A CONCEPTUAL PAPER ON THE MODEL OF SUSTAINABILITY DISCLOSURE ON FIRM PERFORMANCE

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Abstract

Purpose – *The purpose of the paper is to identify the Economic, Environment and Social (EES) information disclosed by the companies in their Sustainability Reporting (SR) and the governance influence and to discover whether the extent of EES disclosures on SR have direct influence and affect firms' financial performance.*

Design/Methodology/Approach – *This paper examined the review of literature related to EES and financial performance (FP). This study is grounded on four (4) theories, stakeholder theory, legitimacy theory, agency theory and signaling theory.*

Findings –*The disclosure of EES in SR has a positive effect on financial performance in long term. SR is to deliver this information to get support from investors who can move the market, recover value of the company and will indirectly improve the economic system of the world.*

Originality/value – *This paper is the first to use the second edition of SR guideline for quantitative guidance and some qualitative areas are more specific by using United States, Sustainability Accounting Standard (SASB) tools as the measurement. Therefore, some SASB measurement will be taken especially on ecological design and project development. This paper is to discuss the disclosure of economics, environment and social dimension related to listed companies' business operations and investments to the other organizations and community economically. The main objective is to sustain the business in long term, reduce the presence of greenhouse gases (GHG) in the atmosphere and carbon dioxide (CO2) emissions.*

Keyword- *Malaysia, Economics, Environment, Social, Sustainability Reporting, Climate-related Financial Disclosure (TCFD), Sustainability Disclosure, GRI,* Sustainable Development Goals *(SDG), Bursa Malaysia, CSR*

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1. Introduction

Sustainability reporting (SR) is the practice of measuring, disclosing, and being accountable to internal and external stakeholders for corporate performance towards the goal of sustainable development (GRI, 2006, p. 3). SR is gradually improving economic benefits and engage the readers of annual report aware the value of conservation of the environment which include minimizing costs such as single used of plastic, saving resources and energy, recycle materials and maximizing financial benefits. SR will enhance organizational creativity, companies' reputation, employee engagement, and harmonize the society (Ehsan, Gombak, & Lumpur, 2013; Hasan, Kobeissi, Liu, & Wang, 2018; Hou, 2019; Ioannou & Serafeim, 2017; Moreno, 2013; Narullia, Subekti, Azizah, & Purnamasari, 2019; Nizamuddin, 2018). However, many authors mentioned that sustainability reporting incur higher costs and difficult to measure (Benlemlih, Shaukat, Qiu, & Trojanowski, 2018; Christensen & Leuz, 2019; Garcia, Sousa-Filho, & Boaventura, 2018; Hou, 2019; Kasbun et al., 2016; Mia, 2011).

Paragraph 6.1, Practice Note 9, Main Market stated that as at 31 December 2015, Sustainability Statement (SS) is a listing requirement and must be incorporated in the annual reports (AR). Listed companies with market capitalization of 2 billion and above, must integrate the SS in annual report (AR) FYE on or after 31 December 2016. For listed company with market capitalization of 1 billion and above but below 2 billion, must integrate the SS in annual report (AR) FYE on or after 31 December 2017 and all other main market listed issuers must integrate the SS in annual report (AR) FYE on or after 31 December 2018 (Bursa Malaysia, 2018b). Companies in Malaysia are lacking of quantitative information and this may be due to the limited awareness and understanding of the sustainability concept among the employees, hard to gather all the valid sustainability information accurately. Further, a study by Sheikh Abu Bakar, Ghazali and Ahmad (2019) which was done on the first year of the amended listing requirement and SRG implementations show that companies are still in the learning and adapting process.

Bursa Malaysia has proposed an initiative and it is to imply the urgent need to study and implement the new edition of sustainable reporting which include the Sustainable Development Goals (SDG) and the Task Force on Climate-related Financial Disclosure (TCFD) recommendations among Malaysian companies starting in 2018. So, this guidance is still new and evidences for these studies is limited. Sustainability reporting (SR) is an extension of Corporate Social Responsibility (CSR) to include the environmental and economic dimensions instead of only social responsibility disclosures. There was limited academic research on SR in Malaysia (Kasbun, Teh, & Ong, 2016).

2. Literature Review

The history of Sustainability Reporting was originated from Corporate Social Responsibility (CSR) Reporting or non-financial reporting. The studies have been structured in many countries include Australia, Brazil, China, Germany, Hong Kong, Indonesia, Japan, Malaysia, South Africa, Taiwan, UK and USA.

According to Berete and Clinefelter (2011), CSR begun in 1950s (Carroll, 1999) but the source about the concept was found in 1930s (Okoye, 2009). The idea was arising from literature about the role of managers in two (2) articles (Berle,1931; Dodd,1932). In 1937, Sokolsky published about social responsibility (SR) of corporation, then in 1948, Stans highlighted the essential of SR in accounting. CSR has been introduced by Bowen (1915) and defined CSR as the policies, decisions and actions that parallel with the values of community. Ever since, they have many opinions about the idea of social responsibility (Davis,1972). Different meanings of CSR arisen in the 1980s and 1990s (Carroll, 1999). CSR combined with many thoughts such as corporate citizenship, social performance, stakeholder theory and business ethics theory in 1990s. More development on CSR theories and measurement should be initiated in the future (Caroll,1999).

In spite of great number of researches discussing CSR, it is still difficult to agree on the definition (Fifka,2009: Okoye,2009). Russo and Pirrini (2010) describe CSR requires companies to enhance associations with their stakeholders. Firms are expected to disclose social and environment information because of strong pressures from the stakeholders such as shareholders, governments, employees, community interest groups and the general public (Estes, 1976; Ogan & Ziebart, 1991). According to Tilt (2002), stakeholders have certain judgements about Corporate Social Disclosure (CSD). Stakeholders discovered it was inadequate and maybe unreliable, even though annual report is the primary instrument for CSD. Companies must have high ethical responsibilities and must disclose the group activities (Benston, 1982; Ogan and Ziebart, 1991). Standards or regulation to be announced to confirm that corporations are following to these responsibilities.

Tilt (2002) proposed a model of CSR report. The report would be incorporated in the business annual report and accompanied with other policy statements. A copy of the report would be reserved in an external agency for inspection by concerned parties. The report would be certified by some external to avoid unfairness, exclusion of significant or "bad news events", and to expand integrity. The presentation of the report must include monetary and non-monetary descriptive and terms and include information on all relevant interests and branches of the corporation.

Subsequent to debates on sustainable development and an increasing pressure for more information, accountability and transparency in corporate social responsibility from stakeholders (for example, shareholders', employees' and NGOs' interests), several companies integrated accounting on environmental, social and economic issues into TBL accounting (Hedberg and Von Malmborg, 2003; Ballou et al., 2006). TBL reporting includes the reporting of financial and non-financial areas to a broader set of stakeholders (Ballou et al., 2006). According to Elkington (1998, p. 70), the TBL concept consists of three aspects: ''economic prosperity, environment quality and – the element which business had preferred to overlook – social justice''. The TBL is standardized in the United Nations (UN) Global Compact, the OECD Guidelines for Multinational Enterprises, and the Global Reporting Initiative (GRI), (Munoz et al., 2017). Meanwhile, in United Kingdom has developed climate change agenda through establishing the UK Emissions Trading Scheme and mandatory Carbon Reduction Commitment with the aim of to encourage environmentally responsible roles among companies (Ferguson et al., 2016).

In Malaysian context, the CSR or sustainability activities became a listing requirement in 2006 by Bursa Malaysia. At that time, there was only a simple corporate social responsibility (CSR) framework that had four focal areas, which were the environment, community, marketplace and workplace. In December 2014, Bursa Malaysia and Financial Times Stock Exchange (FTSE) launched ESG index which was known as FTSE4Good Bursa Malaysia Index. This index is to support investors in making ESG investment, reveal the ESG practices companies, encourage best practice disclosure and support the transition to a lower carbon and more sustainable economy in Malaysia (FTSE4Good Bursa Malaysia Index, 2018).

Bursa Malaysia then launched its Sustainability Framework (EES), in October 2015, which is expected to help Malaysian listed companies in practicing, committing and reporting more on their business sustainability. The listing requirement came into force for large companies for the year ending 31 December 2016 (Bursa Malaysia, 2015). SR is to be the method companies integrate social, environmental and economic concerns into their values, culture, strategy, decision making and operations in a transparent and accountable manner. There is a growing consensus about the potential link between SR and business success (Reverte, 2016)

Even though sustainability disclosure has become a mandatory requirement in Malaysia, the regulatory body cannot ensure the extensiveness of a report. The quality of information was still low. Most probably because the information was either not disclosed at all or the information was too brief and more qualitative in nature. They lacked quantitative information. (Sheikh Abu Bakar et al., 2019).

2.1 Financial Performance

Financial performance is defined as assessing the outcomes of a firm's procedures and actions in monetary terms. These outcomes are revealed in the company's return on investment, return on assets, value added statement and many more ratio. (Dictionary, 2019). It is essential to comprehend the concept and evolution of CSR or SR disclosure for a better understanding of the relationship between Sustainability Reporting and FP. Kasbun et al. (2016) investigated the association between sustainability reporting and FP of public listed companies in Malaysia. The result suggested economic, social, and environmental (EES) sustainability reporting were correlated positively with the financial performance especially on ROE and ROA. Despite that, the many authors argued that management was not taking into account on the importance of sustainability reporting because of higher costs and difficulty of measurement (Benlemlih, Shaukat, Qiu, & Trojanowski, 2018; Christensen & Leuz, 2019; Garcia, Sousa-Filho, & Boaventura, 2018; Hou, 2019; Kasbun et al., 2016; Mia, 2011).

Financial performance measures remain the best method to analyze firm performance. The financial performance consists of Accounting and Market Performance. (Hou, 2019; Huang & Fu, 2019; Johari & Komathy, 2019; B. Wang, 2018; Xie, Nozawa, Yagi, & Fujii, 2017). All the results on the past study show that the firm's performance is somehow indicated by sustainability. However, there are still absences of concepts or text to support the association. This study attempts to see the effect of Sustainability Reporting with Malaysian Sustainable Development Goals, in the Sustainability Report on the FP of limited companies in Malaysia.

The meta-analysis studies from a sample of 29,098 out of 33,878 observations showed that there is a substantial positive association between CSR and Financial Performance. With stronger FP, reputation of the companies also improved with greater Corporate Social Responsibility Disclosure (CSRD) and thereby favoring companies' investment in such CSRD activities. (Orlitzky et al., 2003). The significant result show that electronic industries have a positive influence on CSR and CFP (Hou, 2019). EES is found to be positive and significant with financial performance such as EPS, stock prices and increase value relevant of Cash Flow information (Lian, 2019; Narullia et al., 2019; Reverte, 2016). The Economics, Environment and Social activities are positively associated with FP (Kasbun et al., 2016; Orlitzky et al., 2003; Xie et al., 2017). According to (Kasbun et al., 2016) sustainability reporting has improved in 2013 compared with 2006 and the disclosure does have a significant relationship with ROE. The non-significant result in Latin America shows that allocating funds to social issues does not guarantee improvement and may reduce financial result (Duque, Javier, & Caracuel, 2019). In Malaysia, CSR does not significantly influence CFP and not directly revealed in financial return. (Garcia et al., 2018; Lin, Ho, & Sambasivan, 2018).

2.1.1 Accounting Performance

Accounting measurement helps simplify complex situations. Company FP is broadly measured by accounting-based metrics, such as return on assets (ROA) and return on equity (ROE) (S. J. Cho, Chung, & Young, 2019; Gray, Adams, & Owen, 2014; Ong et al., 2019). The popular measurement in previous studies for financial performance are ROA, ROE and EPS, price per share, tobin Q, BVPS, net profit margin/ratio, firm size, board ownership %, leverage, ROS, market value, cash flow from operating activities per share, ROCE, growth in total asset and economic value added (EVA).

ROA is an indicator of how effective a firm's management in producing incomes from their economic resources or properties. ROA is the reliable measure of financial performance and it is positively associated to stock price. So, when ROA is high, it will create high value to the shareholders. (Hou, 2019; Johari & Komathy, 2019; Kasbun et al., 2016; Lin et al., 2018; B. Wang, 2018). Kasbun et al. (2016) investigated the association between sustainability reporting and FP of public listed companies in Malaysia. Result suggested that economic, social, and environmental sustainability reporting were positively correlated with the financial performance particularly on ROE and ROA.

Events such as emission lessening initiatives, climate change strategy and debate of climate change prospects and dangers, and new products linked to climate change and energy efficiency strategy have no substantial connection to corporate efficiency, ROA or market value. Instead, company size is positively connected to corporate efficiency and ROA (Xie et al., 2017). This show that Sustainable Development Goals has little or minimal correlation to corporate efficiency. From the argument of stakeholder theory, the climate change problem is associated to the major of stakeholders. ROA is higher if a company takings steps to use environmental technologies, issued a green building policy or plan and construction of its buildings (Xie et al., 2017).

Based on the finding of examined the relationship between board size and financial performance of non-financial firms listed on Nigerian Stock Exchange and the Kingdom of Bahrain, (Aktan, Turen, Tvaronavičienė, Celik, & Alsadeh, 2018; Sunday, Adekunle, & Michael, 2017) explained that there are positive and significant relationship between board size and ROA. Furthermore, many prior researcher are using ROA on investigated the relationship between corporate governance attributes and firm financial performance in Malaysia (Haniffa & Hudaib, 2006; M.Zabri, Ahmad, & Khai, 2016). The findings showed that board size have significant impact on ROA. However, previous researches had using ROA calculated the firm financial performance. The result showed that there is no significant relationship between board size and financials performance measured using ROA as the profitability measure (Ghabayen, Jaradat, Hardan, & Al-Shbail, 2018; Isik & Ince, 2016; Rana & Wairimu, 2017).

2.1.2 Market Performance

Firm performance is assessed over sales revenue, market share, profitability, competitive advantage, buyer approval and devotion. Market performance is the behavior of a security or asset in the marketplace (Dictionary, 2019). Merton's (1974) cited in (Yangyang Chen, Ng, Pittman, & Saffar, 2017; B. Wang et al., 2019) used the market value of a firm's equity in calculating a firm's default risk and captures the notion that market prices comprise of future information suitable for determining the possibility of evasion. Stock market information is used to assess the market performance, such as price per share or stock price increased, the effect of stock to EES practices and firm performance which assume that shareholders are a primary stakeholder group. (Hou, 2019; Orlitzky et al., 2003).

Company's stock price has risk of a future crash, if there is lack of information disclosed. If managers were to hide and accumulate bad news, and not reporting company internal issues (such as delayed projects, decreased profits, CEO succession, etc.), then the stock price of the company will be overvalued. (Hutton et al., 2009; Kim and Zhang, 2010; Kim et al., 2011) cited in (Yessica, 2017). The accumulated bad news will finally reach a serious point, then suddenly released at once to the stock market. As a result, instantaneously released bad news causes the stock price to crash (Yangyang Chen et al., 2017; Yessica, 2017; Kim et al., 2011).

The manager's behavior is consistent with the agency theory as it will give effect on stock prices and across-the-board market movement. Therefore, the researcher will find the yearly stock price to determine the firm performance.

In addition, investors used price earnings ratios (P/E ratio) to determine if company stocks are rationally priced. A low P/E ratio indicates a rapid growth in share prices and a high P/E ratio shows a slow growth in share prices. The demand for the share price will increase for the high P/E ratio because investor expect higher future growth from the company compared to the overall market (Shen, 2000). Economics, Social and Governance (ESG) activities reveal a positive association with market performance (B. Wang et al., 2019; Xie et al., 2017). The SR Guide provides suitable guidance on how to embed sustainability in an organization and assist to identify, evaluate and manage the material EES risks and opportunities which integrated with the Malaysian Sustainable Development Goals (MSDG) and the Task Force on Climate-related Financial Disclosure (TCFD) recommendations (Bursa Malaysia, 2018d, 2018b). The impact from sustainability-related risks such as scarcity of resources , changing social expectations and new legislative requirements in sustainability-related areas increase and leading corporations to incorporate EES considerations in response to the stated risks and challenges (Bursa Malaysia, 2015).

On 18 October, 2018, the mid review of the Eleventh Malaysian Plan summaries the realignment of socioeconomic policies and strategies for 2018-2020. The Mid-Term Review outlines six pillars to support inclusive growth and sustainable development. The fifth pillar focuses on enhancing environmental sustainability through green growth. The last pillar lays the foundation to strengthen economic growth across all sectors of the economy. The pillar V focused on the importance of natural resources and environmental sustainability in ensuring continuous economic growth and resilience of the nation against climate change and disaster. Several new legislations, policies and action plans were introduced, while existing financing mechanisms were strengthened to support the uptake of green initiatives.

The Malaysian Carbon Reduction and Environmental Sustainability Tool was adopted to encourage construction of green buildings. (Ministry of Economic Affairs, 2018). The implementation of Green Building construction is to ensure sustainable development and reduce the consumption and exploitation of natural resources. Malaysian Government has set up a framework known as “Green Building Index (GBI)” for assessing the ecological design and performance of Malaysian buildings. The GBI rating system was established in 2009 by Malaysian Institute of Architects and the Association of Consulting Engineers Malaysia (ACEN) (Algburi & Faieza, 2018; Ibrahim, Shafiei, & Ismail, 2013). However, the GBI was not incorporated in the SR Guide and to improve further some SASB measurement will be taken especially on ecological design and project development.

2.2 Economic, Environmental and Social Dimensions

Companies disclose more on economic dimension which includes information regarding how their business operations influence and contribute to the other organizations and community economically, such as how much their procurement for local suppliers, how they contribute to socio-economic of the community and local people and how they give indirect economic impacts toward community (Katmon et al., 2019; Sheikh Abu Bakar et al., 2019).

Based on (Kartadjumena & Rodgers, 2019), community investment of an organisation include the distribution of revenues, operation costs produced, employee compensation, donations and etc. to the community. According to studies by (Garcia et al., 2018; Hou, 2019; B. Wang et al., 2019), the monetary values invested in the community resulted a growth in the financial performance of an organisation. In addition, donation could also improve an organisation's community image and resulted an increase in sales (Lin et al., 2018). However, (Duque et al., 2019) argued that allocating funds to community does not improve the companies' competitive advantage, and resulted the reduction in financial performance. The climate-related financial risks and opportunities explained the potential positive and negative impacts of climate change on an organisation (Bursa Malaysia, 2018b). In Malaysia, seven (7) sectors have been identified as vulnerable to the impacts of climate change include agriculture, forestry, biodiversity, water resources, coastal and marine resources, public health and energy. Energy sector lead the rise of emission, contributed 76% and agriculture sector contributed 5% of GHG emission (Ho & Tang, 2018).

Agriculture production such as paddy and palm oil are highly depending on climate factor. Agriculture sector covered 8.1% of National Gross Domestic Products (Department of Statistics Malaysia, 2018; Ho & Tang, 2018; Murad, Molla, Mokhtar, & Raquib, 2015). It is a key source of global greenhouse gas (GHG) emissions especially in developing countries. Land clearing and other unsustainable practices cause a substantial carbon emission. The storage of carbon in the soils and unsustainable agricultural practices may lead to the direct release of GHGs, specifically methane and nitrogen emissions (Murad et al., 2015). In addition, construction industry released around half of the total CO2 emission from building operation, consumed non-renewable resources and producer of huge waste.

2.2.1 Economic, Environmental and Social Dimensions in Business Perspectives

Companies should consider not just their shareholders, but also their stakeholders, which include investors, consumers, suppliers, workers, communities, the environment, and government, particularly when making financial choices. Individuals or organisations that have benefitted or been hurt by company activity are referred to as stakeholders. (Jones & Felps, 2013; Munoz et al., 2017; Nizamuddin, 2018). The impact that business have on EES maybe negative or positive and stakeholders are aware of it. For example, construction activities may create a positive economy and social impact, for example providing job opportunities, improving quality of life of the communities but may also create a negative impact on the environment in form of water pollution, waste dumping, noise pollution and air pollution. This may impact the reputation and value of the companies, potential liabilities such as penalties from Department of Environment and the companies may end up increasing costs to improve back their reputation, (Bursa Malaysia, 2018b).

The disclosure of positive impact of EES or CSR activities can improve the profit, value of the company and significant influence on stock prices. Companies with higher EES disclosures appear to have higher stock prices (Narullia, Subekti, Azizah, & Purnamasari, 2019; Reverte, 2016; Sutopo & Kot, 2018). Therefore, the share price will positively significant if the companies invested for EES activities in the community. Financial statement information combined with the EES related information will explain the company's market value (Narullia et al., 2019; Sutopo & Kot, 2018). Market response to the EPS and information about the winners of SR awards and Book Value Per Share (BVPS) on shareholders expectation to sustain return on their investment (Sutopo & Kot, 2018). The integration of non-financial disclosure provides a better understanding of the companies' long-term corporate performance and EES reporting has the potential to link EES performance to future financial performance, which is relevant for investor decision making.

Market participants also value the non-financial disclosure provided by companies. Investors can use the information to make better estimates of the company's value and the price they are willing to pay for the company's shares. Enhanced transparency and more accurate estimates of future earnings results in investors being able to determine a more accurate share price for the company (Cormier and Magnan, 2007). Companies adopt specific CSR strategies to increase the legitimacy of the firms by the local community and these strategies are value relevant for companies that run in different backgrounds (Orlitzky, Schmidt, & Rynes, 2003; Pizzi, 2018).

There has been an argument that spending money for corporate socially responsible (CSR) activities would lead to a reduction in financial performance among companies. They claim that only profitable companies can have the funds to practice social responsibility (Frederick, 1978; Hou, 2019). However, many articles stated that the corporate social concern will lead to financial benefits because of the company's ability to minimize costs of operations or growing revenues, improving demand level and production. CSR also function as an advertising instrument that increases consciousness of firm products, positive impact on firm's image and reputation, positive impact on employee's motivation can increase revenue and softens consumer price sensitivity through higher of sales and market share (Hasan et al., 2018; Hou, 2019; Nizamuddin, 2018; Purnamasari, Hastuti, & Chrismastuti, 2015; B. Wang et al., 2019). In addition, companies in Japan reduced 'pollution emissions' has increased their financial performance through increase in demand for firms' products (Busch and Friede (2018), Nishitani et al. (2011) cited in B. Wang et al. (2019)) As a conclusion, socially responsible companies can accomplish better financial results than those firms which do not pursue CSR (Hou, 2019).

According to Huang & Fu (2019), companies should invest more in environmental responsibility and activities. Better environmental performance has better financial performance. By using environmentally friendly resources and produce less waste could improve business profits and cost less (Johari & Komathy, 2019). CSR reputation have substantive, meaningful, and asymmetric financial impacts in terms of profitability. If the firm are moving into noncompliance, it is clearly was costly for the firm. The firms will have more resources for CSR when the economy is strong than in a weak economy where the high opportunity cost may reduce CSR spending (Miller, Eden, & Li, 2018).

There is a significant effect of responsible leadership in promoting sustainable development on firm performance (Mousa & Puhakka, 2019; S. Wang, Huang, Gao, Ansett, & Xu, 2015). Larger boards are found effective in enhancing business performance through sharing of expertise, knowledge and experience in decision making process help improve performance, but this positive impact is reversed when reaching a certain size (13 directors). Effective boards focus on both monitoring and advising functions (Abdul Latif, Kamardin, Nisham, Taufil Mohd, & Che Adam, 2013; R. Fernando, 2012).

2.3 Theory Integration: Stakeholder Theory, Legitimacy Theory and Agency Theory.

Since there was a study done on the first year of the amended listing requirement and SRG implementations, this research intends to extend to the second year and until full implementations that is after 31 December 2018. The SR was originated from CSR history. It is an extension of Corporate Social Responsibility (CSR) to include the environmental and economic dimensions instead of only social responsibility disclosures. Therefore, the same CSR theories will be used for this research.

Stakeholder theory discussed on the community impact in terms of new infrastructure development, environmental aspects and climate change strategies. To gain public legitimation, companies must have SR. The legitimacy theory seeks on firm engagement in SR through ensuring of the available of natural resources for present and future generations need, measure the social aspect, Occupational Safety and Health (OSH), number of complaints, projects certification standard and other compliances. SR will improve firm reputation and with ethics and integrity will make business look legitimate.

Legitimacy theory also emphasize on the resources where managers must have strategies to ensure the continuation supply of related resource as business is depend on it to survive. This is aligned with resource dependence theory (Dowling and Pfeffer,1975; Deegan (2002a); Pfeffer and Salancik 1978). The Malaysian government has introduced the concept of green building and green home development which aim to protect environment and improve the quality of human life. This is one of the sustainable development goals for construction and property industries in Malaysia (Samari et al., 2013; Wira et al., 2017; Wira, Shafiei, Samari, & Ghodrati, 2013). According to Ioannou & Serafeim (2017), the previous literature discovered that disclosure regulations have an overall positive effect on firm’s value and contributing to long-term value creation. Therefore, the objective of this study to examine the overall impact of EES disclosure and firm’s value which based on reputational concepts. Reputational concept is a collective decision of a company based on financial, social and environmental evaluations made during the period (Pires & Trez, 2018; Swanson & Orlitzky, 2012).

The agency theory discussed on whether the SR disclosure are value relevant with the stock prices. This is essential for shareholders and investors to make financial decision whether to save for long term or to trade the shares to make a quick profit. Finally, the signaling theory will see how the risk and opportunities of EES, materiality assessment aspects and sustainable performance are delivered in SR. CEO and Board characteristics will influence the delivery of the news. The disclosure of positive and negative impact of EES has direct influence to stock prices and investor decision to invest.

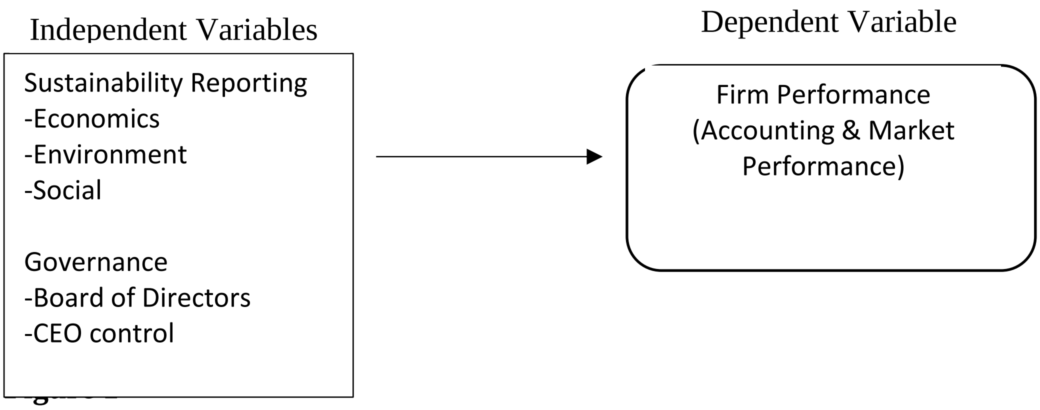
2.4 Sustainability Reporting Disclosure Framework

Based on the reviewed literature, there is a positive correlation between independent variables and firm profitability in creating firm value (S. J. Cho et al., 2019; Huang & Fu, 2019; Johari & Komathy, 2019; Kasbun et al., 2016; Lin et al., 2018; Martinez-Ferrero & Garcia-Sanchez, 2017; Orlitzky et al., 2003; Purnamasari et al., 2015; Reverte, 2016; St George, Houqe, van Zijl, & Karim, 2016; B. Wang, 2018; B. Wang et al., 2019) . Based on many hypothesis shows that the higher EES disclosure the company reported, the better financial performance they obtained (Hu, Dou, & Wang, 2019; Orlitzky et al., 2003; B. Wang, 2018) . However, in Latin America, the hypothesis shows that allocating funds to social issues does not guarantee improvement and may reduce financial result (Duque, Javier, & Caracuel, 2019). In Malaysia, some hypothesis shows that SR does not significantly influence FP and not directly revealed in financial return. (Garcia, Sousa-Filho, & Boaventura, 2018; Lin, Ho, & Sambasivan, 2018).

Many studies found a positive association between firm financial performance and SR disclosure (S. J. Cho et al., 2019; Johari & Komathy, 2019; B. Wang, 2018). SR disclosure is found to be positive and significant with ROA and stock prices. Hypotheses resulted that firm with higher SR disclosure appear to have higher stock prices and social performance and is highly correlated with accounting-based measures of FP (Lian, 2019; Orlitzky et al., 2003). In addition, governance information disclosure has the strongest positive linkage with corporate efficiency, followed by social and environmental information disclosure (Duque et al., 2019; Xie et al., 2017).

In agency theory, the disclosure of SR (EES) and material risk disclosure reduce the conflict between managers and shareholders and these communications directed to reduction of cost and directly will increase the financial performance. It also suggested that the additional disclosure can reduce the agency cost (Hou, 2019; Kartadjumena, 2019; Reverte, 2016). The objective of this study is to identify the extent of EES information disclosed after second edition of SR was issued by Bursa Malaysia in 2018 and to discover whether it has direct influence and affect firms' financial performance. From above discussions, we developed hypotheses as below;

H1: There are a comprehensive sustainability information in EES disclosure about how and what was disclosed.
H2: There is a significant positive relationship between SR disclosure and FP.
H2a: There is an impact of Environmental disclosure to the Financial Performance
H2b: There is an effect of Economics disclosure on Financial Performance
H2c: There is an effect of Social disclosure on Financial Performance
H2d: The EES disclosure are significant and have direct influence on the Financial Performance
H3: There is a significant positive relation between Corporate Governance and Financial Performance



Theoretical Framework: EES Disclosure in SR, Governance and Financial Performance.

3.0 Methods of Analysis

There are three (3) markets under Bursa Malaysia, they are Main board which consist of 805 companies, ACE Market with 114 companies, and LEAD Market with 2 companies. The annual report of 921 companies will be downloaded from Bursa Malaysia website. All are Malaysian Public Listed Companies are listed in Bursa Malaysia. Secondary data will be used in this research study. This research will cover two (2) years period ranging from 2020 to 2021 panel data analysis of the 921 companies will be used. The data used for all variables are collected from annual reports downloaded from Bursa Malaysia.

The data will be obtained from three types of report in Annual Report of each company consist of Integrated Reporting, Corporate Governance Report and Sustainability Report. The measurement for dependent variable of accounting measure was adapted from (Hou, 2019; Johari & Komathy, 2019; Kasbun et al., 2016; Lin et al., 2018; B. Wang et al., 2019). Meanwhile, for market-based measurement was adapted from Dictionary (2019), Jung, Yae, & Zheng (2021) and Shen (2000) where P/E ratio and annual return of stock price will be used to measure the effects of SR reporting and EPS calculation is based on (net income-preferred dividend)/ weighted average share outstanding. The SR disclosure was measured using a combination of Bursa Sustainability Reporting Guide and United States Sustainable Accounting Standards. The checklist from second edition of BURSA Sustainability guidelines and US, SASB were adopted to measure the independent variables. The chosen checklist is suitable for property and construction companies because each industry has its own unique sustainability profile. Sustainable corporate activities are varied from one industry to another.

The quantitative categories are based on the second edition of BURSA Sustainability guidelines. The qualitative categories are difficult to measure accurately, therefore the researcher will use a combination of Bursa Sustainability Reporting Guide and United States Sustainable Accounting Standards to measure the independent variables to be more specific and comprehensive. The pilot study of ten (10) companies have been done to test the reliability and confirm the availability of the chosen checklists. There are four (4) items under Economics disclosures, five (5) items under Environment disclosures and four (4) items under Social disclosures for each property and construction companies (refer Appendix). The analysis of the data will use the formation of formula which will be equated as below;

$$FP = \beta 0 + \beta 2SRi + \beta 3GOVi + \beta 4SREXTi + ei$$

Where:
FP consists of ROA, Yearly stock return, PE ratio and Tobin Q total score of financial performance of i at period t
β 0 Intercept
SR is the environmental disclosure score information, economy disclosure score information and social disclosure score information; 0 otherwise
GOV is the CEO control, Board Diversity; 0 otherwise
SREXT is the general information about the disclosure; 0 otherwise
e error term
Content analysis is to be used to analyse all the above.

4.0 Conclusion

As this study highlighted on review concept of sustainability reporting, this research might help the researcher and accounting academics to explore the importance of SR to businesses and stakeholders. There are many benefits of integrating sustainability in business. Accounting academician should support the initiation, scoping and development of high-quality research projects in sustainability towards achieving Malaysian Sustainable Development Goals (MSDGs) and to explore the extension of measurement for materiality assessment which could influence stakeholder's decision and continuing refining the disclosure requirement in SR Guide. It is also hoped that this study will have some practical implications for Bursa Malaysia to further improve on the qualitative measure for each industry and the listed companies to have a sustainability reporting assurance.

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Appendix

Economics				
Themes	**Definition**	**Indicators**	**Guidance on sector applicable**	**References**
E1 Community investment	Voluntary contributions made by an organisation to enhance socio-economics benefits and create a positive social impact.	Total amount invested in the community where the target beneficiaries are external to the entity (e.g. not for profit organisation)	All sectors	GRI 201-1 FTSE4Good Toolkit SDG 2,5,7,8,9
E2 Climate-related financial risks and opportunities	Potential positive and negative impacts of climate change on an organisation.	TCFD recommendations	All sectors	FTSE4Good TCFD Recommendations
E3 Climate impact	Backlog for (1) hydrocarbon-related projects or (2) renewable energy projects	Quantitative (Reporting currency)	Construction	SASB Code: IF-EN-410b.1
E3 Community Impacts of New Developments	Description of how proximity and access to infrastructure, services, and economic centers affect site selection and development decisions	Discussion and Analysis	Property	SASB Code: IF-HB-410b.1
Environment				
Themes	**Definition**	**Indicators**	**Guidance on sector applicable**	**References**
EN1 Emissions	Emissions refer to the discharge of environmentally hazardous substances (e.g. dust, dark smoke, emissions with metallic compounds) into atmosphere (from: Environmental Quality Act (Clean Air) Regulations 2014).	Scope and reduction in % and tonnes of CO_2e, NO_x and SO_x emission.	• Construction & Property	FTSE4Good TCFD Recommendations Toolkit GRI 305-1 http://www.ghgprotocol.org/ Environmental Quality Act (Clean Air) Regulations 2014) TCFD Recommendations SDG 12,13,14,15 Palm oil producers and could also refer to

				http://www.rspo.org/certification/palm-ghg-calculator
EN2 Water effluent	Waste is broken down into hazardous and non-hazardous waste, where hazardous waste is governed by local environmental regulations i.e. the Environmental Quality (Scheduled Wastes) Regulations 2005. Non-hazardous waste includes general waste such as paper and plastic. Effluent is defined as any liquid that is disposed as waste or wastewater.	Total weight or volume of hazardous waste generated and method of disposal.	• Construction & Property	FTSE4Good Toolkit GRI 306-2 Environmental Quality (Scheduled Wastes) Regulations 2005 – Schedule 5 SDG 3,6,12
EN3 Water	Considers consumption and efficiency of water usage for industrial processes and general purposes.	Total volume of water used and % of water recycled and reused.	All sectors	FTSE4Good TCFD Recommendations Toolkit GRI 303-5, 303-1 https://www.cdp.net/water SDG 6,8,12
EN4 Energy	Considers the efficient use and consumption of electricity as well as energy generated from renewable sources.	Total energy consumed (kWh/MWh) and amount of reduction in energy consumption	All sectors	FTSE4Good TCFD Recommendations GRI: 302-1, 302-4 http://www.ghgprotocol.org/ SDG 7,8,12,13
EN5 Environmental Impacts of Project Development	Discussion of processes to assess and manage environmental risks associated with project design, siting, and construction	Discussion and Analysis	• Construction	SASB Code: IF-EN-160a.2
EN5 Land use and Ecology Impact	Discussion of process to integrate environmental considerations into site selection, site design, and site development and construction	Discussion and Analysis	Property	SASB Code: IF-HB-160a.4

Social				
Themes	**Definition**	**Indicators**	**Guidance on sector applicable**	**References**
S1 Occupational Safety and Health	In accordance with the International Labour Organisation, occupational safety and health refers to the anticipation, recognition, evaluation and control of hazards arising in or from the workplace that could impair the health and well-being of workers.	Number and % of work-related injuries per annum, brief description of HSE,organisational chart and HSE committee.	All sectors	FTSE4Good Toolkit GRI 403-2 Register of Occupational Accidents, Dangerous Occurrence, Occupational poisoning and Occupational Disease-JKKP 8 for annual submission to DOSH. Refer to OSHA 1994 SDG 3,8
S2 Product and services responsibility	The impact of products and services on the wellbeing of society, including privacy, health and safety.	Number of complaints	All sectors	GRI 418-1 Toolkit SDG 12,16
S3Structural Integrity & Safety	Amount of settlements associated with defect- and safety-related incidents. The entity shall briefly describe the nature, context, and any corrective actions taken as a result of the monetary losses.	1. Amount of defect- and safety-related rework costs 2. Total amount of monetary losses as a result of legal proceedings associated with defect- and safety-related incidents	• Construction	SASB Code for 1 : IF-EN-250a.1 SASB Code for 2: IF-EN-250a.2
S4 Lifecycle Impacts of Buildings & Infrastructure	The sourcing of construction materials and the use of buildings and infrastructure impact the greenhouse gas (GHG) emissions, global and/or local resource constraints, water stress, and negative human health outcomes.	Number of (1) commissioned projects certified to a third-party multi-attribute sustainability standard (2) active projects seeking such certification	• Construction	SASB Code: IF-EN-410a.1

S3 Design for Resource Efficiency	Description of risks and opportunities related to incorporating resource efficiency into home design, and how benefits are communicated to customers	Discussion and Analysis	Property	SASB Code: IF-HB-410a.4
S4 Compliance	Compliance identifies the adherence of an organisation's activities to relevant laws and guidelines. It outlines an organisation's degree of observance to laws and guidelines governing its business, as well as efforts undertaken in assessing the anticipated impact of its activities	Total monetary value of fines and total number of non- monetary sanctions for non- compliance with laws and regulations – no companies disclose this information. Hence, the researcher replace with ISO26000:2010 Guidance on social responsibility and have system and guidelines governing its business.	Property	FTSE4Good Toolkit GRI 419-1 SDG 8,12,16

(Bursa Malaysia, 2018b; SASB, 2018b, 2018a)