

CSR and the Sustainability Reporting Landscape of Malaysia

by Lo Yien Peng

Corporate Social Responsibility (CSR) is a “movement aimed at encouraging companies to be more aware of the impact of their business on the rest of society, including their own stakeholders and the environment”.¹ It has been defined as “the continuing commitment by businesses to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large”.²

In 2011, CSR was incorporated in the Tenth Malaysia Plan (10MP) and it has been seen as an integral part of the strategic objectives of the National Integrity Plan towards achieving Vision 2020.³ One of the strategic thrusts in the Eleventh Malaysia Plan (11MP) is “Pursuing Green Growth for Sustainability and Resilience”,⁴ a reflection that the government is increasingly participating in the global conversation on sustainability while shaping it to its local context.⁵

CSR reporting

The traditional view of CSR has been a focus on philanthropy, largely influenced by the Pyramid of CSR, which places economic responsibility (to be profitable and create jobs for the community) as the foundation and philanthropic activity (to contribute to the welfare of humans and spreading of goodwill) at the peak.⁶

It is not surprising, therefore, to find that the three most commonly published topics relating to CSR in Malaysia have been “donations to community groups and charitable bodies”, “funding scholarship programmes and activities” and “supporting national pride/government-sponsored programmes”.⁷

CSR framework

In 2006, Bursa Malaysia implemented its mandatory CSR Reporting Framework, which required all PLCs listed on the exchange to include a description of the CSR activities or practices undertaken by the PLC and its subsidiaries in relation to the marketplace, workplace, community and environment. If there were none, it would have to issue a public statement to that effect.⁸ Bursa Malaysia provided no guidance beyond such requirement. Prior to this, companies in Malaysia had very low levels of CSR reporting.⁹

About 10 years later, although 90% of the PLCs included a CSR or sustainability section in their annual report:

- (a) only 36% addressed sustainability by embedding strategies into maintaining the non-financial sources of the companies; and
- (b) only 12% discussed the resources required to create value for their business on a long-term basis.¹⁰

The CSR Reporting Framework was perceived generally as an opportunity to showcase charitable activities undertaken by the PLCs — some PLCs include brief information of carbon footprint and water usage — rather than as a meaningful channel to engage with stakeholders on the resilience of their business models.¹¹

1 Financial Times Lexicon <[http://lexicon.ft.com/Term?term=corporate-social-responsibility--\(CSR\)](http://lexicon.ft.com/Term?term=corporate-social-responsibility--(CSR))>

2 World Business Council for Sustainable Development <<http://www.wbcsd.com>>

3 UNICEF, “Corporate Social Responsibility Policies in Malaysia: Enhancing the Child Focus” (2013) <https://www.unicef.org/evaldatabase/files/2013-003_-_CSR_Policies_In_Malaysia_-_Review.pdf> at p 18

4 Thrust 4 in 11MP <<http://www.epu.gov.my/en/rmk/eleventh-malaysia-plan-2016-2020>>

5 Jessica Cheam, “Sustainability in Malaysia: Bolted on, or built in?” *Eco-Business* (25 January 2017) <<https://www.eco-business.com/opinion/sustainability-in-malaysia-bolted-on-or-built-in/>>

6 Archie B Carroll, “The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders” (1991)

7 Nik Nazli Nik Ahmad and Norliana Akida Abdul Rahim, “Awareness of Corporate Social Responsibility Among Selected Companies in Malaysia: An Exploratory Note”, Department of Accounting, International Islamic University Malaysia (2005), at p 14

8 Appendix 9C, Part A, Paragraph 29 of the Main Market Listing Requirements, and Appendix 9C of the ACE Market Listing Requirements

9 Ioannis Ioannou and George Serafeim, “The Consequences of Mandatory Corporate Sustainability Reporting”, Harvard Business School Research Working Paper No 11-100 (1 May 2017) at p 9

10 Richard Bedlow and Natasha Yap, “Communicating Value Through Sustainability Reporting”, PwC Malaysia <<https://www.pwc.com/my/en/assets/press/1606-micpa-communicating-value-thru-sustainability-reporting.pdf>>

11 *Ibid*

Sustainability framework

Sustainability reporting refers to public reports by companies to provide internal and external stakeholders with a picture of the corporate position and activities on economic, environmental and social dimensions.¹² Sustainability reporting has emerged as a powerful tool for companies to gain long-term business growth and competitive advantage. The practice of reporting high-quality, non-financial data has been adopted by companies to mitigate the financial impact of the environmental and social risks associated with their business.¹³

In seeking to move corporations beyond philanthropic activities, Bursa Malaysia, in October 2015, launched its Sustainability Framework in place of CSR Reporting PLCs would now issue a narrative Sustainability Statement in respect of the management of economic, environmental and social risks and opportunities¹⁴ in their annual report. To complement this, Bursa Malaysia also issued a Sustainability Reporting Guide to aid the PLCs in the preparation of their report in the hope that the companies would pay more attention to addressing sustainability-related concerns connected to their business operations.¹⁵

By the end of this year, all PLCs on Bursa Malaysia will be incorporating a Sustainability Statement in their annual report. PLCs listed on the Main Market must provide a detailed disclosure on sustainability while PLCs listed on the ACE Market would only be required to publish a general disclosure on sustainability.

Motivational factors

An international survey showed that an overwhelming majority of CEOs acknowledged that sustainability would be critical to the future success of their companies.¹⁶ They believed that, within a decade, sustainability would be fully integrated within the core business of companies.¹⁷

Bursa Malaysia suggests that benefits from integrating sustainability in business include:

- (a) Enhancing risk management;
- (b) Promoting innovations and attracting new customers;
- (c) Maintaining a licence to operate;
- (d) Securing capital;
- (e) Improving productivity and cost optimisation; and
- (f) Enhancing brand value and reputation.¹⁸

CSR/Sustainability reporting rate

Ever since CSR or sustainability reporting has been made compulsory, Malaysia, as a country, has been consistently ranked among the highest CSR or sustainability reporting rate globally.¹⁹ As high as 97 per cent of the N100²⁰ companies in Malaysia reported on their corporate sustainability performance, compared with the global average of 72 per cent.²¹

¹² *Supra*, n 2

¹³ Xue Fa Tong, "A Comparative Review on Company Specific Determinants for Sustainability Reporting in United Kingdom and Malaysia", Faculty of Business, Multimedia University Melaka (EDP Sciences, 2017) at p 1

¹⁴ As defined in paragraph 29, Part A of Appendix 9C of the Main Market Listing Requirements and paragraph 30 of Appendix 9C of the ACE Market Listing Requirements

¹⁵ Sustainability Reporting Guide issued by Bursa Malaysia Securities Berhad in 2015

¹⁶ "UN Global Compact-Accenture CEO Study on Sustainability 2013: Architects of a Better World" (September 2013) <https://www.unglobalcompact.org/docs/news_events/8.1/UNGC_Accenture_CEO_Study_2013.pdf>

¹⁷ The key findings of a survey of 766 CEOs around the globe — the largest such research study of top executives ever conducted on the topic of sustainability — released by the United Nations Global Compact and Accenture in 2013. In addition to an online survey, the study included extensive interviews with 50 of the world's leading CEOs.

¹⁸ *Supra*, n 15

¹⁹ "The KPMG Survey of Corporate Responsibility Reporting 2017" <<https://assets.kpmg.com/content/dam/kpmg/xx/pdf/2017/10/kpmg-survey-of-corporate-responsibility-reporting-2017.pdf>>

²⁰ Top 100 companies by revenue

²¹ "KPMG: Malaysia's Top 100 leads sustainability reporting practices", *BorneoPost Online* (25 October 2017) <<http://www.theborneopost.com/2017/10/25/kpmg-malaysias-top-100-leads-sustainability-reporting-practices/>>

However, only nine per cent of the N100 have their sustainability data subject to a third-party independent assurance, as compared to the global average of 45 per cent.²²

Currently, more than three-quarters of the world's largest 250 companies include at least some "non-financial" information in their annual financial reports.²³

Talent advantage

Millennials²⁴ who are becoming an increasingly large percentage of the workforce prefer to do business with corporations and brands with pro-social messages, sustainable manufacturing methods and ethical business standards.²⁵

An example of a business that is aware of this is DiGi, which has been engaging interactively with its employees, 24% of whom were below 30 years of age according to a 2011 report. DiGi found employees to be "extremely receptive to company CSR initiatives as they see it as part of who they are and what they do". It seems many "were already aware of and attracted by its CSR approach" even before joining the company.²⁶

In Australia, where sustainability reporting remains voluntary, employees are the main target audience for such reporting initiated by companies.²⁷

Companies Act 2016

CSR or sustainability reporting did not apply outside of PLCs until the Companies Act 2016 introduced a provision to promote CSR disclosure in the form of a business review report. The Companies Act 2016 stipulates that companies may incorporate the business review report which will form part of the directors' report.²⁸

In March this year, the Companies Commission of Malaysia (CCM) released a guideline called "Business Review Report: Guidance to Disclosure and Reporting",²⁹ as part of a series of regulatory initiatives aimed at improving the relevance of narrative reports for shareholders as well as other stakeholders.

CCM looks to the business review reporting, albeit voluntary, becoming a major breakthrough in attaining valuable business disclosures for all types of companies in order to communicate their pursuits towards achieving sustainable businesses and being transparent about the challenges the business faces and the efforts put into overcoming these challenges.³⁰

CSR and sustainability reporting regulatory trend

Globally, new layers of regulation for environmental, social and governance disclosure are being introduced. Voluntary reporting frameworks are rapidly transitioning into mandatory reporting in many parts of the world.³¹

22 *Ibid*

23 *Supra* n 19, at p 6

24 People born between the year 1981 and 1996, as defined by Pew Research Center. See Michael Dimock, "Defining generations: Where Millennials end and post-Millennials begin" (1 March 2018) <<http://www.pewresearch.org/fact-tank/2018/03/01/defining-generations-where-millennials-end-and-post-millennials-begin/>>

25 Sarah Landrum, "Millennials Driving Brands To Practice Socially Responsible Marketing", *Forbes* (17 March 2017) <<https://www.forbes.com/sites/sarahlandrum/2017/03/17/millennials-driving-brands-to-practice-socially-responsible-marketing/#2797987e4990>>

26 *Supra*, n 3 at p 30

27 Parliament of Australia, "Sustainability reporting" <https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/Browse_by_Topic/ClimateChangeold/responses/economic/sustainability>

28 Section 253(3)

29 Best Business Practice Circular 6/2017 <https://www.ssm.com.my/Pages/CR/best_business_practice_circular_6-2017.pdf>

30 *Ibid*

31 *Supra*, n 23

José Luis Blasco, global head for KPMG Sustainability Services, predicts that countries without a reporting framework are likely to introduce one while those that already have it are likely to strengthen it and bring in new requirements relating to human rights. He also envisages that voluntary reporting schemes would likely become compulsory and the level of disclosure will likely continue to ratchet up. He believes that there will be significant benefits for those who choose to lead in this field, go beyond the statistics and explore how to assess and communicate impact.³²

Conclusion

Malaysia is among the first few Asean members to enact CSR and sustainability reporting requirements for PLCs.

However, many companies still see it as merely a compliance exercise or a public relations stunt.³³ In the Channel NewsAsia Sustainability Ranking published in 2016, only one Malaysian firm, DiGi, which is majority-owned by a Norwegian corporation, made it to No 83 on the list of 100.³⁴

It seems that while most corporations acknowledge that sustainability is vital to their businesses, many lacked the knowledge or understanding to incorporate sustainability into their businesses as a strategy.³⁵

Given that sustainability is still relatively nascent in most parts of Asia, early movers are likely to gain a competitive advantage through developing innovative solutions as they respond to sustainability-related risks to their business.

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³² *Ibid*

³³ "Mandatory sustainability reporting poses challenges for first-timers", *The Malaysian Reserve* (3 April 2017) <<https://themalaysianreserve.com/2017/04/03/mandatory-sustainability-reporting-poses-challenges-for-first-timers/>>

³⁴ <<http://sustainability-ranking.consap.sg/top100-2016.html>>

³⁵ *Supra*, n 5