

## SUSTAINABILITY REPORTING AND FIRM PERFORMANCE: EVIDENCE IN MALAYSIA

Jalila Johari<sup>1</sup>  
Komathy<sup>2</sup>

<sup>1</sup> Department of Accounting and Finance, Faculty Economic and Management, University Putra Malaysia  
(Email: johari@upm.edu.my)

<sup>2</sup> Department of Accounting and Finance, Faculty Economic and Management, University Putra Malaysia  
(Email: komathy@gmail.com)

**Accepted date:** 27-10-2018

**Published date:** 17-03-2019

**To cite this document:** Jalila & Komathy (2019). Sustainability Reporting and Firm Performance: Evidence in Malaysia. *International Journal of Accounting, Finance and Business (IJAFB)*, 4(17), 1-7.

---

**Abstract:** *Sustainability reporting has emerged as a common practice in 21st century businesses. It is a platform to balance performance of a business in economic, social, environmental dimensions. Sustainability reporting is the key drive of financial performance. The main issue is to examine the level of sustainability reporting in improving firm performance among public listed firms in Malaysia. Even though sustainability reporting has been introduced earlier but the implementation is still not constant among the firms. Thus, this study also investigates the relationship between sustainability reporting and firm performance. The sample of study consist of 100 firms which were selected based on top companies with good disclosure for the year 2016 and using return on asset, return on equity, earnings per share and dividend per share in measuring the firm performance. In summary of the findings, the regression result suggests that sustainability reporting has a positive relationship with firm performance when using return on asset and earnings per share.*

**Keywords:** *Sustainability, Reporting, Firm, Performance*

---

### Introduction

Over the last few years, sustainable business has been discussed and applied widely around the world. Investors, entities and customers use to consider factors like environment, economy and society in decision making especially in planning stage of investment, financing and estimating operating costs. All these stakeholders and entity prefer outputs such as manufactured products to be eco-friendly and useful. In order to sustain firm's position in this emerging market, each and every company has to minimise the negative impacts like emissions, waste products and unfair treatment to employees from their business as much as they can. Especially, large size firms tend to give much attention to have a healthy business in the industry.

According to Chartered Global Management Accountant (CGMA),<sup>1</sup> there are ten key elements for a sustainable business practices in small and medium-sized enterprises (SMEs). CGMA is

---

<sup>1</sup> CGMA Tools, Ten key elements to sustainable business practices in SMEs.pdf

a joint venture established by American Institute of Certified Public Accountants (AICPA) and Chartered Institute of Management Accountants (CIMA). The ten key elements can be categorised into three groups which are strategy and planning, execution and alignment and performance and reporting. In recent years, businesses seem to discourse about sustainability reporting (SR) and even the business practitioners are requested to apply sustainability concept in their business. According to Bursa Malaysia description, sustainability has various terms such as triple bottom line, corporate responsibility, sustainable development, economic, environmental and social (EES), corporate social responsibility (CSR) and environmental, social and governance (ESG) widely used in various contexts with common purposes. EES is the main pillars of sustainability and the interconnections between all the items.

However, most of the firms in this world that practising sustainability used the sustainability definition that has been developed by Brundtland Report of the United Nation's World Commission on Environment and Development in 1987 as a guideline. The report defined sustainability as the development that meets the needs of the present without compromising the ability of the future generations to meet their own needs. The focus of future sustainability is to ensure that limited resources must be equally utilised between poor and rich community. When this definition practically applied, the first priority must be given to social and economy followed by environment.

Van Marrewijk and Verre (2003) and Morris (2016) described sustainability as a corporation's activities which are voluntarily exhibit involvement of social and environmental matters in business activities and in communication with stakeholders. There are two portions of sustainability in business which are reporting and strategy. Reporting needs measurement of various elements that are crucial to successful sustainable business practices. Strategy helps to produce sustainability reporting to understand the internal and external effect on the business. Thus, it is used to overcome the challenges in 21<sup>st</sup> century business by creating competitive positioning in emerging market (EY, 2013).

Since, this study focuses on reporting rather than strategy. Thus, the sustainability reporting is a term that widely used in reporting on economic, social, environmental, opportunities, risks and impacts. According to Global Reporting Initiative (GRI; 2015), a sustainability report is a report that provides information regarding governance performance, economic, social and environmental. The non-profit GRI established when many firms exercising sustainability reporting. The objective of the creation is to promote social and environmental sustainability and provide sustainability reporting framework to all companies around the world. Bursa Malaysia stated that this sustainability reporting has gone through transformation over the period. The sustainability reporting frameworks began with corporate responsibility reports to corporate social responsibility reports, sustainability reports. Recently with more value added it is now known as integrated reports which focus on material issues to provide clear and precise reports. Although leading sustainability reporting frameworks like Integrated Reporting (IR), Global Reporting Initiative (GRI; 2013) G4 Guidelines (2015) and Sustainability Accounting Standards Board (SASB) standards literally have different components but it is still can be used as a guideline in doing sustainability reporting. Sustainability reports consist of several types. Reddy and Gordon (2010) have categorised those types into four groups. Annual report with corporate responsibility section, environmental report with environment, health and safety (EHS) components, sustainability report on environment, social and economics and corporate responsibility report with EHS, community and social elements.

Many previous literatures have discussed the effects of sustainability elements on firm performance. Firm performance is a complex term which includes different shadows of meaning as long as it relates to organisational performance. In addition, an organisation's performance can be measured through financial performance. Riedl and Srinivasan (2007) studied the reflection of financial statement presentation on firm performance. Delen et al., (2013), stated that many researchers and practitioners using financial measure to determine firm performance. Pelozo (2009) studied one type of sustainability with financial performance and the challenge of measuring financial impacts from investments in corporate social performance. Besides, early research has been done in sustainability development and corporate performance using Dow Jones Sustainability Index (DJSI) (Lopez et al., 2007). This DJSI is comprised of economic, social and environmental indicators that been used to measure corporate social responsibility. The result shows that the company's performance is indicated by sustainability. A survey conducted by Deloitte (2013) shows that 49% of CFOs agreed that there is a link between sustainability and financial performance. Most of the prior studies agreed that effective sustainability lead to a better firm performance.

The main purpose of this research is to study the relationship between sustainability reporting and firm performance and to identify whether the firm practising and fulfilling sustainability reporting guidelines to fortify a sustainable business.

## **Literature Review**

### ***Corporate Sustainability Reporting***

Sustainability reporting is a most current reporting in robust economy in all over the world. Not to surprise, large firms and also SMEs are reporting their financial and non-financial matters in environmental, social and sustainability reports through their websites or in printed copies (Herzig and Schaltegger, 2011). These reports inform all the stakeholders on how the reporting committee handling the risk related to their organization. Why the reports are so important for stakeholders? The reason is because these reports are providing non-financial information which acts as a performance indicator for measuring and improving organizations' upcoming financial results (Ballou and Heitger, 2005). Other than that, stakeholders able to know whether the organization is going concern through the sustainability report. Investors will not want to invest in a company which causes or gives negative impact to the society. When a company produce sustainability report, it earns stakeholders and investors trust to them.

Burritt and Schaltegger (2010) found two aspects of sustainability reporting which is critical path and managerial path. Critical path describes sustainability reporting as hinder sustainability which means that the practice will vanish. The managerial path's perspective on sustainability reporting is as assistance to managerial decision making. Regardless of being hinder or an aid, this practice has become norm to companies' corporate social responsibility related dealing for investors and stakeholders. Sustainability reporting has undergone many transformations in the past few decades. The process began with employee reporting to social reporting, environmental reporting, Triple Bottom Line reporting and finally to sustainability reporting (Joseph et al., 2014).

A motive of sustainability reporting is explained through main accounting theory which include accountability, legitimacy and political theories (Deegan, 2002). There are so many reasons to produce sustainability reporting. However, this report can enhance risk management and corporate reputation (Bebbington et al., 2008). Extraordinary corporate reputation increases the brand value of the company which will contribute to successful business. Nowadays, many

companies are engaged in sustainability reporting. For example from the past research, in Sweden there are quite number of companies had these reporting practices. Such as Electrolux, ESAB, ITT Flygt, the Scandinavian Airline System (SAS), Schenker BTL, Swedbank (Föreningssparbanken), Sydkraft, Swedish Meats, Volvo Car Corporation (VCC) and AB Volvo (Hedberg and Malmborg, 2003). The researcher chose these companies because the GRI guidelines were used in their report.

Besides, numbers of companies that produce sustainability reports are different from one sector to another sector. Szekely and Brocke (2017) stated that in past years, industries related to automobiles, chemical, oil and gas, food and beverages' published sustainability reports above the average level whereas services, communications, financial companies and media sectors were not active in reporting their sustainability practices.

Khan et al (2010) found that among the developed and developing countries, Spain has the highest number of sustainability reports one hundred twenty eight reports followed the United States one hundred reports into next place. Europe is on the top with forty nine percent in which the reporters were known to GRI followed by Asia with fifteen percent includes countries like Japan, Republic of Korea, China, and India. Besides, in North America is Fourteen percent and Latin-American is twelve percent. However, the lowest rate is in Oceania with six percent and four percent from Africa.

### ***Sustainability Reporting in Malaysia***

Malaysia is one of the Asian country that growing rapidly. There is no doubt that it highly faces the tension between economic stimulus and claim of social consciousness especially on environment (Sumiani, 2006). Thus, there is an increase need for every company to understand the reason of publishing sustainability report. Malaysian government requires all listed firms in Malaysia to disclose companies' sustainability activities to in annual report starting from the year 2007. In 2006, this sustainability requirement has been gazetted in the Bursa Malaysia Listing Requirements under Appendix 9C in Para 29 of Ministry of Finance (Aman et al., 2015). Implementation of sustainability reporting demand the involvement of accounting practitioners, National Audit department and local authority to enhance the level of transparency (Joseph, 2010). Zulkifli and Amran (2006) stated that in Malaysia, the Financial Reporting Standard (FRS) 101 clearly mentioned that the management of an organization should include additional information to their annual report if that would aid stakeholder to make a better decision. A comparative analysis has been done on the social responsibility awareness among Malaysian and Singaporean firms (Ramasamy and Ting, 2004). Ramasamy and Ting (2004) argued that the awareness of corporate social responsibility among Malaysians has increased. Many NGOs have given their contribution to the social and environmental awareness. However, the result shows that there is no statutory requirement in Malaysia for public listed companies has been made to include information regarding CSR activities. Soon after, the revised version has required disclosing information that benefits or influencing the financial performance of a company. According to KPMG survey in 2017, 93% of top 100 companies by revenue in Malaysia have included sustainability information in their annual report. The KPMG's head of governance and sustainability said that companies are seeking sustainability reporting to strengthen their credibility among stakeholders.<sup>2</sup> Besides, the survey

---

<sup>2</sup> Kasturi Nathan Head of KPMG's governance and sustainability speech: "Companies now see sustainability reporting as a way to strengthen their credibility among their stakeholders, with a clear acceptance that sustainability practices and meaningful disclosures reporting can become catalysts to gaining competitive business advantage in the pursuit of business longevity".

also discovered that the use of integrated reporting is only up to 5% as compared to sustainability reporting from total surveyed companies.<sup>3</sup> This indicates that the awareness of integrated reporting among companies is still low. As discussed earlier in chapter one, CGMA has come out with ten key elements for a sustainable business. Figure 1 will show a detail description on the elements.

Strategy and planning	Execution and alignment	Performance and reporting
1. Take a wide view on sustainability Identify risks, opportunities and sustainability factors of company.	4. Bear in mind that you are not alone. Engage with national and international industries to be more sustainable.	8. Match profit to sustainability Using environmental friendly resources and produce less waste could improve business profits and cost less.
2. Define sustainability based on company's view. Company can focus on right goals by having clear understanding.	5. Be responsible and have broad communication. The right person has to be in charge in delivering strategies. Management need to talk on sustainability to all level in the organisation.	9. Measure, monitor and analyse Keep tracking and reviewing the progress in achieving goals.
3. Associate with stakeholders Discuss on sustainability with investors, customers and employees. Get ideas from theme to develop the business quality.	6. Do step by step To become more sustainable, efforts have to be taken time to time for future benefits. 7. Walk the talk Meaningful actions should be taken to be sustainable.	10. Investing in future When sustainability achieved, investors and customers tend to be regular dealers with company.

**Figure 1: Ten key elements of sustainable business (source from www.cgma.org)**

### ***GRI Sustainability Reporting Guidelines***

Many definitions or descriptions have been given to address sustainability or sustainability reporting. However, the most important thing is to publish a transparency report. Companies that spending more time and money in practising sustainability, has to come out with a report shows that they have spent such activities for companies' development. The most significant guidelines in sustainability reporting is originated from Global Reporting Initiative (GRI). GRI was found in 1997 by the Coalition for Environmentally Responsible Economies (UNEP). The GRI originally published in early 2000. The purpose of GRI is to help companies in creating sustainability reports that give positive impact to their business in social, environmental and economic aspects. GRI planned to establish their guidelines as an international framework for all sectors (Isaksson and Steimle, 2008). GRI is a multi-stakeholder non-profit Amsterdam based organization delivers worldwide standards to sustainability reporting (Fonseca et al., 2012).

<sup>3</sup> Source from <http://www.theborneopost.com/2017/10/25/kpmg-malaysias-top-100-leads-sustainability-reporting-practices/>

The GRI provides a powerful definition of sustainability reporting. Sustainability reporting defined as activity that comprise of quantifying, disclosing and being responsible to internal and external stakeholders for an organization’s level of performance in order to achieve goal towards sustainable development. According to third version (G3) of GRI in 2006, three main elements such as reporting guidelines, sector supplements and indicator protocols have been discussed in detail. These include information on how to report and what to report. In 2013, G3 has been demolished and substituted with forth version (G4). This G4 emphasizes more on materiality and sustainability context. In 2016, the GRI G4 guidelines changed to GRI Sustainability Reporting Standards. Figure 2 illustrates the transformation in GRI over the period.



**Figure 2: GRI Transformation (Source: [www.sustainablebrands.com/transitioning-to-the-new-gri-global-standards-uptotheminute-news-and-analysis](http://www.sustainablebrands.com/transitioning-to-the-new-gri-global-standards-uptotheminute-news-and-analysis))**

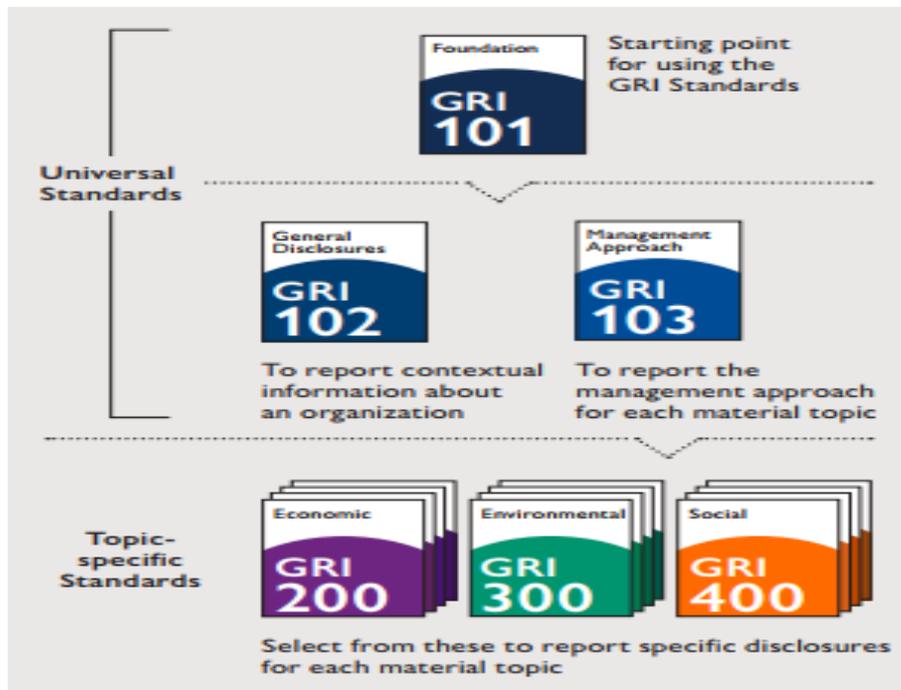
G4 Guidelines has two parts, known as general standard disclosures and specific standard disclosures. The general standard disclosures has seven aspects such as organizational profile, strategy and analysis, identified material aspects and boundaries, stakeholder engagement, report profile, governance followed by ethics and integrity while specific standard disclosures has three main aspects such as economic, environmental and social. There are few sub-elements in these three aspects.

The new GRI Standards has six themes in total.<sup>4</sup> The themes were divided into two groups of standards such as universal standards and topic specific standards. There are three aspects under universal standards. Each aspect has its own code of standards. Firstly, GRI 101 is called foundation. This code applies to any organization that wants to report on economic, environmental and social impacts. Next is followed by GRI 102: General Disclosures. This aspect has few elements such as organizational profile, strategy, ethics and integrity, governance, stakeholder engagement and reporting practice. GRI 103: Management Approach sets out reporting requirements about the approach an organization use to handle material topic. These GRI 102 and 103 are used together with GRI 101.

Other than that, under specific standards, the first standard is about economic with the code GRI 200. This standard has six sub-standards and each sub unit has its own code to refer. GRI 300 is about environmental. This topic has eight sub-units with respective codes. Lastly, GRI

<sup>4</sup> Standards followed according to the Consolidated set of GRI Sustainability Reporting Standards 2016.

400 on social. This aspect has 19 sub codes for each sub element. Hence, this standard will be effective for reports and other materials published on or after 1 July 2018. However, earlier adaptation is encouraged. Basically, this GRI Standards are based on the content from G4 Guidelines. The main changes and improvements are the new standards were organized as a set of modular, revised the format with clearer requirements, contents are clarified, greater flexibility and transparency in using standards, selected contents restricted and relocated and finally the use of simple language as compared to G4 Guidelines. Figure 3 illustrates the overview of GRI Standards.



**Figure 3: Overview of the set of GRI Standards**  
 (Source: [www.globalreporting.org/standards](http://www.globalreporting.org/standards))

Isaksson and Steimle (2008) mentioned in their research that the GRI guidelines require excellent contents for sustainability reporting on company profile, governance structures, and management of sustainability matters like environmental, social and economic measurements. A GRI standard has defined some principles related to the report contents to enhance the quality of sustainability reporting and generate transparency. The principles are reliability, clarity, accuracy, comparability, timeliness and balance (Feijoo et al., 2014).

Moneva et al (2006) argued that evidence from prior studies shows that the guidelines has been used in a biased way in some companies. Some firms label themselves as GRI reporters do not behave in an ethical way to the social equity like the health care companies in South Africa and on the human rights especially some oil companies in developing countries. However, the evidence can be proved wrong and errors might be occurred when generating the ideas for sustainability from the guidelines. KPMG’s survey of corporate responsibility reporting in 2017 reported that 25% from top 100 companies by revenue of Malaysia preparing their annual report or sustainability report in accordance with GRI guidelines.<sup>5</sup>

<sup>5</sup> Sources from <http://www.theborneopost.com/2017/10/25/kpmg-malaysias-top-100-leads-sustainability-reporting-practices/>.

### *Firm Performance and Reporting*

Basically, firm performance can be viewed as a part of business development of firm. Mishra and Suar (2010) studied whether CSR influence firm performance in India and the result shows positive relationship exists between CSR and firm performance. This indicates that when CSR is applied automatically it will affect firm performance. At the same time, Flammer (2012) argued that CSR is not suitable and difficult to measure firm's financial performance.

Furthermore, high social performance tends to achieve low stock returns (Brammer et al., 2006; Martínez-Ferrero, Garcia-Sanchez & Cuadrado, 2015). It is good for the organisation's business in future if their return on stock is low. In general when companies' social and environmental issues were in control and well managed, definitely firm performance and value will increase. All the findings on the previous research show that sustainability reporting has improved financial performance. However, still there are lacks of theories or texture to support the relationship. Taking into realization, this study will use more current data to examine whether sustainability reporting leads to firm performance.

Another way to measure firm performance is by looking at their financial performance (FP). Financial performance measures are the best way to analyse firm performance. Griffin and Mohan (1997) found that there were 80 types of FP indicators used in studies of CSR and firm performance. Return on assets (ROA), return on equity (ROE), earning per share (EPS), return on sales are most commonly used FP measures. Berman et al., (1999) claimed that ROA is the reliable measure of FP. It is because ROA is not influenced by the changes in the firm's leverage. Mishra and Suar (2010) mentioned that ROA is positively correlated to stock price. So when the ROA is high it will create high value to the shareholders. ROA indicates profitability of a company to its total asset.

In addition, ROE used to measure company's income that has been returned as shareholder equity. Jones et al. (2007) studied the sustainability reporting in Australian firms. They used annual reports, and sustainability reports from companies' websites to collect the data. Data from these reports were then compared with financial performance measurements like cash flow, financial ratios and profitability. The findings shows that there is a positive relationship between sustainability and companies financial measures.

Lins et al (2016) did a research on the value of corporate social responsibility during the financial crisis mainly on the social capital, trust and firm performance. They examined the effect of corporate social responsibility on firm performance through five different categories such as community, diversity, employment, environment and human rights. The result shows a positive relationship between corporate social responsibility and firm performance. Besides, Montabon et al., (2007) in their research have concluded that environmental management practices have a positive relationship with firm performance. However, studies in Malaysia on the relationship between sustainability reporting and firm performance is still low. According to one of the study, Kasbun et al., (2016) stated that there is no sufficient evidence to show that companies that disclosed sustainability reporting elements have a better financial performance compared to companies that does practice sustainability reporting. They mentioned that this problem is due to insufficiency of reporting in Malaysia.

*H1: There is a relationship between sustainability reporting and firm performance.*

## Methodology

As for this study, only firms that are applying sustainability practices will be considered in the samples. The data is covered for the year 2016 to observe the existence of GRI elements in sustainability reports. GRI G4 guidelines used to study the sustainability reporting elements. It is still a new study and knowledge being carried out to examine the relationship between sustainability reporting and firm performance. Among the population, 100 samples has been chosen in this study. Minority Shareholder Watchdog Group (MSWG) of Malaysia has come out with top 100 firms with good disclosures. Good disclosures means either the company has disclosed all information which are necessary or some of it. These samples were selected based on the data published by MSWG Malaysia as of 2017. Data used in this study were collected from secondary sources of data. Mainly the needed information was extracted from company's sustainability report. If the company not publish any sustainability report then I will refer to CSR and other related components in the annual report. These reports can be obtained from Bursa Malaysia.

Each variable has its own description and use to influence this study. In this study, sustainability reporting does not have any specific figures. Therefore, dummy variables have been created to differentiate the existence of sustainability reporting elements in the data analysis. Score of 1 and 0 are given to indicate the presence of sustainability reporting element is shown below. Exist = 1, Not exist = 0. The common assumption is that the more the sustainability reporting elements in a report the better the quality of the firm. Performance of a company is not only depends on its efficiency of the company but also on the market where it operates. As per Baron (2000), the performance of an organization is highly affected by their business operations in market and non-market environments. As in general, a firm's performance is mostly determined by their financial performance. If their financial level is going strong, then there is a high chance for going concern. Moreover, these performances are also being reported in proxies as in the statement of comprehensive income and statement of financial position. Dechow (1994) did a study on the accounting earnings and cash flows as measures of firm performance. The researcher concluded that these measures are much suitable and reliable when come to evaluate firm performance.

Majority of firm performance studies are based on financial performance. McGregor (2009) suggested using standardised financial statements and ratios to compare financial performance would create a constant interpretation of accounting practices. Therefore, four key indicators of financial performance such as ROA, ROE for profitability and EPS, DPS for equity valuation. The CSR index has been divided into 12 variables for five variables such as economic prosperity, marketplace, community, workplace and environment. The modified firm performance measure is referred to the research of Murtaza et al (2014). They measured the firm's performance through profitability elements like return on asset (ROA), ROE and EPS. Hence, the model that validates the set of hypothesis is as follows:

$$[(SR)]_i = \beta_1 [(FP)]_i + \epsilon_0$$

(Equation 3.1)

Where,

i	=	Firm
SR	=	Sustainability Reporting
FP	=	Financial performance indicators
$\epsilon$	=	Error margin

In this model, the coefficient on  $\beta_1$  describes the weighted index of sustainability reporting.

## Result and Discussion

### *Correlation Analysis*

Correlation analysis is a method of statistical estimation used to study the strength of relationship between two variables. The most common measure of correlation is the Pearson Correlation. Hence, this study used Pearson Correlation to measure the linear relationship among two sets of data.

**Table 1: Correlation Analysis on ROA**

	<b>Sustainability Reporting</b>	<b>ROA</b>
<b>Sustainability Reporting</b>	1	0.932
<b>ROA</b>	0.932	1

Significant at level of 1% (2 tailed)

**Table 2: Correlation Analysis on ROE**

	<b>Sustainability Reporting</b>	<b>ROE</b>
<b>Sustainability Reporting</b>	1	-0.14
<b>ROE</b>	-0.14	1

Significant at level of 1% (2 tailed)

**Table 3: Correlation Analysis on EPS**

	<b>Sustainability Reporting</b>	<b>EPS</b>
<b>Sustainability Reporting</b>	1	0.844
<b>EPS</b>	0.844	1

Significant at level of 1% (2 tailed)

**Table 4: Correlation Analysis on DPS**

	<b>Sustainability Reporting</b>	<b>DPS</b>
<b>Sustainability Reporting</b>	1	-0.065
<b>DPS</b>	-0.065	1

Significant at level of 1% (2 tailed)

Based on the table above, the result in Table 1 shows positive correlation between dependent and independent variable. This indicates that there is a strong and positive relationship between sustainability and ROA however the relationship between ROE are negative and weak as in Table 2. Moreover, the result shows positive correlation between sustainability and EPS as in Table 3 but relationship between DPS does not exist or very weak as in Table 4.

In testing the robustness of this data analysis, the sample is restricting to those firms with sustainability reporting to observe the existence of GRI elements in sustainability reports. As, we do a number of robustness checks across firm size, time, industry, etc. The effect that we document is not driven by any of these factors.

**Table 5: Multiple Regression Result**

Model	Coefficients (Beta)	p- value	R-squared	Adjusted R-squared
ROA	0.923	0.00***	0.851	0.85
ROE	-0.014	0.89	0.00	-0.10
EPS	0.844	0.00***	0.712	0.709
DPS	-0.065	0.521	0.004	-0.006

\*\*\* Significant at level of 1% ; \*\* 5% ;\* 10%

The results on regression analysis in Table 5, shows that among the four models, p-value of ROA and EPS as a proxy of firm performance has significant effect on sustainability. While, ROE and DPS as a measurement for firm performance have not significantly effect on sustainability reporting. This indicates that to measure firm performance to sustainability reporting, ROA and ROE are suitable indicators to measure firm performance. Besides, the Pearson correlation coefficient also supports the results of regression. The correlation is said to be significant when the significant value is more than 0.01. ROA and EPS with correlation of 0.923 and 0.844 respectively show a sign of strong relationship between those two indicators and sustainability reporting. However, for ROE and DPS with the value of -0.14 and -0.065 are not sufficient to prove that the relationship does exist. Hence, the results suggest that the best model for measuring firm performance in relation to sustainability reporting and ROA and EPS results a positive relationship but ROE and DPS demonstrates a negative relationship. In other words, a relationship exists between sustainability reporting and firm performance. Therefore, the results of study support the hypothesis that has been developed i.e H1.

In addition, the results for positive relationship are consistent with the previous studies such as Mishra and Suar (2010) and Jones et al., (2007). Therefore, if the company applies more sustainability reporting elements, they tend to create better performance. Other than that, the findings on the negative relationship are also consistent with the studies done by (Wet and Toit, 2007) and (Velnampy et al., 2014). Wet and Toit (2007) stated that although return on equity is a popular measure, but it is a defective measure of corporate financial performance. In addition, measuring dividend payout does not contribute to the firm performance (Velnampy et al., 2014). Hence, using suitable financial indicators to study the relationship between sustainability reporting and firm performance is essential to know how well the sustainability matters affect the firm performance. The R squared and adjusted R squared as produced by bivariate regression as shown in table above for ROA and EPS are practically healthy. The R2 for ROA and EPS are 85.1% and 71.2% while the adjusted R2 are 85% and 70.9% respectively. However, for ROE and DPS the R2 are 0.00 and 0.004 whereas the adjusted R2 are -0.10 and -0.006.

### **Conclusion**

This study investigates the sustainability reporting and firm performance in the year of 2016 among the Malaysian Listed companies. The relationship between sustainability reporting and firm performance is identified by using financial performance indicators such as return on asset, return on equity, earnings per share and dividend per share. The findings of the study show that it supports the hypothesis of study which is mirrored as research objectives. Therefore, the results show that there is a relationship between sustainability reporting and firm performance among Malaysian listed companies which is consistent from previous researchers,

such as Mishra and Suar (2010; Jones et al., (2014); Wet and Toit (2007) and Velnampy et al., (2014).

The limitation of this study is that, it conducted only for one year is because the GRI guidelines in 2015 are different from 2016. It is said that the GRI will continue to recognize reports based on G3 and G3.1 Guidelines for up to two full reporting cycles. However, the report published after 31 December 2015 should be prepared in accordance with the G4 guidelines. So, it is not suitable to collect data with different guidelines as it will give different results. Besides, the sample is limited to only 100.

The recommendations for the future research are to compare the Malaysian Listed companies to other countries to see the differences in firm performance. Besides, further indicators such as return on sale and net profit margin could be added to the model to examine the relationship of these models of firm performance on sustainability reporting. Expanding the sample size and years would give results that are more reliable.

## References

- Adams, M., Thornton, B., & Sepehri, M. (2012). The impact of the pursuit of sustainability on the financial performance of the firm. *Journal of Sustainability and Green Business*.
- Aman, Z., Ismail, S., & Bakar, N. S. (2015). Corporate Sustainability Reporting: Malaysian Evidence. *The 2nd International Conference on Management and Muamalah*. <https://doi.org/10.1007/978-94-007-1697-1>
- Amran, A., & Siti Nabiha, A. K. (2009). Corporate social reporting in Malaysia: A case of mimicking the West or succumbing to local pressure. *Social Responsibility Journal*. <https://doi.org/10.1108/17471110910977285>
- Barney, J. (1991). Firm Resources and Sustained Competitive Advantage. *Journal of Management*. <https://doi.org/10.1177/014920639101700108>
- Correia, C., Flynn, D., Uliana, E., Wormald, M., & Dillon, J. (2015). Stakeholder considerations and good corporate relationships. In *Financial Management*. <https://doi.org/10.1007/s10340-012-0440-3>
- De Wet, J. H. V. H., & Du Toit, E. (2007). Return on equity: A popular, but flawed measure of corporate financial performance. *South African Journal of Business Management*.
- Deegan, C. (2002). Introduction: The legitimising effect of social and environmental disclosures – a theoretical foundation. *Accounting, Auditing & Accountability Journal*. <https://doi.org/10.1108/09513570210435852>
- Fernandez-Feijoo, B., Romero, S., & Ruiz, S. (2014). Effect of Stakeholders' Pressure on Transparency of Sustainability Reports within the GRI Framework. *Journal of Business Ethics*. <https://doi.org/10.1007/s10551-013-1748-5>
- GRI. (2011). G3 Sustainability Reporting Guidelines. *G3 Guide*. <https://doi.org/10.5465/amr.2012.0244>
- Dechow, P. M. (1994). Accounting earnings and cash flows as measures of firm performance. The role of accounting accruals. *Journal of Accounting and Economics*. [https://doi.org/10.1016/0165-4101\(94\)90016-7](https://doi.org/10.1016/0165-4101(94)90016-7)
- Fonseca, A., McAllister, M. L., & Fitzpatrick, P. (2012). Sustainability reporting among mining corporations: A constructive critique of the GRI approach. *Journal of Cleaner Production*. <https://doi.org/10.1016/j.jclepro.2012.11.050>
- Frost, G., Jones, S., Loftus, J., & Van Der Laan, S. (2005). A survey of sustainability reporting practices of Australian reporting entities. *Australian Accounting Review*. <https://doi.org/10.1111/j.1835-2561.2005.tb00256.x>
- Global Reporting Initiative. (2015). *G4 Sustainability Reporting Guidelines*. *Global Reporting*

- Initiative* (pp. 1–97). <https://doi.org/10.1590/S0101-60832006000700003>
- Griffin, J. J., & Mahon, J. F. (1997). The corporate social performance and corporate financial performance debate: Twenty-five years of incomparable research. *Business and Society*. <https://doi.org/10.1177/000765039703600102>
- Herzig, C., & Schaltegger, S. (2006). Corporate sustainability reporting: An overview. In *Sustainability Accounting and Reporting*. [https://doi.org/10.1007/978-1-4020-4974-3\\_13](https://doi.org/10.1007/978-1-4020-4974-3_13)
- Hwang, Y., Kettinger, W. J., & Yi, M. Y. (2015). Personal information management effectiveness of knowledge workers: Conceptual development and empirical validation. *European Journal of Information Systems*. <https://doi.org/10.1057/ejis.2014.24>
- Isaksson, R., & Steimle, U. (2009). What does GRI-reporting tell us about corporate sustainability? *TQM Journal*. <https://doi.org/10.1108/17542730910938155>
- Joseph, C. (2010). Content Analysis of Sustainability Reporting on Malaysian Local Authority Websites. *The Journal of Administrative Science*.
- Kasbun, N. F., Teh, B. H., & Ong, T. S. (2016). Sustainability Reporting and Financial Performance of Malaysian Public Listed Companies. *Institutions and Economics*. [https://doi.org/10.1016/S0022-3913\(12\)00047-9](https://doi.org/10.1016/S0022-3913(12)00047-9)
- Khan, M. H. U. Z., Islam, M. A., Fatima, J. K., & Ahmed, K. (2011). Corporate sustainability reporting of major commercial banks in line with GRI: Bangladesh evidence. *Social Responsibility Journal*. <https://doi.org/10.1108/174711111111154509>
- Lins, K. V., Servaes, H., & Tamayo, A. (2017). Social Capital, Trust, and Firm Performance: The Value of Corporate Social Responsibility during the Financial Crisis. *Journal of Finance*. <https://doi.org/10.1111/jofi.12505>
- López, M. V., García, A., & Rodríguez, L. (2007). Sustainable development and corporate performance: A study based on the Dow Jones sustainability index. *Journal of Business Ethics*. <https://doi.org/10.1007/s10551-006-9253-8>
- Martínez-Ferrero, J., García-Sánchez, I. M., & Cuadrado-Ballesteros, B. (2015). Effect of financial reporting quality on sustainability information disclosure. *Corporate Social Responsibility and Environmental Management*, 22(1), 45-64.
- Mishra, S., & Suar, D. (2010). Do stakeholder management strategy and salience influence corporate social responsibility in Indian companies? *Social Responsibility Journal*. <https://doi.org/10.1108/17471111011051784>
- Mishra, S., Suar, D., & Mishra, S. (2010). Does Corporate Social Responsibility Influence Firm Performance of Indian Companies? *Journal of Business Ethics*. <https://doi.org/10.1007/s10551-010-0441-1>
- Moneva, J. M., Archel, P., & Correa, C. (2006). GRI and the camouflaging of corporate unsustainability. *Accounting Forum*. <https://doi.org/10.1016/j.accfor.2006.02.001>
- Montabon, F., Sroufe, R., & Narasimhan, R. (2007). An examination of corporate reporting, environmental management practices and firm performance. *Journal of Operations Management*. <https://doi.org/10.1016/j.jom.2006.10.003>
- Morros, J. (2016). The integrated reporting: A presentation of the current state of art and aspects of integrated reporting that need further development. *Intangible Capital*, 12(1), 336–356. <https://doi.org/10.3926/ic.700>
- Newson, M., & Deegan, C. (2002). Global expectations and their association with corporate social disclosure practices in Australia, Singapore, and South Korea. *International Journal of Accounting*. [https://doi.org/10.1016/S0020-7063\(02\)00151-6](https://doi.org/10.1016/S0020-7063(02)00151-6)
- Othman, R., & Thani, A. M. (2010). Islamic Social Reporting Of Listed Companies In Malaysia. *International Business & Economics Research Journal (IBER)*. <https://doi.org/10.19030/iber.v9i4.561>
- Pelozo, J. (2009). The challenge of measuring financial impacts from investments in corporate social performance. *Journal of Management*.

- <https://doi.org/10.1177/0149206309335188>
- Ramasamy, B. (2004). A Comparative Analysis of Corporate Social Responsibility Awareness. *Journal of Corporate Citizenship*. <https://doi.org/10.9774/GLEAF.4700.2004.sp.00013>
- Ramasamy, B., & Yeung, M. (2009). Chinese consumers' perception of corporate social responsibility (CSR). *Journal of Business Ethics*. <https://doi.org/10.1007/s10551-008-9825-x>
- Reddy, K., & Gordon, L. W. (2010). The effect of sustainability reporting on financial performance: An empirical study using listed companies. *Journal of Asia Entrepreneurship and Sustainability*. <https://doi.org/10.1002/ejoc.201200111>
- Schaltegger, S., & Burritt, R. L. (2010). Sustainability accounting for companies: Catchphrase or decision support for business leaders? *Journal of World Business*. <https://doi.org/10.1016/j.jwb.2009.08.002>
- Turban, D. B., & Greening, D. W. (1997). Corporate Social Performance And Organizational Attractiveness To Prospective Employees. *Academy of Management Journal*. <https://doi.org/10.2307/257057>
- Velnampy, T., & Nimalthasan, P. (2013). Corporate Governance Practices, Capital Structure And Their Impact On Firm Performance: A Study On Sri Lankan Listed Manufacturing Companies. *Research Journal of Finance and Accounting*.
- Wcx, D. I. (1991). CORPORATE SOCIAL PERFORMANCE REVISITED. @BULLET *Academy Of Management Review*. <https://doi.org/10.1177/0149206305277797>