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**ASSURANCE AND IMPRESSION MANAGEMENT OF**  
**SUSTAINABILITY REPORTING IN MALAYSIA**

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*Abstract*

Three years after the enforcement of mandatory sustainability reporting in Malaysia, due to the qualitative nature in reporting, the creditability of the information disclosed is still being questioned. Impression management is a concern faced by stakeholders given the issue of genuineness with regards to sustainability information disclosed and legitimacy. One of the ways to overcome such issue will be through assurance of the reporting to enhance the creditability of the sustainability reporting prepared by the firm. Institutional theory is employed to construct the research framework of this study which intended to explore the relationship between sustainability assurance and impression management level of sustainability reporting. Without legal requirement and lack of reference provided, firms would rather be influenced by mimetic and normative isomorphism while having the sustainability reporting assured. Content analysis will be done to have a preliminary analysis on the current impression management in sustainability reporting while interview is proposed to understand the complexity of relationship between the assurers and preparers of sustainability reporting. The result obtained from the proposed framework would provide some understanding on the importance of assurance in relation to sustainability reporting in Malaysia.

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## **1. Introduction**

Following the enforcement of mandatory sustainability statement by Bursa Malaysia in October 2015, Practice Note 9 in the Listing Requirements necessitates public listed companies to include sustainability statement which must narrates economic, environmental and social related opportunities and risks. Besides, Sustainability Reporting Guide (SRG) has been issued in order to maintain the quality of the statement. SRG has pointed out the details of the requirement and highlights the importance for the information provided to be meaningful, balanced and comparable. This is also in line with the Global Reporting Initiative (GRI).

Despite being regulated, the regulation governing sustainability reporting is flexible in the format to present and room is given for the preparer to decide on the content of reporting (Sandberg & Holmlund, 2015). This is different from the financial reporting standards which govern the financial reporting. Hence, it is common to observe firms trying to use impression management in sustainability reporting to deflect, obfuscate, or rationalize their poor sustainability performance (Cho et al., 2010). The true information may have been hidden to convey a positive message about their performance to the public (Coupland, 2006; Onkila, 2009).

Gray (2000), Kolk and Perego (2010) and GRI (2013) have all suggested that sustainability reporting should include corporate environment and social policy, objectives, initiatives and performance and preferably attach third party assurance statement. However, Bursa Malaysia has not make assurance statement mandatory. Assurance of sustainability statement has only been spelled out in SRG as a guideline to provide creditability of the statement despite impression management has been used in the disclosure. Out of a few audit standards, International Standard on Assurance Engagements 3000 (ISAE3000) outlines the guidance to perform audit procedures for non-financial assurance (Ackers, 2009). It is the responsibility of the assurers to highlight the materiality of errors and omissions found in the subject matter (Marx & van Dyk, 2011). SRG has outlined the principle of materiality that is to identify and assess the sustainability matters and link them to the importance of the organisation and stakeholders. However, due to the voluntary nature and lack of awareness, the assurance level in Malaysia is still relatively low (Sawani et al., 2010).

Assurance providers can come from various parties with different technical expertise such as audit firms, certification bodies, specialist consultants and non-governmental organizations (Perego & Kolk, 2012). However, study has found that the quality of assurance is indifferent despite the assurers are coming from different expertise background (Moroney et al., 2012).

### **1.1. Literature review and framework**

#### **1.1.1. Assurance of sustainability reporting**

Giving the concern of transparency and the enhancement of credibility of sustainability reporting, it is necessary to have assurance in place (Perego & Kolk, 2012). Undeniably, credibility, reliability and quality of voluntary sustainability and environmental reporting is enhanced with the existence of voluntary assurance in general as well as country based (Moroney et al., 2012).

To answer the question of which countries are likely to apply reporting assurance, Kolk and Perego (2010) and Simnett et al. (2009) pointed out that countries which are stakeholder-oriented have more tendency to partake their sustainability reports assured. This result however is disagreed by Herda et al.

(2014) which concluded that high quality assurance is found in countries with weak investor protection as there is a need of assurance to protect the interest of investors which are not prioritised by the firms. This is further agreed by Pflugrath et al. (2011) which opine that external assurance has direct positive relationship with the creditability of the information disclosed.

Looking from micro perspective, firms seek for assurance is mainly driven by signalling theory where they try to distinguish themselves from their rivals that may engage in impression management (Simnett et al., 2009). Anyhow, sustainability reports assurance is observed at an increasing trend and develop steadily with sustainability reporting (Gillet, 2012).

As the listing requirement does not require sustainability reporting assurance to be done, SRG has outlined the importance of internal and external assurance in ensuring credibility of sustainability performance and disclosures to the stakeholders. Flexibility of assurance is given based on the company's size and financial constraints, providing the assurance on various sustainability disclosures such as data, narratives, data collection process and any other disclosures which based on other recognised frameworks and standards.

### **1.1.2. Institutional theory**

Institutional theory proposes that organisations try to adopt new practices and processes without self-reasoning (Gürtürk & Hahn, 2016). The base of institutional is legitimacy whereby companies tend to adopt commonly acknowledged procedures to avoid loss of acceptability (DiMaggio & Powell, 1983). With the question of why there are homogeneous companies observed in the industry, DiMaggio and Powell (1983) initialized institutional theory with three concepts, namely coercive, mimetic, and normative pressures that may influence the organizational behaviour. This will result in homogenous practices among companies without any further improvement or efficiency in the current practices (Liang et al., 2007).

Coercive isomorphism is a form of external and formal pressures unleashed by dependent parties including cultural perception at the social ground of which the organisations operate (DiMaggio & Powell, 1983). The pressure can emerge from various external parties such as regulatory pressure, policies, professions, standards, etc. (Liang et al., 2007). Coercive isomorphism is supported by a research conducted to examine the relationship between legal requirement and the content of CSR reporting whereby strong positive relationship is found after the regulation was implemented in 2007 (Othman et al., 2011). Coercive isomorphism is applicable in sustainability reporting practice but lack of influence in assurance as the rule does not require assurance to be mandatory.

Mimetic isomorphism indicates that pressure comes from uncertainty when firms start to mimic other peers or rivals to legitimate themselves and ensure survival in the industry (DiMaggio & Powell, 1983). This especially will happen when the firm operates in a less experienced and understood environment or having ambiguity in the internal strategy and goal (Liang et al., 2007). Due to these reasons, the mimicking process often takes those superior and similar to the copier (Joseph & Taplin, 2012). This is especially obvious when mandatory sustainability reporting was just introduced in Malaysia without the requirement of assurance. This has made the practice to be uncertain and therefore drive the firms to copy the superior (Gürtürk & Hahn, 2016).

Normative isomorphism is basically a result of professionalism which defined by DiMaggio and Powell (1983) as “pressure of a group of members of similar profession or an occupation to outline the standards and their work methodology to sustain the practice of future member of similar professions, and to fix a cognitive base and maintaining their autonomy and legitimacy in their occupation” (p. 152). The belief is constructed on the base that people with the same profession may act based on similar professional values and code of conduct, which create a homogenous corporate environment across similar industry (Liang et al., 2007). This is mainly observed among the professional audit firms like the Big Four which trying to maintain their professionalism and peer influence (Manetti & Becatti, 2009).

### **1.1.3. Legitimacy driven impression management**

Whether or not the sustainability information disclosed to the stakeholders are true or only a make-up to the reporting can be examined from impression management engaged via reporting (Sandberg & Holmlund, 2015). As explained by Hooghiemstra (2000), impression management is “a field of study within social psychology studying how individuals present themselves to others to be perceived favourably by others”. Impression management is mainly driven by the need to bridge the desired outcome and the current image. With the motivation, the firms would start to employ tactics to change the behavior for the alteration of how others may look at them (Leary & Kowalski, 1990). Instead of costly and time consuming organizational change, firms are looking for short-cuts through impression management in sustainability reporting (Mohamed et al., 1999).

Legitimacy is principally based on the perception of public or stakeholders towards the organization. Although legitimacy may be founded with objective perception, to a certain extent, it may also be created subjectively by the stakeholders (Suchman, 1995). While legitimacy can be contradicting due to subjective view from various stakeholders, institutional isomorphism comes into play as legitimacy should depends on the outer structure or macro environment where the organisation operates in (Ogden & Clarke, 2005). For instance, the privatization of water industry by the government (institutional factor) entails a higher pressure from the macro environment towards the industry. Given the rise of concern from the public (stakeholders), the water companies tend to employ impression management tactics in their annual reports to maintain legitimacy (Ogden & Clarke, 2005).

### **1.1.4. Research framework**

Audit and assurance plays a major role in shaping a better accountability for sustainability (Perego & Kolk, 2012). Sustainability assurance serves the role to enhance the creditability of sustainability reporting and reduces information asymmetry which brings advantage to the investors and stakeholders (Cuadrado-Ballesteros et al., 2017). Systematic assurance process is able to project satisfying level of assurance to the content and quality while stakeholders have become more demanding for the information they require (KPMG, 2008).

Sustainability assurance can generally be backed by three main theories, i.e. stakeholder theory, legitimacy theory and institutional theory (Smith et al., 2011). The primary relationship of stakeholders in this study would be the firms, assurers and the other users of sustainability reporting. However, stakeholder theory cannot clearly explain the context as it is unable to cater the complex relationship among the stakeholders and the firm itself (Key, 1999). Stakeholder theory alone is unable to conceptualise the robust

institutional matters and the dynamic environment (Smith et al., 2011). Legitimacy theory on the other hand can be generally divided into two streams, namely managerial legitimacy and institutional legitimacy (Suchman, 1995). Managerial legitimacy is currently used in explaining the use of impression management. It is found that to overcome external pressure, legitimacy acts as a strategic corporate response towards the pressure (Deegan, 2002). By gathering the opinions of various stakeholders, it has been found that impression management tactics are much reflected in sustainability reporting and it has become a disguised achievement of legitimacy, deteriorating the decision making of stakeholders (Diouf & Boiral, 2017). As there is lack of stakeholder influence and regulatory requirement in Malaysia for firms to legitimize themselves (Elijido-Ten, 2008), stakeholder theory and legitimacy theory is not sufficient to explain the use of assurance to overcome the impression management issue.

Therefore, in this research, institutional theory is utilized to explain how assurance may impact on the legitimacy driven impression management employed in the mandatory sustainability reporting. Under the mimetic isomorphism as well as normative isomorphism, sustainability assurance tends to provide credibility to the content of sustainability reporting and therefore should reduce the impression management level. This study will first explore the impression management level of the audited sustainability reporting produced by the companies in Malaysia, followed by looking at the relationship between the sustainability assurance and impression management level of the company.

## **2. Problem Statement**

Financial performance and corporate social responsibility are perceived by firms to be mutually exclusive. Impression management is often a better choice considering the difficulty and costly decision to be made to invest in environment and social activities and to overcome organisational change and friction (Bansal & Kistruck, 2006). With this statement, there is question raised whether the firms have shown their accountability towards environmental and social footprint through the sustainability reporting published to the stakeholders (Archel et al., 2009). Regulations like even GRI has given a benchmark of accuracy, trustworthy, comparable and timely sustainability reporting but it is not embraced by companies which seek for reputation enhancement with the use of impression management (Diouf & Boiral, 2017).

Bursa Malaysia has guided the firms on the content to be disclosed but not the presenting style. Yet, the presenting style is one of the vital elements to reflect the management's attitude towards sustainability reporting (Sandberg & Holmlund, 2015). As founded by previous research, sustainability disclosure serves only as a tool for public relation to enhance the firm's image and reputation (Anas et al., 2015). With this attitude, the objective to promote sustainability development by Bursa Malaysia has been defeated. Therefore, to have a better understanding on the attitude and reaction towards the newly introduced regulation, this research is set to examine the impression management of the impacted firms.

Therefore, the importance of assurance has been levered to ensure the credibility and reliability of the information disclosed. However, Bursa Malaysia has not made assurance mandatory for sustainability reporting. Kolk and Perego (2010) opined that companies which heavily influenced by stakeholders but operates in a low corporate governance regime have more demand of assurance. This is due to the risk of impression management employed in such companies is higher. Therefore, this paper seeks to study the relationship between assurance and impression management.

### 3. Research Questions

The following question has been constructed based on the problem stated above:

Does assurance of sustainability reporting reduce the use of impression management for sustainability disclosure in Malaysia?

### 4. Purpose of the Study

The primary objective of the study is to explore the need of assurance to improve the credibility and accuracy of the sustainability reporting. With the research question above, the purpose of the study is set as below:

To examine the relationship between assurance and the impression management level of sustainability reporting in Malaysia.

### 5. Research Methods

#### 5.1. Proposed research method

This research begins in identifying companies which have got their mandatory sustainability statement assured either by internal or external assurers. After which, the impression management level of the sustainability disclosure is assessed through the model suggested by Sandberg and Holmlund (2015) to gain substantial understanding about the current reporting style before proceeding to the next step. There are four presenting actions (PA) namely description, praise, admission and defense and four writing styles (WS) namely subjective, positive, vague and emotional. The definition of each tactic by Sandberg and Holmlund (2015) is presented in Table 01.

**Table 01.** Organisational impression management tactics employed in narrative sustainability reporting

OIM tactic	Definition
Description (PA)	Giving information about one's actions
Praise (PA)	Presenting one's actions in extremely favourable way
Admission (PA)	Admitting unfavourable instances whereby it may create adverse image to the user of reporting
Defense (PA)	Trying to justify the unfavourable instances to create good impression to the user of reporting
Subjective style (WS)	Matters are discussed with one-sided argument without objective view
Positive style (WS)	Focus on favourable instances compared to adverse events which creates unbalance disclosure
Vague style (WS)	Statement given is not specific and no evidence or measurement to support
Emotional style (WS)	Statement includes personal feeling using emotional terms to instigate the feeling of the user

Content analysis will be performed to identify the tactics used in the mandatory sustainability statement. Once the preliminary analysis of impression management is performed, a semi-structured interview is then carried out to gather information about the relationship between assurance and impression management level of the firm. Interview is a more effective way to gather data regarding the institutional influence on the sustainability assurance level as it may provide an insight of specific organisational and

institutional context and to integrate pieces of information together (Smith et al., 2011). Only with interview can the process of assurance and sustainability reporting preparation can be understood to bridge the specific relationship between assurance and impression management. The interview shall be carried out to the preparer and the internal assurer of the sustainability reporting and qualitative data analysis shall then be carried out. Three companies with sustainability reporting assurance will be selected. Preparer are those who are responsible for the sustainability reporting mostly from corporate function and the assurers are the internal auditor team who is responsible to audit the sustainability process and the reporting.

## 6. Findings

No finding and conclusion is drawn as this is only a conceptual paper prior research study is performed.

## 7. Conclusion

Despite sustainability reporting has been made mandatory which homogeneous behaviour should be observed (DiMaggio & Powell, 1983), there are also other institutional pressures which may causes organisational differences (Levy & Rothenberg, 2002). Legitimacy driven impression management is a way to adopt in sustainability reporting preparation in order to achieve compliance. However, through assurance as an institutional influence, impression management issue should have been solved as assurance should provide a better creditability and hold the firm into account on the information disclosed to the stakeholders (Kuruppu & Milne, 2010). As mentioned in SRG, assurance is able to enhance the accuracy and reliability of the sustainability information for stakeholders' decision making. With the highlights via institutional theory, the result of this study intends to give the authorities a reference on further improvement of the current regulation on sustainability reporting, particularly on the inclusion of sustainability assurance as part of the future mandatory requirement.

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