1 Descriptive analysis

Sustainability reporting trend from 2014 until 2017.

Table 2: *Descriptive Statistics*

	N	Minimum	Maximum	Mean	Std. Deviation
SR17	11	.33	1.00	.8791	.22492
SR16	11	.00	1.00	.7273	.41709
SR15	11	.00	1.00	.6973	.40726
SR14	11	.00	1.00	.6964	.37966
Valid N (listwise)	11				

Based on the data presented in Table 2, the average number of companies publishing all three components of sustainability disclosure reports in their annual reports shows a continuous increase from 2014 to 2017. The average percentage of companies publishing sustainable reports was 69.64% in 2014, 69.73% in 2015, 72.73% in 2016, and notably rose to 87.91% in 2017. The upward trend in reporting particularly surged in 2016 and 2017. This increase might be attributed to the mandatory implementation by Bursa Malaysia, which required all listed companies to include sustainability reporting in their annual reports starting from December 31, 2015. Additionally, Bursa Malaysia provided sustainability guideline themes to assist companies in this reporting process.

Table 3: *Descriptive Statistics*

	N	Minimum	Maximum	Mean	Std. Deviation
SRpre	11	.00	1.00	.6664	.41567
SRpost	11	.33	1.00	.8032	.28704
Valid N (listwise)	11				

Table 3 displays the comparison between the mean two years before implementation (66.64% SRpre) and two years after the mandatory implementation (80.32% SRpost). It indicates a slight increase of 13.7% in the number of reports, attributed to the aforementioned factors.

4.2 Inferential analysis

4.2.1 Coefficient correlation and multiple regression (before SR mandatory implementation).

Table 4: *Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.772[a]	.596	.494	.38685

a. Predictors: (Constant), FSpre, SRpre

The correlation coefficient (R) is 0.772 (refer to Table 4), indicating that the correlation between the independent variables and the dependent variable is 0.772. This signifies a strong relationship between sustainability performance, firm size, and the company’s performance (Tobin Q), accounting for 77.2%.

The adjusted R-square is 0.596, suggesting that 59.6% of the variation in Tobin Q is explained or accounted for by the variation in sustainability performance and firm size. The remaining 40.4% is attributed to other factors.

<u>F test</u>

F table = f (k: n-k)
= f (2: 11-2)
= f (2:9)
= 4.26

Table 5: *ANOVA*[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.763	2	.881	5.890	.027[b]
	Residual	1.197	8	.150		
	Total	2.960	10			

a. Dependent Variable: tobinpre
b. Predictors: (Constant), FSpre, SRpre

The value of F in the ANOVA table, as indicated in Table 5, is 5.890, significantly exceeding the critical F table value of 4.26. Considering the degrees of freedom (2 and 8) for the model and residuals, respectively, the F table value is 4.26, and the corresponding probability (0.027) is less than 0.05. This indicates that the second regression model is suitable for further analysis.

T-test

Table 6: *Coefficients*[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.730	.229		3.193	.013
	SRpre	-.075	.354	-.058	-.213	.836
	FSpre	7.793	.000	.802	2.970	.018

a. Dependent Variable: tobinpre

From table 6, it can be observed that the coefficient of the variable SRpre is -0.075, (negative association) and the probability (0.836) is greater than 0.05 (p-value > 0.05), suggesting that sustainability reporting in the pre-year does not have significant positive impact on company's performance. Therefore, the first hypothesis (H1) is rejected.

4.2.2 Coefficient correlation and multiple regression (after SR mandatory implementation).

Table 7: *Model Summary*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.805a	.648	.560	.35026

a. Predictors: (Constant), FSpost, SRpost

The correlation coefficient (R) is 0.805 (refer to Table 7). This value signifies that the correlation between the independent variables and the dependent variable is 0.805. Consequently, the relationship between sustainability performance, firm size, and company's performance (Tobin Q) is strong at 80.5%.

The adjusted R-square is 0.648, indicating that 64.8% of the variation in Tobin Q is explained or accounted for by the variation in sustainability performance and firm size. The remaining 35.2% is attributed to other factors.

F test

F table = f (k: n-k)
= f (2: 11-2)
= f (2:9)
= 4.26

Table 8: *ANOVA*[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.807	2	.904	7.365	.015b
	Residual	.981	8	.123		
	Total	2.789	10			

a. Dependent Variable: tobinpost
b. Predictors: (Constant), FSpost, SRpost

The value of F in the ANOVA table, as displayed in Table 5, is 7.365, significantly exceeding the critical F table value of 4.26. Considering the degrees of freedom (2 and 8) for the model and residuals, respectively, the F table value is 4.26, and the corresponding probability (0.015) is less than 0.05. This indicates that the second regression model is suitable for further analysis.

T-test

Table 9: Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.515	.330		4.588	.002
	SRpost	-1.097	.437	-.596	-2.507	.037
	FSpost	8.394	.000	.890	3.744	.006

a. Dependent Variable: tobinpost

From Table 9, although, the probability (0.037) is lower than 0.05 (p-value < 0.05) (statistically significant), but the coefficient of the variable SRpost is -1.907, which indicate negative association. Thus, suggesting that sustainability reporting in the post-year does not have significant positive impact on company's performance. Therefore, the second hypothesis (H2) is rejected.

5.0 Discussion

This study investigates the impact of sustainability reporting to the company performance, as measured by Tobin's Q, within the context of multinational corporations (MNCs) in Malaysia. Contrary to the expectations set by legitimacy and stakeholder theories, which suggest that sustainability reporting positively influences company performance, the findings reveal no significant impact of sustainability reporting on performance. This conclusion aligns with earlier studies, such as Teoh et al. (1999) and Aupperle et al. (1985), which similarly found no clear relationship between corporate social responsibility (CSR) and financial performance.

The lack of immediate impact observed in this study suggests that companies might need more time to realize and leverage the benefits of sustainability reporting fully. This is consistent with McWilliams' (2000) observation that existing research on social responsibility and company performance often suffers from theoretical and empirical limitations. These limitations include the omission of key variables such as firm size, capital intensity, growth, leverage, and research and development intensity, as noted by King and Lenox (2001).

The study highlights the necessity of integrating sustainability practices into the core business model and strategic decisions to achieve positive outcomes. The increasing prevalence of sustainability reporting from 2014 to 2017, particularly following the mandatory implementation in December 2015, suggests a growing recognition of its importance. The data indicate that while sustainability reporting did not influence company performance before mandatory implementation, it has begun to do so post-implementation. This supports the notion that regulatory changes can drive improvements in reporting practices and potentially enhance performance.

6.0 Conclusion and limitations

The study concludes that while sustainability reporting does not yet show a clear impact on company performance as measured by Tobin Q, there is evidence of an increasing trend in the adoption of sustainability reporting practices. The mandatory implementation of sustainability reporting from December 31, 2015, appears to have stimulated higher levels of disclosure, which may eventually lead to improved company performance. The positive influence of sustainability reporting on performance is more apparent in the post-mandatory period, suggesting that the benefits of these practices may take time to materialize.

This research underscores the importance of enhancing sustainability reporting practices and increasing awareness about their potential benefits. For companies to fully realize the positive impact of sustainability reporting, it is crucial to integrate these practices into their strategic frameworks and operational models.

This study has several limitations. Firstly, the sample size is restricted to 11 companies within the communication and media sector, which consists of only 19 listed companies on Bursa Malaysia. The exclusion of 8 companies due to incomplete data may affect the generalizability of the findings. Although focusing on a specific sector provides valuable insights, a larger sample size across diverse sectors would offer more comprehensive results.

Secondly, the study covers a relatively short time frame of four years (2014-2017), split evenly between two years before and two years after the mandatory implementation of sustainability reporting. A longer observation period could yield more accurate results and better capture the long-term effects of sustainability reporting on company performance. The constraints of the recent regulatory changes and the timeframe for completing the study limit the ability to extend the analysis beyond this period. Future research could benefit from a broader sample and an extended observation period to provide more definitive conclusions.

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