SUSTAINABILITY REPORTING AS STRATEGIC CRISIS RESPONSE MECHANISM: AN INNOVATIVE APPROACH

Zuraidah Mohd Zam *, Haslinda Yusoff **, Rina Fadhilah Ismail *, Hasan Fauzi ***

* Faculty of Accountancy, Universiti Teknologi MARA, Selangor, Malaysia
** *Corresponding author,* Faculty of Accountancy, Universiti Teknologi MARA, Selangor, Malaysia
Contact details: Faculty of Accountancy, Universiti Teknologi MARA, Cawangan Selangor, Kampus Puncak Alam, 42300 Bandar Puncak Alam, Selangor, Malaysia
*** Faculty of Economics and Business, Sebelas Maret University, Surakarta, Indonesia

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Abstract

Most companies have been severely affected by various business risks due to the COVID-19 outbreak. Their limited resources during this adverse period have forced them to be more concerned with their companies' survival than making sustainability initiatives that incur extra costs. Consequently, companies have faced a challenge in reporting imposed-sustainability statements. According to Wenzel et al. (2020) and Zharfpeykan and Ng (2021), companies can innovatively improvise the regular sustainability reporting to become a strategic tool to portray to stakeholders how companies respond to and address sustainable matters during a crisis period. Thus, this paper presents the concept of sustainability reporting as a strategic crisis response mechanism and proposes a model and matrix that maps the stakeholder engagement disclosure strategy with quality disclosure. Moreover, the paper discusses how this reporting can be influenced by internal governance mechanisms. The paper further suggests the moderating role of enterprise risk management (ERM) in this relationship. This concept can potentially guide managerial decisions on ideal sustainability practices that may not impair companies' capacity to survive during future crises. It may act as an effective instrument in meeting stakeholders' expectations of companies to perform their roles as good corporate citizens during a crisis.

Keywords: Sustainability Reporting, Strategic Crisis Response, Strategic Sustainability Reporting, Internal Governance Mechanisms, Enterprise Risk Management (ERM)

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1. INTRODUCTION

The Coronavirus disease (COVID-19) outbreak has crushed the economy into a recession with a repercussion worse than the previous global financial crisis (United Nations, 2020a). This pandemic has not only strained companies' resources but also severely affected their performance, requiring decision-making adjustments (He & Harris, 2020).

A similar scenario has happened in Malaysia, where most publicly listed companies have been affected and hindered from actively participating in sustainability initiatives, such as philanthropy activities to help people in need during the crisis (AWANI, 2021). Whereas, companies must involve in sustainability initiatives due to their obligation to adhere to the Bursa Malaysia Listing Requirement and report their annual sustainability statements. Knowing that initiating sustainable activities may incur additional costs (Sprinkle & Maines, 2010), many companies are having a dilemma to prepare effective sustainability reporting as the availability of resources is limited especially during a crisis. They would prefer to focus more on short-term survival during this challenging period and are prone to concentrate less on the initiatives (Pinto et al., 2014; He & Harris, 2020). Thus, companies have been seen to handle crises conservatively, defensively, and selectively, especially when choosing the sustainability areas to prioritise and how they should be reported to stakeholders during a crisis (Karaibrahimoğlu, 2010; Pinto et al., 2014).

The need for sustainability reporting has increased as it serves as a company's communication device (Hsu et al., 2013; Campra et al., 2020; Torelli et al., 2020) to disseminate its responsible practices, initiatives, and remedies taken to address economic, environmental and social (EES) issues during a crisis (Zharfpeykan & Ng, 2021). Through disclosure, stakeholders can discover how excellently companies have reacted to any changes or challenges in managing stakeholders' perceptions (Shad et al., 2018). Also, they can build a good reputation through their responsible and accountable responses to a crisis by adopting a proactive reporting strategy. This strategy is carried out to demonstrate their abilities, efforts, and wise decisions on continuous engagement in sustainability projects throughout the year despite limited resources. Indeed, companies are able to convey messages to stakeholders that they have effectively executed their responsibility as good corporate citizens and are sustainability concerned even during adverse times.

In this regard, the board of directors, also known as the internal governance mechanisms (Godos-Díez et al., 2018), plays a vital role in deciding companies' involvement with sustainability initiatives in this challenging time. Their credibility is questionable whether they can strike a balance between making responses in crisis and thinking beyond current challenges by making deliberate decisions about where their companies should focus their attention (Hirt et al., 2020).

The pandemic crisis also has exposed companies to various business risks. Therefore, the board can offer reasonable assurance to stakeholders through effective and efficient decisions in developing business strategies and risk management during the crisis. The board's appropriate decisions are expected to satisfy the Committee of Sponsoring Organizations of the Treadway Commission (COSO) recommendation to utilise available resources within tolerable risks through applying an adequate risk management framework, i.e., enterprise risk management (ERM) (PricewaterhouseCoopers [PwC] & COSO, 2004). With proper ERM implementation, the board will be well-versed in potential risks when facing adverse events, which will expedite fast decision-making during future crises (Aufreiter et al., 2021). Consequently, companies will face a minimum impact of relevant risks, enabling them to better accomplish business objectives (Nocco & Stulz, 2006; Faisal et al., 2021).

However, prior literature has less highlighted the potential influence of ERM in steering strategic decisions on companies' sustainability initiatives during crises. Therefore, this conceptual paper provides a discussion from the perspective of an innovative approach to sustainability reporting in portraying the strategic mechanism in responding to the crisis. Further, this paper also argues on the likelihood of incorporating ERM into the internal governance mechanisms impacting strategic disclosure of sustainability initiatives, particularly during a crisis period. This viewpoint may provide useful guidance to highlight the role of ERM practices towards board decisions on ideal sustainability initiatives and strategies without jeopardising companies' survival during a crisis, which at the same time may help to satisfy stakeholders' expectations on companies to act as responsible corporate citizens amid future crises.

The structure of this paper is as follows. This paper continues with the literature review in Section 2, which include the discussion of underpinning theories, sustainability reporting and its potential to be a strategic crisis response mechanism, and the influence of internal governance mechanism and ERM. Section 3 explains the research methodology for this study. Next, Section 4 clarifies the results and discussion of the model and matrix of strategic sustainability reporting and the connection between internal governance mechanisms, ERM, and sustainability reporting practices during the COVID-19 crisis. Lastly, Section 5 concludes the study.

2. LITERATURE REVIEW

After several crises hit the world, there is growing attention and focus on the interrelated issues of internal governance mechanisms, ERM, and sustainability reporting in both research and practice by various industries. This study went through prior literature to further review and explore these three areas:

1) the transformation of regular sustainability reporting as a crisis response strategy;

2) the effect of internal governance mechanisms on companies' disclosure in sustainability reporting as a crisis response action;

3) the moderating role of ERM implementation on the relationship of internal governance mechanisms and sustainability reporting, especially during the crisis period.

2.1. Underpinning theories

This study provides critical reviews of two underpinning theories of the agency and stakeholder theories to understand the issues pertinent to internal governance mechanisms and sustainability reporting.

2.1.1. Agency theory

According to Eisenhardt (1989), agency theory focuses on alleviating two problems that arise among various parties involved in a company. The first problem is recognised as the risk-sharing problem, which occurs when the principals and agents have opposing views and approaches due to different risk preferences. The second problem is known as the agency problem. Based on prior literature in economics and finance, three types of agency problems arise due to different interests either between Type I — owners and managers, Type II — major and minor owners, or Type III — principals and creditors (Panda & Leepsa, 2017).

Jensen and Meckling (1976) defined an agency relationship as "a contract under which one or more persons (the principals) engage another person (the agent) to perform some device on their behalf, which involves delegating some decision-making authority to the agent" (p. 308). The principals hire the agents under the agreement or contract and compensate them for meeting the principals' desired outcomes in business operations. Moreover, the principals also delegate certain decision-making authority to the agents working on behalf of the principals (Miles, 2012). The principals might often experience difficulties in verifying whether the agents perform their responsibilities accordingly (Eisenhard, 1989). These issues arise from the separation between owners (principals) and managers (agents). To resolve it, the principals must pay agency costs to ensure the agents will act in the best interests of the principals (Jensen & Meckling, 1976).

Another cause of agency problems is known as information asymmetry. It is about how the management handles the company's operations and has the privilege to retrieve outside and inside information related to business matters, which is contradicting to the owners, that may only get limited access to the information (Jensen & Meckling, 1976). This advantage of getting insider information can be used to fulfil managers' (agents') personal interests that may be misaligned with owners' (principals') objectives (Panda & Leepsa, 2017).

Disclosures of information are able to enhance the board's accountability and transparency in performing their duties (Suttipun, 2021). When approval from the board of directors has been granted, managers can share and expose more internal information with the shareholders and other stakeholders. As such, the decision on willingness to reveal voluntary information, such as companies' strategic crisis response and sustainability initiatives relies on the board of directors' responsibilities. This may imply that the internal governance mechanisms such as the board size, independent directors' presence, the existence of duality function, and the frequency of board meetings can exert influence on the companies' sustainability disclosure (Jizi et al., 2014; Ju Ahmad et al., 2017). Aufreiter et al. (2021) further argues that proper risk management would enable directors to make the right decision. Thus, the board's decision to decide on initiatives of sustainable activities with a tight budget and the ways they strategically communicate it through reporting can be further influenced by how directors effectively manage the risk of such initiatives in an adverse economic environment.

2.1.2. Stakeholder theory

In earlier times, companies focused on performing their obligation to shareholders only. However, after a while, they realised other interested parties' existence and needs. Thus, the stakeholder theory established by Freeman (1984) contends the presence of different groups of stakeholders other than shareholders and investors only, e.g., managers, employees, customers, suppliers, creditors, government, and society (Shad et al., 2019).

Donaldson and Preston (1995) classify stakeholder theory into three perspectives, namely: 1) descriptive; 2) instrumental, and 3) normative. Firstly, the descriptive perspective recognises the presence of diverse stakeholders other than current shareholders. The theory reflects and acknowledges the existence of the past, current and future relationships between companies and their stakeholders. Therefore, companies are responsible for meeting these stakeholders' needs (Miles, 2012).

Secondly, the instrumental perspective allows this theory to ascertain the presence of connections between the stakeholders' management and achieving companies' common objectives. It focuses on the relevant efforts taken to handle stakeholder matters which consequently may affect the companies' performance. Prior studies used stakeholder theory to explain that companies concerned with stakeholders' interests are more successful than others (Donaldson & Preston, 1995; Miles, 2012).

Thirdly, the normative perspective examines the reason why companies should be concerned with and consider the existence of their stakeholders. This consideration aligns with the ideology that stakeholders, regardless of whether they are individuals or groups, have valid interests in companies (Donaldson & Preston, 1995). The theory assists in understanding the companies' role and underlying philosophical principles as a basis to correspond to the stakeholders' valuable interests as it will benefit the companies as a whole (Donaldson & Preston, 1995; Miles, 2012).

Companies need to realise their responsibility to meet stakeholders' demands by performing activities that are deemed essential and providing them with precise reports (Fernando & Lawrence, 2014). According to Zharfpeykan and Ng (2021), stakeholder theory suggests that the ordinary role of companies' sustainability reporting can be transformed to become a strategic tool to respond to and address particular stakeholders' needs during a crisis period (Zharfpeykan & Ng, 2021). From the agency theory's perspective, preparing corporate reports is a way for the board of directors to mitigate information asymmetry to shareholders as their principals. However, companies also obligate to extend the reporting to meet other stakeholders' demands as explained by the stakeholder theory. This is because stakeholders are expected to be informed about companies' initiatives and activities that can influence them even though they are not directly involved with the companies' survival (Shad et al., 2019).

Hence, by disclosing the sustainability engagement in the report, companies are fulfilling their obligation to meet and maximise stakeholders' interests. Through reporting, companies acknowledge the stakeholders' rights to know about their sustainability initiatives while operating the business (Fernando & Lawrence, 2014; Shad et al., 2019), including during crises. In return, companies gain benefits by improving their reputation or image, attracting prospective investments and employees, retaining existing workers, enhancing companies' relationships with stakeholders to gain their support and consent, and increasing companies' value (Gray et al., 1995; Deegan, 2009; Shad et al., 2019).

2.2. Sustainability reporting as a crisis response mechanism

In the past, companies' reporting focused on disclosing financial information. However, stakeholders such as shareholders, customers, suppliers, employees, management, and local communities (Zharfpeykan & Ng, 2021) began to demand non-financial information like companies' sustainability initiatives, such as engagement with environmental conservation activities and social responsibility projects (Oluseyi-Sowunmi et al., 2019). Nowadays, most companies disclose their sustainability initiatives in a report known as sustainability reporting (Buniamin & Ahmad, 2015).

Sustainability reporting is "the practice of measuring, disclosing and being accountable to internal and external stakeholders for organisational performance towards the goal of sustainable developments" (Global Reporting Initiative [GRI], 2006, p. 4). According to the Klynveld Peat Marwick Goerdeler (KPMG) International Survey of Sustainability Reporting, about 80% of worldwide companies proactively published their sustainability initiatives in their reporting (KPMG, 2020). This finding suggests greater acceptance of the broader adoption of sustainability reporting among global companies (Amran & Ooi, 2014) to transparently showcase their sustainability initiatives and impact on various stakeholders (Boiral, 2013).

Sustainability reporting can be used as a vital mechanism to communicate and disseminate information to various stakeholders about companies' sustainability initiatives in areas such as social, environmental, and governance matters (Torelli et al., 2020; Stocker et al., 2020; Campra et al., 2020; Hsu et al., 2013). It is "the critical first step in implementing a strategy that can help an organisation to set goals, measure performance, manage sustainability-related impacts and risks, and understand how it drives value for its stakeholders" (Deloitte, 2020, p. 2).

Examining sustainability reporting might give an insightful view of the extent of companies' involvement in realising companies' aims (Jamil et al., 2021), especially during a crisis like the pandemic (Zharfpeykan & Ng, 2021). Thus, sustainability reporting is proven to be a vital tool for communicating and distributing information to numerous stakeholders about companies' sustainability matters during the year of reporting (Torelli et al., 2020; Stocker et al., 2020; Campra et al., 2020; Hsu et al., 2013).

The world has experienced several crises like the Asian recession of 1997–1999, the global financial crisis of 2006–2012, and the latest COVID-19 pandemic outbreak. A crisis is defined as "a sudden and unexpected event that threatens to disrupt an organisation's operations and poses both a financial threat and a reputational threat" (Coombs, 2007, p. 164). Crises have severe impacts such as loss of employment, failure of financial sectors, a decrease in the stock market index, creation of liquidity issues, and reduction of income (Dias et al., 2016; Flammer & Ioannou, 2020). Thus, as part of cost-cutting measures implemented for survival (Yelkikalan & Köse, 2012), some companies reduce sustainability practices and reporting (Karaibrahimoğlu, 2010), which leads to the decline of companies' transparency, quality, and extent of sustainability reporting disclosure during a crisis (Karaibrahimoğlu, 2010; Rodolfo, 2012). However, Bell (2020) emphasises that a crisis is an appropriate time for companies to reflect on whether they can prioritise stakeholders' interests and create long-term value as they have planned. Accordingly, stakeholders can assess whether companies' crisis response efforts meet their expectations; failure will cause them to think negatively and threaten companies' overall reputations (Coombs, 2007; Zharfpeykan & Ng, 2021).

Referring to Wenzel et al. (2020), companies usually use four strategies when responding to crises. Firstly, they exercise the retrenchment action to reflect the companies' techniques to reduce costs or stop a part of their business activities, especially the ones that contribute to the loss in the challenging period. Secondly, the companies use persevering action by maintaining business operations during a crisis using their slack resources or further loan borrowing. Thirdly, they innovate actions by finding unique, potential, or alternative approaches as a crisis response strategy. Fourthly, they practise exit actions by terminating all business activities after other efforts have failed to make the business survive during the uncertain crisis environment.

Bansal et al. (2015) examined US companies' sustainability initiatives and their involvement in changes during the 2008–2009 global recession crisis. They found that the companies were more engaged in strategic initiatives, which required a longer time, more commitment, and resources, such as activities related to the environment, employees, and product quality rather than tactical sustainability initiatives, such as social activities, that needed less time and resources.

In another past study, Herzig et al. (2012) examined Germany's ten largest banks' sustainability reporting disclosure for 2008–2009. The findings showed the banks' different commitment levels as they focused more on their operation impacts rather than on integrating sustainability agendas into their business activities during the crisis. The findings implied the bank's failure to fully utilise the sustainability reporting to communicate its sustainability practices to stakeholders during the crisis.

Stocker et al. (2020) analysed the engagement level between 119 energy companies in 40 countries with their identified stakeholders. The study adopts the three communication strategies proposed by Morsing and Schultz (2006). Level 1 (stakeholder information strategy) includes actions aimed at identifying and informing stakeholders, Level 2 (stakeholder response strategy) involves consulting the interests and supporting the demands of stakeholders, and Level 3 (stakeholder involvement strategy) is aimed at establishing partnerships and collaborations with stakeholders in projects (Stocker et al., 2020, p. 2076). Later, the researchers examine the firms' focus and extent by searching for the types and number of stakeholders that the firms engage with. From the frequency findings, they suggest stakeholder's engagement strategies matrix.

From the above, three studies explore how companies react to shocking crises from different contexts. Wenzel et al. (2020) suggested four common strategies for how companies could respond to the crisis. Bansal et al. (2015) and Herzig et al. (2012) specifically look into the types of sustainability initiatives that companies engage with and their commitment levels in performing the activities during global recession crises, respectively. Meanwhile, Stocker et al. (2020) is a non-crisis study examining the frequency of general sustainable actions according to three levels of strategies by Morsing and Schultz (2006), type, and extent. By combining the idea of all four studies, this paper proactively raises the concept of evaluating companies' crisis response by assessing their sustainability initiatives in each EES area. The aim is to interpret how companies communicate their strategic crisis response action by implementing sustainability initiatives for the reporting period. As a result, it assists in observing companies' stand on whether they are into investing in sustainability initiatives during the difficult time or succumb to their business's short-term survival (He & Harris, 2020).

This notion is aligned with KPMG's (2020) suggestion that companies can utilise their crisis experience to innovatively expand their ordinary sustainability reporting into more compatible reporting. This innovative action is one of the companies' strategies for responding to crises, as mentioned by Wenzel et al. (2020). Past research proved that companies should take the excellent opportunity to practise and engage in sustainability reporting as a dynamic business response strategy to build a strong rapport with their stakeholders (He & Harris, 2020). Nevertheless, numerous prior literatures examined sustainability reporting during stable economic and previous crisis conditions (Rathnayaka Mudiyanselage, 2018; Zhou, 2019; Jamil et al., 2021; Bhatia & Makkar, 2020). Though, there are still insufficient data on the extent of ways how companies report during the COVID-19 pandemic crisis (García-Sánchez & García-Sánchez, 2020), particularly ones that emphasise disclosure about the companies' sustainability initiatives as an urgent strategic response during a crisis.

2.3. Influence of internal governance mechanisms

The emphasis on companies' good corporate governance became the limelight after the corporate scandal of Enron, Worldcom, and others. The board of directors is part of corporate governance concerns and has been considered a crucial internal governance mechanism (Godos-Díez et al., 2018; Jamil et al., 2021). Traditionally, their fiduciary responsibilities are to act in the owners' and investors' interests (Chams & García-Blandón, 2019), particularly in maximising profit and reporting the financial performance (Puroila & Mäkelä, 2019). However, over the years, the spectrum of directors' duties has become broader, with further commitments to tackling the needs of other stakeholders (Chams & García-Blandón, 2019) on sustainability practices. The expanded duties in reporting demonstrate the importance of meeting stakeholders' expectations for the companies to conduct their business operations without jeopardising their natural environment and surrounding communities (Deegan et al., 2000; Shad et al., 2018).

In Malaysia, the emphasis on companies' good corporate governance became the attention of relevant authorities after the Asian financial crisis that occurred in 2000. The introduction of the Malaysian Code of Corporate Governance (MCCG) was among the efforts carried out. The objective of MCCG is to provide best practices on the companies' structures and processes toward an optimum governance framework. The code also guides companies' internal governance mechanisms matters, including the recommendation of the board's roles, composition, and best practices in managing and controlling the businesses. The latest MCCG issued by the Securities Commission Malaysia in 2021 introduces best practices for enhancing board oversight and incorporating sustainability in the companies' strategy and business operations. This suggests the importance of the boards as internal governance mechanisms to have adequate knowledge and understanding of sustainability matters.

The update about the boards being relevant to sustainability was released in time with the pandemic outbreak, whereby stakeholders were keen to know how companies would have reacted to the sustainability issues during the crisis (Zharfpeykan & Ng, 2021). As such, the board of directors needs to tackle companies' risks and opportunities, especially sustainability matters, to ensure the companies' resilience and survival (Securities Commission Malaysia, 2021). It reflects the urgency for the board to strike a balance between responding to the crisis by thinking beyond challenges and making deliberate decisions about where companies should focus their attention due to the crisis and turmoil caused by the pandemic (Hirt et al., 2020). It is also crucial for companies to disseminate information in proper reporting about their sustainability initiatives, efforts, and performance during the crisis (Zharfpeykan & Ng, 2021). Even though MCCG is available for guidance, the implementation depends on the discretion of the respective company boards.

Most prior empirical literature (Haji, 2013; Jizi et al., 2014; Muttakin & Subramaniam, 2015; Dias et al., 2017; Rathnayaka Mudiyanselage, 2018; Hu & Loh, 2018; Zhou, 2019; Bhatia & Makkar, 2019, 2020; Jamil et al., 2021; Suttipun, 2021) found significant associations between internal governance mechanisms and sustainability reporting. Among the internal governance mechanisms are the board size, board independence, chief executive officer's (CEO) duality, and board meeting.

The board size is one of the board characteristics that influence sustainability reporting practices (Dias et al., 2017). A smaller board size seems to effectively enhance business performance and prevent the board from evading its responsibility, but the broader board may offer diversity in managing companies' limited resources and contacts (Haniffa & Hudaib, 2006; Bhatia & Makkar, 2020). Jizi et al. (2014) posit that larger boards are able to urge companies to engage in sustainability activities and effectively convey the information to stakeholders.

According to the agency theory, boards with more independent directors can effectively monitor and control the companies' managerial decisions (Fama & Jensen, 1983). This is because independent directors who are not biased toward the management can encourage companies to prepare detailed reporting to reduce the information asymmetry among shareholders and other stakeholders (Jamil et al., 2021). Independent directors' appointment is crucial in ensuring effective board monitoring as it acts as a check and balance mechanism to ensure companies' actions match the best interest of owners and other stakeholders (Haniffa & Cooke, 2005). The independent non-executive directors should ideally monitor the executive directors' activities (Dias et al., 2017) as they represent stakeholders' interests (Haji, 2013). Jensen and Meckling (1976) argue that outside directors are responsible for monitoring the inside directors to avoid opportunistic actions. Thus, independent directors should also be responsible for influencing directors' actions on companies' sustainability initiatives and transparency in the reporting (Abdullah et al., 2011).

Some companies may have a CEO who also holds the chairman position. This duality function can give the companies a clear, unified leadership direction on business operations and performance (Vo, 2010). However, one who holds these two positions is simultaneously prone to prioritise personal rather than company interests (Haniffa & Hudaib, 2006). The duality function diminishes the board's independence element, possibly affecting companies' reporting (Donnelly & Mulcahy, 2008). From the agency theory perspective, the duties of the CEO should be separated from the duties of the chairman in heading companies' operations to ensure better performance and increase reporting quality (Ju Ahmad et al., 2017).

The frequency of board meetings could be another factor that contributes to companies' decision to apply sustainability reporting as a strategic approach. Board meetings can represent the board of directors' effective ways of handling and tackling issues faced by a company (Haji, 2013; Jizi et al., 2014). The meetings signify the board of directors' decisions and proactive actions, such as engaging with sustainability initiatives and reporting to gain companies' good reputation and image (Alshbili et al., 2018), especially during a crisis. According to Taliyang and Jusop (2011), frequent board meetings can mitigate the agency cost and information asymmetry between the management (board) and the shareholders. In meetings, the board can brainstorm, discuss and exchange opinions on new ideas, make important decisions, and share financial and non-financial information about the company (Adawi & Rwegasira, 2011; Suttipun, 2021), including sustainability matters. In accordance with agency theory, board meetings represent board diligence (Vafeas, 1999). Thus, more meetings mean the board of directors focuses on the stakeholders' interests (Hussain et al., 2018).

Based on prior empirical research above, this paper expects that internal governance mechanisms, i.e., the board size, board independence, CEO duality, and board meetings, may also influence sustainability reporting as strategic crisis response action. It is further supported by the fact that disclosure strategies and quality reporting decisions rely on the discretion and approval of the company's board of directors as agents. They have to execute their responsibilities in countering crises within available capabilities in focusing on their business objectives (Hirt et al., 2020).

2.4. Influence of enterprise risk management

Risk is the possibility that something occurring might positively or negatively affect companies' objectives (ISO 31000:2018: Risk management — Guidelines[1]). It materialises when businesses' operational systems become vulnerable due to the absence of efficient internal controls and the lack of a risk management procedure (Kytle & Ruggie, 2005). The risks may be caused by internal or external factors, such as currency exchange, operational, technical, legal, political, technological, social, economic, and sustainability risks (World Business Council for Sustainable Development [WBCSD], 2017; Shad et al., 2019). Poor risk management and a lack of a risk culture may endanger a company's viability in the current global economy (Ching et al., 2020). As a result, businesses must manage any potential risks effectively.

Risk management has caught the concern of various entities, such as companies and regulators at global and national levels (Mohd-Sanusi et al., 2017). In Malaysia, the Bursa Malaysia came out with the Statement on Risk Management and Internal Control — Guidelines for Directors of Listed Issuers in 2013. This guideline superseded the Statement on Internal Control — Guidance for Directors of Public Listed Companies issued in 2000. It highlights publicly listed companies' boards and management's obligations to provide directions on critical elements to achieve sound risk management and internal control. This guideline also explains how to evaluate the effectiveness of a risk management system.

Besides Bursa Malaysia, the Securities Commission Malaysia has also introduced several versions of the MCCG. Since the issuance of MCCG by the Securities Commission Malaysia in 2000, the guideline has stated the need for Malaysian

[1] https://www.iso.org/standard/65694.html

publicly listed companies to identify relevant risks and mitigate them. Over the years, MCCG has been revised several times and given more emphasis on risk management matters. For instance, the MCCG 2012 (Securities Commission Malaysia, 2012) mentioned that companies' boards of directors should have an appropriate framework to manage occurrences of risks. In the latest MCCG 2021 (Securities Commission Malaysia, 2021), the guideline focuses on the need to be more holistic in reviewing the business risks and, at the same time, to effectively and strategically tackle the sustainability risk to support companies' objectives and strategies. Those guidelines remain as recommendations since implementing the risk management framework, such as ERM, relies on the companies' decisions and discretion. However, the existence of proper risk management practices can assist the company's board in making the right decision (Aufreiter et al., 2021).

Several risk management frameworks are available; however, many companies follow ERM introduced by COSO in 2004 (Shad et al., 2018). ERM is "a process, effected by an entity's board of directors, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity and manage risk to be within its risk appetite, to provide reasonable assurance regarding the achievement of entity objectives" (PwC & COSO, 2004, p. 4). This framework is the most broadly recognised and used standard for adhering to regulated internal control, risk management, and reporting obligations (Mohd-Sanusi et al., 2017).

ERM framework covers eight crucial components in managing companies' risks, i.e., internal environment, objective setting, event identification, risk assessment, risk response, information and communication, control activities, and monitoring. Each component "aims to accomplish four companies' objectives, namely: 1) strategic objective — high-level goals, aligned with and supporting its mission; 2) operation objective — effective and efficient use of its resources; 3) reporting objective — reliability of reporting; 4) compliance objective — compliance with applicable laws and regulations" (PwC & COSO, 2004, p. 5).

ERM offers a more comprehensive approach and advantages over conventional risk management techniques, including assessing whole and cross-functional risks rather than just those within a specific department or function (Gordon et al., 2009; Cohen et al., 2017). This framework complements the traditional risk management that uses an isolation style where there is a lack of synchronisation and connection between departments, resulting in incompetent management of the company's risks as a whole (Khalik & Sum, 2020). It acts as a business-enhancing tool that can affect companies' performance by assisting companies in considering, recognising, measuring, analysing, managing, and responding to the interaction of all relevant risks, not in a silo but holistically from a portfolio perspective (Gordon et al., 2009; Shad et al., 2019).

Past literature found a connection between ERM and companies' performance (Gordon et al., 2009). Similarly, a study by Florio and Leoni (2017) suggests that companies with good ERM practices showed better performance. In addition, the findings of Cohen et al. (2017) through interviews with audit partners, chief financial officers (CFOs), and audit committees' experiences, show a strong connection between ERM and the quality of the accounting-based reporting process and the companies' internal control adequacy.

Mohd-Sanusi et al. (2017) examined Malaysian companies' governance mechanisms and ERM implementation. The study posits that a risk management committee as one of the governance mechanisms has contributed to the effectiveness of ERM practices in a company. Moreover, the study also found that only 30% of its sample of publicly listed companies in Malaysia implemented ERM. This finding implied that ERM implementation growth is still low as not every company in the country adopts the framework.

Therefore, ERM implementation is deemed to have impacts on business operations and decision-making. The existence of ERM can assist the board of directors in evaluating the possible threat and opportunities for each identified risk. The availability of the information assists in making more accurate decisions that can limit the potential harm of the risks accordingly (Nocco & Stulz, 2006). As a result, companies can assess upcoming advantages and disadvantages in deciding which disclosure strategies and quality reporting they wish to choose that suit their business objective and capabilities.

3. RESEARCH METHODOLOGY

This study was intended to be a narrative review to gather information about sustainability reporting that can innovatively be converted as a strategic crisis response mechanism. In addition, this study focuses on the influence of internal governance mechanisms on sustainability reporting and the role of ERM in the connection between both matters. It was conducted in three stages, i.e., literature search, articles screening and selection, synthesising and analysing the selected articles.

For the literature search, related articles have been identified using keywords related to sustainability reporting, strategic crisis response, crisis, COVID-19 crisis, internal governance, ERM, and their relevant synonyms. The preferred databases included Google Scholar, Scopus, and Web of Science. There is no specific time frame set for the search because the study plans to obtain articles about previous crises prior to COVID-19, including the Asian recession of 1997–1999, the global financial crisis of 2006–2012, and others. The intention is to learn and adapt companies' strategies in responding during difficult times as guidance in facing future crises. The extended time frame for the articles search allows the study to capture valuable information on sustainability reporting, internal governance mechanisms, and ERM during the time zone, even though the articles are not directly related to any specific crises.

In the second stage of screening and selection of articles, all the searched materials were added to the Mendeley Reference Management Software. Each article has been scrutinised based on the titles, abstracts, and full content to filter relevance to the pertinent subject of this study. In the third stage, the qualified and preferred articles were synthesised and analysed further to better understand the context's interconnection. All relevant findings were properly evaluated to propose an initial review of the concept of sustainability reporting as a strategic response during a crisis, the influence of the internal governance mechanisms, and the moderator role of ERM.

4. RESULTS AND DISCUSSION

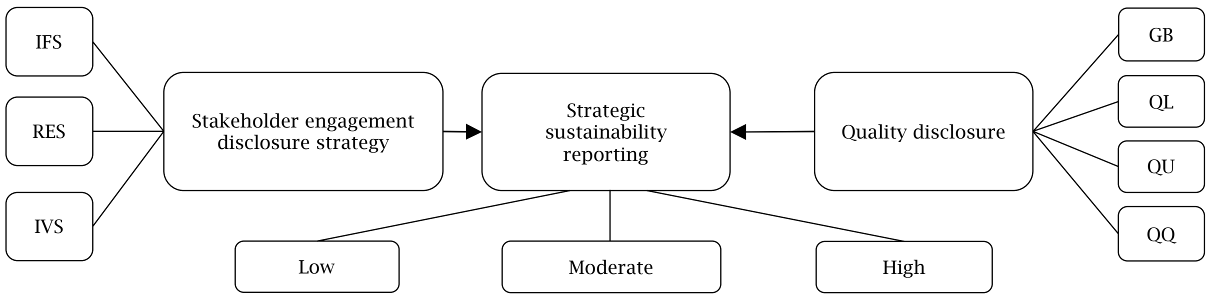
The results and discussion can be divided into two parts, i.e., strategic sustainability reporting and the connection between internal governance mechanisms, ERM, and sustainability reporting practices during the COVID-19 crisis.

4.1. Strategic sustainability reporting: conceptual model and matrix

Companies have various strategies to respond to challenging situations during a crisis. They can sustain operations using contingency funds or loans, reduce existing business activities or liquidate the companies. Another possible way is to innovatively adapt the standard sustainability report as a strategic instrument to showcase companies' capabilities and prudent choices to continuously perform sustainability initiatives amid difficult times. This study acknowledges improvised reporting as strategic sustainability reporting. Through the reporting, companies can narratively express their concern about sustainability matters despite constrained resources, soaring in reputable corporate image.

In order to enable stakeholders to appraise how companies strategically respond to sustainable matters during a crisis, the study comes out with strategic sustainability reporting model, as shown in Figure 1 below. This model adapts the stakeholder engagement disclosure strategy, which consists of three types of strategies in assessing companies' strategic crisis response action through disclosure of each sustainability initiative in the reporting. The information strategy (IFS) is about companies' disclosure to inform any sustainability initiatives they performed during the crisis period. Secondly, a response strategy (RES) indicates the disclosure of sustainability initiatives that specifically meet and support stakeholders' demands. Thirdly, involvement strategy (IVS) is the disclosure of companies' engagement in sustainable activities involving collaboration and partnership initiatives with relevant stakeholders. Classifying the way of sustainability initiatives disclosure into these three types of strategies will give informative views of how companies react and engage with stakeholders in sustainable manners during the crisis.

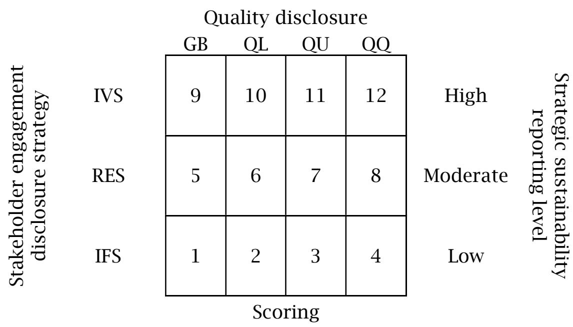
Figure 1. Strategic sustainability reporting model



After being classified according to the stakeholder engagement disclosure strategy, the sustainability initiatives reported will be further scrutinised for their explanation in the reporting to determine the quality disclosure. The disclosure of the initiatives usually has been explained either in general and brief qualitatively (GB); in detailed qualitative explanation (QL); briefly explained with quantitative or monetary evidence (QU); or in a detailed explanation of the sustainability initiatives engaged with further quantitative or monetary disclosure (QQ). By mapping both stakeholder engagement disclosure strategy and its quality disclosure, companies' strategic sustainability reporting level can be reflected as low, moderate, or high, as indicated in the matrix presented in Figure 2 below. The matrix shows all the possible combinations of stakeholder engagement disclosure strategy, i.e., IFS, RES, and IVS (Y-axis), and the quality disclosure classified as GB, QL, QU, and QQ. Every combination will score 1–12 according to the respective 12 quadrants. Each sustainability initiative will be rated into three levels of strategic sustainability reporting, i.e., low (score 1–4), moderate (score 5–8), and high (score 9–12).

A maximum score of 12 indicates the company's engagement with the sustainability initiative that involved collaboration, partnership, or joint venture project with relevant stakeholders to meet their desired needs. The company also provides a comprehensive explanation with more than five sentences about the engagement with quantitative evidence (e.g., include the total cost incurred and the number of stakeholders that benefit from the initiative). If the disclosure is scored by 1, it indicates that the company has initiated a sustainable activity that is not in accordance with stakeholders' specific demands and is being qualitatively reported in brief and short with less than five sentences.

Figure 2. Strategic sustainability reporting matrix



Accordingly, management can use this matrix as a self-assessment tool to analyse their strategic sustainability reporting level during the reporting period. Through this evaluation, they are able to reflect on the type of engagement strategy that companies employ and the quality of the disclosure they report to stakeholders. These indicators reflect how companies express their stand on the crisis sustainability management approach to the stakeholders. Consequently, businesses can make informed revisions about engagement and disclosure of future sustainability efforts, particularly in a crisis environment.

4.2. The connection between internal governance mechanisms, ERM, and sustainability reporting practices during the COVID-19 crisis

The COVID-19 crisis might trigger a modification in the way companies pursue their sustainability objectives (García-Sánchez & García-Sánchez, 2020). With limited resources, several questions may further be raised about the areas of sustainability that companies should prioritise and focus on, such as economic (United Nations, 2020b), environmental (Pinner, 2020), or social (He & Harris, 2020; United Nations, 2020b; D'Auria & De Smet, 2020), or any combination of these elements. The selection and prioritisation of initiatives are crucial as the substance to be disclosed in the sustainability reporting. Furthermore, companies must choose appropriate approaches to express and share their preferred sustainability initiatives with the stakeholders during the reporting period.

The internal governance mechanisms, i.e., the board of directors, are responsible for ensuring the business's continuing success and sending sustainable value to the stakeholders. This reason will motivate them to decide on sustainability reporting as a strategic crisis response action, thus incorporating it as part of the business strategy. It is argued that sustainability reporting should be on the board's agenda by taking the lead and managing the process to guarantee effective and credible reporting (Khoh, 2019), especially during economic and financial crises (Dias et al., 2017).

It is known that the severe impacts of COVID-19 are among the risks that companies need to tackle on top of existing threats. As such, the existence of ERM with a holistic approach enables the board of directors to get informed about the potential risks of future events' adverse impacts to expedite fast decision-making during a crisis (Aufreiter et al., 2021). During this challenging period, companies facing financial problems are prone to making material mistakes (Mohd-Sanusi et al., 2017). Thus, the role of ERM is to assist boards in generating, preserving, and realising the business value in facing the pandemic risk. Accordance to Pagach and Wieczorek-Kosmala (2020), "ERM's role is to evaluate and define the risks that may affect the organisation's success in achieving its strategic objectives" (p. 1).

The ERM implementation is expected to further improve the influence of companies' internal governance mechanisms on sustainability reporting practices. As the board of directors is positioned to mitigate companies' risks (Lenssen et al., 2014), they must be more aware of and able to comprehend the risks to minimise the damaging impact resulting from their decision-making (Nocco & Stulz, 2006). The existence of ERM practices can uphold the role of detecting and mitigating risks as promptly as feasible. Thus, it is reasonable to argue that companies' engagement with ERM practices is anticipated to facilitate board abilities to enhance companies' strategy through engagement with sustainability reporting practices as a crisis response mechanism, i.e., strategic sustainability reporting, especially during a difficult period.

The relationship between ERM with firm performance exists due to board directors' monitoring (Gordon et al., 2009). Meanwhile, Lueg et al. (2019) claim that higher total risk influences companies to report more social matters in order to divert shareholders' attention from the lack of governance disclosure. This discovery implying the companies used sustainability reporting as an instrument to communicate with the non-shareholding stakeholders, particularly on social disclosure. The purpose is to distract attention from governance issues during distressed times. Meanwhile, independent boards, CEO separation roles, and board size affect the companies' ERM implementation (Desender, 2011; Khalik & Sum, 2020).

Accordingly, the relations between board participation and monitoring of ERM practices and sustainability disclosure are present. ERM implementation offers better company risk profiles that improve companies' fast decision-making (Shad et al., 2019) by a board of directors, which is crucial during crises (Aufreiter et al., 2021). As such, this study sees the potential of ERM to moderate the connection between related internal governance mechanisms (board size, board independence, CEO duality, and board meetings) and companies' sustainability reporting practices during a crisis. The presence of ERM practices assists in divulging relevant risks and acts as the catalyst for the board's actions to reduce the information asymmetry problem through strategic sustainability reporting practices, especially during crises. Sustainability reporting has the potential to be a result of accountability and transparency of the board performing their responsibilities which results in diminishing agency costs, and acts as a strategic instrument to respond to and meet the stakeholders' needs during crises (Suttipun, 2021; Zharfpeykan & Ng, 2021).

5. CONCLUSION

This paper offers preliminary insights pertaining to an innovative approach toward the practical function of existing regular sustainability reporting as companies' strategic crisis response mechanism. The strategic sustainability reporting model and matrix were proposed to identify the type of disclosure strategy and quality chosen by companies in their sustainability reporting. The matrix has the potential to offer a useful perspective on how companies may respond sustainably during a crisis with scarce resources. Moreover, the results can reveal companies' stance on whether they are taking the risk to continue investing in sustainability initiatives for long-term benefits or contrary focus on their short-term survival. Then, the paper discusses the potential influence of internal governance mechanisms on sustainability reporting as a strategic crisis response during a crisis, i.e., strategic sustainability reporting. The role of ERM can further moderate this connection since decisions about disclosure tactics and quality reporting depend on the effective judgement and consent of the board of directors with a better understanding of the pro and cons of the identified risks.

This conceptual review provides several significant implications. Firstly, it signals the board of directors that the disclosure of their ongoing efforts engaging with sustainability initiatives during difficult times can be practically used as a strategic response during a crisis. Sustainability reporting is widely accepted as a communication tool to portray the ability to become responsible companies and good corporate citizens from the stakeholders' lens in responding to the crisis. Secondly, the proposed concept can be a reference to top management in identifying possible internal governance mechanisms that could affect sustainability reporting as a strategic crisis response action. Thirdly, the implementation of ERM in assisting the management in the strategic decision-making process pertaining to sustainability may offer assurance to stakeholders' expectations. In general, this paper sheds light on the idea discussed based on the synthesis of prior literature and expects the notion can be realised in future empirical research.

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