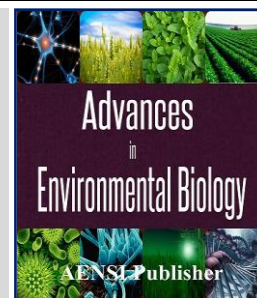




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Corporate Sustainability Practices among Malaysian REITs and Property Companies: A Proposed Study

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ABSTRACT

Corporate sustainability has recognized late in real estate and property sectors as compared to other sectors. Though the sustainability practices have been extensively analyzed in the recent past, but real estate and property sector still lack holistic understanding and effective implementation of these practices particularly in developing and emerging economies. Thus, this paper proposes to investigate the current status and reporting quality of the sustainability practices in real estate investment trusts (REITs) and property sector of a developing country like Malaysia. The paper proposes content analysis of corporate sustainability, CSR and annual reports of the REITs and property sectors for a period of 3 years i.e. from 2011 to 2013. The proposed study will examine nature, extent and quality of sustainability practices and their disclosures in these reports. The proposed sample of 127 companies is divided into 17 and 110 companies representing REITs and property sectors respectively. The proposed study will be the first of its nature to investigate all of the three dimensions (environmental, social, & economic) of corporate sustainability particularly after 10th Malaysian Plan (2010-2015). Besides theoretical contribution, the proposed study has implications for practitioners, CEO's of the companies and regulatory bodies of Malaysia. The stakeholder and legitimacy theories provide theoretical underpinning for the proposed study.

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INTRODUCTION

Corporate sustainability (CS) is growing its importance worldwide and has come to be considered as a challenge in economic and managerial debates [1]. Corporate sustainability defined as 'the ability of a firm to meet the needs of its direct and indirect stakeholders without compromising its capability to satisfy their needs in the future' [2]. In the business perspectives sustainability means 'business strategies that meet the needs of the enterprise today and its stakeholders while sustaining the resources, both human and natural, which will be needed in the future'[3]. Merely, focus on sustainability practices in corporations it revealed that its interrelationship between society, environment, and economic development [4]. As a result it is gradually emerging that companies are focusing on sustainability practices in order to gain prestigious privileges among the stakeholders not simply relying on economic and financial performances. Similarly, the stakeholders are also interested to find the flavor and integration of environmental and social blends among the strategies and vision of an organization. Hence, to move towards sustainability, business organization are required to look at all-around from a holistic perspective in order to satiate the demand of multiple stakeholders by addressing economic growth, environmental and social sustainability [5]. Corporate sustainability also includes the concept of "Triple Bottom Line (TBL)" it proposed the need for a balance among the three dimensions, environmental, social and economic in order to achieve sustainability within organization [6]. The three dimensions of corporate sustainability are:

Environmental/Ecological Sustainability:

The environmental dimension of corporate sustainability deals with the impacts on the environment due to corporate activities. This dimension also named as an ecological dimension of corporate sustainability. "The environmental dimension of sustainability concerns the organization's impact on living and non-living natural

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systems, including land, air, water and ecosystems” [7]. Environmental dimension covers the impacts related to inputs, i.e. energy and water use, outputs such as emissions, effluents and waste etc. it also covers biodiversity, transport, product and service related impacts, environmental compliance and expenditures [8]. Goodland (1992), defined environmental sustainability as “seeks to improve human welfare by protecting the sources of raw materials used for human needs and ensuring that the sinks for human wastes are not exceeded, in order to prevent harm to humans” (cited in) [9]. Furthermore, environmental sustainability means to maintain or improve the integrity of the life supporting systems on the earth and to sustain the biosphere, maximizing future options for the current as well as future generations in order to achieve economic, social and cultural goals (Ibid, 2012).

Social Dimension of Corporate Sustainability:

The social dimension of corporate sustainability means the impact of organization on the social system. Social sustainability defined as “the social dimension of sustainability concerns the impacts the organization has on the social systems within which it operates” [7]. Social sustainability includes labor practices and decent work, human rights, society and product responsibility. Social sustainability is aimed to build, maintain and sustain positive relationships with all present and future stakeholders. Furthermore, the fulfillment of the needs of stakeholders assures the loyalty for the company among them. Corporate social responsibility (CSR) initiatives are one of an important dimension of social sustainability. A company can embed CSR elements into business operations, product and services and at the same time to involve in the community to improve their welfare and education facilities [10]. Social sustainability can be defined as “the extent to which social values, social identities, social relationships and social institutions can continue into the future” [9].

Economic Sustainability:

The economic dimension of corporate sustainability discussed in the literature as generic dimension. Economic sustainability holds the general aspects of an organization that have respected next to environmental and social sustainability. The essence of economic sustainability is to remain staying in the market for a long time, and it leads to good financial and sustainability results of the company [7], [8]. Hence the management should focus on economic success of the company rather on the financial results. The Global Reporting Initiative (GRI) defined the economic sustainability as “the organization’s impacts on the economic conditions of its stakeholders, and on economic systems at local, national, and global levels. The economic category illustrates the flow of capital among different stakeholders, and the main economic impacts of the organization throughout society”. Moreover, focusing on customer value creation adds an aspect to the economic dimension of corporate sustainability. This customer value created with the optimum use of benchmarking being to produce perfect products from a perfect product process and customer management [11]. It is expected that good corporate governance fosters economic sustainability in general and specifically supports the other two dimensions of corporate sustainability. In general literature on corporate governance it addresses the key areas such as creating sustainable values, achieving company goals, reducing risk, attracting new investors and keep balance between social and economic dimensions of corporate sustainability [12]. It is clear from the above discussion that economic sustainability is directly related to companies’ financial and economic success with the optimum management of stakeholders. Figure 1 shows the 3D view of corporate sustainability.

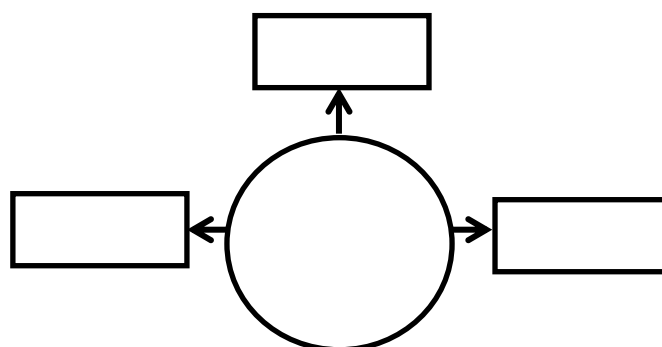


Fig. 1: Conceptual Framework 3D View of CS.

Previous studies have identified that corporate sustainability practices and reporting are more matured in developed countries [6], [13], [14], while in developing and emerging economies, it lacks interest and still corporate sustainability is in its infancy stage [15]. The present study is contributing to the extant literature in several ways. The study proposes to investigate corporate sustainability disclosures among Malaysian listed companies. Secondly, it’s focusing on REITs & property companies which are the most neglected sectors

among other sectors. Third the study is proposing to investigate all the dimensions of CS, e.g. environmental, social, and economic. Finally, the focus of this study is on developing and emerging economy i.e. Malaysia.

Literature Review:

Worth mentioning, sustainability topic are in growing among the companies, academia, and researchers all over the world [16], [17], as resulted in the study of 11 countries [18], that in some extent companies among different countries are similar in dealing sustainability efforts. But some countries differ in history, culture, language, an economic, environmental and social condition that varies management practices regarding corporate sustainability. Corporate sustainability practices are in significant growth in developed countries, while in contrast, developing countries has lax these practices [19]. Many of sustainability initiatives have materialized currently in western countries, while that has not yet of interest in developing countries [20]. Consequently, sustainability practices pose challenges in developing and emerging economies like Malaysia [21]. The study identified that sustainability disclosures are very low among Malaysian firms and the process of adopting sustainability practices and reporting are still in its infancy stages particularly the environmental disclosures. The Malaysian Government needs to cure it with a very serious step and measures [22]. "Another major finding is that companies are not consistent with the extent, nature or quality of sustainability disclosures made over time" [15]. An early study found that 250 largest listed companies of Bursa Malaysia based on the market capitalization revealed that sustainability had shown some improvements over the past few years, but the overall progress was still in its embryonic stage in comparison with some western countries. Most of the disclosures were declarative and non-quantitative [23]. Another study identified the same results in Government Link Companies (GLCs) of Malaysia regarding sustainability disclosures covering the period from 2005 to 2007 using the content analysis. The findings indicated that the disclosure is still moderate [24]. An investigation of CSR disclosure it was found that product theme was the highest number of disclosures. The human resource was ranked second among the study of 150 listed companies, and followed by the environmental disclosures [25]. HBR working paper on examining corporate sustainability disclosures of environmental, social and governance information in China, Denmark, Malaysia, and South Africa found that there is a significant heterogeneity in disclosing corporate sustainability disclosures. In Malaysian firms, there is no significant growth reported in the adoption of sustainability practices [26]. Parallel to the previous results, findings from the content analysis of annual reports showed that very few companies reported environmental disclosures. While, even the disclosure of reported companies is minimal, and they only follow the disclosures related to compliance. Moreover, the study also identified that the customers and suppliers' concerns are on the least priority [27]. In a nutshell it is concluded that the studies related to corporate sustainability is limited and inconclusive, which needs further investigation, in order to clarify the importance among the academia, researchers, corporate sector, government and regulatory bodies [28]–[31]

Real Estate and Investment Trusts (REITS):

In real estate industry the investors, regulatory bodies and tenants are increasingly seeking towards energy efficiency, green buildings and better disclosures of environmental, social and economic performance. Sustainability practices, cutting costs by reducing energy, reduction in water use and improving competitiveness are the most burning issues of today real estate arena [32]. But unfortunately there is much uncertainty exists regarding sustainability practices in the real estate industry and sustainable real estate management still lacking a holistic understanding [33]. Real estate considered as a key asset class of investment portfolio in Malaysia. Before, introducing of REITs the investors were investing their money in property stocks and physical lands. The investors now have the options to invest their money in REITs by paying for a fraction of the real estate prices. REITs offer nowadays a stable income stream and attractive yields to investors. REITs provide the benefits of: affordability, liquidity, stable income stream, exposure to large scale real estate, and professional management [34]. The Malaysian Government is actively promoting policies to ensure the quality and affordable houses to all of the nation's [35]. The present law and legislation much focused on the physical development of housing rather than social, environmental and cultural aspects [36]. Most of the policies are concerned with affordability rather than sustainable development [35]. Real estate investments are receiving an increasing number of inquiries from multiple stakeholders which needs further investigation. For this understanding sustainability practices are important for the better performance of real estate related business.

Malaysian Property Industry:

Predominantly, the property industry has an adverse impact on the environment, hence, there is a need that the property companies to be more environmentally and socially responsible (UNEP Finance Initiative) [37]. The literature evidenced that buildings consume up to 50 per cent of the energy consumption, 16 per cent of water usage, 50 per cent of CO₂ emissions, 40 per cent of solid waste, and 40 per cent of raw material [36]. Consequently, these impacts have tremendous pressure on property developers, investors, owners and tenants. Malaysia is one of an emerging economy in the world; it has become a popular destination for investors from around the world in property investment. Now it is with the great focus that in order to develop these

investments as socially responsible. For this purpose the industry and its management are in tremendous pressure to make the practices socially responsible. The Malaysian government also has a vital concern to find the differences of sustainability practices among Malaysian property industry and companies operating in developed countries. It is the best time to examine the importance of sustainability practices among Malaysian property industry [36].

Theoretical Framework:

“The negative reporting regarding corporate practices, in particular, can endanger corporate legitimacy if perceived by the stakeholders as not being in line with societal norms and values” [38]. Based on the previous literature, social responsibilities and sustainability of an organization was highlighted with the help of two most frequently used theories the stakeholder theory and the legitimacy theory.

Stakeholder theory:

Stakeholder theory postulates that organization has the main objective to create and maximize value for all the stakeholders. When the organizations meet the expectation of multiple stakeholders they are capable of being to perform superior performance [39], [40]. The essence of stakeholder theory is based on the general belief that the stakeholders are considered as an asset and managers have to manage it. Similarly, corporate sustainability defines what responsibilities business organizations ought for the fulfillment of stakeholder needs and to whom business organization are responsible and accountable. Both the concepts are closely interrelated. But still sustainability is on its face, of abstraction while the stakeholder approach provides practical inline towards the stakeholder’s performance [41].

Legitimacy theory:

Legitimacy has been defined as ‘a general perception or assumption that the actions of an entity are appropriate within some socially constructed system of norms, values, beliefs, and definitions’ [42]. The essence of legitimacy theory is that the business organizations are considered to behave legitimately in doing their dealings with the society [43]. Legitimacy theory is based on the principle that the social contract between a legitimate social institution and society. The theory postulates that institutes are needed to exist with the goals, which are corresponding with the societal goals at large. The basic premise of legitimacy theory is that “. . . organizations can only continue to exist if the societies in which they are based perceive the organization to be operating to a value system which is commensurate with the society’s own value system” [44].

Problem Statement:

There is a need for research in the REITs and property sectors around the world regarding sustainability practices [35], [45]. Moreover, the inconclusive results and limited literature on corporate sustainability practices and reporting necessitates further investigation in developing and emerging economies [6], [26] particularly in Malaysia [15].

Research Objectives & Research Questions:

The proposed research objectives and questions are in the same sequence as follows:

- Research Objective: To investigate the level of corporate sustainability (environmental, social, and economic) practices among Malaysian REITs and property listed companies.
- Research Question: What is the level of corporate sustainability (environmental, social, and economic) practices among Malaysian REITs and property listed companies?

Proposed Research Methods:

Research Approach:

The study proposes to utilize a content analysis based on the Lozano & Huisingh, 2011 [46], corporate sustainability index exhibited in figure 1. This index is based on the Global Reporting Initiative (GRI) for corporate sustainability reporting. In addition the study is proposing to adopt a longitudinal approach in order to examine the corporate sustainability practices of REITs and property companies for the three years 2011, 2012 and 2013. The rationale behind the longitudinal study is to explore the possible variation in disclosures for the stated period [47].

A. Sample:

The data are proposed to collect from 127 companies including 17 REITs companies and 110 property companies listed on Bursa Malaysia <http://www.bursamalaysia.com/market/listed-companies/>.

B. Content Analysis Procedure:

The study is utilizing the content analysis of REITs and property companies annual reports published during 2011, 2012 and 2013. Content analysis is the most popular and widely using method in research on accounting disclosures [48]. Content analysis may have both qualitative and quantitative measurements. Quantitative content analysis considered to be the more reliable [49]. The current study is proposing to use the quantitative content analysis.



Fig. 1: Sustainability Disclosures Index Source: [46].

C. Methodology for Analysis:

The study proposes to adopt the content analysis technique consisting of four interrelated phases. First, the sustainability framework identification (as per figure 1), second the search of relevant contents and its recording, third the development of coding procedure and finally the assessment, analysis and interpretation of results based on content analysis. For the recording of each indicator the coding of binary variable, will be used which sets of 1 if the firm reports the content, and 0 otherwise [15], [50]. The highest score on of the content will be implied as high performance [51].

Conclusion:

A great deal of research has emphasized on corporate sustainability practices in developed countries. However, the gaps remain in developing and emerging economies like Malaysia. Sustainability practices are still in its embryonic stages among Malaysian listed companies. Due to limited literature and inconclusive results it needs further investigation. This study is proposed to examine the several areas of corporate sustainability practices and reporting, including environmental, social and economic sustainability. The study selected Malaysian REITs and property companies that have not previously been investigated for sustainability practices during 2011, 2012 and 2013. This research will be helpful to the practitioners, academia, researchers, banks, Bursa Malaysia, security commission and CEO's of the listed companies for their organizational practices and reporting regarding corporate sustainability.

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