Sustainability Reporting and Corporate Performance: The Moderating Role of Corporate Internationalization

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Abstract

This study aims to investigate the relationship between sustainability reporting and corporate performance moderated by the internationalization level of the firms. The sample for this empirical study is collected from the Financial Times Stock Exchange (FTSE)100 firms listed on Bursa Malaysia for a period of nine years from 2011 to 2019. We examine the sustainability reporting based on the Global Reporting Initiative (GRI) standard with the G4 guideline, in which a content analysis method has been employed to obtain the Sustainability Reporting Index (SRI). The moderating variable for this study is the internationalization level, which is proxied by foreign sales generated. The findings demonstrate that sustainability reporting disclosure has no effect on corporate performance. However, internationalization improves corporate performance but serves no moderation role in the relationship between sustainability reporting and corporate performance. We conclude that there is no evidence to substantiate the claim that companies that disclose more in their sustainability reporting perform better, and this may be because Malaysian corporations are still new to non-financial reporting. We believe that although sustainability reporting is costly, sustainability reporting is able to enhance the reputation of firms in the international market. Sequentially, a highly internationalized firm with more sustainability reporting disclosures may bring wealth to the company in the long run.

Keywords: sustainability reporting, internalization, corporate performance, non-financial reporting

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Introduction

Non-financial corporate performance has gained the attention of a growing number of investment experts, who have started to realize that profitability alone is not sufficient for the long-term success of the company. According to Tong (2017), sustainability reporting has been developed as a valuable instrument for a corporation to attain long-term competitive advantage and business growth. When past research has begun to prove that sustainability reporting can enhance corporate performance, the rate of expansion on the disclosure of sustainability reporting increases dramatically (Buallay, 2020). Indeed, we acknowledge the importance of financial reporting, as mentioned by Jonathan, Ariefianto and Widuri (2021) financial statements provide the main information for economic decision-making. Likewise, non-financial reporting also plays a crucial role in providing qualitative information to external investors, especially the company's corporate strategy and sustainability.

The disclosure of sustainability reporting has been taken seriously by Malaysian firms. In developing countries like Malaysia, sustainability disclosure is a promising increasing trend (Jamil, Ghazali, & Nelson, 2021). Today, more Malaysian businesses are concentrating on and practicing sustainability, corresponding to the current global trend (Ganesan et al., 2017). In 2006, all publicly listed firms on the Main and ACE Markets were mandated by Bursa Malaysia to disclose information about their Corporate Social Responsibility (CSR) initiatives or policies in their annual reports. This requirement placed more emphasis on the social aspects of the business, particularly in terms of its employees and the community, as well as the impact on value creation, which was limited (Sustainability reporting guide, 2018). Many of the world's most successful corporations have gone beyond CSR. However, stakeholders are becoming more concerned about how businesses manage their economic risks, environmental risks, social risks, and opportunities.

Organizations are compelled to include sustainability considerations in their responses to these risks and challenges due to the growing impacts of sustainability-related risks like the change in climate, resource scarcity, shifting social expectations, and new legislative requirements in sustainability-related areas (Sustainability reporting guide, 2018). According to Oncioiu et al. (2020), the information in sustainability reports published by companies will be different based on the type of stakeholders. Due to internal pressures from investors, employees, clients, and suppliers, as well as external pressures from legislation, regulations, and voluntary standards, businesses have been obliged to recognize the importance of sustainability concerns and tackle the issues as part of their commitments (*Haugh & Talwar, 2010*). According to both practitioners and theorists, taking part in CSR activities may assist businesses in deciding the actions they plan to carry out in the future, and sustainability reporting may enhance their reputation and financial performance.

The internationalization level indicates the degree to which a company's sales are dependent on overseas markets rather than domestic markets (Chakrabarty & Wang, 2012). In the studies on business ethics, the level of internationalization has been regularly employed (Garegnani et al., 2015). Many researchers, like Yang et al. (2021), believe that the internationalization level of a company is a contextual factor that may impact the relationship between sustainability reporting and corporate performance. Hence, in this study, it is suggested that firms that are involved in business activities in a foreign market will be likely to disclose more in the sustainability statement to maintain their reputation and meet the requirements of the stakeholders.

According to Reuters News, Malaysia is the preferred investment destination in ASEAN. World Bank also reports that Malaysia's trade-to-Gross Domestic Product (GDP) ratio has averaged over 130% since 2010. This is the effort of the country to promote the openness of trade and investments. It ranked 32nd in the 2022 IMD World Competitiveness Report and 12th in the 2020 World Bank's 'Ease of Doing Business' report. Malaysia, strategically located at the heart of ASEAN, is renowned for its economic and political stability, well-developed infrastructure, and cultural diversity. Malaysia possesses good relationships with every ASEAN member as well as those beyond the bloc. Malaysia has established itself as the perfect business partner globally. The dynamic and uniqueness of Malaysia provide an intriguing framework for the study, especially on firms' practices in sustainability reporting, corporate internalization, and business performance.

Additionally, Malaysia strives to become a high-income economy by 2026. This vision is not only grown from the perspective of economics. It also implements an ideal political and social environment for the country. Therefore, research on sustainability reporting, which includes the disclosure of environmental, economic, corporate governance, and social performance, potentially sheds light on how committed the firm is to achieving its mission (Jamil et al., 2021). As mentioned in the latest report of the Malaysian Code of Corporate Governance (2021), firms should incorporate sustainability into corporate strategy, governance, and decision-making since sustainability and its underlying ESG concerns are becoming increasingly critical to organizations' capabilities. This is important in creating durable and sustainable value and maintaining stakeholders' confidence and board leadership effectiveness. Based on Buallay (2019), the resource-based perspective of firms implies that disclosure of an organization's financial and non-financial resources improves performance. These resources assist the firms in developing talents, skills, and knowledge to attain competitive advantage in the long run. From the perspective of firms, profit maximization is frequently expected by businesses. However, non-financial disclosure appears to be costly.

According to the United Nations Sustainable Stock Exchange, all publicly listed firms are required to report their Environmental, Social, and Governance (ESG) impacts by 2030. United Nations Global Compact-Accenture CEO Study mentioned that around 97% of CEOs believe that sustainability is critical to their company's future performance. In comparison, 89% believe that sustainability pledges already influence their industry (Tong, 2017). Most companies implement sustainability reporting to express their responsibilities to generate a good reputation and maintain a trustworthy relationship with their stakeholders (Grahovar, 2010). However, the main concern now is more than merely abiding by the required legislation or safeguarding the reputation of the firm; it is the sustainability of enhancing business efficiency and increasing productivity. Sustainability reporting cannot be considered a new concept, but it is still implemented in a lack of systematic manner. It is because of the high expenses and difficulties of measurement. It appears that management does not believe in the relevance of sustainability reporting to an organization. As a result, Malaysian economic, social, and environmental reporting on sustainability is characterized by ignorance, neglect, and unsystematicness (Kasbun, Teh, & Ong, 2016). Therefore, there is little scholarly study on sustainability reporting in developing countries, especially Malaysia. There has been very little empirical research that focuses on how multinational corporations influence the occurrence and content of the disclosure. Besides, the international business literature, in general, appears to pay little attention to non-financial reporting (Kolk & Fortanier, 2013).

Despite many researchers conducting studies in the past, the results are inconclusive or ambiguous, implying that there is a gap between the theoretical and empirical relationships (Brooks & Oikonomou, 2018; Laskar, 2018). For example, Friedman (1962), in contrast to the stakeholder theory, claimed that a corporation's primary goal was to raise the wealth of its stakeholders, and any non-financial goals would reduce the effectiveness of the company. Other studies like Mackey, Mackey, and Barney (2007) and Zivin and Small (2005) also argued that investors anticipated that a company would increase its wealth without adopting sustainable practices and that these initiatives should be carried out by non-profit organizations like charities.

However, stakeholders are increasingly interested in learning about the corporation's strategy to solve sustainability challenges as well as their potential for value creation because of the increased social and environmental concerns (KPMG, 2008). These stakeholder interests also motivate businesses to engage in initiatives that potentially benefit the triple bottom line: economy, society, environment, and corporate governance disclosure in sustainability reports. According to Tong (2017), companies in industries with more significant environmental and social responsibilities are more likely to disclose CSR information. However, a comprehensive investigation of all listed companies from all different industries to determine the impact of industrial variations is not possible due to the research period's time limits. The research period on the effect of corporate governance disclosure on banking performance, which only consists of five years, cannot provide significant results (Khanifah et al., 2020).

The impacts of disclosure of sustainability reporting towards corporate performance must be highlighted because all stakeholders are expected to be affected by economic, social, environmental, and governance standards (Buallay, 2020). This study adds to the body of knowledge in several ways. First, it reveals few prior sustainability studies concerning current firms' operational, financial, and future market performance. Second, it offers empirical evidence on sustainability reporting disclosure in Malaysia's sustainable development industry. As a result, this study intends to provide better knowledge of industry sustainability practices, which will have an impact on the country's long-term development, particularly in encouraging Malaysian businesses to participate in, raise awareness about, and comprehend economic, social, and environmental sustainability. Third, the findings of this study will provide guidelines to stakeholders, investors, decision-makers, regulators, policymakers, and academics in improving their understanding of sustainability reporting disclosure in Malaysian firms.

In sum, the first objective of this study is to examine the relationship between sustainability reporting and corporate performance. The second objective is to investigate the relationship between internationalization and corporate performance. The third objective is to examine the moderating effect of internationalization on the relationship between sustainability reporting and firm performance.

Literature Review

The theoretical framework for this study is built with the integration of Stakeholder, Agency, and Signalling theories. A stakeholder is a person or group with the potential to affect or be affected by the success of a corporation's goals (Freeman, 2010). According to Freeman (2010), it includes both internal and external parties that will influence and are influenced by the corporation when defining a stakeholder (Sarkis, Gonzalez-Torre, & Adenso-Diaz, 2010). External parties frequently put pressure on companies to lower the frequency and size of outcomes that negatively affect them while increasing the frequency and magnitude of outcomes that benefit them. According to the notion of Stakeholder theory, reporting on particular types of information may be used to attract or retain specific types of stakeholders (Deegan & Blomquist, 2006). For instance, disclosing sustainability information about those activities is necessary to attract or retain the stakeholders if an individual or organization is interested in the social or environmental initiatives undertaken by a business.

Agency theory can be defined as the link between the principal and the agent (Jensen & Meckling, 1976). Agency theory points out that managers act as shareholder agents and are responsible for disclosing all appropriate important information through corporate disclosures since the board of directors and stakeholders do not review operational decisions and routine activities of the companies (Fama & Jensen, 1983; Jensen, 1993). The occurrence of agency costs in a company will reflect the information asymmetries in corporate interactions (Al Hawaj & Buallay, 2022). Firms will utilize various communication channels to minimize the occurrence of asymmetric information between the company and its external agents. As a tool for communicating with stakeholders, the disclosure of sustainability reporting decreases gaps between stakeholders and the company board. According to Agency theory, sustainability reporting lowers agency costs. When more risks are revealed in sustainability reports, it will lower the agency's expenses and increase its financial performance (Al Kurdi, 2021). Meanwhile, in this research, Signalling theory can be employed to elucidate the relationship between sustainability reporting and corporate performance. According to Connelly et al. (2010), the behavior of two parties, individuals or organizations, can be described by Signalling theory, especially when acquiring asymmetric information. The sender will decide how to inform or signal the information, while the receiver will play the role of interpreting the signal received from the sender. Signalling theory states that a well-informed party will make an effort to transmit information about itself to a less knowledgeable party in a credible manner to minimize the potential of information asymmetry (Spence, 1973; Spence, 2002). External parties find it hard to learn about a company's sustainability practices. Therefore, the corporation will act as a signaller who can proactively publish their sustainability signals to the respective parties, which also refer to receivers, including the clients, suppliers, the government, and stakeholders, to eliminate information asymmetry. The content of sustainability reporting will give a signal about the practices, status, and intentions of the company's management towards environmental, social, governance, and economic concerns, thereby allowing the firm to improve its overall reputation. Hence, stakeholders can predict the firm's performance and determine if it is dedicated to addressing sustainability concerns after receiving the signal (Corazza, Scagnelli, & Mio, 2017). For instance, organizations that report on environmental concerns may signal that they are actively engaged in environmental initiatives because they are motivated to do so by shareholders by revealing more information (Loh, Thomas, & Wang, 2017). As a result, these favorable signals make the companies more enticing to stock market investors. According to Yang et al. (2021), adopting the Global Reporting Initiative (GRI) standards in sustainability reports can help firms to enlighten stakeholders about their initiative to enhance social performance, and this will alter stakeholders' perceptions of some passive incidents. The researchers argue that the Signalling theory is a formidable theoretical framework for revealing the method of GRI reporting affecting corporate performance. GRI reporting can increase the signals between sender and receiver while avoiding the stigma of "selective reporting".

Sustainability Reporting and Corporate Performance

Laskar (2018) stated that sustainability reporting possessed a significant positive relationship with corporate performance. Overall, 111 non-financial listed companies from South Korea, Japan, Indonesia, and India between 2009 and 2014 were selected as samples. Corporate sustainability reporting helped companies to improve their performance, emphasizing the significance of the reporting. When a corporation disclosed more information, it allowed stakeholders to make better-informed decisions, which led to gradual growth in market share. Sustainability reporting would increase transparency and build the stakeholder's confidence. Furthermore, it was believed that corruption could be reduced to some extent if the government played an important role in implementing effective sustainability reporting policies.

Next, Al Hawaj and Buallay (2022) showed a significant positive effect of sustainability reporting on corporate performance through a total of 7 sectors. The data were collected from 3,000 companies in 80 different countries from 7 sectors of the industries from 2008 to 2017. The findings showed that certain sectors benefitted from the disclosure of sustainability reporting. Then, sustainability reporting contributed to the operational, financial, and market performance of various economic sectors. Similarly, Ohaka and Obi (2021) also conducted a study examining 96 companies chosen from an overall amount of 126 listed on the Nigerian Stock Exchange. A regression model was utilized to specify the model. The results revealed that sustainability reporting had a positive impact on companies' performance. They further suggested that companies should follow environmental best practice standards and invest in the most cutting-edge eco-efficient technologies, supporting earth conservation, environmental deterioration, and pollution reduction, all of which were motivated by a deep sense of responsibility.

Buallay (2019) observed around 235 banks over ten years from 2007 to 2016, with 2,350 observations. The results of the empirical studies showed that ESG had a positive influence on corporate performance. However, when the disclosure of ESG was examined individually, the relationship between them was different, and the environmental disclosures were discovered to have a positive impact on Return on Assets (ROA) and Tobin's Q. Besides, social responsibility disclosure exhibited a negative relationship with the models. The disclosure on corporate governance also had a negative impact on ROA, and Return on Equity (ROE) yet showed a positive relationship with Tobin's Q.

In addition, Buallay et al. (2021) conducted a similar study of sustainability reporting disclosure and firm performance based on operational, financial, and market in the top 20 developed cities around the world. By using data drawn from 3,536 observations from 20 different smart cities from 2008 to 2017, the regression analysis showed that there was a positive significant relationship between ESG and operational performance (ROA) and financial performance (ROE). However, ESG and market performance (Tobin's Q) had a negative relationship.

According to empirical findings of Loh et al. (2017) in Singapore-listed companies, sustainability reporting positively impacted a company's market value. This relationship existed regardless of the sector or company type, such as government-linked enterprises or family businesses. The findings would inspire corporations to increase their awareness, understanding, and adoption of sustainability, especially if they were confident that this would benefit the organizations in terms of market value. Amahalu (2019) also showed that sustainability reporting, which is measured by Economic, Environmental and Social (EES) indices, possessed a significant positive impact on ROE, net profit margin, and earnings per share. The report proposed that a standardized sustainability index should be introduced as it would help to increase pressure on corporations to pay greater attention to the environment and take sustainability concerns more seriously.

H_1: Sustainability reporting has a significant positive relationship with corporate performance.

Internationalization and Corporate Performance

Pangarkar (2008) stated that internationalization had a favorable impact on corporate performance. An international firm could have an advantage in saving their cost because of a higher capacity of business and the volume to take advantage of economies of scale. For example, a highly internationalized corporation should manage to justify investing in a state-of-the-art manufacturing plant. In contrast, a locally focused competitor might not be able to prove such an expenditure due to its small volume. It suggested that the large literature on this topic was limited by inconclusive results and questionable metrics for the core dimensions, which referred to the Degree of Internationalization (DOI) and corporate performance. The previous study discovered that DOI had a positive influence on corporate performance based on an analysis of 94 survey responses from Singapore small and medium-sized firms (SMEs). It showed that internationalization positively impacted corporate performance.

Chen et al. (2014) also revealed that internationalization had both positive and negative impacts on corporate performance. The positive side was existing national disparities, access to knowledge sources, economies of scale and breadth, superior response to local clients, and risk sharing. Besides, costs of governance and control, transaction and coordination costs, asymmetric information, and information leakage were some negative sides. Then, Wang et al. (2020) examined the relationship between construction firms' DOI and financial performance using 32 Chinese construction firms listed in the Engineering News-Record (ENR) between 2010 to 2017. The findings showed a non-linear U-shaped relationship between the DOI and financial performance. The result indicated a positive relationship when the degree of internationalization was more than 52% and a negative relationship when it was less than 52%.

Shrivastav and Kalsie (2017) found a positive relationship between the impact of foreign ownership and corporate performance. They examined the panel data of 145 non-financial NSE-listed companies between 2008 to 2012. Under the Pooled Ordinary Least Squares (OLS) model, foreign ownership showed a significant positive impact on firm performance, and the same result was obtained from Random Effect Regression. Foreign corporate ownership had a significant positive relationship with company performance. This result indicated that foreign ownership could be attributed to the fact that foreign firms had access to substantial resources and more monitoring and management expertise.

Bausch and Krist (2007) also discovered that there was strong proof that internationalization and company performance had a statistically significant positive relationship. International companies were expected to maintain their reputation and image compared to local companies. It led to a higher corporate performance among them.

H_2: Internationalization leads to higher corporate performance.

Sustainability Reporting, Corporate Performance, and Internationalization Level

Several studies have focused on the moderating effect between sustainability reporting and corporate performance. The researchers are involved in investigating the moderating factor, including internal audit function (Ganesan et al., 2017), business diversification (Wang et al., 2020), corporate governance (Javed et al., 2017), firm size, firm age and country of origin (Bausch & Krist, 2007). Unlike prior research, this study will take into account the variable which is internationalization that moderates the relationship between sustainability reporting and corporate performance. Therefore, this study will focus on examining whether distinct domestic and international institutional environments can improve or weaken GRI signals.

Firstly, higher degrees of internationalization for a company will result in increased company transparency and exposure to a broad range of stakeholders. Therefore, corporations may increase their disclosure in sustainability reporting to defend the organization's reputation (Attig et al., 2016). As a result of institutional constraints from both domestic and international governments, when a company has more internationalization, these companies will place a greater emphasis on sustainable practices and reporting (Cheung et al., 2015). When these businesses become more internationalized, they will need to be more attentive to current social, governance, economic, and environmental issues.

Besides, companies that operate in numerous markets can reallocate the costs and benefits of their CSR expenditures amongst the markets. As a result, the corporation will have a stronger financial incentive to fund sustainable initiatives and reporting compared to domestic-focused businesses (McWilliams & Siegel, 2000). According to Yang et al. (2021), standardizing CSR practices around the world will lower costs and allow businesses to replicate some sustainable operations in different locations without incurring additional program development expenditures.

It is recommended by Martins and Yang (2009) and Vendrell-Herrero et al. (2017) that exporting businesses may broaden their knowledge base by learning from their experiences in foreign markets. In fact, firms will get opportunities to be exposed to new ideas from various national contexts. They will be exposed to learning new technology that may not be available in local markets by often interconnecting with foreign agents, consumers, suppliers, competitors, and collaborators (Dimitratos et al., 2014). As a result, Malaysian multinational firms can promote a set of best sustainable practices and reporting, acquire better procedures, and lower the expenses of data collection for GRI indicators.

Based on the idea above, the internationalization level enhances the relationship between sustainability reporting and corporate performance. The higher the level of internationalization is, the more the disclosure of the information is in the sustainability reporting. Then, this will lead to higher corporate performance. Nevertheless, the study on a sample of 122 listed firms with GRI standards of sustainability reporting in China by Yang et al. (2021) indicates that the sustainability performance of the firms shows a negative relationship with the firm's level of internationalization.

H_3: Internationalization level significantly strengthens the relationship between sustainability reporting and corporate performance.

Research Methodology

This research aims to examine the relationship between corporate performance and sustainability reporting. Subsequently, this study aims to examine if internationalization moderates sustainability reporting and corporate performance. Therefore, this research will use both qualitative and quantitative research methods to demonstrate a comparable and meaningful statement that stakeholders can use to evaluate the corporation's sustainability performance (Sustainability reporting guide, 2018).

Qualitative research is used to explain the organization's management approach to its material sustainability matter. After that, qualitative data will be transferred into quantitative data to allow stakeholders to trace and compare the data from time to time and, where possible, with data from similar organizations. Quantitative research empowers researchers to generate numerical data, which can be converted into usable statistics to quantify a problem. Researchers have frequently employed the content analysis technique to analyze the content of the disclosures in a systematic, reliable, and impartial manner (Krippendorff, 1980; Guthrie & Parker, 1990). Based on the research of Krippendorff (1980), content analysis is a way of categorising the disclosed information into pre-defined categories to extract the pattern of disclosed information in the published report. Context-sensitive abductive reasoning from content analysis allows reliable and meaningful information representation of huge amounts of data (Krippendorff, 1980). Therefore, content analysis is an important indicator to measure the importance of the company's CSR agenda. Hence, this research follows disclosure items (environmental, social, and economic) from Tong (2017) by adding governance items from the governance disclosure sustainability reporting guide (Sustainability reporting guide, 2018).

Data and Sample

The sample of this study is collected from the top 100 index firms in Financial Times Stock Exchange (FTSE) of Bursa Malaysia. The research uses data from nine years (2011−2019). Besides, secondary data are used in this research. In this study, the dependent variable is corporate performance, and the method is adopted from Al Hawaj and Buallay (2022). The data for corporate performance are collected from the annual reports of the selected companies from Bursa Malaysia. The Orbis - Bureau van Dijk database has also been utilized. Moreover, the data of the independent variable, sustainability reporting, is collected from the sustainability statements or reports of the listed companies from Bursa Malaysia. A sustainability reporting checklist is based on the GRI standard with the G4 guideline used to assess the quality of sustainability reporting. Next, the data for the intermediate variable, which is the internationalization level of the firms, is collected from the Orbis database and the annual reports from Bursa Malaysia. Lastly, the data of six control variables (firm size, financial leverage, and firm age) are obtained from Orbis, while macroeconomics data of exchange rate, inflation rate, and annual GDP are from World Bank data.

Estimation Models

Baseline Model

A baseline model refers to a base model that only consists of dependent variables and control variables. In this research, corporate performance is the dependent variable proxied by ROA, ROE, and Tobin's Q. Then, the control variables for this research are firm size, financial leverage, firm age, GDP, exchange rate, and inflation rate. Therefore, the baseline model is conducted as seen in Equation (1). It has $Perf$ as corporate performance (proxied by

ROA, ROE, and Tobin's Q), SZE as firm size, FL as financial leverage, AGE as firm age, GDP, ER as exchange rate, IR as inflation rate, β_0 as constant, and ε_{it} as random error of the model.

$$Perf_{i,t} = \beta_0 + \beta_1 SZE_{i,t} + \beta_2 FL_{i,t} + \beta_3 AGE_{i,t} + \beta_4 GDP_{i,t} + \beta_5 ER_{i,t} + \beta_6 IR_{i,t} + \varepsilon_{i,t} \quad (1)$$

Full Models

The full model is the main model demonstrated to answer the research objectives of the study. The independent and intermediate variables will be added to the baseline model to construct the full model. Therefore, sustainability reporting and internationalization will be added to the baseline model. The full model for internationalization will be adopted from Yang et al. (2021). Besides, to resolve the potential endogeneity issue, we employ the dynamic panel data method with the Two-Step System Generalized Method of Moments (GMM). As seen in Equations (2)−(4), it has SRI, $\sum Control$ as control variables, $INTL$ as internationalization, $SR * INTL$ as the interaction between SR and INTL, and ε_{it} as the random error of the model.

Full model estimation 1:

$$Perf_{i,t} = \beta_1 Perf_{i,t-1} + \beta_2 SRI_{i,t-1} + \beta_3 \sum Control_{i,t} + \varepsilon_{i,t} \quad (2)$$

Full model estimation 2:

$$Perf_{i,t} = \beta_1 Perf_{i,t-1} + \beta_2 INTL_{i,t} + \beta_2 \sum Control_{i,t} + \varepsilon_{i,t} \quad (3)$$

Full model estimation 3:

$$Perf_{i,t} = \beta_1 SR_{i,t-1} + \beta_2 INTL_{i,t} + \beta_3 SRI_{i,t-1} * INTL_{i,t} + \beta_4 \sum Control_{i,t} + \varepsilon_{i,t} \quad (4)$$

Empirical Findings and Discussion

Descriptive Statistics Analysis

Table 1 describes the results of the descriptive analysis of the variables for the sample size of the top 100 firms from the FTSE in Bursa Malaysia. The sample period is nine years (2011 to 2019). The range of observations in this study is 781 to 900. Table 1 shows the summary statistics, including observation, mean value, standard deviation, and minimum and maximum values for each variable. Corporate performance is proxied by ROE, ROA, and Tobin's Q. ROE has a mean of 19.0927. ROA has a mean value of 7.7955. Then, the mean value for the Tobin's Q is 1.6296

Table 1 Descriptive Statistics Summary

Variable	Observations	Mean	Standard Deviation	Min.	Max.
ROE	884	19.0927	39.9351	-471.487	461.392
ROA	884	7.7955	9.1125	-14.818	75.399
Tobin's Q	813	1.6296	2.2727	0	23.908
ECDI	849	5.5790	5.9211	0	90.7143
EVDI	849	3.8600	4.6214	0	83
SDI	849	4.5728	5.3837	0	103.6078
CGDI	849	27.4412	24.4237	0	249.7143
SRI	883	41.4530	35.7798	0	527.0364
INTL	781	18.9557	152.7872	0	2423.308
SZE	883	9.6478	1.0108	6.3713	11.9214
FL	848	0.3998	2.9806	0	64.38
AGE	890	32.0888	19.5187	1	109
GDP	900	5.1227	0.5370	4.4395	6.0067
ER	900	3.6783	0.4918	3.0600	4.3004
IR	900	2.1889	1.0028	0.6629	3.8712

Note:
ROE : Return on Equity
ROA : Return on Assets
ECDI : Economic Disclosure Index
EVDI : Environment Disclosure Index
SDI : Social Disclosure Index
CGDI : Corporate Governance Disclosure Index
SRI : Sustainability Reporting Index
INTL : Internationalization
SZE : Firm Size
FL : Financial Leverage
AGE : Firm Age
GDP : Gross Domestic Product
ER : Exchange Rate
IR : Inflation Rate

Overall, the mean value for the SRI is 41.4530. When it comes to the components of sustainability reporting, corporate governance disclosure has the highest value mean, which is 27.4412, followed by the mean of economic disclosure (5.5790) and social disclosure (4.5728). Then, environment disclosure has the lowest mean value among the firms, with 3.8600. The trends of the disclosure for Economic Disclosure Index (ECDI), Environment Disclosure Index (EVDI), Social Disclosure Index (SDI), and Corporate Governance Disclosure Index (CGDI) are exhibited in Figures 1 and 2. Internationalization shows an average mean value of 18.9557. It also has the highest standard deviation among the variables, which means that the data are spread over a wider range from the mean of the sample with a high data distribution.

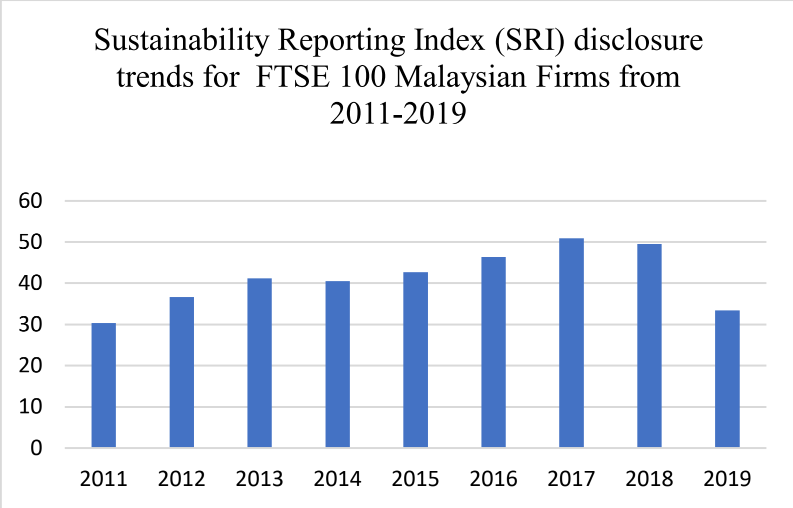
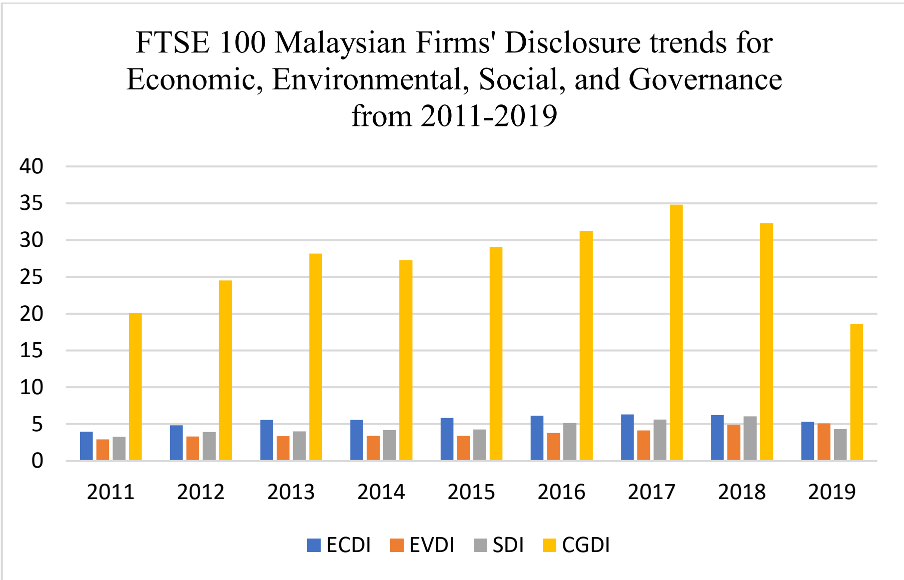


Figure 1 Sustainability Reporting Index (SRI) Disclosure Trends for FTSE 100 Malaysian Firms from 2011-2019



Note:

ECDI	: Economic Disclosure Index
EVDI	: Environment Disclosure Index
SDI	: Social Disclosure Index
CGDI	: Corporate Governance Disclosure Index

Figure 2 FTSE 100 Malaysian Firms' Disclosure Trends for Economic, Environmental, Social, and Governance from 2011-2019

Pearson Correlation Analysis

Table 2 Result of Pearson Correlation Analysis

	ROE	ROA	Tobin's Q	ECDI	EVDI	SDI	CGDI	SRI	SZE	FL	AGE	GDP	ER	IR	INTL
ROE	1.0000														
ROA	0.6743***	1.0000													
Tobin's Q	0.6402***	0.8425***	1.0000												
ECDI	-0.1121***	-0.2242***	-0.1830***	1.0000											
EVDI	-0.0262	-0.0860**	-0.0294	0.6067***	1.0000										
SDI	-0.0223	-0.0915***	-0.0550*	0.8245***	0.7366***	1.0000									
CGDI	-0.1280***	-0.1500***	-0.1445***	0.7567***	0.3527***	0.6744	1.0000								
SRI	-0.1127***	-0.1644***	-0.1406***	0.8845***	0.5811***	0.8424***	0.9549***	1.0000							
SZE	-0.0449	-0.3157***	-0.2690***	0.1782***	0.1346***	0.0688**	0.0319	0.0790**	1.0000						
FL	-0.0103	0.0074	0.0000	-0.0219	0.0284	-0.0117	-0.0246	-0.0184	-0.1326***	1.0000					
AGE	0.0128	0.0523	0.0319	0.0464	0.0654*	0.0585*	-0.0084	0.0192	-0.0064	-0.0545	1.0000				
GDP	0.0388	0.0475	0.0038	-0.0143	-0.0655*	-0.0157	0.0409	0.0147	-0.0309	-0.0407	-0.0425	1.0000			
ER	-0.0415	-0.0789**	0.0027	0.0856**	0.1156***	0.1200***	0.0913***	0.1095***	0.0860**	0.0329	0.1019***	-0.3183***	1.0000		
IR	0.0323	0.0513	-0.0083	-0.0073	-0.0925***	-0.0207	0.0648**	0.0280	-0.0311	-0.0669**	-0.0480	0.7231***	-0.1883***	1.0000	
INTL	-0.1330***	-0.1108**	-0.0357	0.0727	0.0230	-0.0035	-0.0124	0.0085	-0.4057***	-0.0086	-0.0309	-0.0118	0.0255	0.0101	1.0000

*significant at 0.1 level, **significant at 0.05 level, and ***significant at 0.01 level.

Note:

ROE : Return on Equity
ROA : Return on Assets
ECDI : Economic Disclosure Index
EVDI : Environment Disclosure Index
SDI : Social Disclosure Index
CGDI : Corporate Governance Disclosure Index
SRI : Sustainability Reporting Index
INTL : Internationalization
SZE : Firm Size
FL : Financial Leverage
AGE : Firm Age
GDP : Gross Domestic Product
ER : Exchange Rate
IR : Inflation Rate

Table 2 shows the overall result for the Pearson correlation coefficient analysis between dependent variables corporate performance (ROE, ROA, and Tobin's Q), independent variables (ECDI, EVDI, SDI, CGDI, and SRI), control variables (firm size, financial leverage, firm age, GDP, exchange rate, and inflation rate) and moderating variable (internationalization) in this paper. ROA, Tobin's Q, and ROE are positively correlated, in which ROA and Tobin's Q have the highest correlation of 0.8425. Hence, our study will examine the corporate performance from ROA and Tobin's Q perspectives, while ROE will be run as a robustness test.

All the independent variables (ECDI, EVDI, SDI, and CGDI) negatively correlate to corporate performance (ROE, ROA, and Tobin's Q). besides, all the indexes are positively correlated among themselves, which means that if the firm discloses more in one dimension, the other dimensions will also be highly reported. For the control variables, firm size, for example, a larger firm size tends to disclose more economic, environmental, and social dimensions. In comparison, older firms show higher disclosure on environmental and social aspects. The exchange rate also exhibits a positive correlation with all the indexes. The inflation rate negatively correlates with environmental disclosure yet is positively correlated with corporate governance disclosure. It also shows that internalization has a negative correlation with corporate performance but shows no correlation with all the disclosure indexes.

Multiple Regression Analysis

To investigate the relationship between sustainability reporting and firm performance and the moderating role of internalization further, we run panel multiple regression for the full model with 1, 2, and 3 estimations. The results reported in Table 3 are the final estimation after we run all the diagnostics tests, namely Breusch Pagan LM, Hausman, Multicollinearity, Heteroscedasticity, and Autocorrelation tests. The random effect model is chosen for the baseline and all full model estimations. The models are then rectified using random effects with a robust cluster model. Besides, to alleviate the issue of endogeneity, we employ the dynamic panel data method with Two-Step System GMM. Table 3 presents the baseline models for ROA and Tobin's Q. We find that lagged performance (proxied by ROA and Tobin's Q) possesses a significant positive relationship with current-year performance. Meanwhile, firm size and financial leverage show a negative significant effect on ROA.

Besides the baseline model, we assess the effect of the SRI on corporate performance (proxied by ROA and Tobin's Q). The result shows that sustainability reporting has a negative significant relationship with ROA and Tobin's Q. The result is inconsistent with the previous study of Al Hawaj and Buallay (2022), Ohaka and Obi (2021), Buallay (2019), and Buallay et al. (2021). The results of their studies claim that the firms that disclose their sustainability reporting will increase the transparency of the company and the confidence in the stakeholders. Then, it will ultimately lead to higher operational performance. However, the possible explanation for the inverse relationship in this study is that investors in the Malaysian corporation believe that spending on sustainability reporting is unnecessary and will lead to competitive disadvantages among the company in the marketplace (Lee & Faff, 2009).

We employ the system GMM method to cater to potential endogeneity issues to obtain a more robust result. We use the previous year's SRI to examine the current year's corporate performance. Then, we find that SRI shows a positive insignificant effect on corporate performance. The result is consistent for ROA and Tobin's Q as corporate performance proxies.

Additionally, internationalization also shows a negative significant relationship to ROA and Tobin's Q for the random effect model. Meanwhile, GMM results show that internalization has a positive relationship with firm performance, especially on ROA, in which a positive significant result has been found. The result is consistent with Shrivastav and Kalsie (2017) and Bausch and Krist (2007) that internationalization possesses a positive impact on corporate performance. Their research implies that international corporations are expected to preserve their reputation and image, which results in higher corporate performance compared to local businesses.

Table 3 Baseline Models Results

Variables	**Baseline model 1**		**Baseline Model 2**	
	ROA	**ROA**	**Tobin's Q**	**Tobin's Q**
$ROA_{(t-1)}$/Tobin's $Q_{(t-1)}$		0.5323***		0.5981***
		(0.1957)		(0.1088)
SZE	-1.0213	-3.5507**	-0.1737	-0.4066
	(0.9234)	(1.4303)	(0.1642)	(0.3674)
AGE	0.0397	-0.2475	0.0032	0.6759
	(0.0526)	(3.5289)	(0.0010)	(0.5663)
FL	0.0461	-0.0337**	0.0101	0.0085
	(0.0569)	(0.0186)	(0.0099)	(0.0149)
GDP	-0.1216	-0.1090	0.0846*	-0.0416
	(0.2819)	(0.3398)	(0.0441)	(0.0594)
ER	-1.3494***	-0.0786	0.0123	-0.2362
	(0.5049)	(0.4922)	(0.1269)	(0.2766)
IR	0.4125**	0.2223	-0.0248	0.0689
	(0.1799)	(0.1980)	(0.0448)	(0.0639)
Constant	17.6521		1.9266	
	(9.0912)		(1.6135)	
Observations	843	748	774	678
F-statistics	6.32		5.76	
P-value	0.0000		0.0000	
R-squared	0.2020		0.2029	
Sargan		36.2119		58.5332
Wald Chi^2		42.85***		105.33***
AR (1) (p-value)		0.0018		0.0037
AR (2) (p-value)		0.3655		0.9119

The figures in the parenthesis are the robust standard errors. * means statistically significant at a 10% level. ** is statistically significant at the 5% level. *** shows statistically significant at a 1% level.

Note:

ROA	: Return on Assets	GDP	: Gross Domestic Product
SZE	: Firm Size	ER	: Exchange Rate
FL	: Financial Leverage	IR	: Inflation Rate
AGE	: Firm Age		

Table 4 Multiple Regression Results for Estimation Model 1 and Model 2

	Estimation Model 1				**Estimation Model 2**			
	ROA		**Tobin's Q**		**ROA**		**Tobin's Q**	
ROA(t-1)/ Tobin's Q (t-1)		0.5317***		0.5324***		0.5155***		0.8693***
		(0.1957)		(0.1214)		(0.1833)		(0.1113)
SRI	-0.0368*		-0.0082*					
	(0.0199)		(0.0044)					
SRI (t-1)		0.0015		0.0003				
		(0.0023)		(0.0005)				
INTL					-0.0093**	0.0025**	-0.0012*	0.0002
					(0.0038)	(0.0011)	(0.0007)	(0.0002)
SZE	-2.3692***	-3.5464**	-0.4990***	-0.3112	-1.5728	-3.2139**	-0.2064	0.0941
	(0.9030)	(1.4374)	(0.1591)	(0.2260)	(0.9689)	(1.6001)	(0.1933)	(0.1055)
AGE	0.0240	-0.5335	0.0002	0.6879	0.0102	-2.3264	-0.0003	0.5730
	(0.0447)	(3.5509)	(0.0092)	(0.6555)	(0.0501)	(3.4857)	(0.0101)	(0.5740)
FL	-0.0692	-0.0332*	-0.0241**	0.0046	0.0095	-0.0326	0.0077	0.0053
	(0.0605)	(0.0184)	(0.0116)	(0.0097)	(0.0573)	(0.0209)	(0.0109)	(0.0106)
GDP	0.1829	-0.1049	0.1522*	-0.0010	-0.2478	0.1041	0.0851*	0.0260
	(0.3559)	(0.3430)	(0.0810)	(0.0505)	(0.3986)	(0.3966)	(0.0508)	(0.0686)
ER	-0.8391*	-0.0805	0.1480	-0.1736	-1.3369**	-0.0472	0.0531	-0.2846
	(0.4620)	(0.4921)	(0.1125)	(0.1977)	(0.5478)	(0.5501)	(0.1391)	(0.2680)
IR	0.3220*	0.2150	-0.0581	0.0303	0.4992**	0.1267	-0.0206	0.0537
	(0.1794)	(0.1983)	(0.0467)	(0.0518)	(0.2391)	(0.2210)	(0.0504)	(0.0716)
Constant	32.7776***		5.5031***		24.7298***		2.3202	
	(8.6970)		(1.4742)		(8.9100)		(1.7501)	
Observations	809	712	767	670	743	663	706	619
F-statistic	4.65		5.80		4.40		6.63	
P-value	0.0000		0.0000		0.0000		0.0000	
R-squared	0.1129		0.2094		0.1783		0.1734	
Sargan		36.5797		44.1681		35.2124		53.5394
Wald Chi^2		44.25***		79.86***		55.18***		108.61***
AR (1) (p-value)		0.0018		0.0185		0.002		0.0060
AR (2) (p-value)		0.3658		0.7175		0.1439		0.8037

Figures in the parenthesis are the robust standard errors. * means statistically significant at a 10% level. ** is statistically significant at the 5% level. *** shows statistically significant at a 1% level.

Note:

ROA : Return on Assets
SRI : Sustainability Reporting Index
INTL : Internationalization
SZE : Firm Size
FL : Financial Leverage
AGE : Firm Age
GDP : Gross Domestic Product
ER : Exchange Rate
IR : Inflation Rate

Table 5 Multiple Regression Results for Estimation Model 3

	Estimation Model 3	
	ROA	Tobin's Q
ROA(t-1)/ Tobin's Q (t-1)	0.4703**	0.8368***
	(0.2229)	(0.1058)
SRI		
SRI(t-1)	0.0023	0.0004
	(0.0026)	(0.0005)
INTL	0.0024**	0.0002*
	(0.0012)	(0.0001)
SR*INTL	0.0007	0.0006
	(0.0036)	(0.0014)
SZE	-3.2222**	0.0455
	(1.5920)	(0.0991)
AGE	-2.3107	0.6943
	(4.2114)	(0.5375)
FL	-0.0249*	0.0016
	(0.0151)	(0.0065)
GDP	0.0051	0.0694
	(0.3520)	(0.0666)
ER	0.2348	-0.1713
	(0.4868)	(0.1828)
IR	0.2535	-0.0002
	(0.2281)	(0.0541)
Observations	638	611
Sargan	29.6269	50.5131
Wald Chi2	73.64***	51.94***
AR (1) (p-value)	0.0028	0.0112
AR (2) (p-value)	0.1693	0.7385

Figures in the parenthesis are the robust standard errors. * means statistically significant at a 10% level. ** is statistically significant at the 5% level. *** shows statistically significant at a 1% level.

Note:

ROA : Return on Assets
SRI : Sustainability Reporting Index
INTL : Internationalization
SZE : Firm Size
FL : Financial Leverage
AGE : Firm Age
GDP : Gross Domestic Product
ER : Exchange Rate
IR : Inflation Rate

Interestingly, based on the GMM result, the interaction terms between sustainability reporting and internationalization are positive but insignificant to corporate performance. It implies that the effect of sustainability reporting on corporate performance is still minimal, and even internationalization possesses no moderation role in enhancing the effect of sustainability reporting on firm performance. According to Johari and Komathy (2019), there are limited studies in Malaysia on the relationship between sustainability reporting and corporate performance. Although Johari and Komathy (2019) found a positive significant relationship between sustainability reporting and firm performance, their study only examined one year, which was 2016. However, the insignificant effect of sustainability reporting on firm performance in Malaysian firms is in line with Kasbun et al. (2016). There is insufficient data to support the claim that businesses that disclose sustainability reporting perform better than those that do not. Compared to the number of businesses in Malaysia, sustainability reporting is still quite low among Malaysian corporations (Kasbun et al., 2016).

It has been acknowledged that by growing internationally, firms can obtain significant resources, take advantage of opportunities in other markets, and increase performance (Bartlett & Ghoshal, 1989; Ma et al., 2016). Our motivation for this research is derived from the perspective that when firms are exposed more internationally, it is expected that they will disclose more on sustainability statements to increase their company image internationally, leading to an increase in corporate performance. Besides, according to the findings from Aguilera-Caracuel et al. (2015), Christmann (2004), and Kang (2013), businesses with higher levels of internationalization are more visible and exposed to a wider range of stakeholders. It can prompt businesses to step up to disclose sustainability reporting to protect their reputation (Attig et al., 2016). This may lead to an increase in corporate performance. However, in this study, internalization improves firm performance but fails to enhance the relationship between sustainability reporting and corporate performance. This may imply that corporations in Malaysia need to be more proactive in practicing sustainability activities, especially from the perspective of economic, environmental, social, and governance.

Robustness and Additional Tests

A robustness test also has been carried out by proxy of the corporate performance with ROE. The result shows that internalization shows a positive significant relationship with ROE, while sustainability reporting shows an insignificant relationship with ROE. The results are identical to the ROA and Tobin's Q results. On the other hand, the interaction terms between sustainability reporting and internationalization show positive insignificance to ROE. This result is also robust with the proxy of ROA and Tobin's Q.

Due to the insignificant influence of sustainability disclosure on firm performance, we further investigate sustainability from individual dimensions. We conduct additional tests for all the sustainability reporting indexes, namely ECDI, EVDI, SDI, and CGDI. As presented in Table 7, it is noted that none of the dimensions show a significant impact on firm performance. Meanwhile, in the interaction terms of internationalization with the sustainability dimensions, internalization enhances the positive relationship between economic (ECDI) and corporate performance (ROE) while increasing the negative relationship between environmental disclosure (EVDI) and corporate performance (Tobin's Q). Besides, we also observe a deduction of the positive relationship between social disclosure (SDI) and corporate performance (ROE).

In conclusion, the results of the dimensions are inconclusive. It may be due to the practice of sustainability reporting by corporations in Malaysia, as we have mentioned in the previous section. Contrary to Montabon, Sroufe, and Narasimhan (2007), they have concluded that environmental management practices possess a positive impact on corporate performance. For the situation in Malaysia, we still need more effort and guidance for the companies to incorporate sustainability reporting in their business.

Table 6 Panel Regression Result for Robustness Test on Corporate Performance with ROE

	Baseline Model	**Full model estimation 1**	**Full model estimation 2**	**Full model estimation 3**
ROE(t-1)	0.7281***	0.6760***	0.7371***	0.6899***
	(0.1394)	(0.0908)	(0.1755)	(0.1207)
SRI				
SRI (t-1)		0.0053		-0.0045
		(0.0151)		(0.0145)
INTL			0.0452**	0.0439**
			(0.0177)	(0.0213)
SR*INTL				0.0011
				(0.0151)
SZE	-3.2320	-2.9006	-2.9303	-3.0258
	(10.1323)	(9.0665)	(12.1657)	(10.6021)
AGE	12.4882	13.3798	16.8008	20.4861
	(37.2668)	(42.0924)	(52.7753)	(49.7026)
FL	-0.4732	-0.3765	-0.3282	-0.2803
	(1.1275	(1.0093)	(0.8437)	(0.7374)
GDP	2.0094	0.5147	2.1439	0.4504
	(2.5280)	(1.3381)	(2.6887)	(1.2952)
ER	-4.7173	-6.6504	-6.7126	-8.1612
	(3.3804)	(4.7424)	(4.5064)	(5.6772)
IR	0.6488	1.0054	0.9735	1.3713
	(1.4483)	(1.4473)	(1.7757)	(1.4520)
Observations	749	713	664	639
Sargan	75.2889	63.1912	54.7806	58.6342
Wald Chi^2	543.59***	450.24***	604.16***	554.71***
AR (1) (p-value)	0.0029	0.0418	0.0086	0.0467
AR (2) (p-value)	0.6708	0.5149	0.3949	0.8782

Figures in the parenthesis are the robust standard errors. * means statistically significant at a 10% level. ** is statistically significant at the 5% level. *** shows statistically significant at a 1% level.

Note:

ROE : Return on Equity
SRI : Sustainability Reporting Index
INTL : Internationalization
SZE : Firm Size
FL : Financial Leverage
AGE : Firm Age
GDP : Gross Domestic Product
ER : Exchange Rate
IR : Inflation Rate

Table 7 Additional Test for All the Indexes (ECDI, EVDI, SDI, and CGDI) with Corporate Performance using Two Step-System GMM

	ROA	**Tobin's Q**	**ROE**	**ROA**	**Tobin's Q**	**ROE**
ROA(t-1)/ Tobin's Q (t-1)/ROE(t-1)	0.6809***	0.8918***	0.6715***	0.6569***	0.8914***	0.6770***
	(0.1936)	(0.0978)	(0.1368)	(0.1822)	(0.0996)	(0.1569)
ECDI	0.0583	0.0140	-0.1462	0.0187	0.0145	-0.4486
	(0.0764)	(0.0134)	(0.6308)	(0.0714)	(0.0135)	(0.7868)
EVDI	0.0069	-0.0116	0.5319	-0.0507	-0.0122	0.1309
	(0.0664)	(0.0126)	(0.4830)	0.0608)	(0.0127)	(0.3790)
SDI	-0.0177	0.0027	-0.3118	(0.0701	0.0025	0.2515
	(0.0996)	(0.0148)	(0.6023)	0.0792)	(0.0151)	(0.6274)
CGDI	-0.0083	-0.0006	0.0180	-0.0106	-0.0005	0.0330
	(0.0126)	(0.0026)	(0.0747)	(0.0117)	(0.0027)	(0.0938)
INTL	0.0041***	0.0002**	0.0423*	0.0100*	0.0001	0.0003
	(0.0006)	(0.0001)	(0.0217)	(0.0077)	(0.0001)	(0.0217)
ECDI*INTL				0.0003	0.0002	0.0036**
				(0.0003)	(0.0002)	(0.0015)
EVDI*INTL				0.0008	0.0001**	0.0255
				(0.0019)	(0.0001)	(0.0187)
SDI*INTL				-0.0022	-0.0001	-0.0229*
				(0.0087)	(0.0002)	(0.0118)
CGDI*INTL				-0.0001	0.0001	-0.0001
				(0.0007)	(0.0002)	(0.0019)
SZE	-0.1699	-0.0217	-4.3486	-0.0579	-0.0195	-2.8247
	(0.5622)	(0.0902)	(10.1235)	(0.6973)	(0.0951)	(8.0824)
AGE	4.6372	0.8736	26.5616	4.1147	0.8658	29.4175
	(4.4959)	(0.5424)	(46.8391)	(5.2865)	(0.5586)	(45.0106)
FL	-0.0636	0.0011	-0.0706	-0.0462	0.0014	0.0062
	(0.0533)	(0.0059)	(0.4809)	(0.0300)	(0.0061)	(0.3669)
GDP	-0.0995	0.0884	0.2138	-0.0139	0.0884	-1.2263
	(0.2370)	(0.0800)	(1.5623)	(0.1978)	(0.0816)	(2.3889)
ER	-0.5804	-0.1723	-5.6538*	-0.5701	-0.1709	-7.1656*
	(0.5091)	(0.1283)	(3.0451)	(0.4948)	(0.1296)	(3.9048)
IR	0.3976	-0.0010	1.5972	0.2794**	-0.0012	2.2088
	(0.1562)	(0.0586)	(1.5904)	(0.1291)	(0.0601)	(2.0573)
Observations	622	594	622	622	594	622
Sargan	31.478	52.2102	53.8144	33.9569	52.1109	56.5133
Wald Chi^2	133.92***	769.72***	508.43***	647.18***	783.96***	776.03***
AR (1) (p-value)	0.0043	0.0148	0.0166	0.0034	0.0147	0.0038
AR (2) (p-value)	0.2224	0.8565	0.8685	0.2731	0.8611	0.2332

Figures in the parenthesis are the robust standard errors. * means statistically significant at a 10% level. ** is statistically significant at the 5% level. *** shows statistically significant at a 1% level.

Note:

ROE	: Return on Equity	INTL	: internationalization
ROA	: Return on Assets	FL	: Financial Leverage
ECDI	: Economic Disclosure Index	AGE	: Firm Age
EVDI	: Environment Disclosure Index	GDP	: Gross Domestic Product
SDI	: Social Disclosure Index	ER	: Exchange Rate
CGDI	: Corporate Governance Disclosure Index	IR	: Inflation Rate

Conclusion

The conclusions drawn from the empirical findings show that when the firms want to disclose all the information in the sustainability reporting, it is considered a non-financial return for the company businesses. It means that when the firms put much effort into disclosing sustainable information, it may have a negative impact on corporate performance because firms need to spend more costs on disclosing the information. From another perspective, Malaysia, as a developing country, may still need time to build its reputation. The results demonstrate that providing sustainability reporting information may result in unequal utilization of the firm’s assets, aligning with stakeholder theory. In the case of Malaysian firms, it is found that internalization has a positive relationship with firm performance. The result implies that international corporations are expected to preserve their reputation and image, resulting in higher corporate performance than local businesses.

Remarkably, our study finds that corporate internalization has no moderating role in enhancing the relationship between sustainability reporting and corporate performance. The main reason is the minimal effect of sustainability reporting on firm performance. There is a lack of evidence to support the claim that businesses that disclose sustainability reporting perform better, especially when sustainability reporting is still quite low among Malaysian corporations. However, we believe that with the efforts and guidance from the policymakers, sustainability reporting will benefit Malaysian firms. Until then, internalization pressure will enhance the relationship between sustainability reporting and corporate performance. Internalization exposes them to intense competition and challenges. Then, sustainability reporting will increase the reputation of the firms in the international market. Successively, the high internationalization firm disclosing more sustainability reporting may bring wealth to the company’s businesses in the long run.

The findings will help stakeholders, investors, decision-makers, regulators, policymakers, and academics to improve their understanding of sustainability disclosure practices in connection to current and future performance. The research provides the implications for stakeholders to put more pressure on firms to demonstrate their social responsibility, particularly those firms in public-listed industries. This is because the actions of a well-known company are expected to have a higher influence on the public. Although, the findings indicate no relationship between sustainability reporting and firm performance. This may only be a temporary issue for the firms, as we strongly believe that the sustainability reporting practices of a firm will influence corporate performance positively in the long run. The disclosure of non-financial reports instead of financial reports is still new for firms in Malaysia, it is currently a strategic moment for Malaysian companies to implement sustainability-related activities and properly structure their sustainability information using the new GRI standards.

The limitation of this study is that content analysis only records the quantity of sustainability reporting elements disclosure, it is recommended to conduct mixed research approaches in future studies by applying quantitative and qualitative approaches at the same time. For future research, we suggest comparing the results among countries, which can contribute to more interesting results in the disclosure of sustainability reporting within different countries. Due to the data availability and time-consuming data collection, we only managed to start with the Malaysian context. We hope this research will serve as a starting point for future study in other ASEAN countries. Lastly, future research may take into account additional potentially significant contextual variables, including business linkages, organizations' geographic and business diversification, and perhaps marketing expenditure and industry competitiveness.

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