Corporate Sustainability Assurance Reports and Sustainability Index

Listing: An Empirical Investigation on Institutional Investors’
Decision Making and Confidence

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ABSTRACT

This paper seeks to examine the association of assurance of Corporate Sustainability Reports and Listing on Sustainability Index (LSI) on institutional investors’ decision making and confidence. This research employed a 2x2 experimental design with a case scenario of a hypothetical company. Two-way ANOVA technique was used to analyse data from 100 participants. Based on the two-way ANOVA analysis, the study only evidences effect of LSI on institutional investors’ decision making and confidence. However, no association was found between assurance of Corporate Sustainability Reports and LSI on institutional investors’ decision making and decision. Further, no significant interaction was found between assurance and LSI on both institutional investors’ decision making and confidence. The findings from this study differ from the findings of similar study in Australia, in that this study highlights the fact that there is still limited awareness in Malaysia in the importance CS reporting and assurance of such reports on investors’ decision making and confidence. Findings from this study have implications for regulatory bodies, government and corporations/organsiations to place more effort in the promotion of CS reporting.
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CHAPTER 1: OVERVIEW OF RESEARCH PROJECT

1.1 INTRODUCTION

Recent decades have shown growing increase in awareness of the need for a better and sustainable future. People are more convinced that Corporate Sustainability (CS)\(^1\) is good for business sustainability (Fayers, 1999). At the same time, studies have also shown that investors are no longer concerned just about financial information in making investment decisions (Picou and Rubach, 2006; Rubin, 2008). In other words, factors such as provision of assurance on CS reports and listing on a Sustainability Index, that may have an impact on improving the quality and reliability of CS reports as well as sustaining good ranking of a company in terms of its CS performance may have an association with investors’ decision making. This Chapter provides an overview of the research project undertaken to examine the association between CS performance and investors’ decision-making and confidence. The discussion is organised as follows: Section 1.2 discusses the background. Section 1.3 explains the methodology and research hypotheses. Lastly, Section 1.4 explains organisation of the study.

\(^{1}\) The CS concept has been also referred to concepts such as corporate social responsibility (CSR), sustainable development, business ethics, triple-bottom-line (TBL) reporting, and corporate sustainability. While there are significant overlaps among these concepts, for the purposes of this research, the term ‘corporate sustainability (CS)’ will be used. According to Datuk Zarina Anwar, during the StarBiz-ICS Malaysia Corporate Responsibility Awards ceremony, Corporate Social Responsibility (CSR) is now moving towards CS, which covers issues of corporate purpose, governance, strategy, risk management and reputation. There is an increasing trend in organisations removing the word “social” from CSR to avoid the fallacy that CSR involves just charity and philanthropy.
1.2 BACKGROUND

There is growing physical evidence of an unsustainable future at the current rate of consumption of natural resources and its harm to the environment (Fayers, 1999). Recent disasters around the world are catastrophic and very extreme as a result of global warming. In light of the current challenges faced by the planet, everyone needs to play their roles actively to preserve the planet. In this emerging world, doing business has changed; people now want a better tomorrow and sustainable future (Magretta, 1997).

During the 1992 Earth Summit in Rio de Janeiro, there was already realisation that the way we do business must change completely for a global economy to become sustainable (Elkington, 2006). CS is the key to sustainability and lately people are more convinced that CS does have an impact on the long term profitability of businesses (http://www.wbcsd.org).

In recent years, institutional investors are no longer just concerned about how firms in their portfolios are governed; they also place emphasis on the public policy or social issues as they recognize that the overall portfolio return will be influenced by such issues (Picou and Rubach, 2006). A recent study by Rubin (2008) also found that investors perceived that non financial information, other than those found in financial statements required for evaluating an investment can be found in CS reports.
In Malaysia, of late there has been an increase in number of companies voluntarily including CS reports (MESRA 2007). In line with the increasing trend in voluntary CS reporting, more organisations are also including assurance reports into their CS reports. Based on the recent Global Reporting Initiative’s\(^2\) Readers’ Choice survey conducted by KPMG and Sustainability in 2008, two of the highlights of the survey results indicated that publishing a sustainability report has a strong positive impact on a reader’s perception of a reporter and a majority of readers feel that assurance is important, both on sustainability reports and sustainability performance.

There is also a growing trend in Socially Responsible Investing (SRI). SRI is an investment process that considers the social and environmental consequences of investments, both positive and negative, within the context of rigorous financial analysis. It is a process of identifying and investing in companies that meet certain standards of CSR (US Social Investment Forum, 2003). According to Thompson and Zakaria (2006) the emergence of SRI in the USA and UK has provided an added motivation to CSR and Corporate Environment Reporting. In January 2003, Maybank, Malaysia’s largest bank launched the country’s first socially responsible fund, the Mayban Ethical trust fund.

The emergence of SRI has prompted the need for screening, consistent rating and benchmarking tools for assessment. In 2006, the first SRI index was created in

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\(^2\) Global Reporting Initiative (GRI) is a multi stakeholder non-profit organisation that develops and publishes guidelines for reporting on economic, environmental and social performance (sustainability performance). The GRI’s Sustainability Reporting Guidelines are now used by over 1000 organisations worldwide, with many more organisations considering the guidelines informally during the preparation of their public reports.
This index takes the Top 50 companies from the FTSE Bursa 100 Index and an assessment on the CS performance of these companies will be performed to determine if they can be considered as SRI. Sustainability index are a group of indexes that are used to track the performances of sustainability run companies.

As mentioned above, there is growing awareness in the need for sustainable business and furthermore, investors are placing greater emphasis on non financial criteria in making investment decisions. According to Fayers (1999), investors have the potential to influence the way business operates, and the result of a more sustainable system can be achieved by change in investment patterns. In the next subsections related extant literature will be discussed on (i) Third Party Assurance on CS reports; (ii) Impact of CS on Investors’ Behaviour, (iii) How assurance on CS report impacts investors’ decision making and confidence; and (iv) Listing on Sustainability Stock Index (LSI).

1.2.1 Third Party Assurance of CS reports

Globally, the quality of CS Reporting is improving rapidly. There is increasing awareness of the importance of sustainability and how it affects the bottom line of a company (MESRA 2007).

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3 OWW Consulting is a specialist in CSR and SRI in Malaysia
However, according to the CSR 2007 status report commissioned by Bursa Malaysia, Malaysian public listed companies (PLC) generally lag behind international trends and practices in reporting their CSR policies and performance. Furthermore, based on the 2007 MESRA entries, it revealed that only a very small number of companies used third party verification or assurance (MESRA 2007).

Empirical evidence suggests that users of CS reports favoured reports that have been assured by third party as assurance will increase the credibility and usefulness of these reports (Park and Brorson, 2004; Schwarzkopf, 2007; Ballou, Heitger and Landes, 2006).

The objective of external assurance is to enhance credibility of the reports presented, as described in IFAC 2000, para. 4, ‘The objective of an assurance engagement is to evaluate or measure a subject matter that is the responsibility of another party against identified suitable criteria and to express a conclusion that provides the intended user with a level of assurance about the subject matter’.

Lack of accompanying assurance from third party will reduce the quality and usefulness of CS reports. Presently there is no study in the Malaysian context that investigates whether the use of third party assurance impacts decision-making and confidence of investors. Findings from similar study in Australia by Subramaniam and Gibbs (2008) revealed that assurance on CS reports does have an impact on individual investors’ confidence and decision making. This study hopes to find out if the results will be similar given the fact that this research will be studying institutional investors as the target participants.
1.2.2 Impact of CS on Investors’ Behaviour

Previous studies (for example, Graves and Waddock, 1994; Theo and Shiu, 1999) have shown that CS reports do have an impact on investors’ perceptions and behaviour.

Investigation by Cox, Brammer and Millington (2004) showed that long-term institutional investors will choose firms through exclusion, i.e. they will not select firms which have the worst corporate social performance. Chan and Milne (1999), Hendricks (1976) and Belkaoul (1980) found that corporate social disclosures were useful and influenced the investment decisions of users of the information (Smith, 2005). Graves and Waddock (1994) revealed that improvement in a company’s corporate social performance rating was attractive to institutional investors.

In Malaysia it is shown that the institutional features differ from those in the developed countries. Most obvious variation was that there are very limited CS assurance reports in Malaysia (MESRA 2007), despite the fact of growing trend of disclosing CS activities. According to Lim, Mohamed and Sallehuddin (2008), differences in cultural, political and institutional background may influence Malaysia’s reporting behaviour. As a result, it can be argued that some variation in the results from the study in Australia may be anticipated.

In addition, institutional investors are playing increasing role in the Malaysian investment scene. Recent years have seen a huge increase in institutional investors’ trading participation in the exchange from a mere 35% in 1999 to 76% in 2008 (Bursa Malaysia 2009).
It will be useful to extend prior study in the developed countries to examine if the assurance on CS reports will impact the investors’ decision making and confidence, as explained in the next section.

1.2.3 How Assurance of CS Report Impacts Investors’ Decision Making and Confidence.

Studies found evidence on the importance of third party assurance of CS reports and concurrently, there is empirical evidence that confirms the increasing trend in investors using CS reports for making investment decisions and how good CS positively affects investors’ decision and confidence (Park and Brorson, 2004; Schwarzkopf 2007; Ballou et al, 2006; Graves and Waddock, 1994; Theo and Shiu, 1999).

Nevertheless, no empirical evidence was found as to whether assurance of CS reports impacts the investors’ decision making and confidence. It is therefore justified that more studies should be performed to gather evidence on whether investors decision making and confidence will be affected by third party assurance of CS reports. Furthermore, currently in Malaysia and most parts of the world, the incorporation of assurance reports into CS Reports is voluntary. Hence, it is vital to investigate whether assurance reports enhance the value of CS reports and whether provision of such reports benefit companies.

Study by Holt and DeZoort (2007) asserted that investors provided with internal audit report had more confidence in company oversight effectiveness and financial reporting reliability than investors without access to an internal audit report.
1.2.4 Listing on Sustainability Stock Index (LSI)

A company that is able to gain listings on a reputable sustainability stock index (LSI) will be able to discern itself in terms of its CS performance.

Companies listed on these indexes were selected usually from largest public listed companies using certain criteria (Rubin, 2008), in the Malaysia perspective; the criteria are Workplace, Marketplace, Environment and Community.

In an article on CSR wire in 2007, “The recent surge in Malaysian stocks has been driven to a great extent by overseas investors who are attracted by strong growth potential. Further investment funds could also be attracted from SRI Fund managers who account for more than RM14 trillion globally.”

There was further comment that by attracting just US$1 in every US$1,000 dollars of global SRI Funds would bring RM14 billion into the Malaysian market. It was also revealed by OWW Consulting that from 3rd January to 5th February 2007, companies on the OWW Responsibility Malaysia SRI Index have gained 11.12% compared with 9.73% on the Kuala Lumpur Composite Index (KLCI) (http://www.oww-consulting.com).

According to Wallstrom, Margot, EU Environment Commissioner, ‘investors have an important role to play in monitoring and encouraging sustainability in businesses – both for their own and for society’s sake (Cerin and Dobers, 2001, p 125). If more investors are looking at investing in sustainable companies, this will encourage more companies to be vigilant of the importance of being sustainable.
However, to date, in the Malaysian context, there has been no evidence on the degree to which LSI affects investors’ decision making and confidence. Hence, further study is justified to examine the effect of having a LSI on investors’ decision making and confidence. In essence the findings can motivate sustainable companies to continue to gain listing on sustainability stock index or to maintain listing on such index.

So it remains that in the Malaysian business environment there has been increasing focus to spearhead sustainability reporting and this is increasing. However, incidence of assurance of CS report is limited. Therefore it is timely to investigate whether there is any association between assurance report accompanying a CS report and the listing on a sustainability index (LSI) and institutional investors’ investment decision and confidence.

1.2.5 Research Problem

A number of past studies have highlighted the growing trend of investors looking beyond financial aspect, such as corporate social performance when making investment decisions (Cox et al, 2004; Turban and Greening, 1997; Koellner, Weber, Fenchel and Scholz, 2005). In addition, many past researchers have also studied the rise in the need for assurance of CS reports and how assurance is perceived to increase credibility of such reports (Gray, 2001; Dando and Swift, 2003; Park and Brorson, 2004; Adams and Evans, 2004). Similarly, SRI is becoming the core concern of typical investors (Maux and Saout, 2004; Fayers, 1999; Knoepfel, 2001).
In the Malaysian context, CS reporting is still low in quality and quantity but on the rise given the recent compulsory requirement for all PLC to disclose CS activities (Budget 2007). However, assurance of CS reports is still very limited in practice. Moreover, there is currently no official sustainability index established in Malaysia, besides the unofficial index created by OWW Consulting (http://oww-consulting.com).

The research problem to be addressed is the level of awareness among institutional investors of the importance of assurance of CS reports and LSI and how this will help improve quality and quantity of CS reporting in Malaysia. The study hopes to find out if assurance of CS reports and LSI, which helps promote better quality CS performances among companies practising CS, affects institutional investors’ decision making and confidence. The outcome of this study will hopefully create more awareness among report preparers, standard setters and regulatory bodies.

Research questions to be addressed are as follows:

1. Is there a positive association between the provision of assurance with CS reports and institutional investors’ decision making?

2. Is there is a positive association between the provision of assurance with CS reports and institutional investors’ confidence?

3. Is there a positive association between a company’s listing on a sustainability index and institutional investors’ decision making?

4. Is there a positive association between a company’s listing on a sustainability index and institutional investors’ confidence?
1.2.6 Motivations for this study

Whilst there are many studies examining the rise in the need for assurance of CS reports (Gray, 2001; Dando and Swift, 2003; Park and Brorson, 2004; Adams and Evans, 2004) in addition to studies observing a growth in number of companies voluntarily issuing corporate environmental, or sustainability reports (Park, 2004; Ball, Owen and Gray, 2000; O’Dwyer and Owen, 2007) and studies examining the growing trend of investors looking beyond financial aspects (Cox et al, 2004; Turban and Greening, 1997; Koellner et al, 2005) as well as SRI becoming the core concern of typical investors (Maux and Saout, 2004; Fayers, 1999; Knoepfel, 2001), no study in the Malaysian context has examined if the provision of assurance reports and the listing of a company on a sustainability Index has any effect on the decision making and confidence of institutional investors.

Whilst prior studies are carried out mostly in the context of developed countries (Adams and Evans, 2004; O’Dwyer and Owen, 2007; Cox et al, 2004) an examination of this phenomenon in developing countries is critical as the success of efforts of global warming depends on the cooperation of both developed and developing countries. This is in line with one of the main crucial intentions of the enforcement of the Kyoto Protocol that sets binding targets for both developed and developing nations to reduce greenhouse gas emissions (Kyoto Protocol).

Furthermore, Malaysia has an interesting setting, as a result of its unique socio economic structure. Companies in Malaysia, especially the government linked companies (GLC) are motivated to disclose CS due to government influences, an aspiration and commitment to Government’s Vision 2020 agenda.
In other words, government of Malaysia is very serious in encouraging CSR culture into GLC of which will be a good reflection for the ruling party (Amran and Devi, 2008). Findings by Amran and Devi (2008) also implied that government of Malaysia is very serious in encouraging CR in GLC.

In addition, Gul (2006) evidenced that auditor foresee politically favoured corporations to be of higher risk than non politically favoured ones, hence rise in audit fees. This is foreseen as an additional contributing factor to the need to be in compliant with disclosure of CS. In the Budget announcement in 2007, Government has announced that in order to inculcate the culture of CS, all PLC in Malaysia are required to disclose CS activities. This demonstrates Government’s keen pursuit to not only inculcate CS in Malaysia but also to fulfil its Kyoto Protocol commitments (Budget 2007; Bursa Malaysia Framework).

1.3 METHODOLOGY AND RESEARCH HYPOTHESES

1.3.1 Methodology

This is an experimental study using quantitative approach by studying the relationship of the independent and dependent variables. Statistical method using primary data will be employed in this study.

For the purpose of this research, the research design replicates a prior study (Subramaniam and Gibbs, 2008) on Corporate Sustainability Assurance Reports and Sustainability Index Listing in Australia.
This study is the first of its kind in Malaysia (as evidenced from publications to-date accessed from online databases) which researches on behaviour of actual institutional investors in Malaysia in relation to CS reporting. This is considered an additional contribution from the study that was replicated which only targeted on staff from a university as main respondents representing individual investors (Subramaniam and Gibbs 2008). This study will definitely have better control in terms of sample bias as compared to the study in Australia.

In particular a hypothetical case scenario is used as the research instrument, namely, a 2x2 experimental design, suggested by Swanger and Chewning (2001) is used with the following two independent variables manipulated between subjects:

i) the provision of an assurance statement with CS report

ii) having a LSI using a hypothetical case scenario.

1.3.2 Hypotheses Development

Clearly, investors perceive the importance of moving towards evaluation of non financial information of companies before making investment decisions (Turban and Greening 1997; Cox et al 2004; Koellner et al 2005). In other words, CS is perceived to affect investment decisions.

1.3.2.1 Assurance statement of CS and investor decision making and confidence

The number of companies voluntarily issuing corporate environmental, or sustainability reports have increased recently (Park, 2004; Ball et al, 2000; O’Dwyer and Owen, 2007).
This is supported by KPMG’s survey which has also shown continual increase in the proportion of companies issuing environmental and sustainability reports, from 13% in 1993 to 25% in 2002 (KPMG 2002).

In addition, the number of reports with assurance reports has also steadily grown in 2008 to 40% (G250) and 39% (N100) from 30% and 33% respectively in 2005 (KPMG, 2008). Empirical studies indicate that external assurance of CS reports is one of the main measures to enhance credibility and increase reliability of the reports (Gray, 2001; Dando and Swift, 2003; Park and Brorson, 2004; Adams and Evans, 2004; Park, 2004). As a consequence, it can be argued that CS reports that have been verified/assured by third party are more credible and investors place more reliance on information that has been verified.

The following hypotheses are thus developed in this study:

\textit{H1a: There is a positive association between the provision of an assurance statement with a CS report and institutional investors’ decision making.}

\textit{H1b: There is a positive association between the provision of an assurance statement with a CS report and institutional investors’ confidence.}

\subsection*{1.3.2.2 Sustainability Index and investors decision making and confidence}

A company that is able to gain listing on a reputable sustainability stock index (LSI) will be able to discern itself in terms of its CS performance. Companies listed on these indexes were usually selected from largest public listed companies using certain criteria (Rubin, 2008).
It can be argued that a LSI can act as an important indicator of a company’s CS ranking, which will inevitably attract more investors. It can be hypothesized that when a company holds a listing on a LSI, it is an indication of high CS performance levels because a reputable sustainable stock index is deemed a reliable and independent source.

The second set of hypotheses thus developed are as follows:

\textit{H2a: There is a positive association between a company’s listing on a sustainability index and institutional investors’ decision making.}

\textit{H2b: There is a positive association between a company’s listing on a sustainability index and institutional investors’ confidence.}

\textbf{1.4 ORGANISATION OF STUDY}

The remainder of this thesis is organized as follows. The next Chapter provides the literature review and identifying the gaps. Chapter 3 describes the research methodology, development of the hypotheses and the research design. Chapter 4 presents the results of the research. Chapter 5 concludes with discussion of the research’s implications and limitations, as well as recommendations for future research.
CHAPTER 2: LITERATURE REVIEW

2.1 INTRODUCTION

The purpose of this chapter is to unearth and evaluate previous body of literatures published on CS, Sustainability Index and Assurance to establish its particular trends and identify the gap between what is expected from association of assurance and sustainability index and investors’ decision making and what are the current practices. This chapter will be organised as follows: Section 2.2.1 summarises extant literature on Institutional Investors’ Behaviour. Section 2.2.2 encapsulates CS reporting literature. Section 2.2.3 discusses Assurance and Credibility literature whilst Section 2.2.4 focuses on Socially Responsible Investments and Sustainability Index. Section 2.3 concludes with what was achieved from the literature review.

2.2 BACKGROUND

In interdisciplinary research, published literature from a wide array of fields has to be searched for relevant publications. It is therefore not viable to conduct an exhaustive literature review. The basis of selecting the following main areas to conduct the literature review on is because the literatures from these areas are able to integrate information or concepts from at least two of the main research area.

For this paper, literature searches were conducted in four main areas and each area will be discussed separately in the section that follows:

1. Institutional Investors’ Behaviour
2. Corporate Sustainability Reporting
3. Assurance and Credibility
4. Socially Responsible Investments and Sustainability Index
2.2.1 Institutional Investors’ Behaviour

Johnson and Greening (1999) reveal the emergence of a new stakeholder group, institutional investors\(^4\), which include public and union pension funds, mutual funds, investment bankers, insurance companies and private firms. Investments made by these institutional investors are very large; hence they cannot easily divest their holdings without severely affecting share prices (Pound, 1988). Therefore, these investors have strong interest in both financial and non financial performance of the companies they invest in. Institutional investors believe firms benefit from maintaining product quality, being responsive to the natural environment and being responsive to the communities they operate in and in people they employ (Turban and Greening, 1997).

Cox et al (2004) find two significant trends in the recent pattern of ownership of stock of large corporations. Firstly, over the last 25 years, the extent to which common stock are owned by institutions, instead of individual investors, has increased considerably. Secondly, interest in corporate behaviour has gained more importance over corporate financial performance in view of the rapid growth in SRI. A similar scenario is happening in Malaysia as well. In recent years, growth of institutional investors is becoming visible given the concentrated ownership structure in Malaysia (Bursa Malaysia 2009).

\(^4\) Institutional investors are organisations which pool large sums of money and invest those sums in companies. They include banks, insurance companies, retirement or pension funds, hedge funds and mutual funds. Their role in the economy is to act as highly specialised investors on behalf of others.
Similarly, Koellner et al (2005) find that investors are beginning to look beyond financial aspects of their investment and are considering and including ecological and socio economic criteria. Koellner et al (2005) observe that in certain countries, it is a requirement for institutional investors, such as pension funds, to declare that their investment principles are with respect to sustainability (Kasemir, Suess and Zehnder, 2001).

This is consistent with Graves and Waddocks’s (1994) findings that increase in level of corporate social performance will increase institutional ownership in companies. This is further supported by Coffey and Fryxell (1991) who suggest that institutional investors use corporate social performance information before making stock ownership decisions in the company.

CS not only will appeal to local institutional investors but to foreign institutions as well. It is noted that foreign institutions are beginning to show concern for CS of local companies. For example, CalPERS5 is paying more attention on CS records of South East Asian companies before investing in them (Thompson and Zakaria, 2004). This trend of investing will encourage more local companies to pay more attention to CS reporting of their companies. Furthermore, back in 2002, an article in Financial Times reported that CalPERS once pulled out its investments in Indonesia, Malaysia, Philippines and Thailand on grounds that these countries did not meet its investment criteria.

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5 CalPERS (California Public Employees’ Retirement System) is one of the world’s largest institutional investors.
Reuters also reported that by dropping the four South-East Asian countries, CalPERS has shut the door on a US$50 billion investment market. This reveals that investors are increasingly looking at a country’s fundamentals, the overall investment climate and return of investment.

According to Fayers (1999), firms are seen as having lower financial risk as well as more morally and ethically appealing if they disclose relevant and comprehensive information about their environmental management programmes and performance. As a result investors will be willing to pay a premium for such firms with lower risk.

The above literature on institutional investors supports that investors perceive the importance of moving towards evaluation of non financial information of companies before making investment decisions. In other words, CS is perceived to affect investment decisions.

2.2.2 Corporate Sustainability Reporting

Teoh and Shui (1990) found that only if socially responsible information was presented in annual reports in quantified form will it have significant impact on institutional investors’ decision.

Anderson (1998) advocated that corporate reports are the main communication vehicle between the company and investment community, hence, should include information, other than plain financial information, that would be of interest to users of such information.
Recent trend also observed a growth in number of companies voluntarily issuing corporate environmental, or sustainability reports. Such reports are believed to help companies maintain their license to operate. In addition, these reports are also able to serve the stakeholders increasing demand for sustainability reports that represents what the companies have achieved and foresee to achieve in the future (Park, 2004; Ball et al, 2000; O’Dwyer and Owen, 2007).

KPMG’s survey has also shown continual increase in the proportion of companies issuing environmental and sustainability reports, from 13% in 1993 to 25% in 2002 (KPMG 2002).

Melvin (2003) suggests that CS reporting is a result of demand by stakeholders for more transparency in general rather than demand for specific sustainability information. And more often than not, stakeholders require transparency in order to maintain their confidence in the company which will subsequently affect their decision making. According to Deegan (2002), the few contributing factors to increase in CS reporting in developed countries were attributed to legislation, demand of ethical investors, pressure groups, economic activities, societal awareness and politics.

In the Malaysian context, considerable researches have been performed in the past pertaining to CS reporting, which covered various aspects of CS reporting.
Some of the researches worth mentioning are as follows:

1. The very first was by Teoh and Thong (1984) which researched on various aspects of CS and found that attitude of Malaysian companies towards CS is conservative.

2. Several studies have also been carried out by Zain (1999), Haniffa and Cooke (2002) and Amran and Devi (2008) on reasons for disclosure of CS reports in Malaysia.

3. Thompson and Zakaria (2004) studied the progress and prospects of CS reporting in Malaysia and found that the state of CS reporting in Malaysia is poor in quality and low in quantity, but it appears to be improving.

4. The study by Zulkifli and Amran (2006) to determine the accounting professionals’ level of awareness and perceptions towards CS find that the level is still low.

It is evident from the above summary of studies conducted in Malaysia that various aspects of CS reporting have been researched on. It is also evident from the discussions above that progress of CS reporting in Malaysia is lacking compared to other parts of the world, especially in the developed nations. Furthermore, in Malaysia CS is believed to be driven by government influence as well as the nation’s commitment to Vision 2020⁶ (Amran and Devi, 2008). This study endeavours to focus on Malaysia given the institutional differences highlighted above especially the aspirations of the Government of Malaysia in regards to CS reporting.

⁶ Vision 2020, in 1991, the Malaysian Government declared that it was the objective of the nation to become a developed nation in its own right by 2020. One the nine strategic challenges in this Vision is the establishing a fully moral and ethical society, whose citizens are strong in religious and spiritual values and imbued with the highest of ethical standards.
However, to date very limited study has been conducted on the relationship between investors’ decision making and CS reporting. There is therefore a need to determine if the relationship between investors’ decision making and CS reporting exists and if so this will assist to spearhead efforts to improve quality and quantity of CS in Malaysia.

The next section will highlight all prior literature on assurance and CS reports in other parts of the world, besides Malaysia.

2.2.3 Assurance and Credibility

Empirical evidence suggests that users of CS reports favoured reports that have been assured by third party as assurance will increase the credibility and usefulness of these reports (Brorson and Park, 2004; Schwarzkopf, 2007; Ballou et al, 2006).

According to Thomas Golden, leading forensic accounting partner in PWC,

As long as there is an abundance of investors with too much money chasing too few investment opportunities offering high returns, the temptation to misrepresent a company's performance or future prospects based on non financial and other information will be too great to ignore. He says this is a huge hole in the corporate reporting process. (Ballou et al, 2006)

Global Reporting Initiative (GRI) recommends the use of external assurance of the sustainability reports in addition to internal resources.
External assurance is defined by GRI as “activities designed to result in published conclusions on the quality of the report and the information contained within it. This includes, but is not limited to, consideration of underlying processes for preparing this information. This is different from activities designed to assess or validate the quality or level of performance of an organization, such as issuing performance certifications or compliance assessments” (SRG ver 3.0, 2006, page 38)

In recent years the number of reports with assurance reports has steadily grown in 2008 to 40% (G250)\(^7\) and 39% (N100)\(^8\) from 30% and 33% respectively in 2005. This increase is in line with the means to provide greater credibility to the reports (KPMG, 2008). In Malaysia, official numbers are not available for number of reports with assurance as currently, assurance of such reports is not compulsory. However, based on GRI 2008 Reporters listing, obtained from GRI website (www.globalreporting.org), there were only two companies in Malaysia that qualified on this list and these two companies also issued an Assurance report.

Substantial researches have been carried out in the past pertaining to assurance of CS reports, which supported that external assurance on CS reports are one of the main measures to enhance credibility of the reports.

\(^7\) G250 – Global 250, Top 250 companies of the Fortune 500

\(^8\) N100 – National 100, Top 100 companies in 16 countries
Some of the researches worth mentioning are as follows:

1. Assurance is also found to be crucial in findings of research by Gray (2001).

2. Third party assurance is said to be able to narrow credibility gap (Dando and Swift, 2003).

3. According to Park and Brorson (2004), companies regard third party assurance on environmental/sustainability reporting beneficial in helping develop efficient internal reporting systems and increasing credibility of published data. It was also noted that reports would not be reliable without third party assurance.


5. Results of survey by Park (2004) supported the importance of third party assurance as well. The findings of the study showed that almost 57% of respondents felt that third party assurance would be the common practice and would increase in the near future. In other words, companies begin to acknowledge the importance of having CS reports assured.

Park (2004) further asserts that companies chose assurance as a result of internal benefits rather than solely for increased credibility. Table 2.1 shows list of internal improvements derived from third party assurance. This further proves the encouraging future of assurance of CS reports.
Table 2.1: Examples of internal improvement driven by Third party assurance

<table>
<thead>
<tr>
<th>Examples of internal improvement driven by Third party assurance</th>
<th>Number of answers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Improve underlying system and processes</td>
<td>5</td>
</tr>
<tr>
<td>• Development of some of Key Performance Indicators (KPIs) and eco-efficiency index</td>
<td></td>
</tr>
<tr>
<td>• Structuring the documentation regarding the various legal requirements</td>
<td></td>
</tr>
<tr>
<td>• Improvement of system and processes for the data collection from different reporting units</td>
<td></td>
</tr>
<tr>
<td>Create more respect for the process and the area of reporting concerned</td>
<td>3</td>
</tr>
<tr>
<td>Advice on what to report/where to focus</td>
<td>2</td>
</tr>
<tr>
<td>Improve the presentation of the report</td>
<td>2</td>
</tr>
<tr>
<td>• Clear description on estimated figures</td>
<td></td>
</tr>
<tr>
<td>• Improve the comparability of indicators over time</td>
<td></td>
</tr>
<tr>
<td>Help the company to elicit the stakeholder opinions by providing stakeholder dialogue</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>13</strong></td>
</tr>
</tbody>
</table>


Similarly, considerable researches have also been undertaken on credibility of source of information. Findings of some key studies are summarised in Table 2.3.

Results of survey undertaken by Schwarzkopf (2007) indicate that investors, whether more or less experienced, ranked CPA Assurance reports first among 9 sources of non financial information measures. Summary of results illustrated in Table 2.3. The study supports the importance of assurance in ensuring credibility of reports. In addition, assurance from an independent and experienced source was also preferred.
Ismail and Chandler (2005) observe that investors in Malaysia found annual reports more useful than quarterly reports because quarterly reports are not audited, hence less reliable. Ballou et al (2006) and Hodge (2000) also concurred with Ismail and Chandler’s (2005) that investors do place more interest in sources of information that has been externally verified/assured.

In summary, CS reports that have been verified/assured by third party are more credible and investors place more reliance on information that has been verified. However, there has been little research undertaken on the relationship between the assurance of CS reports and investors' decision making and confidence, especially in the Malaysian context.
2.2.4 Socially Responsible Investment (SRI) and Sustainability Index

A recent survey from the Principles for Responsible Investment (PRI)\(^9\) Initiative also reveals that some of the world’s largest institutional investors are making important progress in integrating environmental, social and governance (ESG) issues into their day-to-day business. Based on the information highlighted above, being able to obtain a listing on one of the Sustainability Index is thus considered an important strategy to catch the attention of investors.

PRI announced that over 400 global investment institutions, managing over US$15 trillion assets, have signed up to the six principles, a set of global best practices for implementing responsible investment. This is an increase of 65%. This shows that increasing number of investors is convinced that taking CS factors into account when making investment decisions will add value (PRI 2008).

As advocated by Maux and Saout (2004), over the past decade, SRI has changed to become a core concern for typical investors. The value of SRI assets under management in the US has increased significantly, especially in the 90s. The size surged considerably from $40 billion in 1984 to $2.34 trillion in 2001.

For inclusion in FTSE4Good, companies have to satisfy criteria based on three principles: working towards environmental sustainability, developing positive relationship with stakeholders and up-holding and supporting universal rights.

\(^9\) The Principles for Responsible Investment, convened by the United Nations Environment Program Finance Initiative and the UN Global Compact, was established as a framework to help investors achieve better long-term investment returns and sustainable markets through better analysis of environmental, social and governance issues in investment process and the exercise of responsible ownership practices.
FTSE4Good exclude companies which have been identified as having business interest in the following industries: tobacco producers, companies manufacturing either parts for, or whole, weapons systems, owners or operators of nuclear power stations and companies involved in the extraction of uranium (FTSE Good Index FactSheet).

According to Knoepfel (2001), there is growing trend in investors taking into account CS as one of the important factors to consider when buying a stock. Investors will tend to seek out above average growth companies, and they are attracted to this new investment style because it assures to create long term shareholder value.

Business must change its social and environmental conduct with the increasing demand of society for a more sustainable economy. This will lead to more investment in companies that are socially responsible and companies that are listed on sustainability index. This will encourage companies to act socially responsible in order to attract more investors (Fayers, 1999).

Additionally, Maux and Saout (2004) observe that sustainability indexes not only do not underperform general indexes, they can outperform them, in addition they perform especially well in rising markets. These findings will encourage CS companies to be listed on Sustainability index as these indexes have frequently outperformed general indexes, which will inevitably attract more investors.
Research findings show the growing trend towards investing in socially responsible investment (Rubin, 2008). This has given rise to the creation of a number of sustainability indexes around the world, which are used by investors as benchmarking companies. However, there is limited research performed in the relationship of Sustainability index and investors’ decision to invest and investors’ confidence.

In summary, based on the literature findings above, a number of studies have highlighted the growing trend in investors looking beyond financial such as corporate social performance when making investment decisions (Cox et al, 2004; Turban and Greening, 1997; Koellner et al, 2005). In addition, many past researchers have also studied the growing importance of assurance and how assurance is perceived to increase credibility of CS reports (Gray 2001; Dando and Swift, 2003; Park and Brorson, 2004; Adams and Evans, 2004). Similarly, SRI is becoming the core concern of typical investors (Maux and Saout, 2004; Fayers, 1999; Knoepfel, 2001). However, no study in the Malaysian context has been conducted on the association between assurance on CS reports and listing on sustainability index on investor’s decision making and confidence. Therefore, this study is seeking an evidence to support the notion that assurance on CS reports and LSI may impact investor’s decision making and confidence.

2.3 CONCLUSION

As highlighted at the Introduction section, purpose of this Chapter is to identify a gap through the review of previous body of literatures. A gap has been identified and main research problem highlighted and research questions generated. This Chapter leads us to the discussion of methodology and development of research hypotheses to be tested, which will be detailed in the next Chapter.
CHAPTER 3: METHODOLOGY

3.1 INTRODUCTION

The literature review in Chapter 2 has highlighted the gap based on review of past literatures. This Chapter explicates the research methodology and the development of hypotheses and research design to examine the association of assurance and sustainability index and investors’ decision making and the possibility of closing the gap. This chapter will be organised as follows: Section 3.2 summarises the methodology. Section 3.3 focuses on hypotheses development. Section 3.4 discusses research framework and research design. Section 3.5 concludes with what was achieved from this chapter.

The objective of this study is to find out if assurance on CS reports and LSI, which may help promote better quality CS performances among companies practising CS, affects institutional investors’ decision making and confidence. The outcome of this study will hopefully create more awareness among report preparers, standard setters and regulatory bodies on the importance of assurance on CS reports and LSI.

3.2 METHODOLOGY

This study replicates a similar study conducted in Australia (Subramaniam and Gibbs, 2008). It therefore peruses an experimental study using quantitative approach by studying the relationship of the two independent variables, assurance of CS reports and LSI and two dependent variables, decision to invest and confidence in investment. Statistical method using primary data will be employed in this study.
3.3 HYPOTHESES DEVELOPMENT

Findings from literature on institutional investors indicate that investors perceive the importance of moving towards evaluation of non financial information of companies before making investment decisions (Turban and Greening 1997; Cox et al 2004; Koellner et al 2005). In other words, CS is perceived to affect investing decisions.

The number of companies voluntarily issuing corporate environmental, or sustainability reports have increased recently (Park, 2004; Ball et al, 2000; O’Dwyer and Owen 2007). In addition, KPMG’s survey has also shown continual increase in the proportion of companies issuing environmental and sustainability reports, from 13% in 1993 to 25% in 2002 (KPMG 2002).

In addition, the number of assurance reports accompanying CS reports has also steadily grown in 2005 to 30% (G250) and 33% (N100) from 29% and 27% respectively in 2002 (KPMG, 2005). Empirical studies indicate that external assurance on CS reports is one of the main measures to enhance credibility and increase reliability of the reports (Gray, 2001; Dando and Swift, 2003; Park and Brorson, 2004; Adams and Evans, 2004; Park, 2004). As a consequence, it can be argued that CS reports that have been verified/assured by third party are more credible and investors place more reliance on information that has been verified.
Hence the following hypotheses are developed:

**H1a:** There is a positive association between the provision of an assurance statement with a CS report and institutional investors’ decision making.

**H1b:** There is a positive association between the provision of an assurance statement with a CS report and institutional investors’ confidence.

A company that is able to gain listings on a reputable sustainability stock index (LSI) will be able to discern itself in terms of the CS performance. Companies listed on these indexes were selected usually from largest public listed companies using certain criteria (Rubin, 2008). It can be argued that a LSI can act as an important indicator of a company’s CS ranking, which will inevitably attract more investors.

The second hypotheses developed are as follows:

**H2a:** There is a positive association between a company’s listing on a sustainability index and institutional investors’ decision making.

It can be hypothesized that when a company holds a listing on a LSI, it is an indication of high CS performance levels because a reputable sustainable stock index is deemed a reliable and independent source:

**H2b:** There is a positive association between a company’s listing on a sustainability index and institutional investors’ confidence.
3.4 RESEARCH FRAMEWORK AND RESEARCH DESIGN

Drawing from Holt and Dezoort (2007) findings, when there is uncertainty in a decision-making scenario, individuals will seek for additional information and extend analysis to reduce their reservations.

The research framework is shown in Figure 3.1:

**Figure 3.1: Research Framework**

![Research Framework Diagram]

3.4.1 Research Design

Since this study replicates a similar study conducted in Australia (Subramaniam and Gibss, 2008) on Corporate Sustainability Assurance Reports and Sustainability Index Listing in Australia the research design follows closely the approach taken in the Australia to afford comparability of results.
In order to investigate the impact of corporate sustainability assurance reports and sustainability index listing has on institutional investors’ decision making, the use of a hypothetical case scenario is adopted as the research instrument. However, some modification to the target population has been made. The target population for the purpose of this study is actual institutional investors instead of use of surrogate investors in the study in Australia.

Over the recent decade, the growth of institutional investors in the current investment scenario has increased tremendously. Composition of individual investors has reduced significantly, given the weak sentiments in individual investors (Bursa Malaysia 2009). Furthermore, the area of CS reporting and assurance as well as LSI are still at its infancy in Malaysia (Ramasamy and Ting, 2004; Lu and Chastka, 2009). Hence, the use of actual institutional investors would be better compared to using university staff as surrogate investors in the study in Australia that was replicated.

This research employs a 2x2 experimental design, suggested by Swanger and Chewning (2001); Orren, G (1997), with the following two independent variables manipulated between subjects:

i) the provision of an assurance statement with CS report

ii) having a LSI using a hypothetical case scenario.

Participants were provided with case information about a hypothetical company.
Each survey participant received only one of the four possible versions as shown in Table 3.1 below.

<table>
<thead>
<tr>
<th>Assurance Group</th>
<th>No Assurance Group</th>
</tr>
</thead>
<tbody>
<tr>
<td>LSI exists</td>
<td>No LSI</td>
</tr>
<tr>
<td>Version A</td>
<td>Version B</td>
</tr>
<tr>
<td>LSI exists</td>
<td>No LSI</td>
</tr>
<tr>
<td>Version C</td>
<td>Version D</td>
</tr>
</tbody>
</table>

Source: Adapted and modified from Subramaniam and Gibbs (2008)

The case scenario involved an organization called SIGMA Berhad (hypothetical, no such company exists), one of Malaysia’s ten largest conglomerate, with total revenue of almost RM10 million, and is listed on the Bursa Malaysia (formerly known as the Kuala Lumpur Stock Exchange).

The participant is provided with a cover letter and the research instrument which contained information on the company’s background, extract from the company’s CS report and assurance report, some financial information and a structured questionnaire. Each participant was required to review information provided in order to help provide opinion on decision of whether to invest in Sigma Berhad.

An extraneous variable, i.e. the financial performance of Sigma Berhad might have an effect on the dependent variable. This can be overcome by explicitly portraying in the financial indicators of Sigma Berhad an average performance. Hence, in the information provided to participants, the considerations in regards to financial performance are deemed acceptable and will not affect the decision of the investors.
Independent Variables

As for the first independent variable, the manipulation involved the presence or absence of an assurance statement with the CS report. The presence of the assurance statement as an independent variable was further manipulated in two levels. At one level, in the case when an assurance statement was provided with the CS report, the participants were provided with information that the company were either listed or not listed on a sustainability index. At the second level, in the case when an assurance statement was absent, the participants were also provided with information that the company was also either listed or not listed on a sustainability index. Previous study by Subramaniam and Gibbs (2008) has also adopted a similar approach where the independent variables were manipulated the same way.

Thus, the two treatments in relation to the first independent variable are termed as follows:

Treatment One: With an Assurance Statement

Treatment Two: No Assurance Statement

In relation to the second independent variable i.e. LSI, the manipulation was achieved by providing one group of participants with a company having a LSI, while the other group considered a company with no LSI. A fictitious sustainability index called Malaysia Sustainability Index (MSI) was created.

The two treatments are termed as follows:

Treatment One: Having LSI

Treatment Two: No LSI
Table 3.2 summarizes the operationalization of the independent variables.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Operationalization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assurance on CS reports</td>
<td>CS information is a subject which shareholders require assurance</td>
</tr>
<tr>
<td></td>
<td>What form an assurance report should take</td>
</tr>
<tr>
<td></td>
<td>How much of an assurance report is read</td>
</tr>
<tr>
<td>Listing on sustainability index</td>
<td>Importance of CS ranking</td>
</tr>
<tr>
<td></td>
<td>How is the Sustainability score ranked</td>
</tr>
</tbody>
</table>

**Dependent Variables**

The dependent variables were measured on a 7 point Likert scale.

The first question focused solely on the participant’s likelihood of investment in Sigma Bhd, appeared as follow:

- “Based on the information provided, how likely is it that you will advise your company to invest in Sigma Bhd?” with responses measured from 1 (“Not likely”) to 7 (“Extremely likely”).

The second question focused solely on participant’s confidence in investing in Sigma Bhd, appeared as follow:

- “How confident are you that investing in Sigma Bhd is a good investment decision?” with responses measured from 1 (“Not at all Confident”) to 7 (“Extremely Confident”).

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3.4.2 Population and Sampling Procedures

The population of this study consists of all institutional investors in Malaysia represented by those who are currently investors or are intending to invest in the near future. Institutional investors can be defined as organizations which pool large sums of money and invest those sums in companies. The type of organizations that constitute institutional investors is extensive. They can include banks, insurance companies, retirement or pension funds, hedge funds, mutual fund, government organization, to name a few. For the purpose of this research, the sampling frame, as illustrated in Table 3.3, is based on all banks, insurance companies, fund management companies and government linked companies (GLC) in Malaysia.

<table>
<thead>
<tr>
<th>Types of institutions</th>
<th>No of institutions Industry</th>
<th>%</th>
<th>No of institutions Sample</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>57</td>
<td>28</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>39</td>
<td>19</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Fund Management Companies</td>
<td>76</td>
<td>36</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Others (note)</td>
<td>36</td>
<td>17</td>
<td>10</td>
<td>25</td>
</tr>
<tr>
<td>Total</td>
<td>208</td>
<td>100</td>
<td>40</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Bank Negara and irasia.com

(Note: Others include non-bank financial intermediaries, related government agencies, other related local organizations and development financial institutions, also classified as GLC)

Stratified sampling techniques were used to select sampling units in order to ensure equal representation of the population.
The final selected sample size was 400 individuals, a random sample of 10 individuals selected from each institution giving a total of 100 in each group of institution identified in Table 3.2. Prior to participation of the survey, all participants were briefed on the requirement to read Parts A and B of the questionnaires before commencing to answer the questions in the questionnaire.

A survey questionnaire was used to collect the data. A structured multi item questionnaire with close-ended questions was used throughout the survey and there were four versions of the questionnaire being use. (Refer to Appendix 1). The instrument used in this research was replicated from past research (Subramaniam and Gibss, 2008). The questionnaire was divided into the following sections:

Part A: Company Background
Part B: Extracts of CS Report and Assurance of CS Report
Part C: Questions pertaining to Part A and B
Part D: General Perceptions
Part E: Participant Background

There were four versions of the survey (25 of each version). Each version was randomly distributed to all participants to avoid selection bias. A total of 170 questionnaires were finally returned (a response rate of 42%). As indicated in Chapter 3, this research employs an experimental 2x2 design, hence for ensuring equality of variances an equal response for each of the four versions were selected.
In addition, responses from participants that were not supportive of CS reporting were removed for the reason that this research would like to examine any association between assurance report for CS Reports and LSI on institutional investors’ decision making and confidence, on the understanding that participants should represent institutional investors that support CS Reports in the first place. This gives a total of 100 survey responses, with 25 responses for each of the four versions which were used for data analysis.

However, supplementary analysis was still carried out on total sample of 169 responses returned after taking into account one unusable questionnaire due to incomplete data. Results of the finding of the total 169 participants are attached in Appendix 2. The main research objective of this study is to find out if there is any association between the assurance of CS reports and LSI on institutional investors’ decision making and confidence. Hence, an equal number of responses from the four versions of questionnaire are important to ensure equality in variance. Most importantly, analysis should be performed on participants who support CS reporting to avoid any distorted information. Nevertheless, findings from analysis of the total sample of 169 respondents are still considered essential to be documented in this study for stressing the true circumstances on the lack of awareness of the importance to CS and assurance of CS reports as well as LSI among institutional investors in Malaysia. Insignificant results from the ANOVA test highlighted in Appendix 2 reveals the non association between the independent and dependent variables tested.
3.4.3 Reliability of the Instrument

All the scales used in this questionnaire were adapted and modified from previous research to replicate the reliability and validity of the scales. A pilot test was conducted on a small sample size. During the pilot test, respondents were requested to comment on the questionnaire. General comments from respondents was that the questionnaire was a bit lengthy especially the Sections on Company Background and Extracts of CS Report and Assurance of CS Report. They added that it will be too time consuming to read all those detailed information. However, for the purpose of the research all these information are essential but modifications were made to summarise the information as much as possible. In addition, all unclear words and phrases highlighted during the pilot test were also addressed accordingly.

Preliminary findings from the pilot test also revealed that most respondents do not see the importance of CS as a variable that affects investment decision. Hence, majority respondents have already implied that assurance and LSI will not much influence on their investment confidence and decision making.

3.5 CONCLUSION

Research design was discussed in detail and hypotheses to be tested were highlighted accordingly. This study replicates the study in Australia (Subramaniam and Gibbs 2008) with the main difference in the target respondents. A total sample size of 400 was distributed and 170 responses were received. In addition, the research instrument was also tested for reliability.
CHAPTER 4: RESULTS

4.1 INTRODUCTION

In this chapter the findings of the empirical investigation of the association between CS assurance reports and listing on sustainability index and institutional investors’ decision making and confidence is discussed. Data analysis was conducted using Statistical Package for Social Sciences (SPSS). Descriptive statistics and two way ANOVA were the main statistical techniques used in the analysis. The discussion is organised as follows. Section 4.2 provides the descriptive analysis. Section 4.3 discusses on the methods of analysis, whilst Section 4.4 summarises discussion of results. Finally Section 4.5 states the conclusion.

4.2 DESCRIPTIVE ANALYSIS

Table 4.1: Percentage of distribution of respondents

<table>
<thead>
<tr>
<th>Types of institutions</th>
<th>No of institutions (Industry)</th>
<th>%</th>
<th>No of individuals from each institution (Sample)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banks</td>
<td>57</td>
<td>28</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Insurance companies</td>
<td>39</td>
<td>19</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td>Fund Management Companies</td>
<td>76</td>
<td>36</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td>Others (GLC)</td>
<td>36</td>
<td>17</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>Total</td>
<td>208</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

GLC represents Government Link Companies
Table 4.1 above shows the distribution of respondents in the different sub group of
institutional investors. The distribution indicates that there are 17 respondents (17%) from the bank, 17 respondents (17%) from insurance companies, 18 respondents from fund management companies and remaining 48 respondents (48%) from the final group.

A summary of the demographic information is illustrated in Table 4.2.

Table 4.2: Demographics of Participants

<table>
<thead>
<tr>
<th>Variables</th>
<th>Bank</th>
<th>Insurance</th>
<th>Fund Management</th>
<th>Others (GLC)</th>
<th>Total / (Mean)</th>
<th>% / (s.d.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>9</td>
<td>7</td>
<td>10</td>
<td>21</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>Female</td>
<td>8</td>
<td>10</td>
<td>8</td>
<td>27</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>Age</td>
<td>(35.65)</td>
<td>(35.12)</td>
<td>(31.53)</td>
<td>(34.71)</td>
<td>(34.39)</td>
<td>(7.14)</td>
</tr>
<tr>
<td>Work Experience</td>
<td>(11.71)</td>
<td>(9.47)</td>
<td>(7.53)</td>
<td>(10.23)</td>
<td>(9.89)</td>
<td>(6.38)</td>
</tr>
<tr>
<td>Foreign Work Experience:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>5</td>
<td>5</td>
<td>2</td>
<td>9</td>
<td>21</td>
<td>21</td>
</tr>
<tr>
<td>No</td>
<td>12</td>
<td>12</td>
<td>16</td>
<td>39</td>
<td>79</td>
<td>79</td>
</tr>
<tr>
<td>Formal Qualification:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PhD</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Masters</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>11</td>
<td>20</td>
<td>20</td>
</tr>
<tr>
<td>Bachelors</td>
<td>10</td>
<td>11</td>
<td>13</td>
<td>28</td>
<td>62</td>
<td>62</td>
</tr>
<tr>
<td>Professional</td>
<td>4</td>
<td>3</td>
<td>1</td>
<td>5</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td>Tertiary</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Foreign qualification:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>10</td>
<td>12</td>
<td>11</td>
<td>24</td>
<td>57</td>
<td>57</td>
</tr>
<tr>
<td>No</td>
<td>7</td>
<td>5</td>
<td>7</td>
<td>24</td>
<td>43</td>
<td>43</td>
</tr>
<tr>
<td>Investment in Ethical Funds:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yes</td>
<td>6</td>
<td>13</td>
<td>6</td>
<td>28</td>
<td>53</td>
<td>53</td>
</tr>
<tr>
<td>No</td>
<td>11</td>
<td>4</td>
<td>12</td>
<td>20</td>
<td>47</td>
<td>47</td>
</tr>
<tr>
<td>Portfolio Size of ethical fund</td>
<td>(1.81)</td>
<td>(2.65)</td>
<td>(1.80)</td>
<td>(3.47)</td>
<td>(2.56)</td>
<td>(1.99)</td>
</tr>
</tbody>
</table>
There was approximately an equal mix of male and female participants. The average age of participants was 34.39. The average number of years of work experience is 9.89 years and of the total number of participants only approximately 21% of them have foreign work experience. In addition, the highest formal qualification attained by a majority of them (62%) was a Bachelor's Degree. 20% of the participants had a Masters Degree; however none of them had a PhD qualification. Of the total number of participants, approximately 57% of them had foreign qualification. With regard to investment in ethical funds by the institutions, approximately half of the participants indicated that their organizations had investment in ethical funds.

In addition, from the results of the analysis, it was noted that a majority of the participants hold managerial level and above in their organizations.

Table 4.3 Involvement in Investment decision process

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Slight</td>
<td>10</td>
<td>10.0</td>
<td>10.0</td>
<td>10.0</td>
</tr>
<tr>
<td>Little</td>
<td>4</td>
<td>4.0</td>
<td>4.0</td>
<td>14.0</td>
</tr>
<tr>
<td>Neither</td>
<td>22</td>
<td>22.0</td>
<td>22.0</td>
<td>36.0</td>
</tr>
<tr>
<td>Some</td>
<td>32</td>
<td>32.0</td>
<td>32.0</td>
<td>68.0</td>
</tr>
<tr>
<td>Most</td>
<td>21</td>
<td>21.0</td>
<td>21.0</td>
<td>89.0</td>
</tr>
<tr>
<td>To a great Extent</td>
<td>11</td>
<td>11.0</td>
<td>11.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Table 4.3 shows that approximately 64% of the participants have at least some involvement in the involvement decision process of their company. Of these participants, 11% of them are involved to a great extent. Only 10% have slight involvement in the investment decision process.
4.3 METHOD OF ANALYSIS

The method of analysing the data was through a two way ANOVA to investigate the effect of the two independent variables on the two dependent variables of this study.

4.3.1 Manipulation and Equivalency Checks

Prior to the hypotheses testing, manipulation checks were conducted to test the internal validity of the experiment.

First Independent Variable: With or no assurance

The first manipulation test was performed on the first independent variable, assurance report. The extent of clarity of the assurance report was assessed for the participant group that received the questionnaire with the assurance report. A question on “How clear was the assurance report?” was posed and a seven-point Likert scale was provided (with 1= Not clear at all and 7 = Extremely clear) for the response. The mean score was 4.24 indicating that on average, those receiving an assurance report found the report to be clear, and the manipulation thus appears successful.

Second Independent Variable: With listing on sustainability index (LSI) or no listing on sustainability index

The second manipulation test was performed on the second independent variable, participants were informed whether the company had a LSI or not. In order to be listed on any index, certain criteria will have to be met by the company, hence a company having a LSI represented higher CS performances than a company who did not have a LSI. The extent of importance of the LSI was assessed for the participant group that received the questionnaire with LSI. A question on “To what extent did Sigma’s listing
on the Malaysia Sustainability Index affect your investment decision?” was posed. A seven-point Likert scale (where 1= No Effect and 7 = Very High Effect) was provided for the rating. The mean score was 4.64 indicating that on average, LSI was important for decision making and the manipulation thus appears successful.

A question was asked to find out if participants found the CS report clear and the mean for this was 4.27 based on a seven point Likert scale (with 1=Not at all Clear to 7=Extremely Clear). This result implies that CS report was generally clear to the participants. Participants’ familiarity with Company’s annual report, financial statement audit report and CS reports were also assessed. Findings show that on average participants were very familiar with company annual reports and financial statement audit report, based on a seven-point Likert scale, with 1=Not at all familiar to 7=Very Familiar, mean score for familiarity with company annual reports and financial statement audit report was 6.19 and 5.91 respectively. However, mean score for familiarity with CS reports was slightly lower, 4.21.

Participants were also asked on how confident that the CS report faithfully represents Sigma Bhd’s performance in CS and the mean score was 4.33 based on a seven point Likert scale with 1=Not at all Confident to 7=Extremely Confident. This indicates that participants were confident that the CS report presented to them faithfully represents Sigma Bhd’s performance in CS.
When asked in general how important is a company’s listing on a Sustainability Index for their investment decisions, the mean score was 4.49 based on seven point Likert scale with 1=Not at all important to 7=Extremely Important. This shows that LSI is important to them.

Participants with the assurance versions, were also asked what level does the assurance report provide and mean score was 4.42 based on seven point Likert scale with 1=Very Low to 7=Very High. This indicates that the participants are comfortable with the level of assurance that was provided in the assurance report of Sigma Bhd.

All participants were also asked to what extent has the provision of the CS report affected their confidence in advising their company to invest in Sigma Bhd and the mean score was 4.16 based on seven point Likert scale with 1=Significant decrease in confidence to 7=Significant increase in confidence. In other words, CS report does affect their confidence in investment.

4.3.2 General Perceptions towards CS

A selection of questions pertaining to the general perceptions towards CS was posed to all participants. Participants were required to answer the following questions based on seven-point Likert scale, with 1=Strongly disagree to 7=Strongly agree and the results are tabled in Table 4.4 below.

i. A Corporate Sustainability Report is very useful for investment decision making

ii. Corporate Sustainability information should be provided to shareholders.

iii. Corporate Sustainability information is a subject on which shareholders require assurance.
### Table 4.4: General Perceptions towards CS

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
<th>A CS Report is very useful for investment decision making</th>
<th>CS information should be provided to shareholders.</th>
<th>CS information is a subject on which shareholders require assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly Disagree</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Disagree</td>
<td>6</td>
<td>1</td>
<td>3</td>
<td></td>
</tr>
<tr>
<td>Slightly Disagree</td>
<td>12</td>
<td>5</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Neither</td>
<td>24</td>
<td>7</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Slightly Agree</td>
<td>36</td>
<td>40</td>
<td>30</td>
<td></td>
</tr>
<tr>
<td>Agree</td>
<td>10</td>
<td>22</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Strongly Agree</td>
<td>10</td>
<td>25</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td><strong>100</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 4.4 shows approximately 56% of the participants agreed that CS report is very useful for investment decision making, whilst 20% disagreed that CS report is useful, and the remainder was neutral. Majority of the participants, approximately 87% agreed that CS information should be provided to shareholders, whilst only 6% disagreed and remainder undecided.

64% of the participants agreed that CS information is a subject on which shareholders require assurance, 14% disagreed. However, of the 64% that agreed, only 12% strongly agreed and majority of them only slightly agree that CS information require assurance. Furthermore, quite a large number of participants were undecided, 22 of them.
To sum up, these responses indicate positive attitudes towards CS reporting, specifically in terms of its usefulness for investors and decision making. Moreover, majority of participants agree that CS information should be provided to shareholders, which signals a good beginning for promoting the awareness of CS reporting.

In addition, participants were also asked how much of an assurance report do they read and their risk preference. Results indicated that approximately 52% of participants read most of the assurance report while 34% read a little of it. Participants were also asked about their risk preference and results show an approximate equal mix of risk preference among participants, approximately 39% of them were risk takers, 38% were risk averse, and 32% of them were neither risk takers nor risk averse investors.

Participants were also asked if their companies invest in any ethical funds and approximately half of the responses indicated that their company invest in ethical funds. This result may somewhat suggest that a high percentage of participants support Socially Responsible Investment (SRI).

In addition, the following questions as tabulated in Table 4.5, Table 4.6 and Table 4.7 were also asked to analyse the general perceptions of participants towards CS.

Table 4.5 Which form do you think Corporate Sustainability reports should take

<table>
<thead>
<tr>
<th>Form</th>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incorporated in the annual report</td>
<td>65</td>
<td>65.0</td>
<td>65.0</td>
</tr>
<tr>
<td>Issued as a separate report</td>
<td>14</td>
<td>14.0</td>
<td>79.0</td>
</tr>
<tr>
<td>Both forms</td>
<td>21</td>
<td>21.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>
Table 4.5 shows that majority of the participants (65%) suggested that CS reports should be incorporated in the annual report, whilst 14% of them suggested that CS report be issued separately. Balance suggested that it should take both forms.

Table 4.6 How much of an assurance report accompanying a Corporate Sustainability report would you normally read?

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Almost none of it</td>
<td>13</td>
<td>13.0</td>
</tr>
<tr>
<td>Least of it</td>
<td>9</td>
<td>9.0</td>
</tr>
<tr>
<td>Little of it</td>
<td>12</td>
<td>12.0</td>
</tr>
<tr>
<td>Neither</td>
<td>14</td>
<td>14.0</td>
</tr>
<tr>
<td>Some of it</td>
<td>35</td>
<td>35.0</td>
</tr>
<tr>
<td>Most of it</td>
<td>8</td>
<td>8.0</td>
</tr>
<tr>
<td>All of it</td>
<td>9</td>
<td>9.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Findings from Table 4.6 show that more than half (52%) of the participants will read at least some of the assurance report that accompanies the CS report. 34% of them will only read a little or almost none of it. The rest were undecided.

Table 4.7 Risk preference

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly risk taker</td>
<td>1</td>
<td>1.0</td>
</tr>
<tr>
<td>Risk taker</td>
<td>29</td>
<td>29.0</td>
</tr>
<tr>
<td>Neutral</td>
<td>32</td>
<td>32.0</td>
</tr>
<tr>
<td>Risk averse</td>
<td>37</td>
<td>37.0</td>
</tr>
<tr>
<td>Strongly risk averse</td>
<td>1</td>
<td>1.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
Table 4.7 shows that majority of the participants were risk averse investors (38%) whilst 32% of them were neither risk averse nor risk taker. 30% of them were risk takers.

Further comparisons were made between mean scores of different industry, as illustrated in Table 4.8.

Table 4.8: Mean score for different industry group

<table>
<thead>
<tr>
<th>Industry</th>
<th>CS information should be provided to shareholders</th>
<th>CS Report is very useful for investment decision making</th>
<th>CS information is a subject on which shareholders require assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>Mean 5.06</td>
<td>4.65</td>
<td>4.76</td>
</tr>
<tr>
<td></td>
<td>N 17</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation 1.435</td>
<td>1.169</td>
<td>1.091</td>
</tr>
<tr>
<td>Insurance</td>
<td>Mean 5.18</td>
<td>3.88</td>
<td>4.18</td>
</tr>
<tr>
<td></td>
<td>N 17</td>
<td>17</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation .728</td>
<td>1.453</td>
<td>1.131</td>
</tr>
<tr>
<td>Fund Management</td>
<td>Mean 5.44</td>
<td>4.00</td>
<td>4.50</td>
</tr>
<tr>
<td></td>
<td>N 18</td>
<td>18</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation 1.294</td>
<td>1.572</td>
<td>1.249</td>
</tr>
<tr>
<td>GLC</td>
<td>Mean 5.83</td>
<td>4.98</td>
<td>5.42</td>
</tr>
<tr>
<td></td>
<td>N 48</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation 1.038</td>
<td>1.211</td>
<td>1.235</td>
</tr>
<tr>
<td>Total</td>
<td>Mean 5.52</td>
<td>4.56</td>
<td>4.93</td>
</tr>
<tr>
<td></td>
<td>N 100</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>Std. Deviation 1.150</td>
<td>1.380</td>
<td>1.281</td>
</tr>
</tbody>
</table>
Findings in Table 4.8 show that GLC has the highest mean score. In other words, GLC investors are more agreeable than rest of the industry of the following:

1. CS information should be provided to shareholders
2. CS report is very useful for decision making
3. CS information is a subject which requires assurance.

4.3.3 Multivariate Analysis

The hypotheses in this study were tested using the two way ANOVA analysis and the results are tabulated in Table 4.9 and Table 4.10.

<table>
<thead>
<tr>
<th>Assurance</th>
<th>LSI</th>
<th>Sample Size</th>
<th>Likelihood of investment (DV1)</th>
<th>Confidence in Investment (DV2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mean (s.d.)</td>
<td>Mean (s.d.)</td>
</tr>
<tr>
<td>With</td>
<td>With</td>
<td>25</td>
<td>4.64 (0.64)</td>
<td>4.36 (0.70)</td>
</tr>
<tr>
<td>With</td>
<td>No</td>
<td>25</td>
<td>4.00 (1.26)</td>
<td>3.64 (1.29)</td>
</tr>
<tr>
<td>No</td>
<td>With</td>
<td>25</td>
<td>4.56 (1.04)</td>
<td>4.32 (1.03)</td>
</tr>
<tr>
<td>No</td>
<td>No</td>
<td>25</td>
<td>4.00 (1.16)</td>
<td>3.64 (1.50)</td>
</tr>
</tbody>
</table>

Panel B: Aggregated by Independent Variable

<table>
<thead>
<tr>
<th>Assurance</th>
<th>LSI</th>
<th>Sample Size</th>
<th>Likelihood of investment (DV1)</th>
<th>Confidence in Investment (DV2)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Mean (s.d.)</td>
<td>Mean (s.d.)</td>
</tr>
<tr>
<td>With</td>
<td></td>
<td>50</td>
<td>4.32 (1.04)</td>
<td>4.00 (1.09)</td>
</tr>
<tr>
<td>No</td>
<td></td>
<td>50</td>
<td>4.28 (1.13)</td>
<td>3.98 (1.32)</td>
</tr>
<tr>
<td>With</td>
<td></td>
<td>50</td>
<td>4.60 (0.86)</td>
<td>4.34 (0.87)</td>
</tr>
<tr>
<td>No</td>
<td></td>
<td>50</td>
<td>4.00 (1.20)</td>
<td>3.64 (1.38)</td>
</tr>
</tbody>
</table>
An examination of the mean (standard deviation (sd)) scores in Table 4.5 indicates that for the first dependent variable, likelihood of investment, participants had slightly higher score in situation where there was assurance report included as compared to when there was no assurance report. Participants also had slightly higher score in situation when there was LSI than in situation where there was no LSI. The results were the same for the second dependent variable, confidence in investment. Participants also had slightly higher score in situation where there was assurance report as compared to when there was no assurance report. To further investigate the main and interaction effects of the two independent variables on each of these dependent variables, ANOVA tests were performed and results are presented in Table 4.10.

Table 4.10: ANOVA Results: Hypotheses One and Two

<table>
<thead>
<tr>
<th>Source of Variation</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Panel A: Likelihood of Investment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Main Effects</td>
<td>9.080</td>
<td>3</td>
<td>3.027</td>
<td>2.743</td>
<td>0.047</td>
</tr>
<tr>
<td>Assurance</td>
<td>0.040</td>
<td>1</td>
<td>0.040</td>
<td>0.036</td>
<td>0.849</td>
</tr>
<tr>
<td>LSI</td>
<td>9.000</td>
<td>1</td>
<td>9.000</td>
<td>8.157</td>
<td>0.005*</td>
</tr>
<tr>
<td>2-Way Interaction: LSI x Assurance</td>
<td>0.040</td>
<td>1</td>
<td>0.040</td>
<td>0.036</td>
<td>0.849</td>
</tr>
<tr>
<td>Error</td>
<td>105.920</td>
<td>96</td>
<td>1.103</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1964.00</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Table 4.10 shows the results for each dependent variable of the ANOVAs with Panel A providing results for the first dependent variable, likelihood of investment and Panel B providing results of the second dependent variable, Confidence in Investment.

**Hypotheses 1a and 2a**

Testing of the first set of hypotheses assessed the main and interaction effects of assurance report and LSI on likelihood of investment. Hypothesis 1a was related to the main effect of assurance on institutional investors’ likelihood to invest. Results from the ANOVA test as indicated in Panel A, Table 4.10 indicates no positive association between the provision of assurance statement and investors’ likelihood to invest \([F=0.036, p=0.849]\). Hence Hypothesis 1a is not supported given the results of the ANOVA test was not significant.
Hypothesis 2a was related to the main effect of LSI on institutional investors’ likelihood to invest. Results from the ANOVA test as indicated in Panel A, Table 4.10 indicates that there is positive association between the LSI and investors’ likelihood to invest \([F=8.157, p=0.003]\). Hence Hypothesis 2a is supported given the results of the ANOVA test was significant.

However, there is no significant interaction effect between LSI and the provision of assurance on investor’s likelihood of investment \([F = 0.036, p = 0.849]\).

**Hypotheses 1b and 2b**

Testing of the second set of hypotheses assessed the main and interaction effects of assurance report and LSI on confidence in investment. Hypothesis 1b was related to the main effect of assurance on institutional investors’ confidence in investment. Results from the ANOVA test as indicated in Panel B, Table 4.10 indicates no positive association between the provision of assurance report and investors’ confidence in investment \([F=0.007, p=0.932]\). Hence Hypothesis 1b is not supported given the results of the ANOVA test was not significant.

Hypothesis 2b was related to the main effect of LSI on institutional investors’ confidence in investment. Results from the ANOVA test as indicated in Panel B, Table 4.10 indicates that there is positive association between the LSI and investors’ confidence in investment \([F=8.996, p=0.003]\). Hence Hypothesis 2b is supported given the results of the ANOVA test was significant.
However, there is no significant interaction effect between LSI and the provision of assurance on investor’ confidence in investment \([F = 0.007, p = 0.932]\).

Further findings in this study as illustrated in Table 4.9 revealed that the mean score for the likelihood to invest when assurance is provided is 4.32 (sd 1.04) is higher than when no assurance is provided where mean score is 4.28 (sd 1.13). Likewise, mean score for likelihood to invest when LSI exists is 4.60 (sd 0.86) is higher than when no LSI exists which is 4.00 (sd 1.12).

Mean score for confidence in investment is also higher when there is assurance (mean 4.00, sd 1.09) than when there is no assurance (mean 3.98, sd 1.32). Likewise, mean score for confidence in investment is also higher when there is LSI (mean 4.34, sd 0.87) as compared to when there is no LSI (mean 3.64, sd 1.38).

### 4.4 DISCUSSION OF RESULTS

Generally, the ANOVA results reported in this chapter were not very supportive of the hypotheses. Furthermore, results also showed no significant interaction effect between LSI and the provision of assurance report on the dependent variables, likelihood to invest and confidence in investment.

For hypotheses 1a and 2a, only Hypothesis 2a was supported, which affirmed that when institutional investors in Malaysia make investment decisions, their decisions are affected by whether the company is listed on a sustainability index. This is consistent with findings of Subramaniam and Gibbs (2008). However, whether the company’s CS
report has been assured does not affect the institutional investors’ decision to invest. This is in contrary with findings of Subramaniam and Gibbs (2008).

For hypotheses 1b and 2b, only Hypothesis 2b was supported, which asserted that institutional investors’ confidence will be higher if the company that they are investing in is listed on a sustainability index as compared to when the company is not listed on an index. This again is consistent with previous findings of Subramaniam and Gibb’s study that was replicated. However, whether the company’s CS report has been assured does not affect the investors’ confidence. Findings from this study note that LSI does have a significant effect on institutional investors’ decision making and confidence.

The results of this study did not present strong evidence for the influence of assurance of CS Reports on institutional investors’ decision making and confidence. This is in contrary to findings of previous study (Subramaniam and Gibbs, 2008) that has been replicated in this study.

Nevertheless, it has to be observed that the study by Subramaniam and Gibbs (2008) was conducted in Australia and the participants of the survey were academic and non academic staff from a university. In other words, the study focused on individual investors whilst this current study focused on institutional investors. Furthermore, we have to also note the difference between the study in Malaysia and Australia in terms of cultural differences. According to study by Orpen (1987), different societies will act different to the idea of CSR. Similar study to examine the orientation toward CSR among US and Hong Kong business students also revealed similar findings that there are differences among different culture (Burton, Farh and Hegarty, 2000).
The reason for this contrast in findings could likely be due to the infancy of the state of CS reporting in Malaysia (Lu and Chastka, 2009; Ramasamy and Ting, 2004). In addition, Government only established the mandatory ruling for disclosure of CS reporting by public listed companies with effect from 2007 (Budget 2007). Many companies are still unsure of what is to be disclosed and merely disclosing minimum (Bursa Malaysia CSR Framework 2006). Findings from a recent study by Lu and Castka (2009) revealed that Malaysian companies are still confused over the meaning of CSR and the widespread use of CSR as a mere public relations tool. Ahmad and Rahim (2003) also concluded that professional managers in Malaysia do not fully understand the importance of CSR.

According to further findings of study by Zulkifli and Amran (2006), level of awareness of CSR among accounting professionals is still low. This study also revealed that there are various issues that needs to be looked into to help promote awareness for example, people’s culture and mind-set and involvement of other relevant parties including government, shareholders and public. Thompson and Zakaria (2004) found that state of CS reporting in Malaysia is poor in quality and low in quantity but improving, largely due to lack of pressure from various stakeholder groups.

In summary, based on discussions above and findings from past literatures, CS awareness is still low in Malaysia and legislation and pressure from various stakeholders is crucial in instilling more awareness.
Furthermore, currently assurances of CS reports are voluntary in Malaysia. Findings from Lu and Castka (2009) also highlighted that it would be better to address CSR through legislation rather than leaving it at voluntary level. A study by Nik Muhammad, Johari and Mustafa (2004) advocated that level of willingness to disclose environmental information is low among Malaysian companies. Lack of legislature is also one of the main reasons.

Findings by Deegan and Rankin (1996) highlighted the fact that institutional investors sees environmental information as less important that financial information when forming investment decisions.

Moreover, having CS report assured is still voluntary, due to lack of time and budget and the apprehension of the importance of the assurance, many companies will choose not to have the reports externally assured. Hence, presence of such assurance reports in Malaysia is very limited.

Furthermore for external assurance to be of value to stakeholders not only must the assurance be performed by qualified people, they must be in accordance with generally accepted assurance principles and guidelines (Adams and Evans, 2004). At present there are no such guidelines in Malaysia that covers the aspects of external assurance of CS reports. This implies that investors may perceive that the assurance will not add any credibility to the CS reports if there are no established principles and guidelines that govern this type of assurance. Hence, as highlighted in the findings of this study, institutional investors’ decision making and confidence will not be affected by the presence of assurance statements on CS reports.
4.5 CONCLUSION

As indicated in the beginning of this chapter, the goal of this study is to find out if there is any association between assurance of CS reports and listing on sustainability index with institutional investors’ decision making and confidence. The conclusions that can be drawn from the analysis and test result are that there is only association between listing on sustainability index and institutional investors’ decision making and confidence. No such association is found between assurance on CS reports and institutional investors’ decision making and confidence.
CHAPTER 5: CONCLUSION AND RECOMMENDATIONS

5.1 INTRODUCTION

This Chapter presents the conclusion and practical implications from this research. In addition, limitations are also discussed and suggestions for future research are also highlighted. This Chapter is organised as follows; Section 5.2 discusses on implications of the findings. Section 5.3 summarises the contribution and significance of the research whilst Section 5.4 highlights limitations and suggestions for future research. Finally Section 5.5 provides the main conclusion of this study.

5.2 IMPLICATIONS OF THE FINDINGS

The findings of this study reveal very interesting results indicating institutional investors in Malaysia concur on the importance of CS reporting and assurance on such reports, as well as the importance of the listing of companies on a sustainability index. They also agree that CS information should be provided to shareholders and is important for decision making. This is commendable outcome given that institutional investors play an important role in influencing how businesses are operated.

The findings of this study have implications to a number of groups. The main group are the regulatory bodies or standard setters. According to the findings of this study, institutional investors agreed on the importance of CS reporting and its effect on their decision making except that there was lack of consent on the importance of assurance. However, since the possible main cause for the limited awareness could be due to lack of legislation, regulatory bodies/standard setters should put greater effort in adoption of standards and guidelines for CS reporting and its assurance.
The other group benefiting from this study will be the government of Malaysia. The Government should heighten their involvement in promoting CS reporting in Malaysia among other groups besides the GLCs given the fact that institutional investors find the importance in such reporting. Interestingly, findings from this study shows that in general GLCs are the group which shows the highest support for CS reporting, given the highest mean scores achieved by this group. This implies the involvement of government in GLCs has proved worthwhile. In other words this study also justifies Government’s role in promotion of CS practice in Malaysia, in line with its commitment in adopting Agenda 21 in Vision 2020, which emphasises sustainable development (Amran and Devi, 2008). Unlike findings in other developed countries, contributing factors of CS practices in Malaysia is very much dependent on pressure from Government (Amran and Devi 2008; Deegan 2002).

Finally, all companies or organisations in Malaysia should also benefit from this study. A majority of institutional investors have indicated agreement on importance of CS reporting for decision making. Companies or organisations should put more effort on promoting CS performance especially in current economic turmoil whereby financials no longer paint a pretty picture. In times where financials are in red, more attention should be paid to long run sustainability.

Most importantly, the outcome of this study revealed that LSI has a significant effect on institutional investors’ decision making and confidence in investment.
Since LSI is seen as important to institutional investors, companies practising CS should try their best to seek listing on such index as successful listing of a company on the index is seen as good representation of good CS performance.

On the other hand, findings of this study highlighted the fact that institutional investors in Malaysia do not see the importance of assurance on the CS report in affecting their decision making and confidence. Currently, assurance of CS reports is voluntary in Malaysia and there are extremely limited numbers of such assurance reports in Malaysia. This is not a surprising finding in Malaysia business culture, unless some enforcements are in place, minimal will proceed with voluntary disclosure or in this case voluntary assurance. Furthermore, since there is currently no legislation governing assurance of CS reports, institutional investors do not see having CS reports assured will have any positive effect on the credibility of such reports. Until and unless the assurance is governed legislatively, will there be an increase in confidence of credibility of such reports. Hence, this could be the main reason for the findings of this study.

We can also conclude that CS is still at its infancy in Malaysia (Lu and Castka, 2009) and a lot more effort is required to promote the awareness of CS and the assurance of such reports as well as sustainability index. The pursuit to promote CS reporting has merely begun in Malaysia. In other words, more research needs to be explored to clarify on future of CS reporting in Malaysia and its effect on institutional investors’ decision making and confidence. In summary, we can deduce that this study has indeed provided some useful insights on the current situation in regards to CS reporting in Malaysia and its effects on institutional investors.
5.3 CONTRIBUTION AND SIGNIFICANCE OF THIS RESEARCH

This study is the first of its kind in Malaysia which researches on behaviour of actual institutional investors in Malaysia in relation to CS reporting. This is considered an additional contribution from the study that was replicated which only targeted on staff from a university as main respondents representing individual investors (Subramaniam and Gibbs 2008). This study will definitely have better control in terms of sample bias as compared to the study in Australia.

This study poses a significant contribution to the investment community (be it the users, preparers, regulators and researchers). Findings from this study reveal the perceived importance of CS reporting and LSI among institutional investors in Malaysia. This hopes to increase awareness among the investment community to pay more attention to ensure better CS performance and hence better quality CS reports given that institutional investors have expressed their opinion on the importance of CS reporting.

Moreover, this study also has the significance in opening up avenues for more studies on CS assurance reports and LSI in Malaysia where this area of study lacks empirical research.

5.4 LIMITATIONS AND SUGGESTION FOR FUTURE RESEARCH

This study is not the end but a means to achieve better understanding of the effects of assurance on CS reports and LSI on institutional investors’ decision making and confidence. There are therefore a number of limitations identified.
5.4.1 Limitations

Perhaps more information should be provided in the questionnaire for the purpose of investment decision making. However, for reasons relating to time constraints and lengthiness, only limited information was supplied. However, other difficulties faced were reading reluctance and busy schedule of the target respondents, especially in this current economic downturn.

In addition, this is a 2x2 between subjects design, which provided four cells for testing. The two variables included were assurance on CS reports and LSI. There could be other variables that could influence investor’s confidence and decision making, such as format or content of assurance report or who are the assurance providers or probably what are the criteria adopted by the index agencies for successful inclusion on an index was not studied on. This is again for reasons relating to time constraints and lengthiness to complete the research.

5.4.2 Suggestions for future research

A number of suggestions for future research are discussed in this section. Considerations to replicate this study again in other countries to assess cross country generalisability. This study was first performed in Australia and then replicated in Malaysia. There were some notable differences between the findings of the study in these two countries. Perhaps replicating the study in other countries could discover more interesting results pertaining cross cultural elements.

The current research only used single method of analysis. Perhaps multi method research may be used in future research to try to discover more findings.
In addition, perhaps a larger sample size should be considered in future research to increase the knowledge of the relationships explored in the current study. Moreover, an equal distribution of sample size among different sub groups identified in the stratified random technique in this current study may be explored to avoid potential inequality of variance among different sub group of respondents.

Further research may be undertaken to include other variables such as what investors or other stakeholder groups require from an assurance of CS reports, or who should be the assurance providers or criteria adopted by the index agencies for successful inclusion on an index (e.g. through 2 x 2 x 2 or 3 x 2 designs) that could probably improve the quality of the research. Currently no legislation has been established on such guidelines yet.

5.5 CONCLUSION

The outcome of the present study reveals the importance of CS reporting and assurance as well as a LSI to institutional investors in Malaysia. Albeit the fact that only two out of four of the hypotheses were supported, this is nevertheless a good start to the promotion of awareness of CS and better quality CS performances in Malaysia given the strong support on CS Reporting acknowledged by institutional investors, who play an important role in the way businesses are run.

This study also justifies Government’s role in promotion of CS activities. Evidence showing support by GLC in CS activities proves the effectiveness of Government’s role in promotion of CS activities among GLC.
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The 2007 Budget Speech by Prime Minister and Minister of Finance of Malaysia on September 2007.


APPENDIX 1: QUESTIONNAIRE

Version 1: With assurance and with listing on sustainability index
Version 2: With assurance but without listing on sustainability index
Version 3: Without assurance but with listing on sustainability index
Version 4: Without assurance and without listing on sustainability index
University of Malaya
The Faculty of Business and Accountancy
Master of Business Administration

Version 1

Dear Sir/Madam,

This survey is conducted as part of a research project, which shall be submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration from the University of Malaya.

Institutional investors play an important part in the capital flow of an economy. As key decision makers in this system, we thus value your participation in this study. The general purpose of this study is to understand the relationship between financial reporting attributes and institutional investors.

In order to participate in this study, please complete this questionnaire, which should take you no more than 10-15 minutes of your time. Please note that all information will be used for statistical analysis only and will be treated in the strictest confidential. Your participation in this study is completely VOLUNTARY.

Thank you for your valuable assistance in making this survey a success.

Should you have any queries about this survey, please feel free to contact my supervisor:
Assoc. Prof Dr. S. Susela Devi
Faculty of Business & Accountancy
Tel: 03 – 79673803/ E-mail: susela@um.edu.my
Thank you very much for your kind cooperation

Prepared by,
Chia Meng Yan
Faculty of Business and Accountancy, University of Malaya
University of Malaya
Corporate Sustainability (CS) is the term used to denote an organization’s commitment to being economically, socially, and environmentally responsible. CS reporting is used to demonstrate and inform on this commitment to shareholders and other stakeholders. Some companies issue a separate sustainability report in addition to their Annual Report; other companies incorporate this information within the Annual Report.

INSTRUCTIONS – The attached questionnaire consists of:

Part A - Company Background – Sigma Bhd
Part B - Extracts of Sigma Bhd’s CS Report and Assurance of CS Report
Part C - Questions pertaining to Parts A and B
Part D - General Perceptions
Part E - Participant Background

NOTE: The researcher is interested to obtain your response in your capacity as an analyst for your client or analyst/employee in the investment division of your organisation.

PART A: COMPANY BACKGROUND

Sigma Bhd is a company listed on Bursa Malaysia, with total revenue of almost RM500 million. The group operates in automotive, manufacturing and engineering industries. The Company appears to be committed in bringing together their economic, social and environmental performance to build the future growth and development of the whole group. Sigma Bhd has shown moderate improvement in its financial performance over the last five years. It is also forecasted that the Company’s growth will continue in the future. Additionally, the company appears to be committed to good corporate governance with a fully independent board of directors.

Sigma Bhd is also listed on the Malaysia Sustainability Index (MSI), which tracks the performance of the companies that meet the criteria of good corporate sustainability performance. Companies listed on this MSI are picked from the Top 50 companies from the FTSE Bursa 100 Index.

Please assume that your company has requested for your opinion on whether to invest in Sigma Bhd. You are allowed to make further assumption that the financial performance of Sigma Bhd (as reflected in most of the financial ratios in its Annual Report) is up to your company’s satisfaction. Based on the information on the company's background and related extracts from the annual report as provided, you are required to form an opinion on investing in Sigma Bhd.
PART B: EXTRACTS OF CORPORATE SUSTAINABILITY REPORT

Sigma Bhd’s multi-dimensional strategy focuses on four main segments – the marketplace, the workplace, the environment and the community – this strategy has won them an A rating for their internationally-recognised reporting standards (GRI-G3), as awarded by Global Reporting Initiative.

Note: Global Reporting Initiative (GRI), a collaborating centre of the United Nations Environment Programme, is a multi-stakeholder independent institution based in Amsterdam, The Netherlands, that develops and disseminates globally-applicable sustainability reporting standards. Its mission is to make sustainability reporting by all organisations as routine and comparable to financial reporting.

Marketplace
Product safety is central to our commitment to our customers. We are very committed to quality and there have not been any complaints to regulatory bodies in respect of the health and safety features. We make every effort to ensure that our business practices conform to appropriate standards such as those on Corporate Disclosure Policies and Procedures which are based on best practices recommended by Bursa Malaysia Securities Bhd. and the Malaysian Code on Corporate Governance. We are committed to ensure all of our significant investments are protective of human rights and expect our suppliers and contractors to do the same where human rights are involved.

Workplace
We promote a multicultural workplace with rich diversity of the people of Malaysia and we do not discriminate in recruitment, pay or promotion packages between male and female. We have Human Resource practices that are certified to the best internationally-recognised standards. During this period, almost 23% of all employees participated in some form of training, either internally or externally. Occupational Health and Safety training is provided to all employees. Total accidents per million work hours have also reduced by almost 160% compared to five years ago. We hope to achieve Occupational Health and Safety Assessment Series (OHSAS) 18000 by 2009.

Environment
We are highly concerned about the environmental impact of our operations and products. We have also adopted group wide policy in ensuring that its environmental management systems conform to international standards, especially ISO14000 series. None of the our significant operations are located, owned or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas, hence do not have significant impact on biodiversity in such areas or on species with habitats in those areas.

There are programs in place to monitor the performance of ecosystems and we have adopted a five-year strategy Environmental Action Plan. We have significantly reduced its total wastage from 40 kg/unit five years ago to just 15 kg/unit this period. Energy usage has also reduced from 3.8 gigawatt/unit five years ago to 2.5 gigawatt/unit this period.

Community
Each year, we support a number of non-profit and non-political organisations through its community programs, for example, sponsoring school children and Eco youth programs. We have adopted a range of CS activities like adopting charity and schools. As a matter of policy, we refrain from supporting organisations which are political or religious in nature but as a good corporate citizen, we try to support areas of public policy interest where a broad consensus has been identified.
Note: Assurance of corporate sustainability reports involves an independent party examining and providing an opinion on the report to reflect its reliability. The following report is provided by BVV Consultant, an independent professional services firm.

BVV Consultants has been engaged to provide assurance services to Sigma Bhd. This Assurance Statement applies to Sigma Bhd’s Corporate Sustainability Report (CS Report). The preparation of the CS Report and its content is the responsibility of Sigma Bhd. Our responsibility is to provide reasonable level of assurance on the CS Report. The objective of our review is to provide an independent opinion on whether Sigma Bhd’s CS report presents a sound, balanced, and objective view of Sigma Bhd’s corporate sustainability performance.

Basis of our opinion
In conducting this engagement, we have considered the following principles:
- The principles of materiality, completeness and responsiveness, and we have reflected the requirements of the AA1000 Assurance Standard in our assurance work
- The principles of balance, comparability, accuracy, timeliness, clarity, relevance and reliability as per Sustainable Reporting Guideline version 3.0 (GRI-G3)

Our review included the following procedures: Interviews with relevant staff members who are responsible for the information in the CS Report, a review of internal and external documentation; Observed-related facilities and areas. A review of the underlying systems and procedures used to collect and process the reported information; a review of the reliability of the quantitative and qualitative information in the CS Report based on sampling; witnessed actual regular implementation onsite - such as product training conducted for customers.

We believe that our review procedures provide a reasonable basis for our opinion.

Opinion
In our opinion, the CS Report meets the content and quality requirements of the Global Reporting Initiative 2006 Sustainability Reporting Guidelines (Version 3.0) and during the course of our review nothing came to our attention to indicate that there was any material error, omission or misstatement. As a result of the procedures performed, we conclude, with a reasonable level of assurance, that the information in the Corporate Sustainability report conforms, in all material respects, and presents a sound, balanced, and objective view of Sigma Bhd’s corporate sustainability (CS) performance.

BVV Consultants
31st December 20XX
PART C: QUESTIONS PERTAINING TO PARTS A AND B

Please indicate your responses (by circling):

1. Based on the information provided, how likely is it that you will advise your company to invest in Sigma Bhd?

   Not Likely 2 3 Neither 4 5 6 Extremely Likely 7

2. How confident are you that investing in Sigma Bhd is a good investment decision?

   Not at all Confident 1 2 3 Neither 4 5 6 Extremely Confident 7

3. How confident are you that the Corporate Sustainability report faithfully represents Sigma Bhd’s performance in this area?

   Not at all Confident 1 2 3 Neither 4 5 6 Extremely Confident 7

4. How clear was the extract of Sigma Bhd’s corporate sustainability report?

   Not Clear 1 2 3 Neither 4 5 6 Extremely Clear 7

5. To what extent did Sigma’s listing on the Malaysia Sustainability Index (MSI) affect your investment decision?

   No Effect 1 2 3 Neither 4 5 6 Very High Effect 7

6. In general, how important is a company’s listing on a Sustainability Index for your investment decisions?

   Not at all Important 1 2 3 Neither 4 5 6 Extremely Important 7

7. How clear was the assurance report?

   Not at all Clear 1 2 3 Neither 4 5 6 Extremely Clear 7

8. What level of assurance does the assurance report provide?

   Very Low 1 2 3 Neither 4 5 6 Very High 7
9. To what extent has the provision of the Corporate Sustainability report affected your confidence in advising your company to invest in Sigma Bhd?

<table>
<thead>
<tr>
<th>Significant decrease in confidence</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
</tr>
</thead>
<tbody>
<tr>
<td>Significant increase in confidence</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

10. What other information would help you make your investment decision?

____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________

PART D: GENERAL PERCEPTIONS

Please indicate (by circling) to what extent you agree that:

1. A Corporate Sustainability report is very useful for investment decision making.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Neither</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Strongly Agree</th>
<th>7</th>
</tr>
</thead>
</table>

2. Corporate Sustainability information should be provided to shareholders.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Neither</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Strongly Agree</th>
<th>7</th>
</tr>
</thead>
</table>

3. Corporate Sustainability information is a subject on which shareholders require assurance.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Neither</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Strongly Agree</th>
<th>7</th>
</tr>
</thead>
</table>

4. Which form do you think Corporate Sustainability reports should take? (Please tick)

- Incorporated in the annual report □
- Issued as a separate report □
- Both forms □

5. How much of an assurance report accompanying a Corporate Sustainability report would you normally read? (Please circle)

<table>
<thead>
<tr>
<th>Almost none of it</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Neither</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>All of it</th>
<th>7</th>
</tr>
</thead>
</table>
6. When it comes to making investment decisions, how do you see yourself: (Please tick)

- Strong risk taker □
- Risk taker □
- Neutral □
- Risk averse □
- Strongly risk averse □

**PART E: BACKGROUND OF PARTICIPANT**

1. Please indicate (by circling) the degree to which you are **familiar** with:

<table>
<thead>
<tr>
<th>Not at all Familiar</th>
<th>Neither</th>
<th>Very Familiar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company annual reports</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Financial statement audit reports</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
<tr>
<td>Corporate sustainability reports</td>
<td>1 2 3 4 5 6 7</td>
<td></td>
</tr>
</tbody>
</table>

2. Your current **position** in your company: __________________________

3. Are you involved in the **investment decision process** in your company?

<table>
<thead>
<tr>
<th>Not at all</th>
<th>Neither</th>
<th>To a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 2 3 4 5 6 7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Your total **work experience**: ______ years.

5. Do you have any **foreign** work experience? Yes □ No □

6. What is the highest formal **qualification** you have completed?

- PHD □
- Bachelors Degree □
- Masters Degree □
- Professional Degree □
- Tertiary □
- Other ____________________________

7. Do you have any **foreign** qualification? Yes □ No □

8. **Gender**: Male □ Female □

9. Your **Age**: _____ years.

10. Does your company invest in any **ethical funds** (for example: Syariah Funds)

    Yes □ (Please go to Q11) No □

11. What **percentage** of your company’s portfolio is in ethical funds?

    | 0% | 1 2 3 4 5 6 7 100% |
    |----|------------------|
    | 1 2 3 4 5 6 7 |

**THANK YOU FOR YOUR PARTICIPATION**
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Assoc. Prof Dr. S. Susela Devi
Faculty of Business & Accountancy
Tel: 03 – 79673803/ E-mail: susela@um.edu.my

Thank you very much for your kind cooperation

Prepared by,

Chia Meng Yan

Faculty of Business and Accountancy, University of Malaya
University of Malaya
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Workplace
We promote a multicultural workplace with rich diversity of the people of Malaysia and we do not discriminate in recruitment, pay or promotion packages between male and female. We have Human Resource practices that are certified to the best internationally-recognised standards. During this period, almost 23% of all employees participated in some form of training, either internally or externally. Occupational Health and Safety training is provided to all employees. Total accidents per million work hours have also reduced by almost 160% compared to five years ago. We hope to achieve Occupational Health and Safety Assessment Series (OHSAS) 18000 by 2009.

Environment
We are highly concerned about the environmental impact of our operations and products. We have also adopted group wide policy in ensuring that its environmental management systems conform to international standards, especially ISO14000 series. None of the our significant operations are located, owned or managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas, hence do not have significant impact on biodiversity in such areas or on species with habitats in those areas.

There are programs in place to monitor the performance of ecosystems and we have adopted a five-year strategy Environmental Action Plan. We have significantly reduced its total wastage from 40 kg/unit five years ago to just 15 kg/unit this period. Energy usage has also reduced from 3.8 gigawatt/unit five years ago to 2.5 gigawatt/unit this period.

Community
Each year, we support a number of non-profit and non-political organisations through its community programs, for example, sponsoring school children and Eco youth programs. We have adopted a range of CS activities like adopting charity and schools. As a matter of policy, we refrain from supporting organisations which are political or religious in nature but as a good corporate citizen, we try to support areas of public policy interest where a broad consensus has been identified.
BVV Consultants has been engaged to provide assurance services to Sigma Bhd. This Assurance Statement applies to Sigma Bhd’s Corporate Sustainability Report (CS Report). The preparation of the CS Report and its content is the responsibility of Sigma Bhd. Our responsibility is to provide reasonable level of assurance on the CS Report. The objective of our review is to provide an independent opinion on whether Sigma Bhd’s CS report presents a sound, balanced, and objective view of Sigma Bhd’s corporate sustainability performance.

Basis of our opinion
In conducting this engagement, we have considered the following principles:
• The principles of materiality, completeness and responsiveness, and we have reflected the requirements of the AA1000 Assurance Standard in our assurance work
• The principles of balance, comparability, accuracy, timeliness, clarity, relevance and reliability as per Sustainable Reporting Guideline version 3.0 (GRI-G3)

Our review included the following procedures: Interviews with relevant staff members who are responsible for the information in the CS Report, a review of internal and external documentation; Observed-related facilities and areas. A review of the underlying systems and procedures used to collect and process the reported information; a review of the reliability of the quantitative and qualitative information in the CS Report based on sampling; witnessed actual regular implementation onsite - such as product training conducted for customers.

We believe that our review procedures provide a reasonable basis for our opinion.

Opinion
In our opinion, the CS Report meets the content and quality requirements of the Global Reporting Initiative 2006 Sustainability Reporting Guidelines (Version 3.0) and during the course of our review nothing came to our attention to indicate that there was any material error, omission or misstatement. As a result of the procedures performed, we conclude, with a reasonable level of assurance, that the information in the Corporate Sustainability report conforms, in all material respects, and presents a sound, balanced, and objective view of Sigma Bhd’s corporate sustainability (CS) performance.

BVV Consultants
31st December 20XX
**PART C: QUESTIONS PERTAINING TO PARTS A AND B**

*Please indicate your responses (by circling):*

1. Based on the information provided, how *likely* is it that you will advise your company to invest in Sigma Bhd?

<table>
<thead>
<tr>
<th>Not Likely</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Neither</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Extremely Likely</th>
<th>7</th>
</tr>
</thead>
</table>

2. How *confident* are you that investing in Sigma Bhd is a good investment decision?

<table>
<thead>
<tr>
<th>Not at all Confident</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Neither</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Extremely Confident</th>
<th>7</th>
</tr>
</thead>
</table>

3. How *confident* are you that the Corporate Sustainability report faithfully represents Sigma Bhd’s performance in this area?

<table>
<thead>
<tr>
<th>Not at all Confident</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Neither</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Extremely Confident</th>
<th>7</th>
</tr>
</thead>
</table>

4. How *clear* was the extract of Sigma Bhd’s corporate sustainability report?

<table>
<thead>
<tr>
<th>Not Clear</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Neither</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Extremely Clear</th>
<th>7</th>
</tr>
</thead>
</table>

5. In general, how important is a company’s listing on a **Sustainability Index** for your investment decisions?

<table>
<thead>
<tr>
<th>Not at all Important</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Neither</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Extremely Important</th>
<th>7</th>
</tr>
</thead>
</table>

6. How *clear* was the assurance report?

<table>
<thead>
<tr>
<th>Not at all Clear</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Neither</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Extremely Clear</th>
<th>7</th>
</tr>
</thead>
</table>

7. What *level* of assurance does the assurance report provide?

<table>
<thead>
<tr>
<th>Very Low</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>Neither</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>Very High</th>
<th>7</th>
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8. To what extent has the provision of the Corporate Sustainability report affected your *confidence* in advising your company to invest in Sigma Bhd?

<table>
<thead>
<tr>
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<th>5</th>
<th>6</th>
<th>Significant increase in confidence</th>
<th>7</th>
</tr>
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</table>
9. What other information would help you make your investment decision?

________________________________________________________________________
________________________________________________________________________

PART D: GENERAL PERCEPTIONS

Please indicate (by circling) to what extent you agree that:

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<td>3</td>
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<th>Strongly Agree</th>
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- Incorporated in the annual report □
- Issued as a separate report □
- Both forms □

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<td>3</td>
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6. When it comes to making investment decisions, how do you see yourself: (Please tick)

- Strong risk taker □
- Risk taker □
- Neutral □
- Risk averse □
- Strongly risk averse □
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1. Please indicate (by circling) the degree to which you are familiar with:

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<th>Not at all</th>
<th>Very Familiar</th>
</tr>
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<tbody>
<tr>
<td>Company annual reports</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Financial statement audit reports</td>
<td>1</td>
<td>7</td>
</tr>
<tr>
<td>Corporate sustainability reports</td>
<td>1</td>
<td>7</td>
</tr>
</tbody>
</table>

2. Your current position in your company: ________________________________

3. Are you involved in the investment decision process in your company?

<table>
<thead>
<tr>
<th>Not at all</th>
<th>Neither</th>
<th>To a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
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<td>3</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Your total work experience:______ years.

5. Do you have any foreign work experience? Yes □ No □

6. What is the highest formal qualification you have completed?

   PHD □ Bachelors Degree □ Tertiary □
   Masters Degree □ Professional Degree □
   Other ________________________________

7. Do you have any foreign qualification? Yes □ No □

8. Gender: Male □ Female □

9. Your Age: ____ years.

10. Does your company invest in any ethical funds (for example: Syariah Funds)

    Yes □ (Please go to Q11) No □

11. What percentage of your company’s portfolio is in ethical funds?

    | 0% | 100% |
    | 1  | 7    |
    | 2  |      |
    | 3  |      |
    | 4  |      |
    | 5  |      |
    | 6  |      |

THANK YOU FOR YOUR PARTICIPATION

________________________________________
Dear Sir/Madam,

This survey is conducted as part of a research project, which shall be submitted in partial fulfillment of the requirements for the Degree of Master of Business Administration from the University of Malaya.

Institutional investors play an important part in the capital flow of an economy. As key decision makers in this system, we thus value your participation in this study. The general purpose of this study is to understand the relationship between financial reporting attributes and institutional investors.

In order to participate in this study, please complete this questionnaire, which should take you no more than 10-15 minutes of your time. Please note that all information will be used for statistical analysis only and will be treated in the strictest confidential. Your participation in this study is completely VOLUNTARY.

Thank you for your valuable assistance in making this survey a success.

Should you have any queries about this survey, please feel free to contact my supervisor:

Assoc. Prof Dr. S. Susela Devi
Faculty of Business & Accountancy
Tel: 03 – 79673803/ E-mail: susela@um.edu.my

Thank you very much for your kind cooperation

Prepared by,
Chia Meng Yan
Faculty of Business and Accountancy, University of Malaya
University of Malaya
Corporate Sustainability (CS) is the term used to denote an organization’s commitment to being economically, socially, and environmentally responsible. CS reporting is used to demonstrate and inform on this commitment to shareholders and other stakeholders. Some companies issue a separate sustainability report in addition to their Annual Report; other companies incorporate this information within the Annual Report.

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Sigma Bhd is a company listed on Bursa Malaysia, with total revenue of almost RM500 million. The group operates in automotive, manufacturing and engineering industries. The Company appears to be committed in bringing together their economic, social and environmental performance to build the future growth and development of the whole group. Sigma Bhd has shown moderate improvement in its financial performance over the last five years. It is also forecasted that the Company’s growth will continue in the future. Additionally, the company appears to be committed to good corporate governance with a fully independent board of directors.

Sigma Bhd is also listed on the Malaysia Sustainability Index (MSI), which tracks the performance of the companies that meet the criteria of good corporate sustainability performance. Companies listed on this MSI are picked from the Top 50 companies from the FTSE Bursa 100 Index.

Please assume that your company has requested for your opinion on whether to invest in Sigma Bhd. You are allowed to make further assumption that the financial performance of Sigma Bhd (as reflected in most of the financial ratios in its Annual Report) is up to your company’s satisfaction. Based on the information on the company’s background and related extracts from the annual report as provided, you are required to form an opinion on investing in Sigma Bhd.
PART B: EXTRACTS OF CORPORATE SUSTAINABILITY REPORT

Sigma Bhd’s multi-dimensional strategy focuses on four main segments – the marketplace, the workplace, the environment and the community – this strategy has won them an A rating for their internationally-recognised reporting standards (GRI-G3), as awarded by Global Reporting Initiative.

Note: Global Reporting Initiative (GRI), a collaborating centre of the United Nations Environment Programme, is a multi-stakeholder independent institution based in Amsterdam, The Netherlands, that develops and disseminates globally-applicable sustainability reporting standards. Its mission is to make sustainability reporting by all organisations as routine and comparable to financial reporting.

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Product safety is central to our commitment to our customers. We are very committed to quality and there have not been any complaints to regulatory bodies in respect of the health and safety features. We make every effort to ensure that our business practices conform to appropriate standards such as those on Corporate Disclosure Policies and Procedures which are based on best practices recommended by Bursa Malaysia Securities Bhd. and the Malaysian Code on Corporate Governance. We are committed to ensure all of our significant investments are protective of human rights and expect our suppliers and contractors to do the same where human rights are involved.

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Each year, we support a number of non-profit and non-political organisations through its community programs, for example, sponsoring school children and Eco youth programs. We have adopted a range of CS activities like adopting charity and schools. As a matter of policy, we refrain from supporting organisations which are political or religious in nature but as a good corporate citizen, we try to support areas of public policy interest where a broad consensus has been identified.
PART C: QUESTIONS PERTAINING TO PARTS A AND B

Please indicate your responses (by circling):

1. Based on the information provided, how likely is it that you will advise your company to invest in Sigma Bhd?

   Not Likely 1 2 3 4 5 6 7
   Extremely Likely

2. How confident are you that investing in Sigma Bhd is a good investment decision?

   Not at all Confident 1 2 3 4 5 6 7
   Extremely Confident

3. How confident are you that the Corporate Sustainability report faithfully represents Sigma Bhd’s performance in this area?

   Not at all Confident 1 2 3 4 5 6 7
   Extremely Confident

4. How clear was the extract of Sigma Bhd’s corporate sustainability report?

   Not Clear 1 2 3 4 5 6 7
   Extremely Clear

5. To what extent did Sigma’s listing on the Malaysia Sustainability Index (MSI) affect your investment decision?

   No Effect 1 2 3 4 5 6 7
   Very High Effect

6. In general, how important is a company’s listing on a Sustainability Index for your investment decisions?

   Not at all Important 1 2 3 4 5 6 7
   Extremely Important

7. To what extent has the provision of the Corporate Sustainability report affected your confidence in advising your company to invest in Sigma Bhd?

   Significant decrease in confidence 1 2 3 4 5 6 7
   Significant increase in confidence
8. What other information would help you make your investment decision?

PART D: GENERAL PERCEPTIONS

Please indicate (by circling) to what extent you agree that:

1. A Corporate Sustainability report is very useful for investment decision making.

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<thead>
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<tbody>
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<td>3</td>
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<td>6</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
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2. Corporate Sustainability information should be provided to shareholders.

<table>
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<td></td>
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5. How much of an assurance report accompanying a Corporate Sustainability report would you normally read? (Please circle)

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<tr>
<td>7</td>
<td></td>
<td></td>
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</tbody>
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6. When it comes to making investment decisions, how do you see yourself: (Please tick)

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<td></td>
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</tr>
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    Yes □  (Please go to Q11)  No □

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Each year, we support a number of non-profit and non-political organisations through its community programs, for example, sponsoring school children and Eco youth programs. We have adopted a range of CS activities like adopting charity and schools. As a matter of policy, we refrain from supporting organisations which are political or religious in nature but as a good corporate citizen, we try to support areas of public policy interest where a broad consensus has been identified.
PART C: QUESTIONS PERTAINING TO PARTS A AND B

Please indicate your responses (by circling):

1. Based on the information provided, how **likely** is it that you will advise your company to invest in Sigma Bhd?

| Not Likely | 1 | 2 | 3 | Neither | 4 | 5 | 6 | Extremely Likely | 7 |

2. How **confident** are you that investing in Sigma Bhd is a good investment decision?

| Not at all Confident | 1 | 2 | 3 | Neither | 4 | 5 | 6 | Extremely Confident | 7 |

3. How **confident** are you that the Corporate Sustainability report faithfully represents Sigma Bhd’s performance in this area?

| Not at all Confident | 1 | 2 | 3 | Neither | 4 | 5 | 6 | Extremely Confident | 7 |

4. How **clear** was the extract of Sigma Bhd’s corporate sustainability report?

| Not Clear | 1 | 2 | 3 | Neither | 4 | 5 | 6 | Extremely Clear | 7 |

5. In general, how important is a company’s listing on a **Sustainability Index** for your investment decisions?

| Not at all Important | 1 | 2 | 3 | Neither | 4 | 5 | 6 | Extremely Important | 7 |

6. To what extent has the provision of the Corporate Sustainability report affected your **confidence** in advising your company to invest in Sigma Bhd?

| Significant decrease in confidence | 1 | 2 | 3 | Neither | 4 | 5 | 6 | Significant increase in confidence | 7 |

7. What other information would help you make your investment decision?

____________________________________________________________________________________
____________________________________________________________________________________

____________________________________________________________________________________

____________________________________________________________________________________
PART D: GENERAL PERCEPTIONS

Please indicate (by circling) to what extent you agree that:

1. A Corporate Sustainability report is very useful for investment decision making.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Neither</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

2. Corporate Sustainability information should be provided to shareholders.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Neither</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

3. Corporate Sustainability information is a subject on which shareholders require assurance.

<table>
<thead>
<tr>
<th>Strongly Disagree</th>
<th>Neither</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Which form do you think Corporate Sustainability reports should take? (Please tick)

- Incorporated in the annual report
- Issued as a separate report
- Both forms

5. How much of an assurance report accompanying a Corporate Sustainability report would you normally read? (Please circle)

<table>
<thead>
<tr>
<th>Almost none of it</th>
<th>Neither</th>
<th>All of it</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. When it comes to making investment decisions, how do you see yourself: (Please tick)

- Strong risk taker
- Risk taker
- Neutral
- Risk averse
- Strongly risk averse
PART E: BACKGROUND OF PARTICIPANT

1. Please indicate (by circling) the degree to which you are familiar with:

<table>
<thead>
<tr>
<th></th>
<th>Not at all Familiar</th>
<th>Neither</th>
<th>Very Familiar</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company annual reports</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Financial statement audit reports</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Corporate sustainability reports</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

2. Your current position in your company: ______________________________

3. Are you involved in the investment decision process in your company?

<table>
<thead>
<tr>
<th>Not at all</th>
<th>Neither</th>
<th>To a great extent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>4</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>7</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Your total work experience: ______ years.

5. Do you have any foreign work experience? Yes □ No □

6. What is the highest formal qualification you have completed?

   - PHD □
   - Bachelors Degree □
   - Tertiary □
   - Masters Degree □
   - Professional Degree □
   - Other ____________________________

7. Do you have any foreign qualification? Yes □ No □

8. Gender: Male □ Female □

9. Your Age: _____ years.

10. Does your company invest in any ethical funds (for example: Syariah Funds)

    Yes □ (Please go to Q11) No □

11. What percentage of your company’s portfolio is in ethical funds?

    | 0% | 1 | 2 | 3 | 4 | 5 | 6 | 100% |
    |----|---|---|---|---|---|---|------|
    | 1  |   |   |   |   |   |   |      |
    | 2  |   |   |   |   |   |   |      |
    | 3  |   |   |   |   |   |   |      |
    | 4  |   |   |   |   |   |   |      |
    | 5  |   |   |   |   |   |   |      |
    | 6  |   |   |   |   |   |   |      |
    | 7  |   |   |   |   |   |   |      |

THANK YOU FOR YOUR PARTICIPATION
APPENDIX 2: RESULTS OF FINDINGS FOR TOTAL 169 RESPONDENTS

Mean Score for sample of 169

<table>
<thead>
<tr>
<th>Assurance</th>
<th>LSI</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
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</thead>
<tbody>
<tr>
<td>Likelihood of</td>
<td>LSI</td>
<td>4.07</td>
<td>1.283</td>
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<td>4.20</td>
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<tr>
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<td>LSI</td>
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<td>1.111</td>
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<tr>
<td></td>
<td>NoLSI</td>
<td>4.03</td>
<td>1.385</td>
<td>38</td>
</tr>
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<td></td>
<td>Total</td>
<td>4.29</td>
<td>1.254</td>
<td>86</td>
</tr>
<tr>
<td>Total</td>
<td>LSI</td>
<td>4.29</td>
<td>1.209</td>
<td>92</td>
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<tr>
<td></td>
<td>NoLSI</td>
<td>4.19</td>
<td>1.442</td>
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</table>

Confidence in investment

<table>
<thead>
<tr>
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<th>LSI</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>N</th>
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<tbody>
<tr>
<td>With</td>
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<td>3.70</td>
<td>1.231</td>
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<tr>
<td>Assurance</td>
<td>NoLSI</td>
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<td>Dependent Variable</td>
<td>Type III Sum of Squares</td>
<td>df</td>
<td>Mean Square</td>
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<tr>
<td>Main effects</td>
<td>Likelihood of Investment</td>
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<td>3</td>
<td>2.273</td>
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<tr>
<td></td>
<td>Confidence in investment</td>
<td>7.042(b)</td>
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<td>2.347</td>
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<tr>
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<td>.103</td>
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<tr>
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<tr>
<td>LSI</td>
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<td>.100</td>
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<tr>
<td>Assurance * LSI</td>
<td>Likelihood of Investment</td>
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<td>6.119</td>
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<tr>
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<td>5.732</td>
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<td>1.760</td>
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<td></td>
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<tr>
<td></td>
<td>Confidence in investment</td>
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