

UNIVERSITI TEKNOLOGI MARA

**DETERMINANTS OF
ENVIRONMENTAL, SOCIAL AND
GOVERNANCE (ESG)
DISCLOSURES
BY MALAYSIAN COMPANIES: THE
APPLICATION OF
RESOURCE-BASED VIEW THEORY**

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ABSTRACT

The tragedy of 2007's global financial crisis has been adversely affected the global and local businesses. Being one of the most open and export-dependent countries in the international trade, Malaysia was affected by the 2007's global financial crisis, in which, Malaysia's foreign direct investment was reduced by 17% in 2008 as compared to 2007. The unemployment rate increased as Malaysian corporations implemented staff retrenchment to minimize the operating expenses. Hence, Malaysian companies revised their business strategies by providing environmental, social and governance (ESG) disclosures to the stakeholders to create and sustain the competitive advantage. This thesis focuses on the extent of ESG disclosures by Malaysian public-listed companies from 2015 to 2017. Specifically, this study aims to determine the factors that influence the extent of ESG disclosures in the Malaysian companies' annual reports and sustainability reports, using the Resource-Based View Theory (RBVT) as the underlying theory. The final sample of this thesis comprises 67 listed companies in Bursa Malaysia for three years (2015-2017). An index - Modified Environmental, Social and Governance Index (MESGi), had been developed to measure the extent of ESG disclosures in the companies' annual reports and sustainability reports. The study used hierarchical regression to analyse the relationship between firm internal factors from the RBVT perspective, such as CSR Awards (rare), ISO certification (rare), foreign ownership (rare), qualification of BODs (valuable and rare) and R&D expenditure (valuable) with ESG disclosures. The results indicate that there is a statistical increase in the extent of ESG disclosures by the Malaysian companies, especially in the year 2017. The study found that the extent of ESG disclosures was influenced by different resources in different years. The ISO certification and research and development expenditure influenced the extent of ESG disclosures in 2015. In 2016, the extent of ESG disclosures was explained by CSR Awards, research and development expenditure as well as industry type. In 2017, CSR Awards, foreign ownership, research and development expenditure, firm leverage and industry type have a significant relationship with the extent of ESG disclosures. However, research and development expenditure influenced the extent of ESG disclosures in a negative direction, which indicates that higher utilization of research and development expenditure will reduce the disclosures of ESG information, as higher exposure on firms' ESG practices may become a threat to business operations, which is not supported by RBVT. This study indicate that two attributes of RBVT - valuable and rare are important in creating firm's competitive advantage. The findings of this study provide useful implications to Malaysian government, policy makers and regulatory bodies in improving the existing regulations in regard to ESG disclosures by Malaysian corporations. The study hopefully could assist companies to utilize the resources efficiently in order to provide sufficient ESG disclosures to stakeholders.

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CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The Global Financial Crisis which happened from 2007 to 2008 was the worst global economic crisis since The Great Depression (Amadeo, 2018). It was aroused when the United States of America (USA) Federal Reserve reduced the federal funds from 6.5% in 2000 to 1.75% in 2001. The lower federal fund enabled the banks in the USA to retain their reserve fund at the minimum level. Thus, this encouraged the USA banks to utilize the excess amount of minimum balance in the reserve fund to provide loans to homeowners in acquiring new houses.

In 2003, the interest rate of loans in USA was reduced from 1.75% to 1%. People started to invest in the long-term properties as non-current assets, such as houses, in which they were sold in huge discounts. Bankers played their role in encouraging property investments by introducing collateralized debt obligations (CDOs). In addition, five investment banks, namely, Goldman Sachs, Merrill Lynch, Lehman Brothers, Bear Stearns and Morgan Stanley, were given the authority to provide leverage up to 30 times on their initial investment. However, economic doom started to arise when the rate of USA's federal funds increased to 5.25% in 2004, and this rate remained until 2007. Due to the sudden increase on interest rate, housing value began to fall as the supply outpaced the demand. Many subprime borrowers started to default on their loans and filed for bankruptcy as they failed to repay the loans (Amadeo, 2018).

After the global financial crisis in 2007, financial institutions that included banks in USA had slowed down their international businesses and focused on their local markets instead (Khoon & Lim, 2010). Many countries, such as Japan, China and Singapore, were affected by this 2007's global financial crisis (Huwart & Loïc, 2013). Being one of the most open and export-dependent countries in the international trade, Malaysia was one of the Asian countries which was also affected by this global financial crisis. The foreign direct investment was reduced by 17% in 2008, which means, the income flow of Malaysia decreased by 17% in 2008 as