Sustainability Reporting and Firm Performance: Evidence of Limited Immediate Financial Impact in Malaysia

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ABSTRACT

This study examines whether sustainability reporting (SR) and sustainability reporting quality (SRQ) influence firm performance among Malaysian public listed companies in the early post-SRG 2023 reporting environment. The study is positioned within Malaysia's evolving sustainability reporting landscape, including Bursa Malaysia's Sustainability Reporting Guide 2023 and the National Sustainability Reporting Framework. Using a pilot sample of 15 large Malaysian public listed companies and manual content analysis of annual and sustainability reports, SR and SRQ are measured through structured disclosure indices, while firm performance is proxied by return on assets. The findings show that SR, SRQ, and the SR × SRQ interaction are not statistically significant predictors of short-term firm performance. Instead, firm size has a consistently negative and significant relationship with ROA. The results suggest that sustainability reporting may function more as a regulatory and strategic legitimacy mechanism than as an immediate financial performance driver in the short term.

Keywords: sustainability reporting; sustainability reporting quality; firm performance; return on assets; Malaysia; NSRF

INTRODUCTION

Sustainability reporting has become an increasingly important mechanism through which firms communicate environmental, social and governance (ESG) practices to investors, regulators and wider stakeholders. In Malaysia, this development has accelerated through Bursa Malaysia's Sustainability Reporting Guide 2023 (SRG 2023), which places stronger emphasis on materiality, structured disclosures, comparability and alignment with international reporting expectations [1].

Malaysia's policy context has also been strengthened by the National Sustainability Reporting Framework (NSRF), which supports the transition towards internationally aligned sustainability disclosures and improves the consistency and reliability of sustainability-related information [2]. The NSRF is important for this study because it signals that sustainability reporting is no longer only a compliance exercise, but part of a broader national effort to improve the quality and decision usefulness of corporate sustainability information.

Despite these regulatory developments, the financial relevance of sustainability reporting remains inconclusive. Some studies suggest that ESG disclosure can reduce information asymmetry, strengthen legitimacy and improve access to capital, while others argue that sustainability practices may involve costs that are not immediately reflected in accounting performance [3]-[5]. This mixed evidence is particularly important in emerging markets, where reporting practices and stakeholder evaluation mechanisms are still developing.

This issue is relevant because regulatory improvement does not automatically produce immediate financial gains. Firms may improve disclosure to meet institutional expectations, while investors and other stakeholders may

require more time to evaluate whether the information reflects substantive sustainability performance. Therefore, examining both the extent and quality of sustainability reporting is necessary to avoid treating all disclosure as equally useful.

The Malaysian setting is therefore useful for examining whether sustainability reporting has moved beyond formal disclosure into measurable financial relevance. A firm may comply with enhanced reporting expectations without immediately improving profitability, especially when sustainability practices require upfront investment, internal system changes and stronger data collection processes. This study takes that transition period seriously rather than assuming that better reporting should immediately produce stronger ROA.

Against this backdrop, this study examines three research questions: whether SR affects firm performance, whether SRQ affects firm performance, and whether SRQ moderates the relationship between SR and firm performance. The corresponding objectives are to examine the direct effect of SR, the direct effect of SRQ and the moderating effect of SRQ on the SR-performance relationship. The study contributes by providing preliminary Malaysian evidence from the early post-SRG 2023 period and by incorporating SRQ as both a direct explanatory variable and a moderating factor.

LITERATURE REVIEW AND HYPOTHESES

Legitimacy theory suggests that firms use sustainability disclosure to demonstrate alignment with social and institutional expectations [6], [7]. In this view, sustainability reporting may help firms maintain stakeholder acceptance, especially when regulatory and public expectations for ESG transparency increase. Disclosure theory further suggests that higher-quality information can reduce uncertainty and improve the usefulness of corporate reporting for investors and other stakeholders [8].

Prior empirical findings remain mixed. Atan et al. [3] found that ESG factors did not significantly affect firm performance among Malaysian firms, while Alareeni and Hamdan [4] reported varying effects of ESG dimensions on performance. Giannopoulos et al. [9] also showed that ESG disclosure may not always translate into stronger financial outcomes. More recent studies continue to show that the ESG-performance relationship depends on context, performance proxy and time horizon. For example, Narula et al. [10] examined emerging-market evidence from India, while Veeravel et al. [11] reported that ESG disclosure may relate differently to market performance and ROA. Faria et al. [12] further found that sustainability reporting quality did not produce a significant short-term financial effect among large Portuguese companies. These findings indicate that the effect of sustainability reporting may depend on reporting maturity, market context and the quality of information disclosed.

The distinction between disclosure extent and disclosure quality is central to this study. Reporting extent captures whether firms disclose information across ESG areas, while reporting quality captures whether such information is measurable, comparable and decision useful. This distinction is consistent with contemporary reporting frameworks, including GRI-based sustainability disclosure and ISSB-aligned sustainability-related financial disclosure standards [13]-[15].

Based on this reasoning, SRQ is expected to matter in two ways. First, SRQ may directly influence firm performance because better-quality disclosures can improve stakeholder confidence and reduce information uncertainty. Second, SRQ may operate as a moderator because the effect of sustainability reporting should be stronger when the reporting is clearer, more measurable and more comparable. The framework therefore treats SRQ as both an independent variable and a moderating variable, allowing the analysis to distinguish between its direct and conditional roles.

TABLE I. Selected Prior Studies

Study	Context	Key relevance
Atan et al. [3]	Malaysia	Limited direct ESG impact on firm performance.
Alareeni and Hamdan [4]	US S&P 500	ESG effects vary across dimensions.

Giannopoulos et al. [9]	Norwegian listed firms	ESG disclosure does not always improve financial outcomes.
Oware and Worae [17]	Reporting quality	Disclosure quality matters for depth and credibility.
Narula et al. [10]	India / emerging market	ESG-performance effects vary across measures.
Veeravel et al. [11]	India	ESG disclosure differs for market performance and ROA.
Faria et al. [12]	Portugal	Reporting quality showed no short-term financial effect.

SRQ is important because disclosure volume alone may not reflect decision usefulness. High-quality reporting is expected to provide clearer, more comparable and more credible information through quantitative indicators, targets, time-series data and recognised reporting standards [16], [17]. However, in an early-stage reporting environment, stakeholders may not yet fully differentiate between the existence of sustainability disclosure and the depth of reporting quality.

Accordingly, the study tests the following hypotheses: H1: Sustainability reporting has a positive effect on firm performance. H2: Sustainability reporting quality has a positive effect on firm performance. H3: Sustainability reporting quality positively moderates the relationship between sustainability reporting and firm performance.

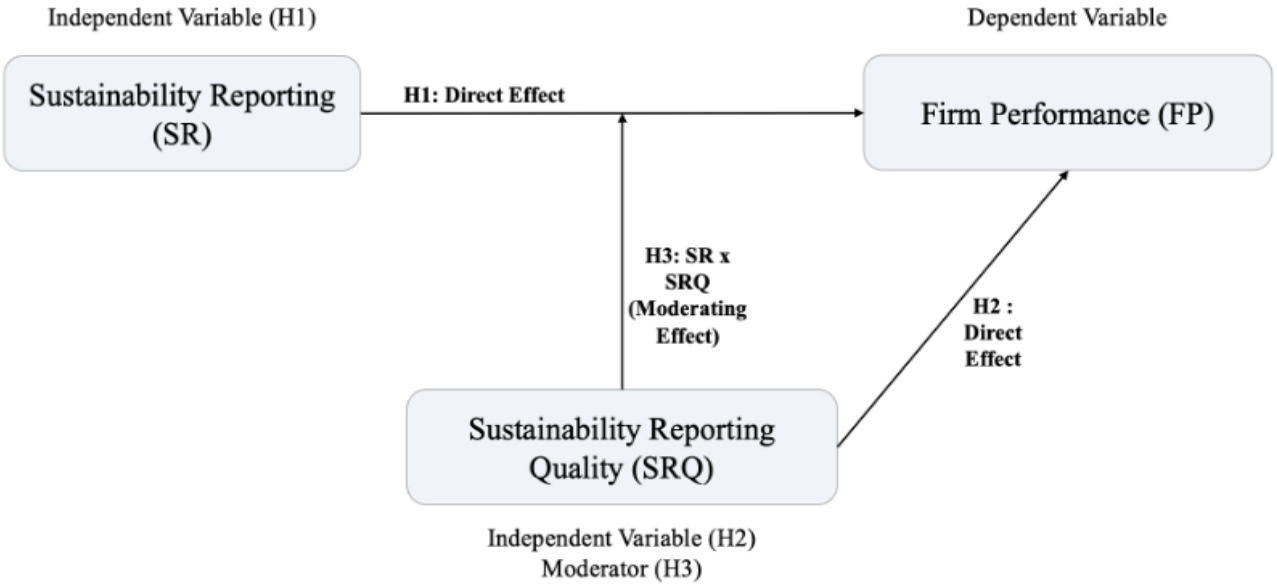


Fig. 1. Conceptual framework.

METHODOLOGY

The study uses a pilot sample of 15 Malaysian public listed companies drawn from large-cap firms across financial services, plantation, energy and utilities, industrial and consumer sectors. The year of analysis is 2024, reflecting the early reporting period following SRG 2023. Data were collected from annual reports, sustainability statements and publicly available corporate reports.

The sector spread provides variation in reporting exposure while keeping the pilot sample focused on firms with stronger public visibility and more developed reporting practices. Firm performance is measured using return on assets (ROA), calculated as net income divided by total assets. SR is measured using a structured ESG disclosure index covering environmental, social and governance items. Each item is scored using an ordinal approach where 0 indicates no disclosure, 1 indicates basic disclosure and 2 indicates detailed disclosure. SRQ is measured through four quality criteria: quantitative metrics, targets and commitments, time-series information and use of recognised reporting standards. Firm size and leverage are included as control variables. Manual content analysis

was conducted using structured coding procedures, consistent with content analysis principles outlined by Krippendorff [18].

The SR and SRQ scores were converted into composite indices to allow comparison across firms. The use of a structured index is appropriate for a pilot study because it improves consistency in manual coding while still allowing qualitative differences in disclosure depth to be captured. Page references were recorded during data collection to support traceability and reduce coding ambiguity. Although the sample is intentionally limited, it is suitable for a conference-stage empirical paper because it allows the measurement framework and regression specification to be tested before being extended to a larger panel.

TABLE II. Sample Profile By Sector

Sector	Sample firms
Financial Services	Malayan Banking Berhad; Public Bank Berhad; CIMB Group Holdings Berhad; Hong Leong Bank Berhad
Plantation	SD Guthrie Berhad; IOI Corporation Berhad; Kuala Lumpur Kepong Berhad
Energy & Utilities	Tenaga Nasional Berhad; Dialog Group Berhad; Petronas Gas Berhad; YTL Power International Berhad
Industrial	Press Metal Aluminium Holdings Berhad
Consumer	Nestlé (Malaysia) Berhad; PPB Group Berhad; MR D.I.Y. Group (M) Berhad

TABLE III. Variables And Measurement

Variable	Role	Measurement
ROA	Dependent variable	Net income divided by total assets
SR	Independent variable	ESG disclosure index using 0-2 ordinal scoring
SRQ	Independent variable / moderator	Quality index based on metrics, targets, time-series information and reporting standards
Size	Control	Natural logarithm of total assets
Leverage	Control	Total liabilities divided by total assets

Three regression models are estimated. Model 1 tests the direct effect of SR on ROA. Model 2 adds SRQ to test its direct effect. Model 3 includes the interaction term SR × SRQ to examine the moderating role of reporting quality.

Model 1: ROA = beta0 + beta1SR + beta2Size + beta3Leverage + epsilon

Model 2: ROA = beta0 + beta1SR + beta2SRQ + beta3Size + beta4Leverage + epsilon

Model 3: ROA = beta0 + beta1SR + beta2SRQ + beta3(SR × SRQ) + beta4Size + beta5Leverage + epsilon

RESULTS AND DISCUSSION

The descriptive results indicate relatively high sustainability reporting among the sampled firms, with a mean SR score of 0.870. SRQ has a mean of 0.775, suggesting that reporting quality is present but still varies across firms. ROA has a mean of 0.0565, while the correlation results show that SR has almost no relationship with ROA. SRQ is negatively correlated with ROA, although the regression results provide the more appropriate basis for hypothesis testing. Firm size shows the strongest bivariate relationship with ROA, with a correlation of -0.826.

TABLE IV. Descriptive Statistics And Key Correlations

Variable	Mean	Min	Max	Std. Dev.	Corr. with ROA
SR	0.870	0.750	1.000	0.084	0.002
SRQ	0.775	0.625	1.000	0.118	-0.315
ROA	0.0565	0.0098	0.1496	0.0443	1.000
Size	17.587	15.110	20.790	1.826	-0.826
Leverage	0.565	0.050	0.910	0.287	-0.425

The regression results show that SR has a positive but statistically insignificant effect on ROA in Model 1 and remains insignificant after SRQ is included in Model 2. SRQ is also statistically insignificant, indicating that higher reporting quality does not directly translate into stronger short-term accounting performance. Model 3 shows that the interaction term between SR and SRQ is negative and statistically insignificant. Therefore, SRQ does not strengthen the relationship between sustainability reporting and firm performance in this sample.

The non-significant results should be interpreted carefully. They do not suggest that sustainability reporting has no value. Rather, they indicate that the value of reporting may not be immediately captured by ROA in the same reporting period. Sustainability reporting may first affect legitimacy, stakeholder engagement, internal governance and information transparency before any financial benefit becomes visible in accounting outcomes [6]-[8].

TABLE V. Regression Results And Hypothesis Summary

Variable / Test	Model 1	Model 2	Model 3	Decision
SR	0.0425	0.0386	0.4295	H1 not supported
SRQ	-	0.1095	0.5291	H2 not supported
SR × SRQ	-	-	-0.4957	H3 not supported
Size	-0.0217***	-0.0250***	-0.0252***	Negative significant effect
Leverage	0.0151	0.0044	0.0014	Not significant
R-squared	0.698	0.747	0.759	Model fit improves slightly
Adjusted R-squared	0.615	0.646	0.625	Moderation adds limited value
F-statistic	8.468***	7.399***	5.658**	Models significant overall

Notes: **p < 0.05, ***p < 0.01. Coefficients are reported from ordinary least squares regression models with ROA as the dependent variable.

The model statistics show that explanatory power improves slightly from Model 1 to Model 3, but the added SRQ and interaction terms remain statistically insignificant. This supports the interpretation that the main short-term performance variation is associated more strongly with firm structure than with sustainability reporting variables.

With respect to RO1 and H1, the insignificant SR coefficient indicates that reporting extent is not a significant short-term driver of ROA. This finding is consistent with studies showing limited or mixed links between ESG disclosure and accounting performance, particularly when firms are operating in developing or transitional reporting environments [3], [9], [12]. It also contrasts with studies reporting stronger ESG-performance links in some emerging-market settings, suggesting that results may differ depending on the performance measure and reporting maturity [10], [11].

With respect to RO2 and H2, the insignificant SRQ coefficient suggests that higher-quality reporting does not yet translate into immediate accounting performance benefits. This result is consistent with studies suggesting that sustainability disclosure and reporting quality may improve transparency, credibility and decision usefulness without necessarily producing immediate improvements in accounting-based performance [12], [16], [17]. With respect to RO3 and H3, the insignificant interaction term shows that SRQ does not amplify the SR-performance relationship in the current sample. This finding is in line with prior evidence that ESG disclosure does not always

translate into stronger financial outcomes, particularly in contexts where sustainability reporting practices are still developing [9], [11]. This may reflect a transition stage in which firms are improving reporting practices faster than stakeholders are able to incorporate those disclosures into financial evaluation.

Overall, the findings suggest that sustainability reporting, whether measured in terms of extent or quality, does not directly influence short-term financial performance in the sampled Malaysian firms. This does not imply that sustainability reporting is unimportant. Rather, the results suggest that its benefits may be institutional, reputational or long-term in nature, particularly in an environment where firms are still adapting to enhanced disclosure expectations under SRG 2023 and the NSRF [1], [2].

The insignificant interaction effect may reflect the relatively early stage of sustainability reporting practices in Malaysia, where stakeholders may not yet fully differentiate between varying levels of reporting quality. In this setting, the existence of sustainability reporting may still be more visible to stakeholders than the technical quality of the disclosure. This interpretation is consistent with the view that reporting reforms require time before disclosure quality is fully embedded in market evaluation processes [1], [2].

The strongest statistical result concerns firm size. Size is consistently negative and significant across all models, indicating that larger firms in the sample tend to exhibit lower ROA. One possible interpretation is that larger asset bases may reduce asset efficiency in the short term, particularly among capital-intensive firms. This finding supports the need to control for structural firm characteristics when assessing the financial effects of sustainability reporting.

This size effect is important because it prevents the discussion from overstating the role of sustainability reporting. In the short term, firm performance appears to be shaped more by structural characteristics than by reporting practices. This is consistent with the argument that sustainability reporting may be strategically important while still having limited immediate explanatory power for accounting-based performance [6], [7].

The practical implications are threefold. For industry, the findings suggest that firms should not treat sustainability reporting as an immediate profitability tool, but should embed reporting quality into governance, strategy, data systems and stakeholder communication. For authorities and regulators, the findings support continued emphasis on consistency, comparability and reporting quality under SRG 2023 and the NSRF, because the financial relevance of sustainability disclosure may require several reporting cycles of stakeholder learning and market adjustment [1], [2]. For society at large, better sustainability reporting can improve transparency and accountability by giving stakeholders clearer information about corporate environmental, social and governance practices, even where immediate financial effects are not yet visible.

CONCLUSION

This study examined the impact of sustainability reporting and sustainability reporting quality on firm performance among 15 Malaysian public listed companies in the early post-SRG 2023 reporting environment. The findings show that SR, SRQ and the SR × SRQ interaction do not have statistically significant effects on ROA. In contrast, firm size has a consistently negative and significant relationship with firm performance.

The study contributes to the literature by providing preliminary Malaysian evidence during a period of sustainability reporting reform, by incorporating the NSRF and SRG 2023 as policy context, and by testing the dual role of SRQ as both a direct determinant and moderating factor [1], [2]. It also contributes to industry, authorities and society by showing that sustainability reporting should be treated as a long-term transparency and governance mechanism rather than an immediate driver of short-term financial performance.

For conference purposes, the study offers a compact empirical basis for discussing the gap between reporting compliance and financial value creation. This is particularly relevant for emerging markets because the adoption of stronger reporting frameworks may precede, rather than immediately produce, measurable improvements in accounting-based performance.

The study is limited by its small pilot sample, cross-sectional design and reliance on ROA as a single accounting-based performance measure. Future research should extend the sample, use longitudinal data and consider market-based indicators to examine whether sustainability reporting produces delayed or longer-term financial effects.

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