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Corporate sustainability priorities, elements and business areas

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Abstract

Corporate sustainability is one of the vital corporate agenda. Its pragmatic and profound impact on business strategy and operations could lead to achieving competitive advantage in the long run. This paper investigates the sustainability priority, elements and business areas among Malaysian public listed companies. Three sectors of industry namely; consumer, trading and industrial companies were selected and surveyed using mail survey method. Our findings show that majority of the companies put a high priority on sustainability initiatives. However, only a few companies claimed that they have a management council or special committee to manage sustainability efforts. This study also identifies energy usage, water usage, recycling, employee well-being and community involvement as the top five elements of sustainability. As for the business area's priority in sustainability initiatives, the findings show that operations (processes) and customer use of products were ranked as the highest business areas' priority, followed by facilities (building), supply chain (supplier product selection), distribution and logistics, product design and end of life product disposal/recovery. These results suggest that corporate leaders are well informed of the sustainability initiatives and opportunities across their entire value chain.

Keywords: Sustainability, corporate sustainability, sustainability elements, sustainability priority, business areas' priority

1. INTRODUCTION

Sustainability issues have become more and more significant to policy makers in both the political and the business world over the last decade (Avila & Bradley, 1993; Ladd Greeno, 1994). To date, research has been focused on understanding why firms are committed to sustainability programs without linking them with the strategy. Even so, it is still not clear whether it is ethical for firms to disclose whether they are socially responsible or not. Previous studies such as Sharma and Henriques (2005) found that stakeholder is a major factor influencing firms' sustainability practices and disclosure. While Bansal (2005) mentioned that international experience, media pressure, mimicry and firm size contribute to sustainability practices.

Corporate sustainability related research in Malaysia has become one of the areas of interest and covers variety of issues. One of the issues that had been highlighted is in relation to the motivation for reporting, in which a number of corporate governance characteristics have been identified as factors which lead to sustainability reporting. Among the characteristics are government ownership (Amran & Susela, 2008; Nazli, 2007; Roshima, Yuserrie, & Haronn, 2009), director ownership (Nazli, 2007), audit committee (Roshima, et al., 2009),

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ownership concentration (Roshima, et al., 2009), Malay directors (Haniffa & Cooke, 2005), foreign shareholders (Amran & Susela, 2008; Haniffa & Cooke, 2005) and non-executive directors (Haniffa & Cooke, 2005).

Corporate sustainability programs are escalating and reaching various dimensions. Firms are increasingly realizing the importance of sustainability to the future of their business (www.cica.ca). However, there is limited evidence on the sustainability priorities in relation to business areas and elements and their linkages to the business strategy. Therefore, the objectives of this study is first to examine the corporate sustainability level of priority and secondly to identify the business elements and areas significant for corporate sustainability.

This following section reviews some literature on corporate sustainability and also discussions on corporate sustainability business elements and areas. Section three elaborates on the methodology and followed by research findings and discussion in section four. Finally, the last section provides concluding remarks and offers potential future research direction and areas.

2. BACKGROUND

2.1 Corporate Sustainability in Malaysia

Although, the research on corporate social responsibility (hereafter called CSR) has gained an extensive consideration in developed countries such as Europe and United States, previous studies have found that the level of CSR of Malaysian public listed companies is still generally low (Nik Nazli, Maliah, & Siswantoro, 2003; Dawkins & Ngunjiri, 2008). This is due to CSR envisages the ideal whereby enterprises integrate social and environmental concerns in their business operations and their interaction with their stakeholders usually on a voluntary base. Furthermore, the reporting of CSR in Asian countries is much less comprehensive than in most modern Western countries. Asian companies remain very cautious about disclosure of information to outsiders on matters linked to CSR (Debroux, 2006).

The ACCA's report of 2005 claimed that the level of awareness among the firms in Malaysia to report their environmental practice is at an early stage. Up to 2004, the manufacturing sector is the largest sector to be engaged in environmental reporting, followed by the plantation sector and then, the trading and service sectors. Thus, the companies need further explanation and motivation by the government such as granting them incentives and providing appropriate skills and environmental training programs. Hasnah, Sofri, Andrew, Sharon, & Ishak (2004) likewise found in their study that corporate social disclosure among Malaysian companies was very minimal compared to other countries such as European countries. Nik Ahmad and Abdul Rahim (2005) findings suggested that the number of Malaysian companies implemented CSR initiatives is still low, although managers generally understand the concept of CSR. Further, based along the content analysis findings, they claimed that it comes out that awareness of CSR is not translated into disclosure in company annual reports. Nik Ahmad and Abdul Rahim (2005) recommended for future research to explain why only a few companies are implementing CSR initiatives despite the study indicating that companies have some consciousness of the CSR concept.

The study by Romlah, Takiah, and Nordin (2002) investigated the environmental reporting practice in the annual reports amongst Malaysian companies. They found that environmental information was not well disclosed in the annual reports of Malaysian companies. Most of the information was disclosed in the Review of the Operation and in the Chairman's Statements. In addition, Environmental Resources Management Malaysia (2002) investigated on the current status of environmental reporting in Malaysia. Its finding showed that there is an increasing number of Bursa Malaysia main board companies engaging in some form of environmental reporting.

Furthermore, the survey done by Bursa Malaysia in 2007 (Ng, 2008) revealed that Malaysian listed companies showed poor understanding and lack of awareness in incorporating corporate social responsibility policies and disclosures in their daily operations. Further breakdowns of the results show that 11.5% are in the poor category, 28.5% are in the below average and 27.5% are in the average categories. The responses were measured based on marketplace, workplace, environment and community dimensions, and based on the disclosures during their operations in the financial year of 2006 and 2007. The investigation of sustainability disclosure in the Malaysian Shari'ah Compliant listed companies that covers 134 companies found that most of them disclose sustainability information related to corporate governance, followed by social and environmental themes. However, Malaysian Shari'ah Compliant listed companies did not clearly disclose the items under Shari'ah compliance index (Mohamed, Alwi & Jamil, 2009).

Nevertheless, in recent years, the Asian Ranking of Sustainability produced by Responsible Research and Corporate Social Responsibility Asia in 2010 showed that Malaysia is ranked at number three among Asian countries after South Korea and India. Malaysian companies achieved high scores for social category, with leading companies reporting diligently on their stakeholder engagement with customers, employees, suppliers and the communities in which they operate. In addition, they also scored greatly in most indicators in the Governance category. However, Malaysian companies scored low for environmental category. Nearly all companies scored below 25% for their environmental reporting with only two companies remeet the CDP information request, and neither of these making its disclosure public. This indicates that quantitative environmental reporting has not been widely practiced by companies in the country, and it could be due to the perception that social reporting and community investment are sufficiently representing sustainability.

2.2 Business Elements and Areas for Corporate Sustainability

Sustainability strategy and operations can create value across the entire value chain when it is embedded throughout an organization. Indeed, many firms have already realized explicit gains from sustainable decision making in various aspects of their value chain and new opportunities keep emerging for further benefits (Accenture and CIMA, 2011). Thus, it is evidenced that sustainability can enhance the top and bottom line of business performance. Some of the areas that are significant for sustainability initiatives and have derived value creations as reported by Accenture and CIMA (2011) are discussed in the following paragraphs.

New huge opportunities for revenue creation are available by fulfilling uncertain customer demand for *green* products, and recognizing new markets with long term income flows. The rolling-out of low-carbon technology in constructions, transport and energy motivated by targets to minimize CO2 could generate huge opportunities, which is evidenced in EU alone, believed to worth about €2.9 trillion between 2011-2020. Besides revenue generation, business performance can also be improved by controlling cost as part of the sustainability initiatives. For instance, reducing energy and water consumption, production costs, traveling expenses and exposure to unnecessary waste and carbon costs would result in business benefits from an effective sustainability program. Indeed, these initiatives will be more critical due to the increasing commodity prices and the growing cost of compliance initiated by increasing regulation.

Firms with sustainable business practices are actually building trust among their stakeholders. Sustainable business cultivates good reputation, brand building, and other intangibles such as talent and intellectual property for long-term value creation. Furthermore, risk management becomes a key consideration in sustainability effort. Failure to consider sustainability issues in many operational decisions may result in negative consequences like large fines for non-compliance on waste regulations or carbon emissions schemes, and firms may even lose out sales due to untrustworthy sustainability records.

Figure 1 documents some of the experiences of several companies in recognizing the business benefits driven by sustainability initiatives as reported by Accenture and CIMA (2011). For instance, Standard Chartered practices sustainability risk management approach with strict environmental and social (E&S) policies for all its lending, debt, capital markets activities, project finance and advisory work. Specific guidelines to identify E&S risks are issued to assist the frontline employees, together with the technical advice and assistance from the bank's Sustainable Finance team to ensure compliance.

3. METHOD

This study used a postal survey to collect the data from Malaysian companies that are listed on Bursar Malaysia. The unit analysis is corporate leaders such as Chief Executive Officer (CEO), Chief Finance Officer (CEO) and Senior Manager of public-listed companies. This study focuses on three sectors, namely consumer, industrial and trading which are considered more sensitive and close to sustainable issue.

The study adapted the questionnaire used in the survey done by AICPA, CICA and CIMA in 2010. However, some modifications have been done on the questionnaire in order to suit the local environments. The questionnaire covers sustainability business areas, elements and priorities. The data were analysed using descriptive statistics that are considered sufficient in fulfilling the objective of this study. The mailing of the 261questionnaires resulted in the return of 31 usable questionnaires, yielded a response rate of 11.9%.

Company value chain		Revenue generation	Cost control	Building trust	Risk management
Procurement and logistics	· *Supply chain* · *Warehousing* · *Equipment* · *Inbound logistics*	The **Co-operative** switched its own-label chocolate to Fairtrade suppliers in 2002, resulting in a 50% sales volume uplift in the following 12 months.[16]	**Walmart** substantially exceeded a target of 25% improvement in fleet efficiency against 2005 baseline within one year.[17]	**Walmart's** ethical standards programme for sourcing merchandise is recognised as one of the 'gold standards' in the industry.	In July 2009, energy drink manufacturer **Red Bull** was ordered to pay over £270,000 in fines and costs for breaking recycling laws.[18]
Operations	· *Products* · *Services* · *Operations* · *Buildings* · *Manufacturing*	**Philips** earns 38% of total revenue from 'green product' sales (up from 31% in 2009).[19] **M&S's** 'Plan A' generated £50m profit from new products – such as M&S Energy which provides insulation and solar panels for 300,000 customers – and reduced costs in only the third year of its operation in 2009-10.[20]	**IKEA** saved £1m by removing plastic bags from checkouts in the UK in 30 months.[21] Its stores are 9% more energy efficient compared to 2005.[22] Japanese pharmaceutical firm **Tanabe Seiyaku** hit annual savings of ¥33m with new environmental accounting techniques.[23]	**GE's** brand value increased by 17% after the launch of 'Ecomagination', a business initiative to meet customer demand for more energy-efficient products.[24]	**Taylerson's Malmesbury Syrup** realised that sales of their products were linked to cold weather and would decline within the next 20 years as winters become milder. The product range was reviewed and they now provide syrups to be used with ice creams and cold frappes.[25]
Marketing, sales and service	· *Marketing* · *Sales* · *CRM* · *Retail* · *Customer service* · *Outbound logistics*	**Vodafone's** 'Carbon Connections' report demonstrates a potential for 113Mt reduction in CO_2e and €43bn in cost reductions through 1bn new mobile connections.[26]	**M&S's** 'Marks and Start' programme (work experience for disadvantaged adults) has lower attrition rates than comparable schemes for new employees.[27]	77% of consumers have, in the past year, refused to buy products/services from companies they do not trust. Trust must be built or sales are put at risk.[28]	The **Co-operative Bank** showed the risk associated with a loss of trust, citing the 'flight to trust' after the banking crisis as one of the key drivers of a 38% increase in their own current account sales in 2009.[29]
Support activities	· *Finance* · *Technology* · *R&D* · *HR* · *Legal* · *Firm infrastructure*	**Novo Nordisk** bring products to market faster by including environmental, social and economic impacts in new drug applications.[30]	**Fife Council** have identified additional cost avoidance opportunities of £75m that can be achieved by improving its carbon reductions by a further 3% per annum between 2007 and 2021.[31]	Graduating MBAs from leading **North American and European business schools** are willing to forgo financial benefits to work for a more ethical employer.[32]	**Ribena** noticed that local weather patterns have been changing, affecting their blackcurrant harvests. They have been developing new varieties of blackcurrants that will thrive in a changing climate.[33]

Fig.1. Sustainability benefits throughout value chain
Source: Adopted from Accenture and CIMA, 2011, page 8

4. FINDINGS AND DISCUSSION

The majority of the respondents were among the top management and leaders in their companies that include CEOs, CFOs, directors, managers and accountants as depicted in Table 1. They represent the appropriate target group for a study on sustainability issues. The samples of companies surveyed came from industrial (51.6%), trading (25.8%), consumer (3.2%) and others (19.4%) sectors. 'Others' category consists of those companies that involved in more than one sector. The respondents came from the industry sector that can be considered as vulnerable or more susceptible to the sustainability issues.

Table 1. Background of respondents

Position	Frequency	Percentage
Chief executive officer (CEO)	4	12.9
Chief financial officer (CFO)	5	16.1
Director	3	9.7
Accountant/Financial Controller	8	25.8
Finance/Human resource manager/manager	8	25.8
Others	3	9.7
Total	31	100.0
Company's Category		
Industrial	16	51.6
Trading	8	25.8
Consumer	1	3.2
Others	6	19.4
Total	31	100.0

Table 2. Company's priority towards sustainability

Degree	Frequency	Percentage
Low priority	1	3.2
High priority	14	45.2
Very high priority	12	38.7
Extremely high priority	4	12.9
Total	31	100.0

The levels of company's priority towards sustainability are summarised in Table 2. The results showed that four (4) respondents (12.9 %) rated that their companies put an extremely high priority on sustainability practices. Twenty-six respondents (83.9%) rated sustainability practices as high priority to very high priority in their companies. Only one (1) respondent who mentioned that his/her company puts a low priority on sustainability practice. A majority of respondents (83.9 %) indicated that sustainability considerations are included in their new investment analyses (see Figure 2). This finding proposes that sustainability is essential enough and thus be given a priority to be integrated into investment decisions.

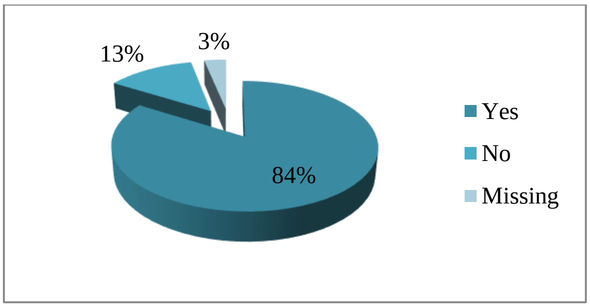

Fig.2. New investment decision considering sustainability

Despite of the high priority given to the sustainability, only a few (ten) respondents said that they have a management council or special committee to manage sustainability efforts in their companies (see Figure 3). Nik Ahmad and Abdul Rahim (2005) study on Malaysian listed companies, found that only 24.1 % of respondents (29 companies) have set up a CSR committee.

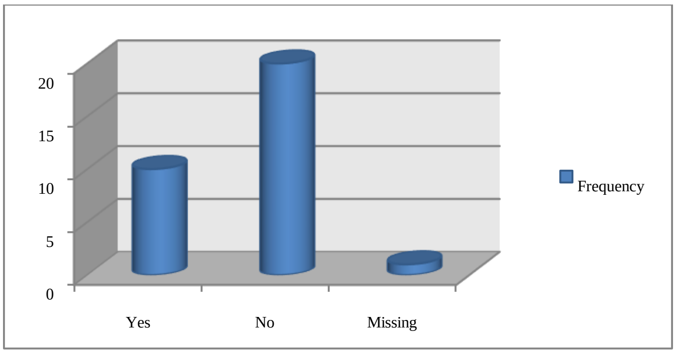

Fig.3. Management Council/ special committee for sustainability

With regard to sustainability elements, in the survey respondents were asked about the elements or items of sustainability that they perceived as important for their companies. The results on this were shown in Table 3. From Table 3, it appears that respondents describe energy usage as a very important sustainability element, followed by water usage, recycling, employee well-being and community involvement as the items that received the highest top five mean score. While the three (3) items that receive low mean scores are greenhouse gas emissions, response to potential climate change impacts and biodiversity protection. The results are quite similar to AICPA, CICA and CIMA 2010 survey who found that energy usage, recycling, water usage, employee well-being and community involvement as top priority among corporate leaders in the Northern America and Europe countries.

Table 3. The importance of sustainability elements

Items	N	Min	Max	Mean	Standard Deviation
Energy usage	31	2	5	4.03	.836
Water usage	31	1	5	3.65	1.018
Recycling	31	2	5	3.55	.888
Employee well-being and benefit programs	31	1	5	3.55	.888
Community involvement/support	31	2	5	3.55	.810
Reduction of airborne pollutants	31	1	5	3.52	1.262
Social issues/causes (health, education, other)	31	2	5	3.48	.890
Human rights (e.g. child labour)	31	1	5	3.48	1.208
Forest product usage – paper, packaging, wood	31	1	5	3.45	1.091
Chemical waste discharge	31	1	5	3.45	1.387
Other solid waste reduction	31	1	5	3.42	1.205
Greenhouse gas (GHG) emissions reductions	31	1	5	3.35	1.199
Response to potential climate change impacts (water availability, severe weather events, rising sea levels, etc.)	31	1	5	3.23	1.257
Biodiversity protection	31	1	5	2.97	1.251

The results suggest that the items relate to environment receive a high mean score. This is probably due to the sustainability framework set by Bursa Malaysia who emphasis on four dimensions – environment, community, marketplace and workplace. Energy and water usage as top priorities, show that Malaysian corporate leaders are committed to apply sustainability activities for reducing costs and eliminating waste in order to achieve competitive advantage. It is very encouraging to see that corporate leaders view environmental as important items since prior literature (see for example, Thompson & Zakaria 2004; ACCA 2005) reported that corporate environmental reporting is still at infancy stage in Malaysia. The growing awareness of the importance of environment among corporate leaders will help to improve the quality and quantity of corporate environmental reporting in future.

Greenhouse gas (GHG) emissions reductions are viewed as “somewhat important” (mean score = 3.35) by respondents. The GHG emissions reductions represent a developing measure in the current sustainability programs. Bursa Malaysia encourages Malaysian companies to adopt GHG protocol in order to understand, measure and manage GHG emissions. GHG Protocol is the most widely used international accounting tool that is jointly developed by World Resources Institute (WRI) and the World Business Council for Sustainable Development (WBCSD). The importance of this item may vary in the future with the possibility in the regulatory changes.

Biodiversity protection is ranked at the lowest by respondents with the mean score of 2.97. The low mean score could be due to the background of the companies that come from industrial, trading and consumer sector. The results could be different if the study includes plantation sector that is more relevant to the biodiversity protection. Malaysia is all out for the global movement to protect the planet. Thus, Malaysia places strong emphasis on the planet’s needs and is signatory to several international conventions, including the Convention on Biodiversity 1992 (CBD2), the International Tropical Timber Agreement, and the Charter of the Indigenous-Tribal Peoples of Tropical Forests (http://www.palmoilworld.org/sustainability, accessed on 1 June 2014).

For the business areas’ priority in sustainability efforts, the results (see Table 4) show that operations (processes) and customer use of products are ranked as the highest business areas priority, followed by facilities (building), supply chain (supplier product selection), distribution and logistics, product design and end of life product disposal/recovery. It is evidenced that effective sustainability initiatives are closely associated with company strategy (AICPA, CICA and CIMA research study 2010, www. cica.com). The results indicate that corporate leaders recognize the sustainability initiatives impacts, risks and opportunities across their value chain from product design through the use and ultimate disposal by or recovery from, the end customer; from the supply chain, facilities and operations, through to distribution and logistics. In the future, sustainability will become increasingly important to business strategy and management, thus, corporate leaders need to consider the impacts of sustainability to their business performance. According to Berns, Townend, Khayat *et al.* (2009), sustainability has great influence on all aspects of a company’s operations, from development and manufacturing to sales and support functions.

Table 4. Business areas priority for sustainability initiatives

Items	N	Min	Max	Mean	Standard deviation
Operations (Processes)	31	2	5	4.23	.845
Customer use of products	31	2	5	4.10	.790
Facilities (building)	31	2	5	3.77	.845
Supply chain (supplier/product selection)	31	2	5	3.77	.920
Distribution and logistics	31	2	5	3.77	1.087
Product design	31	1	5	3.71	1.071
End of life product disposal by/recovery from customers	31	1	5	3.19	1.167

5. CONCLUSION

The paper initiated an attempt to examine important sustainability priorities, elements and business areas among Malaysian Listed Companies. The study found that companies put a high priority on sustainability activities. Some companies go beyond by integrating sustainability consideration into the new investment decision analysis. Nevertheless, placing high priority on sustainability efforts is not sufficient to influence and encourage the management to set up special council or committee to manage sustainability initiatives. This study also identifies energy usage, water usage, recycling, employee well-being and community involvement as the top five elements of sustainability. As for the business area's priority in sustainability initiatives, the findings show that operations (processes) and customer use of products were ranked as the highest business areas' priority, followed by facilities (building), supply chain (supplier product selection), distribution and logistics, product design and end of life product disposal/recovery. These results suggest that corporate leaders comprehend how the sustainability initiatives could generate benefits throughout their organizations.

Sustainability enables value creation across a number of dimensions in the business value chain when it is embedded throughout an organisation. Further, the value created and derived from sustainability programs must be quantified and linked to business performance for the benefits of sustainability to be fully achieved. There is a need for a robust sustainability performance management that is capable of supplying relevant information for managers to identify and create value from each of the business elements and areas which are deemed important for sustainability efforts (Accenture and CIMA, 2011). It is also important to note the significant roles of accountant and finance manager, their skills and competencies in facilitating effective implementation, accurate measurement and credible reporting that will determine the extent of sustainability's integration into the value creation process of the organisation.

The current study is also subject to limitations. One of the limitations is the small sample size that involved only 31 companies. A larger sample size is necessary for the results to be generalized to the entire public-listed companies. Notwithstanding this limitation, the findings of this study shed a light on sustainability priorities, elements and business areas.

6. FUTURE RESEARCH

Realising the explicit gains offered by sustainability programs and considerations, many companies have treated sustainability as part of their strategic agenda rather than tactical decisions. Yet, implementing sustainability programs and producing integrated reports may not be sufficient and lead to success. The challenge is to manage sustainability strategies and translate them into a better financial performance (Hughen, Ludseged & Upton, 2014). Accordingly, future research in this area can look into how companies manage their sustainability initiatives and program, and integrate into their business models, products and processes. It is also interesting to search how companies link sustainability to business performance, measure and manage sustainability in their triple bottom line performance.

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