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PUBLIC STAKEHOLDERS' SALIENCE AND ESG REPORTING OF MALAYSIAN PLCS: MANAGERS' PERCEPTIONS

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Abstract

The objective of this study is to determine the effect of public stakeholders' power, legitimacy and urgency on environmental, social and governance (ESG) reporting practices. The data were obtained using questionnaire survey. There were sixty eight questionnaires collected from top managers of Malaysian public listed companies. The managers' perceptions were captured for the ESG reporting practices and how they perceived on public stakeholders' attributes of government, media and community. The stakeholder identification and salience theory developed by Mitchell et al. (1997) underpinned this study. The theory narrows down corporate stakeholders' list for a company and indirectly improves corporate management in particular to manage stakeholders' rights on ESG information. Employing multiple regression analysis, the result revealed that; media urgency, community urgency and media legitimacy have significant relationship with ESG reporting practices. The findings help to provide a better basis for understanding ways to improve ESG reporting practices based on the public stakeholders' attributes.

Keywords: Stakeholders, environmental, social, governance, ESG, reporting.

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1. Introduction

Growing environmental and social concerns is a natural evolution of good corporate practices. Moreover, an emphasis on corporate governance is given in corporate practices due to the world corporate scandals of giant companies, for example Worldcom, Enron and some other companies (Raphaelson & Wahlen, 2004). In fact, an emerging world-wide interest in the concerns of environmental, social and governance (ESG), attract managers in managing corporations' strategic plan (Breuer & Arvidsson, 2013). Thus, ESG were thrust into the attention and become issues of key concern of corporate management, in particular managers and corporate stakeholders at large.

Stakeholders have varying information needs, and ESG matters are among the major information required (Bursa Malaysia, 2013). The corporate concerns and practices should be communicated to the stakeholders. From an accounting view, the main communication approach with stakeholders is through annual reports, which contain financial and also non-financial information. Meanwhile, from stakeholders' perspective, the communication between companies and stakeholders can be seen from reporting of factors related to ESG (Crane & Glozer, 2016) and in fact, this becomes a basis for companies and stakeholders' relationship. Moreover, prior studies have evidenced that social and environmental matters are part of the information demanded by corporate stakeholders (Islam & Deegan, 2008).

On the other hand, stakeholder theory asserts the interaction between companies and stakeholders. In particular, corporate managers are influenced to report information related to ESG factors when they perceived certain stakeholders' power, legitimacy and urgency (Mitchell, Agle, & Wood, 1997). For instance, the attribute of power indicates the ability of stakeholders to influence the companies' behaviour, direction and process (Mitchell et al., 1997). Consequently, Agle, Mitchell, and Sonnenfeld (1999) revealed, these three stakeholders' attributes formed salience or the priority companies accord to certain stakeholders. Managers' perceptions of the degree of salience bring the opportunity that stakeholders' demands are given priority (Smith, Adhikari, & Tondkar, 2005), including their needs and demands for multiple types of information (Boesso & Kumar, 2009).

Stakeholder groups are categorised into two groups, first as primary or private, and second, secondary or public stakeholders (Clarkson, 1995). Primary stakeholders include those that engage in formal contractual relationships and the corporation depends on for its existence for example, shareholders, employees, customers, and suppliers. Whereas secondary stakeholders such as special interest group and media, are those with indirect engagement and lack formal transactions with the companies. Notwithstanding that, identifying and understanding public stakeholders are important for companies to better deal with them as they are able to give impact on the public opinion towards corporations. There is evidenced that not only private stakeholders, but also public stakeholders are influential with regard to information disclosure decisions (Thijssens, Bollen, & Hassink, 2015).

The results of this study are significant to give a clear basis for understanding ways to improve ESG reporting practices with considerations on the public stakeholders' attributes. Furthermore, this study could offer information about corporate managers' perceptions on ESG factors. This information is important for the preparation of social responsible investment (SRI) development in Malaysia. This is consistent with the county's effort to strengthen Malaysian financial market as a market for SRI, in which ESG acts as an important pillar, and thus efforts should be taken to promote these practices among Malaysian companies (The Star, 2013).

2. Problem Statement

The concept of ESG has been understood in various way, however the term is generally used in SRI (Viviers & Eccles, 2012; and Cadman, 2011). Other than that, ESG information is also relevant to corporate social responsibility (CSR) elements (Cuesta & Valor, 201**3**; and Sparkes & Cowton, 2004). Eccles and Viviers (2011) suggested that SRI relates to an investment strategy that is concerned with issues of social responsibility, ethics and religious consideration, and it is very close to ESG concept. Furthermore, SRI development has impacted a force towards corporations to practice CSR (Sparkes & Cowton, 2004). Thus, this suggests that, a link between ESG, SRI and CSR exists. Moreover, these terms are being used interchangeably in a number of studies. For instance Cuesta and Valor (2013) considered CSR and ESG reporting as similar.

Additionally, most of prior research on ESG have concentrated on the use of information by primary or private stakeholders particularly investors (Alkaraan & Northcott, 2006; Cormier, Ledoux, & Magnan, 2011). These studies revealed that, investors as the principal in the principal-agent relationship, take into account environmental and social information to invest. Nonetheless, there is still a lack of empirical study that examines ESG issues in the perspective of public stakeholders. Supporting this view, Mitchell et al. (1997) argued that management roles and responsibilities include attending to the interests and claims of stakeholder groups at large. Hence, this study highlights the impact of public stakeholders' attributes on ESG reporting practices of Malaysian public listed companies (PLCs) from the perceptions of corporate managers.

3. Research Questions

To what extent do the perceptions of managers on public stakeholders' attributes influence ESG reporting of Malaysian PLCs?

4. Purpose of the Study

The main aim of this study is to obtain the perceptions of managers on how power, legitimacy and urgency of three public stakeholder groups (i.e. government, media and community) influence ESG reporting practices of Malaysian PLCs.

5. Research Methods

5.1. Research design.

A total of 559 questionnaires were distributed to the top management of companies listed on the main board of Bursa Malaysia which centrally located in urban location, Klang Valley. However, after all the necessary actions have been taken, only sixty eight usable questionnaires were collected, giving a

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response rate of 12.2 percent. This response rate is notably low and is considered as the limitation of this study.

Questionnaire survey is one of the most widely used approach because of the ability to deal with a large sample size (Saunders, Lewis, & Thornhill, 2012). According to O'Donovan (2002), the survey approach is appropriate to determine the decisions made by the managers to report on corporate information as they involve directly in the reporting process.

Part one of the questionnaire contains a list of indicators for E, S and G factors. Each indicator is rated based on the level of importance of reporting each of the indicators in corporate reporting medium, limited to corporate annual report and sustainability or CSR report. Corporate annual reports and CSR or sustainability reports were considered because those reports are important and publicly available for corporate stakeholders (Van Staden & Hooks, 2007). Each of the factors was treated individually and the integrative measure is performed with the aid of fuzzy logic approach (Buniamin & Nik Ahmad, 2017). Integrative concept is defined as an equitable (Kleine & Hauff, 2009) and simultaneous (Gao & Bansal, 2013) attention for each ESG factors to be practiced. In other words, companies afford a fair and reasonable commitment towards each of the ESG factors and integrate all ESG factors in the same report.

Meanwhile, part two comprises questions that captured stakeholders' power, legitimacy and urgency in which relate more closely to managers' observation within a current year of tenure. The questions were adapted from Boesso and Kumar (2009)**,** Agle et al. (1999) and Mitchell et al. (1997). The questions measure the extent to which managers are addressing the concerns of each of three public stakeholder groups namely government, media and community.

5.2. Stakeholder theory.

"*Stakeholder is defined as any group or individual who can affect or is affected by the achievement of the organization's objectives"* (Freeman, 1984: 46). It includes individuals and groups from inside and outside of an organisation. Nevertheless, this definition has been criticised because it is too general and it tends to include all parties as stakeholders. Thus, this considers the term 'stakeholder' as applied to anyone or anything, and subsequently provides a huge number of stakeholders to be coped by companies.

Theory of stakeholder identification and salience suggested that, stakeholders' power, legitimacy, and urgency would affect salience. Salience refers to the level of priority given to contending stakeholders' rights, including rights to corporate information. In fact, power of stakeholders could influence the corporations' behaviour (Mitchell et al., 1997). The theory also emphasises the legitimacy of a claim on a corporation which can be created from legal status, moral right or social interest caused by companies' operations. The theory asserts that power and legitimacy as a fundamental attribute impacting stakeholders' salience in managers' lens (Agle et al., 1999). On the other hand, the third attribute, urgency, refers to the level of importance and time sensitivity in attending to stakeholder's calls. Urgency is seen as an additional element that enhances the perception of salience of managers (Mitchell et al., 1997). This theory somehow narrows down the definition of stakeholders and indirectly improve the corporate management in particular with regard to managing stakeholders' rights on ESG related information. Thus, using a stakeholder identification and salience theory lens, this study examines the effects of stakeholders' attributes on ESG reporting.

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5.3. Hyphotheses development.

5.3.1. Stakeholder power.

Stakeholders' power is capable of influencing companies into attempting to fulfill stakeholders' demands (Clarkson, 1995). Companies' direction, process or behaviour can be influenced by stakeholders' power (Mitchell et al., 1997). Past studies evidenced there were stakeholders' pressures on corporation to report on environmental and social information (Islam & Deegan, 2008). This means that, in order to counter pressures from powerful stakeholders, managers are driven to strive to satisfy the stakeholders' demands. ESG related information is disclosed for strategic reasons to indicate that companies are supportive of and conform to the demands of various stakeholders', particularly powerful stakeholders (Gray, Owen & Adam, 1996).

In corporate social and environmental reporting literature, various stakeholders' power have been studied for example government's power (Elijido-ten, 2009) and shareholders' power (Lu & Abeysekera, 2014). Study by Liu and Anbumozhi (2009) revealed a significant effect between government power and level of environmental reporting. They concluded that, reporting the information to government could reduce the government interference and improve government concerns on corporations. Thus, the first hypothesis proposed is as follows;

H_1 There are significant relationships between stakeholders' power and ESG reporting.

5.3.2. Stakeholder legitimacy.

"Legitimacy is a desirable social good, that it is something larger and more shared than a mere self-perception, and that it may be defined and negotiated differently at various levels of social organisation" (Mitchell et al., 1997: 867). Past studies examined reporting on ESG related information using legitimacy theory, arguing that companies report ESG related information as a means of appearing legitimate (Cho, Michelon, Patten, & Roberts, 2015).

The stakeholder legitimacy perspective determined that, stakeholders who retain the capability to give impact on companies are legitimate (Phillips, 2003). For instance, the claims of stakeholders with certain information can be considered as legitimate if the nature of the claims is in some way beneficial to companies, either increasing stakeholders' involvement who might be in a position to affect the companies destructively if the claims are not fulfilled. Reporting information related to ESG depends on the management decision to ensure the company is perceived to imply to similar value of their stakeholders around them. Succeeding the above discussions, this second hypothesis is considered.

H_2 There are significant relationships between stakeholders' legitimacy and ESG reporting.

5.3.3. Stakeholder urgency.

The stakeholder attributes of urgency exist when stakeholders have claims and demands which call upon an immediate attention based on time sensitivity and importance (Mitchell et al. 1997). For instance, a company may perceive a relationship as important when stakeholders' assets are connected to the company. Information related to ESG is considered as sensitive and important to corporate stakeholders as it may impact their short term decisions as well as strategic decisions (Azzone, Brophy, Noci, Welford, &

Young, 1997). Mitchell et al. (1997) reported that the stakeholders' urgency can positively impact on consequences.

Furthermore, Gago and Antolin (2004) revealed, urgency is positively influences salience towards environment factors. Thus, to the extent that ESG reporting is considered as an effective management approach, stakeholders' urgency is expected to have a relationship with ESG reporting. Thus, this hypothesis is proposed:

H_3 There are significant relationships between stakeholders' urgency and ESG reporting.

6. Findings

Table 01 presents the managers' perceptions on stakeholders attributes of power, legitimacy and urgency for the three selected public stakeholder groups. The means of the attributes are measured using the multi-item scales of each attribute for each stakeholder group. The results reveal that the government is perceived to have the most powerful, legitimate and urgent stakeholder based the highest mean score of 3.75, 3.80 and 3.61 respectively. Meanwhile, media is perceived to have the least power, legitimacy and urgency with the lowest mean score of 3.37, 3.21 and 3.24 respectively.

Table 01. Managers' perceptions on stakeholders' attributes

Attributes	N = 68	Government	Media	Community
Power	Mean	3.75	3.37	3.41
	SD	0.77	0.70	0.69
Legitimacy	Mean	3.80	3.21	3.43
	SD	0.59	0.73	0.61
Urgency	Mean	3.61	3.24	3.31
	SD	0.58	0.76	0.74

Table 02 shows the results of multiple regression analyses. This test was employed to test the relationship between public stakeholders' attributes and ESG reporting. Prior to regression analysis tested, correlation test was performed to identify any sign of multicollinearity problems. Multicollinearity is a concern particularly for data which are obtained from the same questionnaire which, it might cause a threat to the multivariate analysis (Pallant, 2011). Pearson correlation analysis results (not shown here) suggests that there is no serious problem of multicollinearity for the data this study as none of the correlation coefficients was greater than 0.8 (Cooper and Schindler, 2013). In addition, regression analysis also needs to meet the assumption of homoscedasticity in which the variance of the residuals should be the same across all values of the independent variables (Pallant, 2011). Homoscedasticity describes a situation associated to dependency associations between variables (Hair, Black, Banin, & Anderson, 2010). The violation of homoscedasticity, heteroscedasticity is present when the size of the variance of the residuals differs across values of an independent variable. The Glejser test was performed and suggested that the regression model for this study meets the assumption of homoscedasticity.

The result of the multiple regression shows the model fits with an R squared of 0.464 percent, which shows that the variables account for 46.4 percent of the variability in the ESG reporting.

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Table 02. Multiple regression

Attribute	Stakeholders	Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
			B	Std. Error	Beta		
		(Const.)	**59.608**	**27.475**		**2.17**	**.036***
POWER	Government	PGo	-2.319	6.109	-0.086	-0.38	0.706
	Media	PMe	-2.503	7.179	-0.085	-0.349	0.729
	Community	PCo	7.394	7.265	0.246	1.018	0.314
LEGITIMACY	Government	LGo	-5.946	8.864	-0.17	-0.671	0.506
	Media	LMe	30.464	8.073	1.067	3.774	.000*
	Community	LCo	-13.888	9.69	-0.41	-1.433	0.159
URGENCY	Government	UGo	3.641	9.437	0.101	0.386	0.702
	Media	UMe	-37	9.146	-1.354	-4.045	.000*
	Community	UCo	18.964	8.925	0.679	2.125	.039*
R Squared 0.464							

*significant at p < 0.05

From the column labelled Beta for Standardised coefficients, the largest beta coefficient is -1.354, which is for urgency of media (UMe). This means that urgency attribute for media makes the strongest unique contribution to explaining the practice of the ESG reporting. Meanwhile, the second largest beta coefficient is 1.067, which is for legitimacy of media (LMe) and the third, is 0.679 for urgency of community (UCo).

Interestingly, the findings revealed that managers' perceptions on urgency of media has a negative significant relationship with ESG reporting at a significant value of p<0.05. That means, scores for the perceived on ESG reporting are expected to increase with every one-unit decrease in UMe. The findings suggest that the more urgency associated with media group, the lesser will be the engagement in ESG reporting as perceived by managers. Urgency is a concept that is based on sensitivity of timing and the importance of attending the stakeholders' claim (Mitchell et al. 1997). Thus, the possible justification for this negative relationship is that, when the managers perceived any ESG information are important and need for immediate attention by the media, they tend to not to report. This might be relevant to the negative type of ESG information. This findings consistent with prior literatures that revealed companies were found to not to disclose negative environmental impacts like fines to maintain their good reputation in their operations (Jaffar, Mohamad Iskandar, & Muhamad, 2002; and Deegan & Rankin, 1997).

Additionally, the results also revealed that managers' perceptions towards community's urgency (UCo) has a positive significant association with perceived ESG reporting practices at a significant value of p<0.05 (t=2.125). The results show that, the greater the perceived on urgency of community groups, give a larger impact on ESG reporting practices as perceived by managers. With regard to the ESG factors, managers perceived that the local communities' demand is critical and should not be delayed. This is because, local community is directly affected by corporate ESG practices, particularly when their right is violated. Hence, they should be kept informed and ESG reporting could be used as a strategy to meet demands of the local community on corporate performance related to ESG factors.

urthermore, according to the findings, managers' perceptions of legitimacy of media (LMe) has a positive significant relationship with ESG reporting at a significant value of p<0.05 (t=3.774). The results

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suggest that scores for the ESG reporting are expected to improve with every one-unit increase in LMe score. This means, greater the legitimacy of media perceived by managers, greater the ESG reporting practices. This result is consistent with Aerts and Cormier (2009), who suggested that media, in particular press release is considered as an opportunity for companies to legitimate their activities related to ESG practices. This is due to the ability of media in influencing the public attention to various issues (Blanc, Islam, Patten & Branco, 2017) including ESG matters.

Nevertheless, there is no significant associations between ESG reporting and the legitimacy of government (LGo), legitimacy community (LCo) and urgency of government (UGo), as perceived by managers. This means, perceptions on legitimacy and urgency towards the government and legitimacy on the community have no significant effect on how managers perceive the ESG reporting practices in a company.

Surprisingly, the results for the relationship between stakeholders' power and ESG reporting for all stakeholder groups as perceived by managers, were found statistically insignificant at $p>0.05$. Therefore, hypotheses H_1 were not supported. This means, managers' perceptions on stakeholders' power for government (PGo), media (PMe) and community (PCo) have no impact on how managers perceived the ESG reporting practices. Consistent with Lu and Abeysekera (2014), who also reported the insignificant relationship between government power and reporting which only included social and environmental factors. However, Liu and Anbumozhi (2009) revealed that government power influenced corporate environmental disclosure.

Additionally, a study conducted in Malaysia by Elijido-ten (2009) revealed a significant relationship between government power and environmental reporting. A possible justification for the insignificant finding between PGo and ESG reporting might be because of an unsuccessful voluntary approach of encouraging reporting ESG matters (Taylor & Shan, 2007). For the not significant result between PMe and ESG reporting, it is implied that the media is perceived not to possess the power attribute to influence the public view on information related to ESG factors. Meanwhile, a possible explanation for the not significant relationship between PCo and ESG reporting might be because lack of the understanding of the concept and importance of ESG information is perceived as low among the Malaysian community (Amran, Zain, Sulaiman, Sarker, & Ooi, 2013).

7. Conclusion

Stakeholder theory of identification and salience proposed, managers' perceptions of stakeholders' power, legitimacy, and urgency would affect the salience towards stakeholders' claims (Mitchell, et al., 1997). This theory underpins the present study in examining the influence of power, legitimacy and urgency for three public stakeholders; government, communities and media on ESG reporting practices among Malaysian PLCs from managers' perceptions. The results obtained in this study suggest that media urgency, community urgency and media legitimacy have a significant relationship with ESG reporting practices.

As is usual the findings of the present study should be inferred with several limitations. Among the common issues for study undertaking survey are; low response rate, the targeted respondents and misinterpretation of the questionnaire. These limitations provide the opportunity for future study to conduct in-depth interview and perform case study approach to obtain managers' perceptions towards ESG reporting and stakeholder attributes. This study gauges the data from corporate managers' perceptions on ESG reporting and their stakeholders. The Malaysian managers' perceptions may bring differing beliefs and views in this issue because of geographic, cultural and demographic context in other country perspective. Hence, future research may also investigate the perceptions from the stakeholders' perspective on the importance of ESG reporting to them.

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