Jurnal Pengurusan 71 (2024)
https://doi.org/10.17576/pengurusan-2024-71-9

Corporate Governance as a Catalyst for Sustainability: Insights from Malaysian Public Listed Companies

(Tadbir Urus Korporat sebagai Pemangkin Kelestarian: Pandangan daripada Syarikat Awam Tersenarai Malaysia)

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ABSTRACT

Corporate sustainability remains a prominent global concern, with stakeholders increasingly holding businesses accountable for their actions. Corporate governance (CG), facilitated by an effective board and risk management committee, can exert an impact on corporate sustainability performance (CSP). The mixed findings of prior research, on factors influencing CSP, serve to motivate this study. Additionally, the influence of sustainability committees (SC) in the CG-CSP relationship has not been examined before. This study thus represents one of the earliest investigations that elucidate the impact of SC on the relationship. The study sample comprised 762 listed companies in Malaysia, spanning 2020 to 2022. Using content analysis on company annual reports, the results established the positive and significant influence of CG on CSP as consistent with the stakeholder theory. Moreover, the results demonstratd that SC was not able to strengthen the role of CG in its relationship with CSP. These empirical findings offer valuable guides for regulators, companies, and stakeholders, that emphasise the influence of CG and SC on CSP.

Keywords: Sustainability; Corporate sustainability performance; corporate governance; sustainability committee; stakeholder theory

ABSTRAK

Kelestarian korporat kekal menjadi kebimbangan global yang utama, dengan pihak berkepentingan semakin menuntut perniagaan untuk bertanggungjawab terhadap tindakan mereka. Tadbir urus korporat (TUK), melalui lembaga pengarah dan jawatankuasa pengurusan risiko yang berkesan, boleh memberi kesan kepada prestasi kelestarian korporat (PKK). Dapatan ilmiah yang bercampur mengenai faktor yang mempengaruhi prestasi kelestarian korporat mewujudkan motivasi untuk menjalankan penyelidikan ini. Selain itu, peranan jawatankuasa kelestarian (JK) dalam perhubungan itu belum pernah diteliti sebelum ini. Kajian ini menyiasat hubungan antara TUK dan PKK dan pengaruh jawatankuasa kelestarian (JK) keatas 762 syarikat senaraian awam Malaysia dari tahun 2020 hingga 2022. Dengan menggunakan analisis kandungan dalam laporan tahunan, keputusan analisis mengesahkan pengaruh positif dan signifikan TUK terhadap PKK. Ini selaras dengan teori pihak berkepentingan. Selain itu, keputusan menunjukkan bahawa JK tidak dapat mengukuhkan peranan TUK dalam hubungan antara TUK dan PKK. Hasil kajian ini menawarkan perspektif yang berharga untuk pengawal selia, syarikat dan pihak berkepentingan, yang menekankan peranan TUK dan JK terhadap PKK. Selain itu, kajian ini mewakili salah satu penyiasatan terawal tentang kesan SC ke arah prestasi kemampanan korporat.

Kata kunci: Kelestarian; prestasi kelestarian korporat; tadbir urus korporat; jawatankuasa kelestarian; teori pihak berkepentingan

INTRODUCTION

The concern for environmental degradation, resource depletion, corporate social responsibility, and other related community issues highlight the firm's role in acting responsibly to sustain its business. Stakeholder demands compel organisations to integrate economic performance with environmental and social considerations within their operational frameworks. In response to these pressures, many firms seek to improve their corporate sustainability performance (Mal, Varma & Vishvakarma 2022), acknowledging that business organisations operate in an interdependent world, meaning that businesses and stakeholders are interrelated. Firms should properly manage their business activities because the impact of these activities is wide-ranging on internal and external stakeholders. The firm is responsible for fulfilling the interests of these stakeholders, i.e., maximising shareholders' wealth and creating value for other stakeholders (Javed et al. 2020).

Corporate governance has become one of the important mechanisms that can help firms to align the interests of various stakeholders and ensure the long-term success of these firms (Jan, Lai & Tahir 2021). Several social and economic issues in the past have demanded that firms establish an effective corporate governance mechanism in their organization. For example, poor corporate governance practices were to be blamed for the 1997 financial crisis (Buallay & Al-Ajmi 2019). Other financial scandals, such as Enron's, have heightened the interest in good corporate governance practices to provide more transparent information to shareholders, investors, managers, and other beneficiary parties to improve corporate performance (Musallam 2020). The 1Malaysia Development Fund Bhd (1MDB) scandal is perhaps Malaysia's most serious corruption scandal, illustrating weak governance in the company (Jones 2020). Firms with effective corporate governance structures can guarantee shareholders sustainable wealth creation and contribute to better sustainability performance (Al-Shaer & Hussainey 2022).

Additionally, an effective corporate governance mechanism comprises effective board members who may lead and drive long-term corporate success, generate shareholder value, and contribute to society's well-being (Alkaraan et al. 2022). Thus, board members' characteristics may shape a company's future sustainability (Kaur & Singh 2020). Diverse board characteristics imply differences in the relevant sources of knowledge or experience between board members, facilitating better decisions towards long-term success. Moreover, an effective board structure, which includes the establishment of a well-functioning risk management committee (RMC), aids in continuous risk assessment and safeguards the firm's unnecessary exposure to unexpected business risks. In order to mitigate risk effectively, the committee must include members from different business backgrounds and skills.

The effective corporate governance role extends to social and environmental accountability, which is evident in establishing a sustainability committee (SC). However, the SC's effectiveness and its possible impact remain underexplored, especially in Malaysia, where most sustainability committees are still nascent. Currently, regulatory authorities in Malaysia have not mandated that firms establish a sustainability committee. Consequently, implementing such measures remains entirely voluntary (Alcaide-Ruiz, Bravo-Urquiza & Moreno-Ureba 2022).

The stakeholder theory proposes that investing in firm resources to address stakeholders' needs is a legitimate managerial activity to gain long-term profit (Chang 2016). In the corporate world, stakeholders include shareholders, creditors, employees, customers, and suppliers with different needs and interests (Boshnak 2021). Stakeholders of different attributes influence firms' operations and strategic direction differently (Kuo & Chang 2021). Therefore, it is essential for firms to properly manage their operations because their overall achievements, whether positive or negative, will affect stakeholders' needs. In other words, effective corporate governance concurrently promotes good relations with stakeholders and provide multi-dimensional benefits to firms in line with the stakeholder theory. Therefore, it is very pertinent that the ability and competency of the board members as internal drivers, ensure that management embeds sustainability as part of the corporate strategy (Kamarudin 2021). The ability and competency of the board of directors to strategise and implement corporate strategy to meet environmental and social objectives, and enhance shareholders' wealth are essential for firm's sustainability performance (Kamarudin 2021). In addition, establishing a sustainability committee indicates a firm's orientation and commitment towards sustainability-related issues (Biswas, Mansi & Pandey 2018).

This investigation was inspired by the limited research on sustainability performance issues in emerging markets, including Malaysia. In consequence, investigating corporate sustainability performance (CSP) in Malaysia will contribute to the existing knowledge of corporate sustainability research and address gaps relating to corporate sustainability performance issues (Aksoy et al. 2020). The present study also collectively includes the three dimensions of corporate sustainability to measure sustainability performance: These are economic, environment, and social dimensions. The economic and environmental dimensions have been covered extensively in past studies. However, the social dimension still remains vastly underrepresented (Goh et al. 2020).

This study also examines the relationship between corporate governance (CG) and CSP of public listed firms in Malaysia. CG in the present study encompasses board of director (BOD) attributes, namely board size, board independence, board meetings, and the presence of female director on the board. This study also includes the attributes of risk management committee (RMC), which are RMC independence, size, members with financial literacy, and meetings. Additionally, the effects of board characteristics, risk management and sustainability committees on sustainability performance have been examined separately in past studies. These studies discovered gaps in the literature since the effect were not examined collectively (Musallam 2020). In consequence, the survey could not provide a comprehensive picture of the effectiveness of a CG since these features complement each other (Aldhamari et al. 2020). The study also addresses existing research gaps through investigating the involvement of SC in the correlation between CG and CSP. The results indicate a positive correlation. Nonetheless, the presence of a SC does not appear to impact this relationship.

The subsequent sections of this paper are organised as follows: Section 2 offers a comprehensive review of the literature and outlines the development of hypotheses. Section 3 describes the research methodology employed. Section 4 presents the empirical findings. Finally, Section 5 summarises the conclusions drawn from the results, discusses their implications, and identifies avenues for future research.

LITERATURE REVIEW & HYPOTHESIS DEVELOPMENT

CORPORATE GOVERNANCE AND CORPORATE SUSTAINABILITY PERFORMANCE

Corporate sustainability involves a company's efforts to include social and environmental issues in its business practices and how they impact stakeholders' interests (Marcel van Marrewijk 2003). It is also defined as a firm's deliberate approach to creating long-term stakeholder value by adopting and implementing social, environmental, economic, and ethically sound business strategies. This concept is based on the idea that companies should make profits while also reducing negative impacts on the environment and society in their business activities (Frempong et al. 2021). The traditional focus on economic activities is losing relevance because stakeholders expect the company to operate sustainably (Laskar & Gopal Maji 2018).

Corporate sustainability performance is vital to enhancing shareholders' wealth by addressing the financial goals of profit-driven entities (Kamarudin 2021). At the same time, shareholders and investors view non-financial performance as equally essential to ensuring a firm sustainability. According to an Ernst and Young (EY) investor survey in 2021, 90% of the investors, ever since the COVID-19 pandemic, attach greater importance to corporates' environmental and social performance, especially in the investment strategy and decision-making concern. Firms' engagement in sustainability initiatives yields substantial societal benefits alongside environmental enhancements, including mitigating environmental harm and reducing greenhouse gas emissions.

Corporate governance (CG) is a set of rules governing stakeholder relationships. It is a core aspect of a business that prescribes how firms are managed and helps managers make decisions that align with their stakeholders' goals (Jha & Rangarajan 2020). Therefore, firms' activities must be adjusted to consider stakeholder expectations to remain relevant in the market, which is consistent with the stakeholder theory. The theory also suggests a contractual social obligation between firms and stakeholders. The corporate governance scenario in Malaysia has experienced notable shifts since the inception of the initial Malaysian Code on Corporate Governance (MCCG) in 2000. Several updates have been made to the MCCG; the latest was on 28 April 2021 when new best practices and further guidance were introduced to fortify the corporate governance framework of publicly listed companies. It specifically emphasised the board's and senior management's responsibilities in managing the sustainability risks and opportunities inherent within the company.

This study focuses on the direct influence of corporate governance mechanisms on corporate sustainability performance. Efficient corporate governance mechanisms serve as a valuable means to alleviate agency issues, incentivise managers to prioritise stakeholders' interests and foster the attainment of more robust sustainable development objectives. Hence, the current research anticipates a positive correlation between corporate governance and corporate sustainability performance.

H_1 Corporate governance mechanisms positively influence sustainability performance.

ATTRIBUTES OF BOARD OF DIRECTORS AND CORPORATE SUSTAINABILITY PERFORMANCE

BOARD INDEPENDENCE

Independent board members are non-executives or outside directors who are not involved in management and have no previous affiliation with the firm (Kouaib, Mhiri & Jarboui 2020). As posited by the stakeholder theory perspective, independent directors are more motivated to prioritise long-term results for a wider group of stakeholders (Yasser & Al Mamun 2016). They are also expected to contribute towards sustainability since they are less subjected to shareholder pressures (Naciti 2019). Past studies have found that greater board independence is positively associated with social and environmental performance (Biswas et al. 2018; Aksoy et al. 2020). However, Kouaib et al. (2020) discovered that a large number of independent board directors may lead to lower sustainability performance because they may not consistently fulfil a significant function in advancing corporate social responsibility. Additionally, the board may lack the motivation to disclose information beyond mandatory compliance requirements (Zaman et al. 2018). Notwithstanding the mixed findings from past studies, the stakeholder theory proposes that independent directors' monitoring skill can improve firm sustainability performance. Additionally, MCCG (2021) and Bursa Malaysia Listing requirements stress the ideal composition of independent directors to highlight the seriousness of regulators in improving the corporate governance and performance of firms in Malaysia. Therefore, the second hypothesis is posited as follows:

H_{2a} Board independence is positively associated with CSP.

FEMALE DIRECTOR ON BOARD

Female directors demonstrate a higher propensity to enhance the relationships between firms and diverse stakeholders and uphold ethical standards within the organisation. Earlier research has contended that female board members exhibit distinct ethical attributes compared to male directors (Kamarudin 2021; Zahid et al. 2020). Similarly, female directors are more committed to environmental and social issues than men and are likely to accept sustainability responsibilities (Issa & Zaid 2021; Kamarudin 2021). The recent MCCG (2021) requires firms to have at least 30 per cent female directors on board, creating more opportunities for women, especially in the corporate sector, to promote gender equality and maximise firm value and business longevity. Therefore, the third hypothesis is postulated as follows.

H_{2b} Female board members are positively associated with CSP.

BOARD SIZE

The agency theory posits that an optimal board size consists of a substantial number of members, neither too large nor too small, that will enhance the board's communication and coordination (Puni & Anlesinya 2020) and also control and monitor management actions (Khalili & Azwan 2020). However, Disli et al. (2022) suggested that smaller boards may enhance sustainability performance because larger groups suffer from a problem of diffusion of responsibility, which reduces the board's positive impact on sustainable performance. Incorporating more members on a board may facilitate disagreements, making it harder to communicate and coordinate decisions. However, despite arguments against the positive influence of a bigger board size on sustainability performance, past empirical studies found evidence of a positive association that aligns with the stakeholder theory. Bigger boards are expected to represent people with diverse business backgrounds, experiences, and knowledge. A larger board size may diminish managerial dominance, thereby more effectively attenuating potential conflicts of interest and serving as a mechanism for checks and balances among directors (Kwarteng et al. 2023). Tjahjadi et al. (2021) demonstrated a positive correlation between board size and corporate sustainability performance, suggesting that a larger board size can benefit firms when board members contribute their diverse skills and experiences. Therefore, based on stakeholder theory and the above discussion, the study proposes the following:

H_{2c} Board size is positively associated with CSP

NUMBER OF BOARD MEETINGS

The ongoing surveillance of managerial efficacy, coupled with an increased frequency of board meetings, incentivises managers to meet the social expectations of all stakeholders. In line with an agency theory, more meetings signal more discussion of the companies' operations (Al-Daoud et al. 2016). According to agency theory, board meetings indicate board diligence and assume that the board can pay more attention to other stakeholders' needs (Hussain et al. 2018). Kumar et al. (2022) confirmed that meeting frequency positively influences sustainable performance. The increase in board meetings has increased the board's efficiency by enhancing communication between directors. It also gives them more time to formulate strategies and execute sustainable development decisions. However, a board that meets frequently can indicate problems in the company that require immediate or continuous monitoring and decisions (Mohd Ghazali 2020). Similarly, Hanh et al. (2018) found that high meeting frequency leads to poor firm performance since they result in greater energy costs and travel expenses that influence firm performance. However, since board meeting represents board diligence, which is in line with the agency theory proposition, our fourth hypothesis is thus posited as follows:

H_{2d} Board meetings are positively associated with CSP

ATTRIBUTES OF RISK MANAGEMENT COMMITTEE AND CORPORATE SUSTAINABILITY PERFORMANCE.

Managing risk effectively can improve firm performance by minimising the likelihood of unexpected losses and reputational harm (Rimin et al. 2021). The influence of risk management on firm performance has been documented in both developed (Ghazieh & Chebana 2021) and developing countries (Musallam 2020). Given the mixed evidence and limitations, this study further investigates the effectiveness of establishing an RMC relative to firm performances. It considers several attributes of an RMC, such as size, independence, meeting frequency and financial expertise towards CSP.

RISK COMMITTEE INDEPENDENCE

Agency theory suggests that the independence of RMC members can minimise agency problems and mitigate management opportunistic behaviour (Bensaid et al. 2021). The independent members oversee the actions of executive directors to avoid possible behaviours that deviate from the firm's interest and instead pursue personal enrichment objectives. Additionally, the independent members can balance the interests of different stakeholders, enabling them to withstand any pressure from management and obtain all the necessary information to monitor the risks of firms. The existence of independent members can help the committee focus on achieving its objectives (Aldhamari et al. 2020), identify relevant risks in the firm, and try to minimise them. Jia and Bradbury (2020) found that the independence of risk committee members significantly impacts performance of the firms by focusing on their business objectives and proposing relevant business strategies to improve overall business performance. Corporate governance codes worldwide require firms to establish RMCs with a majority of independent directors to carry out their functions independently. Therefore, this study proposes the following hypothesis.

H_{3a} Risk committee independence is positively associated with CSP

RISK COMMITTEE SIZE

An early study on risk management size found that the minimum number of RMC members is three (Zohoori 2013) . However, no specific number is required or stated in Malaysia's regulations regarding the number of RMC members. A large RMC enhances effectiveness because a larger number will increase the number of independent directors, gender diversity, including directors' diversity and expertise (Malik et al. 2020). These member characteristics help them evaluate and monitor risks effectively. Past studies confirmed that a larger risk committee size significantly influences firm performance (Boudiab & Ishak 2020). Increasing the committee's size broadens the range of perspectives and knowledge on risk management and enhances the depth of discussions. With more diverse ideas, suggestions, and recommendations, the committee can arrive at a more conclusive proposal to address potential risks and implement effective mitigation strategies (Aldhamari et al. 2020). Given this perspective the following hypothesis is posited:

H_{3b} Risk committee size is positively associated with CSP.

RISK COMMITTEE MEMBERS WITH FINANCIAL LITERACY

Risk committee members must have a certain level of financial literacy to comprehend and manage business operations and related risks. RMC members who are financially literate are expected to ensure that firms are not exposed to unnecessary business risks and adhere to good risk management practices. Bensaid et al. (2021) asserted that investors are inclined to invest in businesses with a significant number of trained and qualified board members. Specifically, within the context of RMCs, members possessing the appropriate qualifications and experience are adept at identifying and addressing the firm's issues and challenges, which will influence firm sustainability performance. Past studies by Aldhamari et al. (2020) found that RMC members with financial literacy support high-quality risk management practices that can reduce agency issues and improve firm performance. Hence, to test the relationship between RMC members with financial literacy and CSP, the study proposes that:

H_{3c} Risk committee members with financial literacy are positively associated with CSP

NUMBER OF RISK MANAGEMENT COMMITTEE MEETINGS

The number of RMC meetings indicates the committee's diligence. A sufficient number of meetings facilitates in-depth discussions of related risk issues such as risk awareness and avoidance (Bensaid 2021). According to the resource dependence theory, frequent meetings lead to more efficient and informed decision-making, and the committee's ability to monitor the company's overall operation and risk eventually enhances the firm's performance and survival. More meetings also assist the board in settling conflicts, improving communication, and allowing diversity of opinion among RMC members, eventually improving the firm's overall performance. Hence, the hypothesis is stated as follows:

H_{3d} The number of risk management committee (RMC) meetings is positively associated with CSP.

THE MODERATING ROLE OF THE SUSTAINABILITY COMMITTEE

The existence of a sustainability committee enhances corporate sustainability by strategically managing and integrating sustainability into firms' operations. These committees signify firms' dedication to sustainability, leading to more impactful social and environmental initiatives and improving overall performance (Arayssi et al. 2020). From a stakeholder theory standpoint, establishing a sustainability committee reflects a firm's commitment to corporate social responsibility (CSR) and sustainability issues. Prior research indicates that establishing a sustainability committee is associated with improved social and environmental performance (Biswas et al. 2018), enhanced CSR performance (Elmaghrabi 2021), and heightened organisational performance (López-Arceiz 2022). Furthermore, recent research by Menicucci and Paolucci (2023) demonstrates the relevance of sustainability committees in the financial sector. In the Malaysian setting, where sustainability committees remain voluntary, their potential significance in augmenting firm performance is noteworthy. Consequently, building on the existing discourse on sustainability committees, this study advances the following hypothesis:

H_4 A sustainability committee strengthens the relationship between corporate governance mechanisms and corporate sustainability performance.

RESEARCH DESIGN AND METHODOLOGY

SAMPLE AND DATA COLLECTION

The study examines corporate sustainability performance among firms listed on the Main Market of Bursa Malaysia. Listed companies were chosen for the study since information on corporate governance, financial data, and sustainability are readily available from their obligatory annual reports (Barroso-Castro et al. 2020).The stratified sampling technique was used to select a sample for this study. The data for this study span three years (2020-2022), comprising 762 firm observations. Firms from financial institutions, REITs and closed-end funds sectors were excluded due to the different regulatory requirements that may affect the study's outcome (Jamil 2020). Data on CSP were collected from the firm's annual reports using the content analysis technique. The corporate governance variables (board of directors and RMC attributes) and information on presence of sustainability committees were manually extracted from directors' biographies included in annual reports. Control variables data were extracted from the Eikon database.

VARIABLES MEASUREMENTS

DEPENDENT VARIABLE

Corporate sustainability performance (CSP) is the dependent variable in this study. It was measured using an index incorporating financial and non-financial performance indicators. Constructing the CSP index involves several steps (Zaid et al. 2020; Ali & Jadoon 2022). The first step is to identify the categories and items from prior studies. The three categories are economic, environmental, and social indicators, with 13 items (Table 1). The second step is to ensure the relevance of these items in the Malaysian business context, as guided by the Bursa Malaysia Sustainability Reporting Guide 2016. Upon confirming the reliability and internal consistency of the indicators using Cronbach's coefficient alpha, a value of 0.7275 was obtained for CSP. Our study adopted a dichotomous scoring methodology as consistent with previous research (Zaid et al. 2020). This approach assumes equal importance for each item, following an unweighted principle (Cooke 1989). In the scoring process, a score of 1 is assigned when firms disclose actual performance improvement. In contrast, a score of 0 is given if firms merely report sustainability activities without demonstrating evidence of improvement. The study calculates the overall CSP index by adding the actual performance CSP score and dividing it by the maximum possible number of CSP indicators.

$$CSP = \frac{\sum Actual\ perf ormace\ disclosed\ by\ company}{Maximum\ CSP\ \text{indicators}}$$

INDEPENDENT VARIABLES

In this study, the independent variable is a corporate governance mechanism, quantified as the aggregate of the attributes of the board, and the RMC. The study used four board attributes; board independence, board size, female directors, and number of board meetings. The RMC attributes were the size of RMC, independence of RMC members, financial literacy and number of RMC meetings. Thus, the sum of the board and RMC attributes is eight.

The corporate governance mechanism index was computed by taking the actual corporate governance score proportionate to the maximum possible score (8). The detailed measurements are explained in Table 1.

MODERATING VARIABLE

The moderating variable in this study is the sustainability committee. It was measured using a dummy variable: the firm's presence or non-presence of a sustainability committee. Consistent with the previous studies, this study assigned a value of 1 if a firm has established a sustainability committee and 0 otherwise (Biswas 2018).

CONTROL VARIABLES

There are several control variables that have been confirmed in the past studies to influence corporate sustainability performance; Firm Size (FSIZE), Firm Age (FAGE), Leverage (LEV) and type of auditor - Big 4 or non-Big 4.

TABLE 1. Variable measurements and score

Variable Name	Dimension/ attributes	Measurement	Score
Corporate Sustainability Performance (CSP)	Economic	Return on Assets (ROA) = EBIT/Total Asset	1 if the ROA is above the industry average ratio, and 0 otherwise.
		Tobin's Q= Market value of equity +Total Debt/Total Asset	1 if the value of Tobin's Q is above the industry average, and 0 otherwise.
	Environment	Resources reduction	1 if there is a reduction in resource consumption, and 0 otherwise.
		Waste minimisation	1 if there is a waste minimisation, and 0 otherwise.
		Emission reduction	1 if there is a reduction in emissions, and 0 otherwise.
		Award	1 if the firm receives an award relating to the environment, and 0 otherwise.
		ISO/EMS	1 to firms with ISO/EMS certification, and 0 otherwise
	Social	Community	1 if the firm has community involvement, and 0 otherwise.
		Health & Safety (HSE)	1 if the firm has an employee health and safety program, and 0 otherwise.
		Discrimination	1 if firm has discrimination policy, and 0 otherwise.
		Grievance mechanism	1 if firm has grievance mechanism, and 0 otherwise.
		Supply chain	1 if there are assessments of new and existing suppliers in the supply chain, and 0 otherwise.
		Award	1 if the firm receives an award relating to social matters, and 0 otherwise
Corporate Governance Mechanism	Board Independence	Number of independent members / total board members	1 if at least half of board members are independent, and 0 otherwise.
	Female directors	Number of female members / total board members	1 if at least 30% of board members are women directors, and 0 otherwise.
	Board size	Total number of board members	1 if the number is between 5 and 14, and 0 otherwise.
	Board Meeting	Total number of board meetings per year	1 if the number is 6 or more, and 0 otherwise
	RMC Independence	RMC's independent	1 if at least half members are independent,

		members / total RMC members	and 0 otherwise.
	RMC Size	Total number of RMC members	1 if the number is greater than the sample median, and 0 otherwise.
	Financial literacy	Number of members in RMC with financial literacy	1 if at least one member has an academic or professional qualification in finance / accounting, and 0 otherwise.
	RMC Meeting	Total number of meetings in a year	1 if the number is greater than the sample median, and 0 otherwise.
Sustainability Committee	Presence of the Sustainability Committee	A dummy variable; 1 indicating the presence of a sustainability committee, and zero otherwise	
Firm Age	Natural log of the number of years since the firm's incorporation.		
Firm Size	Natural log of Total Asset		
Leverage	Total debt over Total Asset		
Big 4	A dummy variable with a value of 1 if the external auditor is among the big four audit firms, and zero otherwise		

DATA ANALYSIS, REGRESSION ASSUMPTIONS AND MODEL SPECIFICATION

Data were analysed using STATA software to examine the influence of corporate governance on corporate sustainability performance. The normality, multicollinearity, heteroscedasticity, and serial correlation were tested in this study. The Hausman test is utilised to determine whether to employ the fixed effect (FE) or the random effect (RE) models. The Hausman test shows that the fixed model provided consistent estimates over the random effect model 1 (direct relationship) as the overall statistics $chi^2=18.50$ were statistically significant ($prob>chi^2=0.0010$) and therefore was selected over the fixed effect model to explain the effect of the independent variable on the dependent. Model 2 (the moderating effect) showed the overall statistics $chi^2=17.59$ were statistically significant ($prob >chi^2=0.0035$). Since the FE model is more applicable, all regression analyses are conducted based on this model.

The Pearson correlation and VIF test were used to examine the collinearity issues among all independent variables in the study. These tests also serve to assess the direction and strength of the relationship among variables. Table 2 displays the results of Pearson correlation and VIF statistics. Accordingly, none of the correlation coefficients exceeded the 0.80 cut-off, indicating the absence of a significant multicollinearity concern. Additionally, the VIF values, with a mean of 1.892 and all below 10, indicated that multicollinearity did not pose a concern in this study (Gujarati 2003).

TABLE 2. Pairwise correlations and VIF

Variables	VIF	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) CSP		1.000						
(2) CG	1.23	0.163	1.000					
(3) CGSC	1.17	0.269	0.355	1.000				
(4) FAGE	1.07	0.054	-0.086	0.004	1.000			
(5) LEV	1.25	0.328	0.204	0.116	-0.060	1.000		
(6) FSIZE	1.52	0.553	0.204	0.202	0.119	0.411	1.000	
(7) BIG4	1.33	0.383	-0.034	0.107	0.207	0.221	0.452	1.000

RESULTS

DESCRIPTIVE STATISTICS FOR ALL VARIABLES

Table 3 shows the descriptive statistics for all variables. The study calculated the corporate sustainability performance index by incorporating all three dimensions (economic, environment, and social) with a maximum score of 13. The mean value of the economic dimension is 1.017, with a minimum value of 0 and a maximum value of 2. The mean value for the environmental dimension is 1.462. The minimum value is 0, and the maximum value is 5. The results were almost similar to a study conducted by Alazzani et al. (2017), which found an average score of 1.414. Lastly, the social dimension shows a mean value of 3.442, with a minimum value of 0 and a maximum value of 6. This was higher than a study by Alazzani et al. (2017) that showed an average score of 1.361. The higher score indicates an improvement in social performance over time. Combining three dimensions, the CSP index has a mean score of 5.921 (45.5%). The results were lower than those of studies in Turkey, Colakoglu et al. (2021) and Saudi Arabia (Boshnak 2021).

The average of Corporate Governance Index scores is 58.4%, with a maximum of 100% and a minimum of 26.4%. The board averages seven members. The mean percentage of independent directors is 50.908%, higher than a study by Shu & Chiang (2020). The Board independence percentages adhere to MCCG 2021, recommending 50% of independent board members. The female directors average is 18.16%, indicating a positive increase from 2021 to 2022. However, the average number of female directors (1.412) falls short of MCCG's 30% recommendation. The number of board meetings averages 5.961 per year, exceeding a prior study by Disli et al. (2022) but aligning with Bursa Malaysia's suggestion of 6 to 8 meetings.

Table 3 also outlines the attributes of the RMC. RMC size averages about 2.303, which is lower than the findings of Boudiab and Ishak (2020) but similar to Jia and Bradbury (2020). The percentage of independent members averages 66.26%, aligning with MCCG 2021 recommendations. Average financial literacy score is 0.941, indicating at least one member with financial expertise. RMC meetings average 3.081, slightly below the findings of Boudiab and Ishak (2020), possibly due to the limited number of meetings during the COVID-19 pandemic, from 2020 to 2022. On average, 42.9% of firms have sustainability committees.

Descriptive statistics for control variables, including firm size, age, leverage, audit by Big 4 auditors, and industry distribution, are detailed in Panel D. Average log values for firm size is 13.402, firm age 32.009, and leverage 0.206. Big 4 auditors audit 43.70% of companies. Eleven industries are represented, with Industrial Products and Services dominating at 30.31%.

TABLE 3. Descriptive statistics results for all variables

Dimension	Mean	S.D	Min	Max
Panel A: Dependent variable				
Economic	1.017	0.707	0.000	2.000
Environment	1.462	1.507	0.000	5.000
Social	3.442	1.240	0.000	6.000
Total CSP	5.921	2.545	1.000	12.000
CSP Index (%)	0.455	0.196	0.770	0.923
Panel B: Independent variables				
Total CG	4.671	2.116	1.000	8.000
CG index (%)	0.584	0.264	0.125	1.000
BSIZE	7.541	1.970	4.000	15.000
BIND (%)	50.908	12.272	20.000	87.500
BIND	3.785	1.230	1.000	9.000
BGEN (%)	18.158	13.545	0.000	75.000
BGEN	1.412	1.179	0.000	9.000
BMEET	5.961	2.679	1.000	30.000
RMCSIZE	2.303	1.761	0.000	8.000
RMCIND (%)	66.260	46.927	0.000	100.000
RMCIND	2.282	1.748	0.000	8.000
RMCQ	0.941	0.924	0.000	5.000
RMCMEET	3.081	2.548	0.000	12.000
Panel C: Moderating variable				
		Frequency	Percentage	
Presence of the Sustainability Committee (SC)		327.000	42.910	
Non-presence of the sustainability committee (SC)		435.000	57.090	
Panel D: Control variables				
Continuous variables	Mean	S.D	Min	Max

FSIZE	13.402	1.553	10.273	19.141
FAGE	32.009	15.620	5.000	76.000
LEV	0.206	0.170	0.000	.676
Dummy variables				
		Frequency	Percentage	

CSP= Corporate Sustainability Performance comprises three dimensions: economic, environment and social. CG= Corporate Governance comprises of board directors (BOD) and risk management committee (RMC), Sustainability Committee (SC)=Dummy variable that takes a value of one if there is the presence of sustainability committee, and zero otherwise. FAGE=Firm Age is years since the firm's incorporation, LEV= Debt ratio is calculated as total debts divided by total assets, FSIZE= Firm size is measured by natural logarithm of total assets, BIG 4= dummy variable that takes value one if the company is audited by Big 4 audit firm, and zero otherwise.

REGRESSION RESULTS

CORPORATE GOVERNANCE AND CORPORATE SUSTAINABILITY PERFORMANCE

The regression results to test the relationship between corporate governance and corporate sustainability performance (CSP) are shown in Model 1 of Table 4. The coefficient value for the variable CG was 0.067 (t= 2.920, p<0.01). The result is statistically significant and supports the stakeholder theory proposition that effective CG helps managers make better corporate decisions to align with their stakeholders' interests, subsequently improving sustainability goals (Jha & Rangarajan 2020). Thus, Hypothesis 1 is supported.

Model 2 of Table 4 clarifies the relationship between all CG attributes and corporate sustainability performance (CSP). The investigation revealed a positive and significant relationship between the inclusion of female directors on the board and CSP, with a coefficient value of 0.017 (t=3.164, p<0.01), affirming hypothesis 2b. This finding aligns with Jouber (2022) and concurs with the upper echelon theory, positing that female directors, who are attuned to stakeholders' social needs, positively influence CSP. Consistent with hypothesis 2c, the study found a significant and positive relationship between board size and CSP, represented by a coefficient of 0.007 (t=1.897, p<0.10). This observation aligns with prior research (Disli et al. 2022), which also demonstrated a positive relationship between board size and corporate sustainability performance. Larger boards are anticipated to integrate diverse perspectives, knowledge, and intellect, contributing to the overall enhancement of the company's performance. Likewise, the link between the size of the risk management committee and corporate sustainability performance exhibited a positive relationship, as evidenced by a coefficient value of 0.005 (t=1.659, p<0.10), indicating that a greater number of risk management committee members positively influences CSP. Furthermore, the financial literacy among risk management committee members demonstrated a significant positive relationship with CSP, reflected in a coefficient of 0.022 (t=2.327, p<0.05). This underscores that financially literate risk management committee members are pivotal in mitigating unreasonable business risks and upholding sound risk management practices. This finding is similar to the study by Jia et al. (2019), who reported a similar outcome. The results verified the support for hypotheses 3b and 3c.

Nonetheless, Model 2 in Table 4 indicates that the independence of the RMC had a significant and negative relationship with the CSP, with a coefficient of -0.056 (t= -1.794, p<0.10). This outcome goes against what was anticipated in hypothesis 3a, which suggested a significant and positive correlation. Independent RMC members contribute to clarifying the committee's purpose, pinpointing relevant risks in the company, and minimising those risks that eventually improve overall firm performance. The negative relationship suggests that the independent members' role may not be efficient in managing sustainability performance, as independent members might focus more on risk aversion without fully considering the long-term benefits of sustainable practices.

Several characteristics were identified to have a non-significant relationship with CSP. Board independence exhibited a positive yet statistically non-significant association with corporate sustainability performance, reflected by a coefficient of 0.001 (t= 1.339, p>0.05). This finding aligns with the observations made in a study conducted by (Naciti 2019). One plausible explanation for this trend could be a lack of inclination to disclose information beyond mandatory compliance, as Zaman et al. (2018) suggested, coupled with concerns about higher reputational costs. Contrary to hypotheses 2d and 3d, BOD and RMC meetings demonstrated a positive yet statistically non-significant relationship with Corporate Sustainability Performance (CSP). This outcome contradicts expectations and were established through prior research, particularly the work of Mohd Ghazali (2020). The rationale of this result may be attributed to the notion that frequent meetings might indicate underlying problems within the company, necessitating immediate or continuous monitoring and decision-making. Regarding the control variables, Table 4 indicates that firm size, leverage, and Big 4 positively and significantly impact CSP. However, firm age was found to have a positive and non-significant relationship with CSP.

TABLE 4. Regression result from the impact of CG on CSP

	Model (1)	Model (2)
	CSP	CSP
Intercept	0.297***	0.293***
	(4.615)	(3.899)
CG	0.067***	
	(2.920)	
BSIZE		0.007*
		(1.897)
IND		0.001
		(1.339)
BGEN		0.017***
		(3.164)
BMEET		0.001
		(0.481)
RMCSIZE		0.051*
		(1.659)
RMCIND		-0.056*
		(-1.794)
RMCQ		0.022**
		(2.327)
RMCMEET		0.001
		(0.235)
FSIZE	0.057***	0.050***
	(13.409)	(10.332)
FAGE	-0.004	-0.003
	(-0.420)	(-0.279)
LEV	0.013***	0.013***
	(3.337)	(3.362)
BIG4	0.079***	0.072***
	(5.768)	(5.248)
R^2	0.3798	0.3993
Adj. R^2	0.3656	0.3797
n	762	762
F-stat	36.058	25.891
Prob>F	0.0000	0.0000

, ** and * represent significance at p<0.10, <0.05 and <0.01, respectively. The t-statistics values are reported in parentheses.*

THE MODERATION ROLE OF THE SUSTAINABILITY COMMITTEE

Table 5 illustrates the findings from examining the SC as a moderating factor in the relationship between CG and CSP. Model 1 shows the results of the direct relationship between the SC and CSP with a coefficient value of 0.069 (t= 5.922, p<0.01) and consistent with previous studies (Villiers et al. 2022; Guo & Yu 2022). The presence of SC suggested that firms were concerned about sustainability issues. Companies establishing a sustainability committee typically participate in more substantial social and environmental initiatives and convey their societal commitments more efficiently (Arayssi et al. 2020).

Model 2 in Table 5 also shows that the presence of SC did not strengthen the relationship between CG and CSP. Upon incorporating SC into the regression model, it was observed that the interaction effect between CG and SC was positively non-significant at a coefficient of 0.031(t=0.712, p>0.05). The results suggest that SC does not influence CG for the improvement of CSP. In consequence, hypothesis 2 was not supported (Bifulco et al. 2023).

These findings raise the question of whether establishing a sustainability committee is essential for enhancing corporate sustainability performance. According to the greenwashing argument, firms may create a sustainability committee primarily to maintain legitimacy and improve their reputation, with a limited impact on actual operations and performance (Li et al. 2022). The lack of support for these claims prompts a reconsideration of the role of the sustainability committee in advancing corporate sustainability performance. This outcome could be attributed to the ineffective contribution of the sustainability committee in assisting firms in achieving sustainability objectives. Additionally, it is worth noting that regulations and guidance regarding the composition and responsibilities of sustainability committees are still in the early stages (Elmaghrabi 2021). The results must also be interpreted cautiously since about 57.09% of sample firms do not have a SC. This could potentially limit the results of the analysis. Since the existence of SC is considered pertinent in supporting CG role, further analysis was carried out by examining the detailed categorising of the SC, whether CSP is a stand-alone committee combined with other committees (e.g., RMC), with SC under the board's jurisdiction. This suggests that the SC was led by the managing director and reported to the board. The results are reported in the next section.

TABLE 5. Regression result for the moderating role of the sustainability committee

	Model (1)	Model (2)
	CSP	CSP
Intercept	0.303***	0.296***
	(4.796)	(4.568)
CG	0.066***	0.053*
	(2.972)	(1.798)
SC	0.069***	0.050*
	(5.922)	(1.760)
FSIZE	0.056***	0.056***
	(13.407)	(13.337)
FAGE	-0.005	-0.005
	(-0.455)	(-0.464)
LEV	0.014***	0.014***
	(3.566)	(3.510)
BIG4	0.074***	0.074***
	(5.538)	(5.518)
CGSC		0.031
		(0.712)
R^2	0.4069	0.4073
Adj. R^2	0.3925	0.3921
n	762	762
F-stat	39.177	37.071
Prob>F	0.0000	0.0000

, ** and * represent significance at p<0.10, <0.05 and <0.01, respectively. The t-statistics values are reported in parentheses.*

ADDITIONAL ANALYSIS

This section reports two additional analyses to explain further the key findings (Table 4 and Table 5). In particular, the first analysis is to test the relationship between CG and CSP across its three dimensions: economic, environmental, and social; which one of these dimensions are considered more important from a stakeholder theory perspective. The second analysis examines the role of SC as a moderating variable when it is categorised as stand-alone SC, SC combined roles with other committees (e.g., RMC), or SC under the firm's management.

Previous test examined the issue when SC is categorised as one category only (Table 5). The results provide a further understanding of the role of the SC in the CSP.

THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE AND INDIVIDUAL CORPORATE SUSTAINABILITY PERFORMANCE DIMENSION

The results of the first analysis are presented in Table 6. CG was shown to positively and significantly influence the economic and environmental dimensions only (Models 1 & 2). In other words, the board is more concerned about economic and environmental performance and less about social performance. The findings are in congruence with findings of past studies that indicated social sustainability as frequently overlooked, thus reinforcing the notion that among the three identified performance dimensions, it receives the least attention which is also inadequate (Disli et al. 2022; Shaharudin et al. 2022). It could also be attributed to the broad scope of social performance indicators that were difficult to capture in this study.

TABLE 6. The regression results of CG and individual dimensions of CSP

	Model (1)	Model (2)	Model (3)
	Economic	Environmental	Social
Intercept	0.106	0.619***	0.158**
	(0.690)	(5.650)	(1.970)
CG	0.093**	0.105***	0.029
	(2.040)	(2.806)	(1.132)
FSIZE	0.047***	0.072***	0.048***
	(4.657)	(9.691)	(9.804)
FAGE	-0.032	-0.002	0.002
	(-1.388)	(-0.114)	(0.133)
LEV	0.073***	0.004	0.001
	(8.489)	(0.780)	(0.205)
BIG4	0.066**	0.103***	0.065***
	(2.517)	(4.534)	(4.131)
R^2	0.2558	0.3222	0.2557
Adj. R^2	0.2388	0.3067	0.2387
n	762	762	762
F-stat	17.820	30.662	21.489
Prob>F	0.0000	0.0000	0.0000

, ** and * represent significance at p<0.10, <0.05 and <0.01, respectively. The t-statistics are reported in parentheses.*

THE EFFECT OF THE SUSTAINABILITY COMMITTEE ON THE ASSOCIATION BETWEEN CORPORATE GOVERNANCE AND CORPORATE SUSTAINABILITY PERFORMANCE

The second analysis was undertaken to investigate the influence of various categorisations of SC on the relationship between CG and CSP. The SC was categorised into three: stand-alone SC, SC combined roles with other committees (e.g., RMC), and SC reported to the board - implying that the SC was led by the managing director who undertook the reporting. As shown in Table 7, the findings reveal that all categories of SC do not significantly influence the relationship between CG and CSP. These findings confirmed results of the main analysis (H_2), which were similar to those reported in Table 5. In other words, the existence of SC in whatever form cannot provide a supporting role to strengthen the influence of corporate governance in achieving a firm's long-term performance.

TABLE 7. The moderating role of SC between CG and CSP

	Model (1)	Model (2)	Model (3)	Model (4)	Model (5)	Model (6)
Intercept	0.305***	0.305***	0.273***	0.272***	0.318***	0.321***
	(4.732)	(4.726)	(4.152)	(4.075)	(5.008)	(5.030)
CG	0.063***	0.064***	0.067***	0.066***	0.074***	0.080***

	(2.726)	(2.742)	(2.901)	(2.833)	(3.302)	(2.827)
SC_STANDALONE	0.099***	0.146				
	(2.603)	(1.222)				
SC_STANDALONE_CG		-0.065				
		(-0.360)				
SC_COMBINED			0.071***	0.047		
			(2.668)	(0.548)		
SC_COMBINES_CG				0.034		
				(0.302)		
SC_UNDERBOD					0.070***	0.079***
					(5.752)	(2.744)
SC_UNDERBOD_CG						-0.016
						(-0.360)
FAGE	-0.004	-0.004	-0.005	-0.005	-0.004	-0.005
	(-0.335)	(-0.342)	(-0.481)	(-0.485)	(-0.443)	(-0.448)
LEV	0.013***	0.013***	0.013***	0.013***	0.014***	0.014***
	(3.325)	(3.312)	(3.245)	(3.245)	(3.735)	(3.755)
BIG4	0.078***	0.078***	0.080***	0.080***	0.076***	0.076***
	(5.703)	(5.711)	(5.866)	(5.853)	(5.658)	(5.658)
R2	0.3844	0.3845	0.3829	0.3830	0.4066	0.4067
Adj.R2	0.3695	0.3687	0.3680	0.3672	0.3922	0.3915
n	762	762	762	762	762	762
F-stat	35.275	34.030	38.572	38.386	36.183	34.362
Prob>F	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

, ** and * represent significance at p<0.10, <0.05 and <0.01, respectively. The t-statistics are reported in parentheses.*

CONCLUSION

This study underscores the crucial role of corporate governance in determining a firm's sustainability performance. The identified factors, such as board size, female directors, RMC size and financial literacy among RMC members, have been confirmed to enhance corporate sustainability performance. An efficient board facilitates management to be more effective and plays a pivotal role in providing correct business and strategic direction to improve life span of the firm in the long term. A balanced RMC structure is highlighted as essential to mitigate the adverse impacts of company activities, providing a clear link between effective risk management and sustainability performance.

Surprisingly, the presence of a sustainability committee, while expected to strengthen the relationship between corporate governance and corporate sustainability performance, was found to be non-significant in this study. Further investigation using different categorisations of SC also found an non-significant relationship between CG and CSP. The lack of support for these claims prompts a reconsideration of the role of the sustainability committee in strengthening corporate governance to improve the sustainability performance of firms in Malaysia. This outcome could be attributed to the effectiveness of corporate governance in assisting firms in achieving sustainability. Effective governance and sustainability performance are essential for positive and long-term change in firms and society. It was consistent with stakeholder theory, which requires the fulfilment of the needs and interests of stakeholders. The latest MCCG suggests that firms should have a designated committee for sustainability-related issues. The sustainability committee may help the board of directors improve the firm's performance by providing ideas and strategies for sustainability directions. It is, therefore, imperative to consider the mandatory establishment of a sustainability committee within firms.

The present study adds to the body of knowledge through its elucidation of sustainability performance in Malaysia within the perspective of three dimensions that goes beyond the traditional confines of the financial dimension. This study also extends the existing literature on corporate governance mechanisms by considering risk management and sustainability committees, which have rarely been studied collectively in the past. The results of the study benefited policymakers and regulators. The findings show that board size and frequency of female directors have a positive and significant relationship with sustainability performance. This should motivate the regulators into amplifying their efforts to ensure the number of board members and female board directors are at their optimum. The findings also indicate that the RMC size and number of members with financial literacy, positively and significantly influence CSP. In the competitive business environment with its unpredictable risks, it is crucial to have a sub-committee that prioritises risks in order to prevent loss.

Enhancing compliance with a corporate governance code can serve as a pathway to achieving enhanced performance for companies. The results show that the SC do not influence firm sustainability performance. The non-significant result may be due to the non-mandatory formation of a SC in Malaysia and the lack of awareness of its importance in improving CSP compared to the RMC, which shows significant results. The mandatory requirement of the RMC might influence the result significantly. Considering that the formation of the SC is still at a rudimentary stage and there was an initial effort made by Bursa Malaysia to recommend its formation among firms, this study suggests that managers must consider establishing an effective committee for sustainability-related tasks that help coordinate communications between the firm and stakeholders. The board acknowledges the value of the SC in addressing sustainability-related issues, and of late its necessity has been demanded by interested stakeholders.

Despite these insightful findings, the study acknowledges its limitations, that necessitate further research. The study period needs to be extended from three years to a longer timeframe to validate or challenge the current findings. Replicating the research in diverse institutional settings should provide greater generalisability of the results. Additionally, a more in-depth exploration of SC characteristics, rather than their mere presence, and a broader investigation into potential correlated factors with CSR performance are venues for future research. This study essentially serves as a stepping stone, highlighting the importance of ongoing inquiry into the intricate relationship between corporate governance and sustainability performance.

ACKNOWLEDGEMENT

The authors wish to thank the Universiti Kebangsaan Malaysia for the financial assistance awarded under the Research University Grant (GUP) 2021-001.

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