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Institutional Investors Types and Sustainability Reporting: A Study on Malaysian Listed Firms

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Abstract

The purpose of this study is to examine if the investment styles of institutional investors in Malaysian listed firms are associated with the level of sustainability reporting. Based on a sample of 100 firms in 2009, the results indicate that the level of institutional shareholdings in aggregate has a positive association with the extent of sustainability reporting. However, when we dichotomized the institutional investors by their investment horizons, we find that the level of shareholdings by pension funds, which represents the long-term institutional investors, and the level of shareholding by short-term institutional investors, represented by the mutual funds and banks, are not linked to sustainability reporting.

Keywords: *Sustainability reporting, Institutional ownership, Pension funds, Mutual funds, Banks*

1. INTRODUCTION

The previous studies on the association between institutional ownership and sustainability reporting show that having institutional investors in the corporate ownership structure is positively associated with the level of sustainability reporting (Oh & Chang, 2011; Hayashi, 2003; Johnson & Greening, 1999; Coffey & Fryxell, 1991). In Malaysia, where the institutional investors are mainly controlled by the government (Abdul Wahab, How, & Verhoeven, 2008), the same phenomenon is observed whereby firms with government ownership exhibit greater level of sustainability reporting (Said, Zainuddin, & Haron, 2009; Amran & Devi, 2008; Mohd Ghazali, 2007).

The different types of institutional investors such as pension funds, mutual funds, banks and insurance companies have different investment styles (Koh, 2003; Chaganti & Damanpour, 1991). Institutional investors that buy and sell stocks in their investee companies frequently have short-term investment horizons, while long-term institutional investors have longer holding periods of the stocks in the investee companies. Pension funds are described as having a long-term investment horizon (Copeland, Weston, & Shastri, 2005; Ryan & Schneider, 2002), while institutional investors such as mutual fund companies and financial institutions exhibit a short-term investment horizon (Cox & Wicks, 2011; Cox, Brammer, & Millington, 2004; Zahra, 1996). This dichotomy of institutional investor types according to their investment horizons is justified as pension funds, who collect funds from beneficiaries for their retirement savings, normally hold stocks in a firm for a long investment horizon before any pension benefits are paid out (Copeland, *et al.,* 2005). Therefore, investment in sustainability commitments, which benefits may only be observed in the long-term, may be considered as an important agenda by the pension funds. On the other hand, the fund managers of mutual fund companies and banks are focused on delivering short-term returns to the extent of pressuring investee companies to maximize their near-term profit (Du, Huang, & Blanchfield, 2009; Chevalier & Ellison, 1999). As such, the investment in sustainability related activities may not be a concern as the benefits are not reaped in the short-term.

The association between institutional investors' investment horizons and the level of sustainability reporting has been documented in previous research in the Unites States and United Kingdom (Cox & Wicks, 2011; Cox, *et al.,* 2004; Johnson & Greening, 1999), where institutions with long-term investment horizons are associated with greater sustainability reporting, while institutions with short-term investment horizons indicate the contrary.

The purpose of this study is to extend the literature on institutional investors and sustainability reporting by investigating whether institutional investors' investment horizons have any association with sustainability reporting in Malaysia. It focuses on the three main institutional investors in Malaysia, namely the pension funds, which represent the institutional investors with long-term investment horizons, and mutual funds and banks, representing the institutional investors with short-term investment horizons. As mentioned earlier, prior Malaysian studies in this area distinguish between government linked investment companies and other institutional investors (Said, *et al.,* 2009; Amran & Devi, 2008; Mohd Ghazali, 2007), and have not investigated whether the level of sustainability reporting is associated with the investment styles of the institutional investors i.e. short-term versus long-term. The rest of the paper progresses as follows. The next section reviews the related literature on institutional investors and sustainability reporting, and long term versus short-term institutional investors. This is followed by the hypotheses development. Next, we present the research design and methodology. The findings are discussed thereafter. The concluding remarks summarize the main results, highlight the study limitations and suggest avenues for future research.

2. LITERATURE REVIEW AND THEORETICAL DEVELOPMENT

2.1 Institutional ownership and sustainability reporting

One of the strategic issues which are highly discussed in academic and business research is business sustainability. The term sustainability refers to the actions taken in meeting the needs of the present without jeopardizing the ability of future generations to meet their own needs (World Commission on Environment and Development, 1987). Some of the business activities of the firms may cause environmental degradation such as landslides, global warming, climate and ecosystem breakdown, and adverse social wellbeing through the practice of child labor and discrimination. Given the potential harmful effects on the environment and social conditions, business firms are expected to take necessary actions to preserve their business sustainability. Therefore, instead of only concentrating on increasing the shareholders' wealth through the generation of profit, business firms should also pursue actions and activities for the benefit of the various stakeholders. As a result, instead of producing traditional corporate reports which only highlights on the economic bottom line, firms should also address the sustainability issues, that covers the environmental and social bottom lines, which is also known as the triple bottom-line approach.

The term sustainability are sometimes used interchangeably with corporate social responsibility (CSR), corporate sustainability (CS), corporate social performance (CSP), corporate responsibility (CR) and business ethics (Mohammed, Alwi, & Muhammad Jamil, 2009). As sustainability issues take the centre stage, numerous researches have been carried out on this theme. One strand of research focuses on the awareness to sustainability engagement and disclosure (Gray, Kouhy, & Lavers, 1995; Teoh & Shiu, 1990; Teoh & Thong, 1984; Ramanathan, 1976). Another strand examines the motivations to engage in such activities and disclose them (Amran & Devi, 2008; Mohd Ghazali, 2007; Sharma & Henriques, 2005; Ramasamy & Ting, 2004; Spicer, 1978).

Sharma and Henriques (2005) argue that identifying the motivating factors that drive sustainability reporting is necessary as it will lead to the understanding on why and how firms engage and disclose their CSR activities. Until now, several factors have been identified to assert positive influence on sustainability engagement and reporting. Firm size (Janggu, Joseph, & Madi, 2007; Mohd Ghazali, 2007; Sharma & Henriques, 2005; Ramasamy & Ting, 2004; Spicer, 1978) and firm performance (Janggu, *et al.,* 2007; Ramasamy & Ting, 2004; McGuire, Sundgren, & Schneeweis, 1988; Spicer, 1978) are shown to promote sustainability commitments and reporting. Besides these two characteristics, the firm ownership structure, represented by managerial ownership (Oh & Chang, 2011; Said, *et al.,* 2009; Eng & Mak, 2003; Coffey & Jia, 1998) and institutional ownership are also shown to influence sustainability reporting (Oh & Chang, 2011; Johnson & Greening, 1999; Coffey & Fryxell, 1991).

The positive association between the presence of institutional ownership and the level of sustainability reporting may be explained by the Stakeholder Theory. This theory posits that business firms are responsible not only to their shareholders, but also to the needs of other parties that encircle the firms' existence, which are known as the stakeholders (Freeman, 1984). The responsibility of the firms towards their stakeholders may be categorized into "explicit claims" and "implicit claims" (Cornell & Shapiro, 1987), where the former relates to firms' policies that assume and articulate responsibility for some social interest (Matten & Moon, 2008), such as product warranties and wage contract (Cornell & Shapiro, 1987). On the other hand, the latter refers to the role of corporation to act within the values, norms and rules (Matten & Moon, 2008), such as promises of continuing services and job securities to employees (Cornell & Shapiro, 1987) and work safety and on-time delivery and product quality (Saleh, Zulkifli, & Muhamad, 2011). In order to meet both claims, firms may create the behaviour of trusting, trustworthy, and cooperative, not opportunistic, and these behaviour will give the firms a competitive advantage, which explains why these firms may survive and often thrive (Jones, 1995).

Another justification for the engagement in sustainability commitments by institutional investors is through the Good Management Theory (Oh & Chang, 2011; Graves & Waddock, 1994). This theory posits that firms which accommodate the needs of their various stakeholders may create value, where this has been justified in the positive relationship between sustainability commitments and financial performance (Orlitzky, Schmidt, & Rynes, 2003; Waddock & Graves, 1997). As such, the good financial performance may be the signal for firms' prosper, therefore, institutional investors may likely willing to support the sustainability related commitments (Oh & Chang, 2011).

Previous studies provide empirical support that the presence of institutional investors enhances the level of sustainability reporting in developed countries (Oh & Chang, 2011; Johnson & Greening, 1999; Coffey & Fryxell, 1991) and developing countries (Said, *et al.,* 2009; Amran & Devi, 2008; Mohd Ghazali, 2007). Coffey and Fryxell (1991) show that the presence of institutional investors is associated with corporate social responsiveness, measured by women representatives in the corporate boards. Furthermore, Johnson and Greening (1999) find positive association between ownership by pension fund institutions and corporate social performance (CSP), while Oh and Chang (2011) argue that the positive association between institutional investors and firms' CSR ratings indicates that the institutional investors do assert influence on firms' strategic concerns such as commitments to sustainability.

With regards to the situation in Malaysia, it is shown that firms with government ownership via government linked investment institutions[1] have greater sustainability activities (Said, *et al., 2009; Amran & Devi, 2008; Mohd Ghazali, 2007)*. This is not surprising as the Malaysian Government promotes sustainability agenda. For example three of the nine challenges outlined in Vision 2020 are related to sustainability namely to establish a moral and ethical community, to establish a fully caring culture and to ensure an economically just society. In addition, the Silver Book, promotes awareness and commitments to sustainability among Malaysian Government-Linked Companies (GLCs) by providing a comprehensive set of tools, methodologies and processes for the GLCs to proactively contribute to the society in a responsible manner while still creating value for their shareholders (Putrajaya Committee on GLC High Performance, 2006).

Cox and Wicks (2011), Cox, *et al.,* (2004) and Johnson and Greening (1999) suggest that different types of institutional investors, based on their investment horizons, have different perspectives to sustainability engagement. The benefits that arise from engaging in sustainability commitments may not be observed immediately. For example, investments in employees' training and development may take some time to yield the intended returns, thus institutional investors with short-term horizons may not place sustainability commitments very high in their corporate agenda as they are under pressure to produce immediate short-term performance. In contrast, institutional investors with long-term investment horizons are willing to wait for their sustainability engagement to pay off. Hoskisson, Hitt, Johnson and Grossman (2002) provide empirical evidence consistent with the argument above where they show that long-term institutional investors such as pension funds tend to favor long-term strategies, whereas short-term institutional investors such as investment funds prefer strategies which produce benefits that may be enjoyed in a short time period.

The behavior of short-term institutional investors which favor short-term performance may be explained by the Myopic Institutions Theory (Hansen & Hill, 1991). Institutional investors are often being myopic or short-sighted, where they will favor the actions which will produce short-term benefits (Hansen & Hill, 1991), therefore, commitments to sustainability, which may only produce benefits in long-term, will not be included in their consideration. The myopic behavior of the short-term institutional investors may be attributed to these reasons. First and foremost, they are under pressure to produce good performance (Hansen & Hill, 1991). Secondly, they are also under pressure to maintain their position, job security and advancement, thus by maintaining the performance of the funds, will lead to the security of their job and career advancement (Karake, 1998).

2.2 Long-term institutional investor: Pension funds

Pension funds are the type of institutions which collect, pool and invest the funds contributed by the beneficiaries for the purpose of providing retirement income or providing financial securities to the beneficiaries (Davis, 2002). In Malaysia, three major pension funds, which are the Employees Provident Fund Board (EPF), Kumpulan Wang Amanah Pencen (KWAP) and Lembaga Tabung Angkatan Tentera (LTAT), are under the control of Malaysian Government. Besides these three major pension funds, the market for institutional investors is also filled by private pension funds, whether owned by local firms such as Tenaga Nasional Berhad Retirement Benefit Trust or Public Bank Officers' Retirement Benefit Fund or foreign pension funds. The Malaysian pension funds hold a vast amount of assets, as in 2004, it was estimated that these type of institution holds USD70 billion amount of assets,

[1] The Government Linked Investment Companies include the Employees Provident Fund (EPF), Permodalan Nasional Berhad (PNB), Lembaga Tabung Angkatan Tentera (LTAT), Lembaga Tabung Haji (LTH), Kumpulan Wang Amanah Pencen (KWAP), Khazanah Nasional Berhad (KNB), Pertubuhan Keselamatan Sosial (PERKESO) and Menteri Kewangan Diperbadankan (MKD).

where USD63.3 billion belongs to the EPF, which marks this pension fund as the largest institutional investor in Malaysia (Ghosh, 2006).

Pension funds are associated to long-term investment horizon, thus they will hold their share ownership in a long period of time (Ryan & Schneider, 2002). As the beneficiaries of this type of fund will only receive their benefits upon their retirement, the pension funds will experience a long investment period before any pension benefits will be paid out (Copeland, *et al.,* 2005). As such, pension fund managers will be expected to invest in non-financial strategic activities (Davis, 2002), such as sustainability commitments, which benefits will only be paid-off in a long-term period.

2.3 Short-term institutional investors: Mutual funds and banks

Mutual funds are being described as the investment tools which are created by asset management companies specializing in pooling savings from both retail and institutional investors (Abdullah, Hassan, & Mohamad, 2007), with the aim of helping those investors to grow their wealth by diversifying their investment portfolios. Besides the term “mutual funds”, this type of investment tool is also known as “unit trusts”, and in Malaysia, these types of funds are being managed by Unit Trust Management Companies (UTMCs). The growth of Malaysian unit trusts or mutual funds has been found encouraging. In 2004, it was estimated that the assets of Malaysian mutual funds amounting to USD23 billion, which was equivalent to 19.4% of Malaysian GDP (Ghosh, 2006). This is strengthened by the fact that the total net asset value (NAV) of 387 launched funds was estimated at RM112 billion in 2006, and this figure showed an escalating trend where at the end of the year 2011, a number of 587 funds had been launched with the estimated NAV of RM222 billion.

With relations to the investment horizon of mutual funds, previous findings justify that mutual funds have short-term investment horizon (Cox & Wicks, 2011; Cox, *et al.,* 2004), where both studies explained that the investors of mutual funds have the ability to redeem the funds by selling them back to the fund on the same business day, and will have the ability to switch from one fund to another in the same fund family. This behavior indicate that investors of mutual funds do not have to wait for a long period of time to enjoy the benefits which is evidences by pension funds beneficiaries, but rather may enjoy the profits from investments in a short period of time. As for the mutual fund managers, in order to meet the switching and redemption behavior by the mutual funds’ investors, fund managers need to have cash sufficiency; therefore, mutual fund managers will prefer liquidity, but not engagement to sustainability (Cox & Wicks, 2011).

Apart from the investor behavior which determines the mutual funds as having short-term investment horizon, the investment preference of mutual funds may also be explained by the behavior of fund managers. Unit trusts and mutual funds managers are being pressured to maintain their positions by presenting persistence short-term performance (Du, *et al.,* 2009; Chevalier & Ellison, 1999). In order to secure their position and career advancement, mutual fund managers need to maintain short-term performance of the funds managed. However, in short-term, sustainability commitments are seen to be cost-incurring and a burden to the firm (Oh & Chang, 2011) since the benefits of engagement to sustainability reporting may only be observed in a long-term period. This situation explains why no association has been found between ownership by mutual funds and sustainability commitments (Cox & Wicks, 2011; Cox, *et al.,* 2004).

Similar to mutual funds, the short-term investment behaviour may also be exhibited by the banks. Since there is a close connection between the two institutions, where some of the UTMCs are under the corporate control of banks, for example, Public Mutual Berhad is a wholly owned subsidiary of Public Bank Berhad, while Maybank Investment Management

Sdn Bhd acts as the fund management company under the control of Maybank Group, it is not surprising if they indicate a short-term investment horizon, which may be due to peer group benchmark, which forces them to concentrate on profit making in their daily operations (Cox & Wicks, 2011).

3. DEVELOPMENT OF HYPOTHESES

The Stakeholder Theory posits firms are responsible to the various stakeholders that surround their existence (Freeman, 1984), therefore, by fulfilling the responsibilities, firms may create the behaviour of trusting, trustworthy, and cooperative, not opportunistic, and these behaviour will give the firms a competitive advantage, therefore explains why these firms may survive and often thrive (Jones, 1995). Besides, the Good Management Theory explains that firms which cater to the needs of their various stakeholders will create value; therefore, this theory has been used to justify the relationship between sustainability commitments to financial performance (Orlitzky, *et al.,* 2003; Waddock & Graves, 1997). Subsequently, since engagement to sustainability actions may lead to improved financial performance, institutional investors may likely willing to support the sustainability related commitments (Oh & Chang, 2011). Previous findings justify that having institutional owners in the ownership structure is positively related to sustainability engagement and reporting (Oh & Chang, 2011; Said, *et al.,* 2009; Amran & Devi, 2008; Mohd Ghazali, 2007; Johnson & Greening, 1999; Coffey & Fryxell, 1991), therefore, it is being hypothesized that:

H_1: There is a positive relationship between the ownership by institutional investors with the extent of sustainability reporting

Investments in sustainability commitments are linked to benefits that may be observed in a long-term period, as in short-term, it might be seen as cost-incurring and a burden to the firms (Oh & Chang, 2011). Since the benefits may only be observed in long-run, the institutional investors with long-term investment horizon such as pension funds will have the ability to wait for the investments to be paid off (Hayashi, 2003; Johnson & Greening, 1999), contrary to short-term institutional investors who are in tremendous pressure to achieve short-term profitability (Hansen & Hill, 1991). As such, it is being hypothesized that:

H_2: There is a positive relationship between the ownership by pension funds with the extent of sustainability reporting.

Myopic Institutions Theory explains that in making investment decisions, institutional investors tend to be myopic or short-sighted (Hansen & Hill, 1991). Due to this kind of behavior, institutional investors will prefer short-term profitability; therefore, strategic actions and commitments such as engagement to sustainability activities may not be a concern for institutional investors with short-term investment horizons such as mutual funds and banks. The myopic conduct of the institutional investors may be clarified by several factors. Firstly, the institutional investors' fund managers are being pressured tremendously by their superior to perform (Hansen & Hill, 1991). As such, these institutional managers need to translate their actions into short-term financial performance. Secondly, the positions and career developments of these institutional managers are being reviewed annually, or even on quarterly basis. As a result, institutional managers tend to engage in short-term profit orientation decision making, thus, sheltering their post and reputation by achieving good performance from the short-run profitability.

Previous studies justify that short-term institutions such as mutual funds and banks do not assert influence to sustainability reporting of firms in which they invest. Johnson and Greening (1999) explain that mutual fund and bank funds exhibited no relationship to sustainability reporting. Furthermore, Cox and Wicks (2011) clarify that short-term institutions prefer market liquidity and sustainability engagement factor is the least to be considered in corporate decisions. Besides, institutions with short-term investment horizon prefer strategies which may produce benefits that may be enjoyed in a short time period (Hoskisson, *et al.,* 2002), therefore sustainability engagement and commitments which benefits may only be observed in a longer period may not be a consideration to this type of investor. As such, the hypotheses developed are:

H_3: There will be no relationship between the ownership by mutual funds with the extent of sustainability reporting

H_4: There will be no relationship between the ownership by banks with the extent of sustainability reporting

4. RESEARCH DESIGN AND METHODOLOGY

4.1 Population and sampling

The population for this study is the Malaysian firms listed on the Bursa Malaysia as at 31st December 2008. In selecting the sample, the Simple Random Sampling technique has been used as through this technique, each item in a population has an equal opportunity to be chosen as a sample (Kumar, 2011; Zikmund, Babin, Carr, & Griffin, 2010; Cavana, Delahaye, & Sekaran, 2001), therefore, the findings from this study may be generalized throughout the population (Kumar, 2011). According to Roscoe's rule of thumb, sample size between 30 and 500 is appropriate for most research (Cavana, *et al.,* 2001). Furthermore, Roscoe's rule of thumb proposes that in multivariate researches, including those with multiple regression analysis, the sample sizes should be 10 times as large as the number of variables in the study (Cavana, *et al.,* 2001). As such, by following Roscoe's rule of thumb, the initial stage of sampling has chosen 110 sample firms among the Malaysia listed firms as at 31st December 2008. However, after cross-checking with the institutional ownership data purchased from Bursa Malaysia, we eliminate ten companies, leaving a final sample of 100 firms. Nevertheless, this sample size fulfills the two conditions of Roscoe's rule of thumb.

4.2 Dependent variable

The objective of this study is to find out if the different investment horizons by institutional investors may give different effect to sustainability reporting of Malaysian listed firms. As such, the dependent variable under study is the extent of sustainability reporting (SUSTREP) of the sampled firms. SUSTREP data is captured from the 2009 annual reports of the sampled firms. As utilized by most previous sustainability research (Amran & Devi, 2008; Janggu, *et al.,* 2007; Haron, Yahya, Manasseh, & Ismail, 2006; Thompson & Zakaria, 2004; Nik Ahmad, Sulaiman, & Siswontoro, 2003), the dependent variable is captured using a technique popularly identified as the content analysis technique. This technique refers to the procedure where replicable and valid references is made from data to the context (Krippendorff, 1980), which is commonly done on written documents, particularly the documents which are historical in nature. To capture the data using content analysis technique, several method may be used such as by using the counting or the frequency of words, sentences or pages (Myers, 2009). For the purpose of this study, the sentences count will be used as this method provides more reliable results as a full sentence may provide true meaning of the disclosure (Milne & Adler, 1999). This method may counter the irrelevance of word count, where through word count method, sound basis may not be provided without a complete sentence (Milne & Adler, 1999). On the other hand, pages count may result in biased outcome as the data collected will be subjected to different margins, formats and sizes (Hackston & Milne, 1996). Although the method of sentences count may subjected to disregard of information using graphs, charts, tables and pictures

(Al-Tuwaijri, Christensen, & Hughes, 2004; Unerman, 1999), these setbacks will be countered by taking 15 words of the captions on the graphs, charts, tables and pictures as equal to one sentence (Hooks & van Staden, 2011).

By utilizing the content analysis technique with sentences count method, this study captures the content of sustainability reporting in accordance to four themes as stated by Bursa Malaysia CSR Framework (Bursa Malaysia, 2006), which covers the environment, workplace, marketplace and community themes. Several dimensions have been assigned for each theme. Therefore, the process of capturing information for each theme may be done systematically. In classifying the dimensions for each theme, previous sustainability research have been referred (Saleh, Zulkifli, & Muhamad, 2010; Amran & Devi, 2008; Bursa Malaysia, 2008; Janggu, *et al.,* 2007; Nik Ahmad, *et al.,* 2003). Environment theme deals with the dimensions such as waste management and disposal, pollution control and environmental conservation, while workplace theme captures information such as on employee training and education, employee health and safety and employee welfare and benefits. Meanwhile, marketplace theme relates to the information on product development, product safety and product and service quality, while the community theme deals with information such as donations programs, public projects and training, education and scholarships. The full information on the dimensions and themes captured in measuring the extent sustainability reporting is provided in Table 1.

Table 1: Themes and dimensions of sustainability reporting

Themes / Dimensions	
Environment theme	Workplace theme
Waste management and disposal	Employee training and education
Pollution control	Employee health and safety
Reusing and recycling	Employee welfare and benefits
Effective usage of energy and resources	Share options for employees
Prevention and reparation program	Employee development and recognition
Environmental conservation	Employee freedom of voice
Environmental campaign	Employee recruitment without discrimination
Certification and awards achievement	Certification and awards achievement
Marketplace theme	Community theme
Product development	Donations programs
Product safety	Job opportunity
Product and service quality	Public projects
Customer services	Training, education and scholarships
Customer and supplier relations	Charity programs
Certification and awards achievement	Sports and cultural activities
Customer and supplier training	

4.3 Independent variable

The independent variable for this study is the institutional ownership (INSTOWN), which is measured by the percentage of ordinary shares held by the institutions in the firms. This measurement is consistent with the extant literature in determine the size of institutional ownership (Cox & Wicks, 2011; Saleh, *et al.,* 2010; Said, *et al.,* 2009; Abdul Wahab, *et al.,* 2008; Amran & Devi, 2008; Cox, *et al.,* 2004; Johnson & Greening, 1999). Similarly, the same measurement is applied to pension funds (PENSION), which represents the institutions with long-term investment horizon, mutual funds (MUTUAL) and banks (BANK), which represents institutions with short-term investment horizons and other institutional investors (OTHER), such as the insurance companies, pilgrims fund, foundations and charities and other government-managed institutions. The INSTOWN data was captured from the list of 30 largest shareholders for each sampled firms as at 31 December 2008, obtained from Bursa Malaysia.

4.4 Control variables

Among the factors which has been previously justified to be linked to sustainability reporting are the firm size (Amran & Devi, 2008; Haniffa & Cooke, 2005; Ramasamy & Ting, 2004) and the firm performance (Said, *et al.,* 2009; Janggu, *et al.,* 2007; Haniffa & Cooke, 2005). As such, both factors are chosen to act as the control variables for this study. Furthermore, controlling the firm performance is necessary as the year 2008 indicates the year where the Global Financial Crisis occurred, which might jeopardize the overall result of this study. For the measurement used, firm size (FSIZE) is measured by the firms' market capital while firm performance (FPERF) is measured by firms' operating profit to total assets (ROA) as at 31st December 2008, obtained from the DataStream.

Besides the firm size and performance, this study also controls for type of auditors (AUDITOR), which is measured by dummy variables, with 1 indicating firms with Big 4 auditors and 0 for firms with non-Big 4 auditors. Previous research found positive association between the types of auditors with sustainability reporting (Hossain, Tan, & Adams, 1994; Ng & Koh, 1994; Ng & Koh, 1993).

4.5 Data analysis and regression models

Two types of analysis are done using SPSS version 19 packages. The first analysis is on the descriptive analysis, which is done with the purpose of summarizing and describing the data in a simple and understandable manner (Zikmund, *et al.,* 2010). The second analysis involves the multiple regression analysis with the purpose of testing the earlier hypotheses. The hypotheses are tested using two models. The first model is for the purpose of testing H_1, while the second model is to test H_2, H_3 and H_4.

$$SUSTREP = \beta_0 + \beta_1 INSTOWN + \beta_2 FSIZE + \beta_3 FPERF + \beta_4 AUDITOR + \varepsilon \quad (1)$$

$$SUSTREP = \beta_0 + \beta_1 PENSION + \beta_2 MUTUAL + \beta_3 BANK + \beta_4 OTHER + \beta_5 FSIZE + \beta_6 FPERF + \beta_7 AUDITOR + \varepsilon \quad (2)$$

5. FINDINGS

5.1 Descriptive statistics

The descriptive results are shown in Table 2. From the descriptive statistics, the results reveal that on average, each sampled firm discloses approximately 19.23 sentences of sustainability reporting. The most reported theme is the community theme, followed by the workplace theme. The least reported theme is on the environment theme. These results are almost consistent with previous research where firms put priority for sustainability activities in workplace and community themes (Saleh, *et al.,* 2010; Janggu, *et al.,* 2007; Thompson & Zakaria, 2004; Nik Ahmad, *et al.,* 2003), and less on environment and marketplace themes.

With regards to the descriptive information on institutional ownership, banks mark approximately 22.06% of total ownership by institutions, mutual funds with 27.46% and pension funds with the total of 16.38%. These three categories of institutions cumulatively hold 65.90% of the market for institutional investors in the sampled firms while the remaining 34.10% refers to the ownership by other types of institutions such as the pilgrim's fund (LTH), investment companies, hedge funds, foundations, charities, state governments, foreign governments and others.

The firm performance, measured by the operating profit to total asset (ROA), indicates a negative sign, which may due to the Global Financial Crisis in the year 2008. Apart from that, the descriptive analysis also revealed that 59% of the firms have the Big 4 as their auditors.

Table 2: Descriptive statistics

	Min	Max	Mean	Standard Deviation
Sustainability reporting (SUSTREP)				
Environment theme (EV)	0.00	22.00	3.71	5.19
Workplace theme (WP)	0.00	71.00	6.08	9.11
Marketplace theme (MP)	0.00	65.50	2.25	7.03
Community theme (CM)	0.00	55.40	7.20	10.28
Total	0.00	181.50	19.23	24.40
Institutional ownership (INSTOWN)				
Pension funds (PENSION)	0.00	20.81	2.60	4.91
Mutual funds (MUTUAL)	0.00	44.81	4.36	7.76
Banks (BANK)	0.00	43.39	3.50	7.55
Other institutions (OTHER)	0.00	70.95	7.41	12.25
Total	0.00	92.38	15.88	19.79
Firm size (FSIZE)	6,337	11,025,149	497,653.93	1,347,125.83
Firm performance (FPERF)	-341.00	53.19	-0.82	41.99
Auditor (AUDITOR)	0.00	1.00	0.59	0.49

Note: SUSTREP is the number of sentences disclosed in annual reports reflecting the environment (EV), workplace (WP), marketplace (MP) and the community (CM) themes. INSTOWN refers to the percentage of shares own by the institutional investors, PENSION, MUTUAL, BANK and OTHERS refers to the percentage of shares owned by the pension funds, mutual funds, banks and other institutional investors, FSIZE is the firm size measured by the market capitalization, FPERF is the firm performance measured by firm's operating profit to total assets (ROA) and AUDITOR is the type of auditors, measured by dummy variables, 1 for Big 4 auditors and 0 for non-Big 4 auditors.

5.2 Regression analysis

The results are stated in Table 3. The first regression model is to test the first hypothesis, where it is being hypothesized that there will be a positive relationship between the ownership by institutions with the extent of sustainability reporting. From the results, it may be observed that the findings supported the hypothesis that having institutional ownership (INSTOWN) in the ownership structure is positively related to the extent of sustainability reporting, with B = 0.194 and p = 0.043 ($p < 0.05$), thus, H_1 is supported.

The second model is to test the remaining hypotheses, where it is being hypothesized that there will be a positive relationship between the ownership by pension funds with the extent of sustainability reporting, and no relationship is hypothesized between ownership by mutual funds and banks with the extent of sustainability reporting. From the regression results, it may be observed that ownership by pension funds, which act as the institution with long-term investment horizon is positively, however not significantly affecting the extent of sustainability reporting, with B = 0.093 and p = 0.399 ($p > 0.10$), thus, H_2 is not supported.

The second model also justified that no relationship is found between the ownership by mutual funds and banks with sustainability reporting, which marks institutions with short-term investment horizons may not put sustainability reporting as their main concern in the firms' activities. Accordingly, from these results, H_3 and H_4 are supported.

Apparently, in both models, the firm size (FSIZE), which acts as the control variable, also found to be positively related to sustainability reporting, which is consistent to previous studies (Amran & Devi, 2008; Haniffa & Cooke, 2005; Ramasamy & Ting, 2004). This result indicates that firms with large size tend to report their sustainability activities more. For firm performance, although several previous studies indicate the positive link between firm performance and sustainability reporting (Said, *et al.,* 2009; Janggu, *et al.,* 2007; Haniffa & Cooke, 2005), in both models, the findings from this study indicate that firm performance do not significantly affecting the extent of sustainability reporting. Auditor type, on the other hand, shows positive association to sustainability reporting, which is consistent to previous studies (Hossain, *et al.,* 1994; Ng & Koh, 1994; Ng & Koh, 1993).

Table 3: Regression results

Model 1		
Dependent variable: sentences R^2 = 0.204, F value = 6.103, p = 0.000 (p < 0.05)	Beta	p
Instown	0.194	0.043**
Fsize	0.263	0.006**
Fperf	0.089	0.336
Auditor	0.199	0.036**
Model 2		
Dependent variable: sentences R^2 = 0.215, F value = 3.591, p = 0.002 (p < 0.05)	Beta	p
Pension	0.093	0.399
Mutual	0.148	0.134
Bank	0.076	0.417
Other	0.038	0.702
Fsize	0.260	0.011**
Fperf	0.077	0.419
Auditor	0.190	0.056*

Note: ** = significant at 95% confidence level, * = significant at 90% confidence level.

6. CONCLUSIONS, LIMITATIONS AND FUTURE RESEARCH

The main purpose of this study is to examine if the sustainability reporting by Malaysian listed firms is affected by the presence of institutional investors. From the theoretical development, the Stakeholder Theory posits that firms are responsible to the various stakeholders (Freeman, 1984) through the "explicit" and "implicit' claims (Cornell & Shapiro, 1987). By fulfilling these claims, firms may experience benefits such as the behaviour of trusting, trustworthy, and cooperative, not opportunistic, which secure their survival (Jones, 1995). Furthermore, the Good Management Theory justified that engagement to sustainability commitments is positively to firm performance (Orlitzky, *et al.,* 2003; Waddock & Graves, 1997), as such, it is not surprising that institutional owners will support the sustainability related activities, which has been proven in the above analysis, where positive and significant relationship has been found between institutional ownership and sustainability reporting. This result is also consistent with previous studies (Oh & Chang, 2011; Coffey & Fryxell, 1991).

Further analysis was done on the institutions according to their different investment horizons, whether they have long-term or short-term investment orientation. Long-term institutions, which is represented by the pension funds, was hypothesized to have a positive impact to sustainability reporting, while the short-term institutions, represented by the mutual funds and banks were hypothesized not to have impact to sustainability reporting. However, contrary to the expectation, pension funds do not show significant impact to sustainability reporting. Mutual funds and banks, however, justified the hypotheses made earlier; and consistent to findings in previous studies (Cox & Wicks, 2011; Cox, *et al.,* 2004). This situation shows that pension funds in Malaysia may have the myopic behavior, which is explained by the Myopic Institutions Theory (Hansen & Hill, 1991), where the fund managers concentrates more on the short-term fund performance while investment on sustainability related activities which only generate benefits in the long-run is not a priority.

This research is not without limitation. Firstly, the sustainability reporting data is obtained from the annual reports of the sampled firms, as the annual reports are the main document which is easily accessed and mandatorily produced by every listed firm. As such, other types of documents or medium for sustainability reporting such as stand-alone sustainability reports and web-sites have not been considered for this study. Secondly, the limitation comes from the limited number of sample. Further studies may be done by increasing the sample size, in order to obtained a more reliable result.

The findings from this research open another gap. The pension funds in Malaysia comprises of three main government-related institutions, which are the EPF, KWAP and LTAT and also the privately held pension funds. The findings from this research indicate that the pension funds, when analyzed collectively, do not indicate positive impact to sustainability reporting. Perhaps, further studies may be done by analyzing these pension funds separately in order to access their impact separately.

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