UNIVERSITI TEKNOLOGI MARA

INTERNAL FORCES AND STRATEGIC SUSTAINABILITY REPORTING PRACTICES (SSRP): THE PERSPECTIVES OF AGENCY AND STAKEHOLDER THEORIES

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ABSTRACT

Strategic sustainability reporting practices (SSRP) is an innovative shift from ordinary sustainability reporting to a company's strategic crisis response. During a crisis, companies faced financial constraints, forcing them to focus on short-term survival rather than engage in costly sustainable activities. Companies' decisions on engagement with sustainability initiatives are influenced by relevant internal forces. This study has three research objectives. Firstly, the study examines any significant changes in SSRP between before and during the crisis. Secondly, this study identifies the internal forces that can influence SSRP, including internal governance mechanisms (board size, board independence, female directors and board meetings), ownership structure (directors, family, foreign and government ownership) and financial position (profitability, leverage and slack resources). Thirdly, the study investigates whether enterprise risk management (ERM) can moderate the relationship between internal governance mechanisms and SSRP. The agency and stakeholder theories were applied to discuss the interconnection between related internal forces and SSRP. This study employed a quantitative approach and developed a multidimensional SSRP index to measure disclosure strategy, quality and quantity of sustainability reporting. The sample comprises 1,212 observations of companies listed on the Main Market of Bursa Malaysia from 2018 to 2021, representing two years before and during the COVID-19 pandemic, which served as a proxy for a crisis. The results showed a significant change in SSRP, with better reporting spotted during the pandemic crisis. Most companies applied an *information strategy* as their key strategic reporting approach to disseminate general sustainability initiatives, but with greater narrative detail during the crisis. The panel data analyses showed that board independence, female directors, and government ownership had significant, positive impacts on SSRP. Meanwhile, ERM positively moderates the relationship between board size and female directors with SSRP. These findings provide a new perspective on the influence of internal forces on companies' disclosure strategies and on the quality and quantity of sustainability reporting, aiming to reduce information asymmetry that causes agency problems and to meet the demands of broad stakeholders. The study's findings can highlight companies' stance on sustainability reporting, regardless of whether they operate in a crisis or non-crisis environment. It also enhances understanding of SSRP disclosure, which benefits management, regulators, and policymakers.

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CHAPTER 1
INTRODUCTION

1.1 Background of The Study

Companies are vital economic players and represent the corporate citizens in the community structure. The foundation of a company's existence is derived from the mutual relationship between the board of directors (BODs), who are the leaders of the management and take the role as agents; they are appointed by the shareholders, known as the principal (Jensen & Meckling, 1976). The agents manage the company and are expected to perform their responsibilities in the owners' best interest, mainly to provide high investment returns. Therefore, companies' reporting practices in the past have typically focused on providing financial information to shareholders only (Puroila & Mäkelä, 2019). Financial reporting serves as an indicator of whether companies can execute their roles effectively to maximise the shareholders' wealth. The reporting can also offer valuable financial information for capital providers' decision-making (Wagenhofer, 2024). According to the International Accounting Standards Board (IFRS) Conceptual Framework (2018), "The objective of general purpose financial reporting is to provide financial information about the reporting entity that is useful to existing and potential investors, lenders and other creditors in making decisions relating to providing resources to the entity".

Besides the relationship between the agent and principal, companies are also accountable for their connections with other stakeholders, which include employees, customers, communities, governments, and others. These stakeholders demand and require companies to report beyond financial information (Amran & Ooi, 2014; Monteiro et al., 2024; Oluseyi-Sowunmi et al., 2019). Despite the economic and financial performance, the stakeholders have separate goals in the ecology and social areas as they are concerned about whether companies' business operations are less harmful to the natural environment and community (Chams et al., 2021; Deegan et al., 2000; Herzig & Schaltegger, 2006; Kvasničková Stanislavská et al., 2023; Shad, Lai, Fatt, et al., 2018). One way to discharge their duties towards these stakeholders is by implementing sustainability practices and disseminating this information annually