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Ownership Structures and Sustainability Reporting of Malaysian Listed Companies

(Struktur Pemilikan dan Pelaporan Kemampanan Syarikat Senaraian Awam Malaysia)

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ABSTRACT

The study examines the quality of sustainability reporting (SR), the relationship between ownership structures (namely institutional ownership (IO), managerial ownership (MO), and family ownership (FO)) and SR, and the existence of a non-linear relationship between ownership structures and SR based on the inconsistent results of previous studies. The study collected secondary data from the annual and sustainability reports of 261 Malaysian public listed companies (PLCs) in 2018 and 2019 and analysed the data using content analysis. The results report a slight increment in the quality of SR in 2019, and using Ordinary Least Squares (OLS) regression, it is found that only IO has a positive and significant association with SR, which indicates that companies with major institutional shareholdings attain superior SR quality. Further exploration reveals a curvilinear relationship (inverse U-shape) between IO and SR quality, whereby the effect declines when IO reaches a certain threshold. As such, these findings shed light on the changes in investors' motivation towards their Corporate Social Responsibility (CSR) commitment based on their company holdings, showing the delicate balance needed between oversight and the aligning of interests. This means that large institutional investors in a company should collaborate with management to advocate for policies and practices that support social and environmental objectives that are aligned with the company's long-term view of value creation.

Keywords: Ownership structure; sustainability reporting; institutional ownership; managerial ownership; family ownership

ABSTRAK

Kajian ini mengkaji kualiti pelaporan kemampanan (SR), hubungan antara struktur pemilikan (iaitu pemilikan institusi (IO), pemilikan pengurusan (MO) dan pemilikan keluarga (FO)) dan SR, dan kewujudan hubungan tidak linear antara struktur pemilikan dan SR menurut keputusan yang tidak konsisten dari kajian yang lepas. Kajian ini menggunakan pengumpulan data sekunder melalui analisis kandungan laporan tahunan dan laporan kemampanan ke atas 261 syarikat senaraian awam (PLC) Malaysia sepanjang 2018 dan 2019. Hasilnya melaporkan sedikit peningkatan dalam kualiti SR pada tahun 2019 dan menggunakan regresi Ordinary Least Square (OLS), didapati hanya pemilikan institusi ditemui menjadi perkaitan yang positif dan signifikan dengan pelaporan kemampanan yang menunjukkan syarikat yang mempunyai peratusan tinggi saham yang dimiliki oleh pelabur institusi mempunyai kualiti pendedahan pelaporan yang lebih tinggi. Penerokaan lanjut menunjukkan perkaitan antara pemilikan institusi dan kualiti pendedahan menunjukkan terdapat hubungan lengkung (berbentuk U songsang) di mana kesannya menurun apabila pemilikan institusi mencapai aras tertentu. Oleh itu, hasil kajian ini menjelaskan bahawa perubahan motivasi pelabur terhadap komitmen CSR mereka berdasarkan pegangan syarikat mereka, menunjukkan keseimbangan yang diperlukan antara pengawasan dan menyelaraskan kepentingan. Ini bermakna pelabur institusi yang besar dalam syarikat harus bekerjasama dengan pihak pengurusan untuk menyokong dasar dan amalan yang menyokong objektif sosial dan alam sekitar serta sejajar dengan pandangan jangka panjang syarikat tentang penciptaan nilai.

Kata kunci: Struktur pemilikan; pelaporan kemampanan; pemilikan institusi; pemilikan pengurusan; pemilikan keluarga

INTRODUCTION

As early as the 1950s, the Corporate Social Responsibility (CSR) pioneer, Howard R. Bowen conceptualised CSR as "the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines" (Bowen 1953). In other words, businesses should serve society and the environment, not just their shareholders. Likewise, Jo and Harjoto (2011) described CSR as the practice of a corporation extending what it is legally and financially required to do to benefit the community and the environment.

As the awareness of stakeholders increases over the years, they have begun to demand information on their company's non-financial performance. As such, sustainability reporting (SR) is a pertinent issue for companies today. The Global Reporting Initiative (GRI) defines SR as "the practice of measuring, disclosing, and being accountable to internal and external stakeholders for organisational performance toward the goal of sustainable development" (Global Reporting Initiative 2011). Additionally, SR provides information on human resources, products, services, participation in community projects, philanthropic efforts, and environmental issues (Esa & Mohd Ghazali 2012). By publishing an annual or sustainability report, Deloitte (2020) added that SR offers information about both a company's adverse and beneficial effects on the environment, society, and economy.

The relationship between ownership structures and SR has received considerable attention from researchers (Esa & Zahari 2016; Mohd Ghazali 2011; Oh et al. 2011; Sahasranamam et al. 2020). However, empirical evidence on the relationships between ownership structures and SR has been mixed. While several prior studies have found family ownership (FO) and SR are positively associated (Esa & Zahari 2016; Lamb & Butler 2016; Sahasranamam et al. 2020), other studies have found contradicting results (El Ghoul et al. 2015; Abdullah et al. 2011). Abdullah et al. (2011) found that companies with high FO negatively affect both the extent and quality of SR, which they concluded could be due to CSR being strategic. Othman et al. (2011) found that the SR regulation appears to have had no impact on family-owned businesses, and they do not appear to view SR in the annual report as a significant conduit for enhancing their corporate reputation.

Concerning institutional ownership (IO), companies that institutional investors dominantly own have been found to be positively associated with SR (Lamb & Butler 2016; Mohd Ghazali 2011; Oh et al. 2011), which is contrary or insignificant in other studies (Dam & Scholtens 2013; Esa & Zahari 2016). Likewise, the relationship between managerial ownership (MO) and SR is positive, as reported in previous studies (Barnea & Rubin 2010; Kock et al. 2012), and negatively or insignificantly related in other studies (Nor et al. 2017; Oh et al. 2011). The contradictory findings of earlier studies, therefore, necessitate a reexamination of the capacity of these ownership structures to affect SR, which brings us to the first objective.

Following the inconsistent results, this study seeks to further probe each of these relationships by proposing whether or not there is a non-linear effect on the relationships between the three types of major shareholders and SR. The rationale for proposing such a notion is that non-linearity recognises 'multifaceted' relationships and moves in contradictory directions. The most prominent examination for a non-linear relationship is the curvilinear (inverse U-shape) relationship, which captures both positive and negative directions. In response to the mixed results presented by prior studies, this study proposes the second objective, which is due to non-linearity, and as such, the current study could reconcile the diverging findings on these relationships.

As a developing country aiming towards becoming a developed high-income nation, Malaysia has set forth several pillars of development. Currently, Malaysia is on the 12th Malaysia Plan (RMK 12), which sets a course toward economically advanced status, more inclusiveness, enhanced productivity and the promotion of innovations. However, increasing productivity could also spell danger for the environment and society. The 12th Malaysia Plan encompasses three strategic pillars that focus on various developmental issues to achieve well-balanced economic development with environmental and societal sustainability. Therefore, Malaysia offers an intriguing opportunity for the present investigation due to its distinct attributes in the business landscape compared to other regions. Here, businesses are largely characterised by a prevalence of concentrated ownership. (La Porta et al. 1999); in addition, there is an urgent call for aligning business practices to achieve the United Nations' Sustainable Development Goals under the 12th Malaysia Plan.

Building upon the identified research voids, this study provides insights into two intricately connected inquiries. Initially, within the Malaysian context, it aims to scrutinise the impact of ownership structures on a company's SR. Secondly, it seeks to ascertain whether or not these effects demonstrate a non-linear correlation. Consequently, this research delves into the potential non-linear relationship between ownership structures and SR within this economy.

Drawing upon a dataset comprising 522 firm-year observations from 2018 to 2019, the findings suggest a positive association between IO and SR. Conversely, the relationship between MO and FO exhibits no significant impact on SR. Moreover, the results affirm that the correlation between IO and SR is U-shaped. The findings suggest a pattern wherein the SR practices of Malaysian companies initially decrease with rising levels of IO. However, beyond a specific threshold, an upsurge in SR emerges, attributed to the concentrated ownership influence of institutional investors. Notably, it is observed that institutional investors with lower ownership stakes exhibit a reduced propensity to promote heightened SR standards in Malaysia. Nonetheless, this effect diminishes as the percentage of IO reaches a significant level, indicating the establishment of a critical mass.

This study provides notable contributions to the existing body of knowledge in two key aspects. Firstly, it advances the understanding of how ownership structures affect SR by elucidating the pivotal role of IO concentration, specifically in augmenting the socially responsible behaviour of companies in Malaysia. This research underscores that corporate governance mechanisms extending beyond board or firm-level factors are imperative for shaping SR practices among Malaysian firms, especially when they achieve a critical mass. Secondly, this paper offers insights by investigating the impact of IO on SR, and highlighting the existence of a non-linear relationship between IO and SR. This finding suggests that the influence of IO on SR performance varies based on the motivations of institutional investors. Therefore, this study contributes significantly to the literature by illustrating the profound connection between this corporate governance mechanism and the strategic aspects of SR in corporate governance, environmental responsibility, and social performance.

LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

SUSTAINABILITY REPORTING AND CORPORATE GOVERNANCE DEVELOPMENT IN MALAYSIA

The Securities Commission has played a significant role in providing best practices and guidance for Malaysian companies to be more socially responsible. As early as 2006, a voluntary guidance standard for CSR implementation-related practices was developed. Furthermore, the CSR framework launched by Bursa Malaysia guides how public listed companies (PLCs) develop CSR strategies, reports, and communicate information to stakeholders. Silver Book was created in the same year to assist government-linked companies (GLCs). This programme is more comprehensive since it addresses the tools, methodologies, and execution processes. Later, in 2007, following the CSR framework, Bursa Malaysia required PLCs to report and disclose all CSR actions in their annual report.

The Malaysian government has implemented various measures to promote CSR initiatives, particularly among listed companies. Notably, tax incentives have been extended to companies engaging in CSR activities. Moreover, sustainability has been integrated into the New Economic Model (NEM) objectives. In 2010, the Business Sustainability Programme was initiated to educate and assist directors in integrating sustainability principles into their business strategies.

In October 2015, Bursa Malaysia introduced the ‘Sustainable Reporting Guide and Toolkit’, focusing on materiality, governance, and management. According to Bursa Malaysia's Listing Requirements, this guide is a framework for companies to disclose relevant information in their annual reports when making a Sustainability Statement. Furthermore, the guide offers detailed instructions on the specific contents and methodology for companies to disclose sustainable information in their report on SR. Consequently, it is believed that Malaysian listed companies are reporting their SR activities more comprehensively and exhaustively, resulting in enhanced reporting quality.

INSTITUTIONAL OWNERSHIP AND SUSTAINABILITY REPORTING

Generally, institutional investors are large investors (who are not physical persons) that have discretion over the investments of others (Abd-Mutalib et al. 2015; Lang & McNichols 1997). They are the major players in the global market with substantial power over the companies in which they have invested, owing to the size of their holdings (Minority Shareholders Watch Group and Securities Commission Malaysia 2014). This type of investor may be categorised according to the organisation, such as pension funds, mutual funds, investment bankers, and insurance companies (Chaganti & Damanpour 1991; Abd-Mutalib et al. 2016).

Agency theorists underscore the importance of institutional investors, whereby the presence of such investors can enhance the monitoring function, therefore minimising information asymmetry between managers’ and shareholders’ long-term interests (Jensen & Meckling 1976). This guarding role of institutional investors has improved financial performance (Chaganti & Damanpour 1991); reduced earnings management, and positively impacted companies’ sustainability commitment (Johnson & Greening 1999; Oh et al. 2011; Dakhli 2021); and influenced the decisions of the corporate boards (Jensen & Meckling 1976). These benefits are particularly evident among investors with extended investment timelines, such as pension funds and GLCs (Johnson & Greening 1999; Abd-Mutalib et al. 2015).

Research on the relationship between institutional investors and SR has been initiated by Johnson and Greening (1999). Their study investigated whether or not the presence of institutional investors with extended investment prospects benefits companies’ SR practices. The findings reveal a significantly positive correlation between ownership by pension funds and SR, suggesting that this category of investors fulfils a monitoring role to ensure that investee companies uphold their social responsibilities effectively. However, this result is insignificant for short-term institutional investors and SR. Similarly, Oh et al. (2011) discovered that firms with high institutional ownership positively influence SR in Korea. However, there is no difference in impact between the two categories of investors when they are classified according to their investment horizons. Both exhibit a significantly positive relationship with SR, which is explained by the government’s strong influence on Korean banks, which has resulted in them acting as financial resources instead of short-term investment seekers.

In developing countries, past studies have reported that IO positively influences CSR, particularly for institutional investors with long-term investment behaviour (Soliman & El Din 2012; Abd-Mutalib et al. 2015). Therefore, they prefer to have the incentives to engage in corporate strategic management, such as CSR engagement. Abd-Mutalib et al. (2013) conducted a study to examine the effects of institutional investment styles on the level of SR of Malaysian companies. The researchers revealed a significantly positive relationship between aggregate IO and SR. However, the study finds no relationship with SR when the institutional investors are dichotomised according to their investment styles (long-term and short-term horizons). Institutional investors have favourable attitudes towards social responsibility. Consistently, Dakhli (2021) also concluded that when they possess a sizeable portion of equity shares, a significant impact on companies' CSR engagements could be attained.

In contrast, other researchers have depicted that monitoring becomes ineffective should the level of IO increase (Abd-Mutalib et al. 2016), which suggests that each owner has unique and potentially conflicting (rather than unified) strategic interests. Therefore, excessive IO may cause disagreement among institutions, diverting their attention away from pushing corporations to engage with CSR and negatively impacting their SR (Dam & Scholtens 2013; Esa & Zahari 2016; Abu Qa'dan & Suwaidan 2018). The transient behaviour of institutional investors may explain this, in that they would prefer short-term profitability (Abd-Mutalib et al. 2015), thereby limiting their commitments to social responsibility.

Drawing from the literature review discussed above, most studies have identified a positive correlation between IO and SR, especially when those with long-term investment horizons dominate the institutional shareholdings. Institutional investors exhibit their monitoring role and thus, company managers are urged to act according to the interests of long-term shareholders, such as institutional investors, which is explained by the agency theory (Jensen & Meckling 1976). Therefore, this study hypothesises:

H_1 There is a significantly positive relationship between Institutional Ownership and Sustainability Reporting.

Although many past studies have depicted that having large institutional investors may likely boost sustainability engagement, some studies have stated otherwise. As an illustration, many institutional investors have diverse and possibly incompatible preferences for strategic choices, like sustainability commitment (Johnson & Greening 1999; Oh et al. 2011; Abd-Mutalib et al. 2015). Abu Qa'dan and Suwaidan (2018) showed that institutional investors negatively influence SR, indicating that such investors do not prefer the investee companies to act in a socially responsible manner.

The short-term investment perspective may explain these contradictory findings (Abd-Mutalib et al. 2016), possibly due to the excessive amount of IO that can lead to disputes among institutions, and discouraging holding companies from engaging with CSR (Dam & Scholtens 2013). Therefore, the relationship between institutional investors and SR should be considered as curvilinear. In other words, the relationship will usually start in a positive direction, until to a certain extent, the direction will start to project negative signs when too many institutional investors dominate the shareholding structure.

Past studies have shown a curvilinear relationship between IO and SR (Oh et al. 2017; Martinez-Ferrero & Lozano 2021). Low-ownership institutional investors will be more likely to encourage better Environmental, Social and Governance (ESG) performance (Martinez-Ferrero & Lozano 2021). Therefore, SR increases as IO increases (Oh et al. 2017). However, the effect will be lessened at a significantly increased rate, thus supporting the non-linear relationship between IO and SR (Oh et al. 2017; Martinez-Ferrero & Lozano 2021). This study anticipates that an incremental increase in IO beyond a specific threshold, ranging from moderate to high levels, will enhance companies' CSR performance. As a result, this study hypothesises that IO and SR have a concave or inverted U-shaped relationship.

H_2 The relationship between Institutional Ownership and Sustainability Reporting is curvilinear (an inverted U-shape).

MANAGERIAL OWNERSHIP AND SUSTAINABILITY REPORTING

The agency theory suggests that contradictory interests between owners and managers often lead to conflict (Jensen & Meckling 1976). While the former expects the latter to maximise the company's profitability, top managers can allocate resources to the companies they manage and may likely allocate them to benefit themselves (Jensen & Meckling 1976).

The MO type of structure could be a double-edged sword, whereby the managers' or insiders' interests converge when they become shareholders through the incentive alignment mechanism. According to the incentive alignment mechanism, managers who own high shares will be more inclined to favour SR, which benefits shareholders' long-term value (Barnea & Rubin 2010; Kock et al. 2012).

In contrast, managers are somewhat short-sighted in making decisions in a manager-sustainability relationship. They tend to see the costs of sustainability engagement outweighing its benefits, thus decreasing companies' profitability as well as their performance bonus. Therefore, past studies have revealed that managers' ownership in corporate shareholding may decrease companies' SR (Barnea & Rubin 2010; Oh et al. 2011; Soliman & El Din 2012; Abu Qa'dan & Suwaidan 2018; Dakhli 2021). Consistent with the agency theory, Barnea and

Rubin (2010) posited that a company's value maximisation would decline as MO increases, resulting in SR declining as MO inclines.

Likewise, Oh et al. (2011) added that demographic factors could significantly determine the relationship between MO and SR. For instance, managers face more institutional pressures that urge them to make socially responsible decisions in developed countries. Therefore, it is not surprising that MO positively influences companies' SR (Johnson & Greening 1999). Yet, in emerging economies, managers often tend to focus on short-term gains, resulting in sustainability investments potentially being undervalued by the financial markets of these economies. Oh et al. (2011) argued that in this case, MO would negatively affect SR as more managerial shares would grant higher power to the managers to make decisions in their interests.

Soliman and El Din (2012) reported a significantly negative relationship that is aligned with the agency theory. In this case, managers in developing countries may limit their company's engagement in such activities as they believe the cost may decrease performance and benefits. Previous studies have shown that significant ownership structures can result in management entrenchment since managers with substantial shareholdings may prioritise their interests over those of shareholders (Shleifer & Vishny 1989). Since CSR investment does not always result in immediate benefits, entrenched management with large shareholdings may strive to prevent any decisions linked to CSR, resulting in less SR (Mohd Ghazali 2011; Nor et al. 2017; Oh et al. 2011).

Several previous studies have found a negatively significant relationship between MO and SR. The results show that directors and managers who own corporate shares might not be inclined to invest more in sustainability activities since companies will need to bear additional as well as a portion of the costs as shareholders Abu Qa'dan & Suwaidan (2018). Similarly, owner-managed companies may not spend much on socially conscious projects (Dakhli 2021) because top executives are more likely to prioritise short-term objectives to advance their interests. However, Ong et al. (2019) reported that executive directors' shareholdings in Malaysian listed companies do not influence the improvement of SR disclosure quality. Therefore, this study hypothesises that:

H_3 There is a significantly negative relationship between Managerial Ownership and Sustainability Reporting.

Although past studies have discovered that MO negatively affects SR, some studies have indicated otherwise. The agency theory suggests that managers should be granted shares to mitigate the agency problem, hence making them part of their company's ownership (Jensen & Meckling 1976). This would theoretically lessen the unaligned interests between the shareholders and the managers. Past researchers have justified that if managers hold significant equity, their decisions will likely maximise shareholders' value. Some empirical findings have also supported the association between MO and SR (Johnson & Greening 1999; Budiharta & Kacaribu 2020; Shan et al. 2021). The researchers have implied that sharing ownership may increase managers' incentives to engage with sustainability activities and reflect higher SR information.

Johnson and Greening (1999) posited that increased MO enables managers to leverage companies' resources to establish new ventures, enhance innovation, and improve responsiveness to dynamic market conditions. This study has found that higher MO positively and significantly affects the product quality dimension of SR, indicating that managers prioritise the dimensions that can enhance value maximisation. Correspondingly, Budiharta and Kacaribu (2020) supported the indication that managers face pressure from external parties and fund providers to act and reveal more information on companies' environmental commitments. Shan et al. (2021) noted that managers with minor shareholdings exhibit a decreased likelihood of prioritising the interests of external shareholders. However, this dynamic shifts when managers hold 100% of the shareholdings, leading to full alignment with shareholders as the agency costs diminish to zero. Therefore, engagement with sustainability practices is vital for managers.

The inconsistencies above have triggered the question of the linearity between MO and SR. The agency theory implies an agency problem, by which managers who have the power and ability to control companies' resources have always decided for their benefit rather than maximising shareholder value, which results in a negative relationship (Barnea & Rubin 2010; Oh et al. 2011; Soliman & El Din 2012; Abu Qa'dan & Suwaidan 2018; Dakhli 2021). On the other hand, the agency theory also explains that higher ownership given to managers will lead them to act like owners. Thus, they will use sustainability practices to enhance shareholder value (Johnson & Greening 1999; Budiharta & Kacaribu 2020; Shan et al. 2021). The inconsistencies beg the question of whether or not the relationship is non-linear, as indicated by Shan et al. (2021), whereby the shareholdings of the managers determine the relationship. Oh et al. (2017) revealed a curvilinear relationship between MO and SR. In this study, SR decreases as MO increases to a certain point. However, at that certain point, the relationship becomes positively significant. Following the notion, when MO goes up from low to moderate levels, managers and directors will become more self-centred as their ownership power grows, and they will be less ready to invest in long-term projects like CSR. Therefore, this study suggests a convex relationship between MO and SR. This study hypothesises:

H_4 The relationship between Managerial Ownership and Sustainability Reporting is inverse curvilinear (U-shaped).

FAMILY OWNERSHIP AND SUSTAINABILITY REPORTING

A family business is defined as the commitment among family members to control and manage the company's operations, with the objective of ensuring the success of the business (Chua et al. 1999). As such, a company dominantly owned by family members is expected to retain family involvement for future generations to build and sustain the family legacy. In Malaysia, the ownership structure of companies is highly dominated by the family. Recent studies have documented FO among Malaysian listed companies to be between 46% and 57% (Tee & Kasipillai 2021; Gharbi & Othmani 2022).

Past studies have reported varied relationships between family-owned companies and SR. Some scholars have posited that the relationship is backed up by the agency theory Type I, which suggests family-owned companies are prone to act as socially responsible companies as the family members are focused on sustaining their reputation, legacy, and image (Habbash 2016; Sahasranamam et al. 2020). The notion indicates that family businesses are usually more involved in CSR to achieve stakeholder activism and non-financial or socio-emotional objectives, such as demonstrating a reputable image (Sharma & Manikuti 2005; Berrone et al. 2010).

Building on the agency theory that supports a positive association between FO and SR, Habbash (2016) said that family companies that participate in sustainability initiatives may attain profit financially and socially. Some of the advantages are presenting a solid social image, prestige, high reputation, and social standing for their families. This study has discovered that family companies report higher SR as they are more likely to have a positive and socially responsible role.

In contrast, the agency theory Type II defines the conflict between the family and the minority shareholders. In family-dominated companies, the family members themselves are frequently the controlling shareholders and act as the board of directors. With this unification of ownership and control, family members will use their voting rights to divert the companies' resources to engage in sustainability-related activities that benefit the family while financially expropriating the non-family or minority shareholders.

Jensen and Meckling (1976) proposed that family control should theoretically reduce agency conflicts between shareholders and managers. This argument is based on the premise that substantial ownership stakes held by controlling families indicate vigilant management oversight. However, family control can also introduce agency challenges between controlling and minority shareholders, as there is a risk that the former may exploit the latter for personal benefits. Abdullah et al. (2011) revealed that family-owned businesses are common in Malaysia, where family members and managers are substantial shareholders. Hence, in Malaysia, agency issues are linked to substantial family ownership, which may present challenges for minority shareholders.

While sustainability-related engagements are more to benefit family members, reporting of those activities in the annual report will also decline, thus increasing information asymmetry between family and minority shareholders. Past studies have found a negative association between FO and SR (Abdullah et al. 2011; Esa & Zahari 2016; Zhu & Lu 2020; Alsaadi 2021; Aman et al. 2021), suggesting that the higher the ownership held by family members, the lower the engagement with and reporting of sustainability activities.

The association between FO and SR could be negative in proportion to the agency theory Type II. Zhu and Lu (2020) claimed that family-owned companies with a highly concentrated ownership structure within the family would be more self-focused and disregard investments that do not benefit them personally. As a result, there is lesser SR performance. Additionally, Alsaadi (2021) and Aman et al. (2021) revealed that FO does not support SR in lessening the disputes resulting from information asymmetry between the substantial and minority owners. FO is less likely to indicate interest in improving SR since family-controlled businesses have fewer conflicts among stakeholders; further, managers' and stakeholders' interests are often aligned (Oh et al. 2011). Following the proximity and availability of information, family-owned businesses have lower monitoring costs and are more likely to lessen the risk of uncertain returns and dangers connected to SR.

The agency theory Type II suggests that family owners with control over their company's resources would have the opportunity to use those resources for sustainability activities that benefit the family members while expropriating the rights of the minority shareholders (Jensen & Meckling 1976). Since family-dominated companies focus on building the family's wealth and sustaining its legacy, sustainability activities that may reduce profitability may not be their priority. Consequently, the more a company's ownership structure is of the FO type, the lower the sustainability engagement and disclosure level. Therefore, this study hypothesises:

H_5 There is a significantly negative relationship between Family Ownership and Sustainability Reporting.

Although many studies have examined the association between FO and SR, the results have been mixed. Zeng (2019) utilised the socio-emotional theory to project that family shareholders engage with social and emotional goals, such as controlling and influencing their company, maintaining social capital, and creating a family dynasty. Their study has reported that family-listed companies engage more with CSR than other listed companies. However, there is less CSR engagement for family companies whose family members are Chief Executive Officers (CEOs), presidents, or board chairpersons.

Based on the above mixed findings, it is clear that family-dominated companies that focus on establishing a family legacy will not prioritise sustainability engagement, as it may reduce profitability (Zeng 2019). Therefore, the higher the FO, the less engagement there is with SR. However, when the company is established at some point, the family shareholders will realise the importance of boosting the company's identity and want to be perceived as responsible by the public. Family shareholders and directors will divert their company's resources towards serving the various stakeholders. Therefore, this study postulates a convex relationship between FO and SR. This study hypothesises:

H_6 The relationship between Family Ownership and Sustainability Reporting is inverse curvilinear (a U-shape).

METHODOLOGY

The study's population is the PLCs listed on Bursa Malaysia in 2018 and 2019, excluding the financial sector and financially distressed companies (companies that fall under Practice Note 17 (PN17) and General Note 3 (GN3). This study identified between 750 to 800 PLCs from the Bursa Malaysia website over the two years. The selection of 2018 was made to guarantee that all included companies had disclosed their adherence to the Malaysian Code on Corporate Governance (MCCG) 2017, while 2019 was chosen to prevent overlap with the introduction of the new MCCG 2021. Simple random sampling was used to determine the sample size, and an adequate sample would be at least 254 (Krejcie & Morgan 1970). The study utilised secondary data, and nine companies were excluded from the total sample due to the absence of the 2019 annual report, which caused missing values. Hence, the final total was 522 firm-year observations.

Concerning the dependent variable (DV), SR, this study employed content analysis to determine the extent of SR for the two years since content analysis of CSR-related reports has long been acknowledged as a useful method in the study of CSR (Milne & Adler 1999). The sampled companies' annual and sustainability reports served as the primary source for the content analysis. The sustainability reports' contents matched the 25 items in the Sustainability Reporting Guidelines 2nd Edition issued by Bursa Malaysia, as shown in Appendix 1.

In measuring SR, the study utilised the quality index measures popularly used in Malaysian sustainability-related research (Abd-Mutalib et al. 2018; Sheikh Abu Bakar et al. 2019). The quality index uses a scale of 0 to 3, with a score of 3 for qualitative disclosure with quantitative information, 2 for qualitative disclosure with specific explanation, 1 for general qualitative disclosure, and 0 for non-disclosure. Using this quality index, a sampled company may have a maximum quality score of 75 (25 items multiplied by the score of 3). Meanwhile, the lowest score that a sampled company could obtain is 0, indicating that the company scores 0 for every SR item by not disclosing all 25 items. Applying the scoring to each theme, the maximum score for the Economic Theme with five items is 2,349 (5 x 3 x 261 = 3,915 scores). Likewise, the Environmental Theme and Social Theme, with 10 items for each theme, will have a maximum score of 7,830 (10 x 3 x 261 = 7,830 scores).

Moving to the independent variables (IVs), this study referred to the measurements in previous studies. IO was measured by Malaysia's main institutional investors' ordinary shares percentage (Abd-Mutalib et al. 2016); MO was measured by the percentage of shares owned by the executive director to the total number of shares issued by the company (Nor et al. 2017; Oh et al. 2017); and FO was measured by the total accumulation percentage of family-owned companies' Top 30 shareholders (Jamil et al. 2019).

Additionally, several corporate governance mechanisms and company characteristics positively impacting SR were chosen as the control variables. Board size (BSIZE) and board diversity (BDIV) have been evinced to be positively related to SR, which is the total number of directors on the board (Zhuang et al. 2018). A score of 1 was given if female directors were identified in the boardroom and 0 if otherwise (Karim 2021). According to the legitimacy theory, companies with high debt (LEV) are most likely to disclose more SR to legitimise their activities, measured by total debt to total assets (Sadou et al. 2017). In addition, larger companies (FSIZE) may have more resources to practice their CSR, measured by the natural log of their total assets (Zhuang et al. 2018). Profitable companies (ROA) also tend to invest more in CSR. The measurement for ROA is income before extraordinary items to lagged total assets (Otero-González et al. 2021). LEV, FSIZE, and ROA data were collected from the Thompson Reuters Datastream. The ordinary least squares (OLS) regression method was adopted to study relationships. The hypotheses presented in the earlier section were examined by the regression equation as below:

$$SR = \alpha + \beta1FO1 + \beta2IO1 + \beta3MO1 + \beta4BSIZE + \beta5BDIV + \beta6LEV + \beta7FSIZE + \beta8ROA + \varepsilon \quad (1)$$

This study also employed a quadratic equation in OLS regression to test the curvilinear relationship. If the incremental change in F-statistics due to the additions of FO12, IO12, and MO12 turn significant, or the coefficients of β2, β4, and β6 are significant, the relationships are said to be curvilinear or non-linear. Additionally, the signs of β2, β4 and β6 imply whether the quadratic curve is U-shaped (-) or inversely U-shaped (+). The expression for the quadratic equation is as follows:

$$SR = \alpha + \beta1FO1 + \beta2FO12 + \beta3IO1 + \beta4IO12 + \beta5MO1 + \beta6MO12 + \beta7BSIZE + \beta8BDIV + \beta9LEV + \beta10FSIZE + \beta11ROA + \varepsilon \quad (2)$$

RESULTS

DESCRIPTIVE ANALYSIS

Table 1 illustrates the frequency of SR. Overall, favourable findings are reported, as the disclosure for the year 2019 indicates a moderate increase in all themes compared to 2018. Despite the increment, the quality of disclosures is still low. The first theme, the Economic Theme, records an increment in disclosure (2018: 682; 2019: 706), followed by the Environmental Theme (2018: 2,174; 2019: 2,469), and the Social Theme (2018: 3,486; 2019: 3,680). The findings postulate that in 2019, sampled companies only disclosed approximately 18% of the Economic Theme, 31.5% of the Environmental Theme, and 47% of the Social Theme, from the maximum total score for each theme.

TABLE 1. Frequency table for SR theme

Year	Theme		
	Economic	Environmental	Social
2018	682 (17.42%)	2,174 (27.77%)	3,486 (44.52%)
2019	706 (18.03%)	2,469 (31.53%)	3,680 (46.82%)

Table 2 records the minimum, maximum, and average scores of each SR theme. Interestingly, at least one company did not disclose any environmental, economic, or social information for both years. At least one other company provided detailed disclosure on the Economic Theme, as it nearly achieved full scores in 2018. Likewise, SR disclosure quality in 2019 shows that at least one company provided detailed quality disclosure for the themes, which resulted in full scores. Overall, the quality of SR disclosure shows an upward trend.

Additionally, Table 2 shows that the mean values for every theme are slightly different over the two years. However, the results demonstrate unfavourable findings, as each theme's mean could not reach half of the total scores. As such, the quality of SR disclosure among PLCs is alarming.

TABLE 2. Descriptive statistics for SR themes

Theme	Full Score	Min		Max		Mean	
		2018	2019	2018	2019	2018	2019
Economic	9	0	0	8	9	2.52	2.61
Environment	30	0	0	28	30	8.05	9.16
Social	30	0	0	30	30	12.91	13.62

Table 3 presents the descriptive statistics for all variables. The mean for overall SR disclosure (SR) is 0.36, ranging from 0 to 0.97, which shows a promising increment compared to previous research on the quality of SR disclosure (Katmon et al. 2019; Sheikh Abu Bakar et al. 2019). Regarding IO, it is found that companies in the sample scored an average institutional investor shareholding of 4.28%, demonstrating a slightly lesser percentage than the previous study of Abd-Mutalib et al. (2018). The average proportion of shares held by executive directors (MO) is 11.45%, a higher percentage than Ong et al. (2019). However, there is a noticeable extreme value for LEV and ROA, especially their maximum values. We applied winsorisation to these variables to alleviate the impact of outliers, capping extreme values at 1% for both the upper and lower ends. This approach aimed to diminish the influence of extreme outliers.

TABLE 3. Descriptive statistics for all variables

	Minimum	Maximum	Mean	Std. Deviation
SR	.00	0.97	0.36	0.19
FO	.00	65.03	6.86	13.42
IO	. 00	80.57	4.28	10.49
MO	.00	73.89	11.45	15.53
BSIZE	4.00	17.00	7.37	2.02
BDIV	.00	1.00	.66	.47
LEV	.00	136.03	0.21	0.17
FSIZE	4.00	7.68	6.23	6.74
ROA	-35.99	44.06	1.85	20.49

REGRESSION RESULTS

Table 4 indicates that the regression model, including three IVs, yields an adjusted R2 of 40.2%. This suggests that the three variables examined account for 40.2% of the variance in profitability among the Malaysian PLCs studied. As shown in Table 4, the regression results report that only IO positively and significantly affects SR ($p<0.01$), thus supporting H_1. Consistent with previous studies and supported by the agency theory, the findings postulate that institutional investors will exert their monitoring role in ensuring that the investee companies perform well in their social commitments to the stakeholders (Soliman & El Din 2012; Abd-Mutalib et al. 2015; Dakhli 2021). Likewise, companies with high IO stakes can substantially motivate them to embrace and enhance their CSR initiatives, mainly when they are in harmony with long-term value generation and sustainability perspectives. On the other hand, the regression results report that other ownership structures, i.e., FO and MO, do not influence SR. The findings, possibly due to the continuation of family tradition and values rather than adopting new sustainability practices and high MO, can sometimes lead to risk aversion, where managers are less likely to invest in new, potentially sustainable, but risky initiatives. Hence, it fails to support H_3 and H_5.

As expected, all control variables, BSIZE, BDIV, LEV, FSIZE, and ROA, indicate a positive and significant association with SR. The findings conclude that PLCs with large boards, with at least one female director, with high leverage and sound financial performance, tend to disclose more SR.

TABLE 4. Regression results

DV= SR			
	coeff	t-value	sig
IO	0.417	8.863	***
MO	-0.090	-1.922	*
FO	-0.053	-0.799	
BSIZE	0.164	3.717	***
BDIV	0.146	3.402	***
LEV	0.093	2.207	***
FSIZE	0.252	5.819	***
ROA	0.138	3.418	***
R-squared		0.402	
Adj. R-squared		0.391	
F-statistic		40.216	
p-value		0.000	

CURVILINEAR TEST

Regressing the quadratic equations is necessary to determine the curvilinear relationship and to compare with the linear regression model. Table 5 reports the regression results using the quadratic equation. The results show that the coefficient of the IO quadratic term is negative and significant, demonstrating a curvilinear relationship or the inverse U-shape ($p<0.01$), which is consistent with H_2. The result suggests that as IO increases, so do its effects on SR. However, SR decreases or is attenuated when IO increases to a certain threshold. Additionally, a curvilinear relationship is not found for other quadratic terms for MO and FO, which is inconsistent with H_4 and H_6.

TABLE 5. Curvilinear results

DV= SR			
	coeff	t-val	sig
IO	-0.248	6.094	***
MO	-0.094	-1.500	*
FO	-0.042	-0.687	
BSIZE	0.199	4.408	***
BDIV	0.147	3.603	***
LEV	0.089	2.092	***
FSIZE	0.290	7.247	***
ROA	0.156	3.588	***
R-squared		0.355	
Adj. R-squared		0.348	
F-statistic		33.251	
p-value		0.000	

DISCUSSION

The results show that the trend of SR is upward. The efforts of PLCs to emphasise the quality of SR for all Economic, Environmental and Social themes, showed encouraging improvement more in 2019 than in 2018.

Despite the increment, this study highlights that the quality of SR is still far from reaching the maximum score. The findings show at least one company with no SR at all. The results also show that the PLCs only disclosed approximately 18% for the Economic Theme, 31.5% for the Environmental Theme, and 47% for the Social Theme from the maximum total score for each theme. Correspondingly, the mean for every theme in both years barely reaches half the total score. Hence, this study postulates that PLCs have possibly focused on the extent of SR rather than the SR quality.

The results on SR quality have shown improvement compared to previous literature (Katmon et al. 2019; Sheikh Abu Bakar et al. 2019), suggesting that the changes in the business environment have affected the manner of disclosing sustainable information among Malaysian PLCs. Moreover, the increase indicates that Malaysian companies have become more aware of disclosing their CSR practices since Bursa Malaysia established the guidelines. However, improvements should be made to facilitate the companies in disclosing more detailed SR. This study proposes that the Malaysian authorities set up more comprehensive guidelines that can assist companies in understanding what should be disclosed. In addition, providing workshops or seminars to the Malaysian companies' managers on SR would enlighten and encourage them to disclose more details about SR. This study believes this will be a win-win effort for both parties as a quality sustainability report can attract more internal and external users. Similarly, this outcome indicates positive responses to Bursa Malaysia's effort to make SR mandatory.

This research utilised multiple regression analysis to investigate the influence of ownership structures on SR. The findings demonstrate a notable and positive correlation between IO and SR. This indicates that firms with a substantial share percentage owned by institutional investors exhibit higher SR quality. Nonetheless, the analysis indicates an inconsequential relationship between MO and FO with SR, implying that firms where executive directors hold a significant share proportion and those that are family-owned do not impact the quality of SR disclosure.

The above findings provide empirical evidence on ownership structures in the Malaysian setting. Consistent with H_1, this study reports that Malaysian listed companies with high shareholdings by institutional investors are most likely to enhance the quality of SR. Agency theorists (Jensen & Meckling 1976) have posited the same outcome. They have highlighted that those institutional investors holding substantial shares are deemed the investee companies' monitoring party. Institutional investors could minimise their information asymmetry as the major shareholders and managers via better monitoring and control mechanisms. As such, in line with previous studies (Abd-Mutalib et al. 2015; Dakhli 2021; Oh et al. 2011; Soliman et al. 2012), this study postulates that managers may decide on corporate strategic management like SR, that is aligned towards achieving goal congruence.

CONCLUSION

The relationship between types of ownership structures and SR is complex and multifaceted. As such, this study assessed SR quality based on different ownership structures (institutional, managerial, and family), and the potential non-linear relationships due to prior conflicting findings. The OLS regression shows a positive and significant correlation between IO and SR, suggesting that firms with significant institutional shares tend to have higher SR. Additionally, a follow-up analysis uncovered a curved relationship (inverted U-shape) between IO and SR quality, indicating diminishing effects beyond a certain threshold of IO.

This study provides several implications. Theoretically, this study extends the knowledge and depth of the agency theory by further exploring the association between ownership structures and the quality of SR by examining the potential presence of a non-linear or curvilinear relationship. This examination is mainly due to the varied results between the ownership structures and SR, as discussed earlier. The findings exhibit a non-linear or curvilinear relationship only for IO, in tandem with previous literature (Dam & Scholtens 2013; Martínez-Ferrero & Lozano 2021; Oh et al. 2017). Generally, a non-linear relationship appears when SR increases following IO. However, the effect declines when IO reaches a certain threshold. The findings imply that when IO is low, institutional investors' interests towards SR may not be aligned with those of the other shareholders. This unfavourable relationship demonstrates how shareholders would push CSR initiatives to the margins to cut costs. The idea prompted the researchers to consider a curvilinear relationship and a cut-off point, after which institutional investors' impact might change. Following that, institutional investors play the role of large controlling shareholders when their ownership is more significant and more critical when it reaches a certain threshold. This situation is based on the results derived from this study, which evince a U-shaped relationship between IO and SR quality. The SR quality falls as IO rises to a certain extent; breakpoint SR quality rises as institutional investor ownership concentration is considered. In summary, a slight elevation in IO, surpassing a specific threshold between moderate to high levels, can enhance the disclosure quality among PLCs. From a practical standpoint, examining the nuanced relationship between IO and SR within the agency theory framework provides valuable insights into the multifaceted dynamics of corporate governance. It sheds light on the nuanced equilibrium required between surveillance and aligning interests. As such, institutional investors with significant stakes in a company could work hand-in-hand with management and push for policies and practices that are aligned with social and environmental goals. These theoretical insights are a compass for additional empirical research, crucial for enhancing corporate governance practices to foster sustainable and responsible business conduct.

Like any study, some limitations should be considered and may point to areas for future research. Firstly, the duration of this study is only two years, i.e., 2018 and 2019. Future researchers may want to extend the duration. In this way, the findings and evidence would be richer and contribute to a more comprehensive trend analysis. The first objective may attain richer empirical findings. Secondly, this study only identifies the non-linear relationship between ownership structures and SR. Future studies could investigate the non-linear relationship by extending the analysis to identify the critical amount that sets off the association.

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APPENDIX 1

SR: Themes and Dimensions

Economic Theme	Environmental Theme
Procurement Practices	Emissions
Community Investment	Waste and Effluent
Indirect Economic Impact	Water
Climate-related financial risks and opportunities	Energy
Responsible/sustainable lending	Biodiversity
	Supply Chain (Environmental)
Social Theme	Product and Services Responsibility (Environmental)
Diversity	Materials
Human Rights	Compliance (Environmental)
Occupational Safety and Health	Land Remediation, Contamination or Degradation
Anti-Competitive Behaviour	
Anti-Corruption	
Labour Practices	
Society	
Product and Services Responsibility (Social)	
Supply Chain (Social)	
Compliance (Social)	