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Determining the Relationship between Sustainability Reporting and Institutional Ownership: The Stakeholder vs Myopic Institutions Theory

Hafizah Abd-Mutalib*, Che Zuriana Muhammad-Jamil** and Wan Nordin Wan-Hussin***

The purpose of this paper is to theoretically examine the effect of sustainability reporting on ownership of Malaysian institutional investors. Based on the Stakeholder Theory, investors may be motivated to invest in firms that engage in sustainability activities, as these firms may create value in the long-run. In contrast, the Myopic Institutions Theory explains that institutional investors are myopic as short-term financial performance may be the investors' major concern when making investment decisions. Hence, sustainability commitments may not be a factor influencing such decision. Following these two theoretical insights, the investment decisions by institutional investors are expected to be influenced by their investment horizons. Dedicated institutions, such as pension funds, sovereign wealth funds, government-managed unit trusts funds and pilgrims funds, might be concerned with sustainability reporting when making investment decisions. This is contrary to transient institutions, such as banks, privately-managed mutual funds and insurance companies, where long-run value creation through sustainability commitments may not match their myopic behaviour.

1. Introduction

Institutional owners play a significant part in shaping the firms' ownership structure, and this scenario may not only be observed in developed nations, but in developing nations as well. For instance, in developed countries, such as the United States, 60 percent of the shareholdings in 2003 belonged to institutional investors (Hayashi, 2003), while in the United Kingdom, Cox et al. (2004) reveal that the shareholdings by the institutional investors are on an increasing trend, where the ownership mainly involves the pension and mutual funds. In developing nations such as Malaysia, institutional investors hold 51.03 percent of ownership in the 10 largest companies by market capitalisation listed on Bursa Malaysia (Saleh et al., 2010). Furthermore, 70 percent of total institutional holdings in Malaysian listed firms belongs to five largest Malaysian government-related institutional investors (Abdul Wahab et al., 2008).

The significant role played in shaping the ownership structure is associated with the fact that institutional investors hold a vast amount of assets. In developing nations, particularly in East Asia, the assets of institutional investors are estimated to be USD1.5 trillion, or approximately 45 percent of Gross Domestic Product (GDP) in the region as a whole (Ghosh, 2006). As an example, in Malaysia, the total assets of three largest institutions, comprising the pension funds, life insurance and mutual funds, amounted to USD114 billion, or 96.4 percent of Malaysian GDP (Ghosh, 2006). As

*Hafizah Abd-Mutalib, Department of Commerce, Sultan Abdul Halim Muadzam Shah Polytechnic, Kedah, Malaysia. Currently a Doctoral Student at Othman Yeop Abdullah Graduate School of Business, Universiti Utara Malaysia, Kedah, Malaysia. Email : hafizah.mutalib@yahoo.com
**Dr. Che Zuriana Muhammad-Jamil, School of Accountancy, Universiti Utara Malaysia, Kedah, Malaysia
*** Professor Dr. Wan Nordin Wan-Hussin, Othman Yeop Abdullah Graduate School of Business, Universiti Utara Malaysia, Kedah, Malaysia.

they involve a large pool of resources, institutional investors may have to screen for certain criteria posed by potential firms before making investment decisions. One of the criteria that may influence investment decisions by institutional investors is the potential firms' engagement in sustainability activities. The concept of sustainability may also be termed as Triple Bottom Line (TBL) or Corporate Social Responsibility (CSR). TBL expresses the idea that business firms or other organizations create value in multiple dimensions, i.e., in economic, social and environmental dimensions (Elkington, 2006), while CSR refers to the voluntary actions taken by a company to address economic, social, and environmental impacts of its business operations and the concerns of its principal stakeholders (Christensen et al., 2007). Firms that engage in sustainability commitments for the benefits of the stakeholders have been proven to have good financial performance (McPeak and Tooley, 2008, Orlitzky et al., 2003, Saleh et al., 2011, Tsoutsoura, 2004, Van de Velde et al., 2005), which is a significant factor to attract investment from institutional investors (Bushee and Goodman, 2007, Del Guercio, 1996).

As the involvement in sustainability activities is related to having good financial performance (McPeak and Tooley, 2008, Orlitzky et al., 2003, Saleh et al., 2011, Tsoutsoura, 2004, Van de Velde et al., 2005), which is an important determinant for institutional ownership (Bushee and Goodman, 2007, Del Guercio, 1996), the purpose of this paper is to theoretically examine if sustainability reporting impacts ownership by institutions. Although previous researchers have shown evidence of the influence of sustainability reporting on investment decisions by institutional investors, the impact has been found to be mixed. Graves and Waddock (1994) and Mahoney and Roberts (2007), find significant positive relationship between sustainability reporting and institutional ownership in developed countries, which indicates that institutional investors are attracted to firms with good commitments to sustainability. The positive influence of sustainability reporting on institutional ownership is further strengthened, in Peterson's and Vredenburg's (2009) study, which explains that institutional investors do favour holding shares in firms that engage in sustainability. In developing countries, Hoq, et al. (2010) and Saleh, et al. (2010) find that sustainability reporting, measured by CSR disclosure, positively and significantly affects institutional ownership. Despite the positive findings, Teoh and Shiu (1990), suggest that institutional investors may consider sustainability information in making investment decisions only if the company has very poor social responsibility records which might have adverse impact on its reputation. In addition, institutional owners also perceive that financial information is far more important in making investment decisions compared to social responsibility information (Teoh and Shiu, 1990). A more current research reveals that despite the low sustainability reporting, as measured by corporate social performance (CSP) index among Malaysian firms, institutional investors have high shareholdings in those firms (Muniandy and Barnes, 2010).

The inconsistencies found in previous studies may be due to treating institutional owners as a monolithic group (Zahra, 1996), whereas different institutions may exhibit different behaviours to sustainability reporting based on different investment horizons. Some institutions may exhibit a dedicated behaviour or a long-term investment horizon, while others may exhibit a transient behaviour, focusing on a short-term orientation when making investment decisions (Bushee, 2001, Cox et al., 2004, Cox and Wicks, 2011, Johnson and Greening, 1999, Lang and McNichols, 1997), which in turn leads to different perspectives on sustainability reporting when making a decision to invest in a particular firm. The Stakeholder Theory posits that firms must not only cater for the needs of the shareholders, but also the needs of the stakeholders

(Freeman, 1984), and firms that consider their stakeholders may create value in long-run, such as improved financial performance (McPeak and Tooley, 2008, Orlitzky et al., 2003, Saleh et al., 2011, Tsoutsoura, 2004, Van de Velde et al., 2005). On the other hand, the Myopic Institutions Theory posits that institutional owners are myopic or short-sighted when making investment decisions (Hansen and Hill, 1991); they may only consider short-term profit when making investment decisions. Based on these two insights, the engagement of sustainability reporting may be viewed differently by Malaysian firms' institutional investors according to their investment horizons. As the added value of sustainability engagement may only be experienced in the long-run, firms that engage in sustainability activities may only be an attraction to dedicated institutions, which is in contrast to transient institutions. Following the definition from previous studies (Bushee, 2001, Cox et al., 2004, Cox and Wicks, 2011, Johnson and Greening, 1999, Lang and McNichols, 1997), dedicated institutions are categorized into pension funds, sovereign wealth funds, government-related unit trust funds and pilgrims funds, while transient institutions are classified as banks, privately-managed mutual funds and insurance companies.

The motivation for this paper lies in the emergence of the concept of Socially Responsible Investment (SRI). This concept explains that, investors put forth the combination of sustainability related activities, such as social, environmental and financial performance, as well as ethical and corporate governance issues, when making investment decisions (Sparkes, 2002, Renneboog et al., 2008). The conclusions from this paper may highlight a number of contributions: (1) since inconsistent findings have been observed in previous research regarding the impact of sustainability reporting on institutional ownership, this study tries to theoretically explain that the inconsistencies may be the result of different categories of institutions, i.e., dedicated and transient institutions. By using both Stakeholder Theory and Myopic Institutions Theory, it is expected that different categories of institutions may result in different preference for sustainability activities while making investment decisions (Cox et al., 2004, Cox and Wicks, 2011, Johnson and Greening, 1999). The unique contribution of this paper is that it focuses on the impact of sustainability reporting on the decision making behaviour of two institutions, i.e., sovereign wealth funds and pilgrims funds; and the separation of unit trust and mutual funds into government-managed and privately-managed, where such impact has yet to be examined; and (2) the impact of sustainability reporting on ownership by institutions with different investment horizons in previous studies only focused on the developed market (Cox et al., 2004, Cox and Wicks, 2011, Johnson and Greening, 1999). This paper concentrates on Malaysia, a developing nation, where the market for institutional investors is highly influenced by the government.

The rest of the paper progresses as follows. The next section reviews the related literature on sustainability reporting and institutional ownership, Stakeholder Theory and Myopic Institutions Theory and types of institutional investors in Malaysian market. This is followed by the research propositions, and summary and conclusions are discussed thereafter.

2. Literature Review

2.1 Sustainability Reporting and Institutional Ownership

The World Commission on Environment and Development (1987), defines sustainable development as *"…. development that meets the needs of the present without* *compromising the ability of future generations to meet their own needs"*. The principles of sustainability is to ensure that our actions today do not limit the range of economic, social and environmental options open to future generations (Elkington, 1997). Sustainability or sustainable development began to take on greater emphasis when people realised the negative impact resulting from economic activities which may jeopardise the future generations. As a result, other terms related to sustainability began to emerge, such as the Triple Bottom Line or TBL, and Corporate Social Responsibility (CSR). The TBL concept is based on the idea that business firms or other organisations create value in multiple dimensions, i.e., economic, social and environmental dimensions (Elkington, 2006), while CSR refers to the voluntary actions taken by a company to address economic, social, and environmental impacts of its business operations and the concerns of its principal stakeholders (Christensen et al., 2007). Besides TBL and CSR, sustainability may also be supplanted by various other terms, such as social responsiveness, social performance, public policy, CSP, business ethics or stakeholder management (Carroll, 1991, Mohammed et al., 2009). Despite the various terms to describe sustainability, the ultimate focus is the same, which is to preserve the current global condition for the benefit of future generations.

As sustainability becomes a major concern, one of the interesting areas of study is on the ability of sustainability engagement by business firms to attract investments from institutional investors (Cox et al., 2004, Graves and Waddock, 1994, Hoq et al., 2010, Mahoney and Roberts, 2007, Muniandy and Barnes, 2010, Saleh et al., 2010, Teoh and Shiu, 1990, Cox and Wicks, 2011, Petersen and Vredenburg, 2009). Teoh and Shiu (1990) observed the institutional investors' perceptions and attitudes towards social responsibility information in making investment decisions, and conclude that institutional investors perceive financial information as far more important in making investment decisions compared to social responsibility information. However, institutional investors might consider the social responsibility information only if the company has very poor social responsibility records which may have adverse impact on its reputation (Teoh and Shiu, 1990). This situation is contrary to Graves and Waddock (1994), where there is a significant positive relationship between CSP and the number of institutions that hold shares in each company, although not to the percentage of shares held by the institutions. Furthermore, Mahoney and Roberts (2007) conclude that sustainability or CSP indeed has its attractions on institutional investors, which indicates that institutional investors pay attention to firms' CSP information before making investment decisions.

Using the case study method, Petersen and Vredenburg (2009) conducted a qualitative study to examine how institutional investors' decision making may be influenced by firms' sustainability engagement. The findings reveal that institutional investors perceive socially responsible firms may add value as such engagement may enable risk mitigation, generate market opportunities, may be a proxy for quality management, and may directly be correlated to financial performance. Although socially responsible firms may add value, however, institutional investors are not willing to pay premium for shares of such firms, but do favour holding shares in companies that engage in sustainability (Petersen and Vredenburg, 2009).

Cox, et al. (2004) expand the literature further by classifying the institutional investors into dedicated and transient investors. Their findings indicate that CSP has a significant positive relationship with dedicated institutional ownership, while no significant relationship is found between CSP and transient institutional ownership. The findings signal the different orientation of investment decisions in socially responsible firms by both types of institutional investors. Cox and Wicks (2011) examined if the demand of shares by dedicated and transient institutional investors is influenced by corporate responsibility, compared to market liquidity and risk. Consistent with previous findings (Cox et al., 2004, Johnson and Greening, 1999), corporate responsibility influences the demand for shares more than market liquidity for all the dedicated or long-term institutional investors, represented by in-house managed public and pension funds. Conversely, for transient or short-term institutions, all types of transient institutional investors, represented by mutual funds, life insurance and externally managed pension funds, have greater holdings in companies whose stock has greater market liquidity, and these institutions place corporate responsibility factor in the lowest rank of importance.

In developing markets, Hoq, et al. (2010) and Saleh, et al. (2010) explain that CSR disclosure is positively and significantly related to institutional ownership, measured by the percentage of shares owned by the institutional investors, showing that institutional investors pay attention to CSR when making investment decisions. This situation explains that institutional investors in Malaysia consider CSR activities and disclosures when making decisions to select portfolio investments. However, mixed results are found when the relationship between CSR dimensions and institutional ownership are determined. Hoq, et al. (2010) indicate that only employee relations is strongly positive and significantly related to institutional ownership, while community involvement indicates different relations to two measures of institutional ownership. Furthermore, Saleh, et al. (2010) indicate that two dimensions of CSR, namely employee and product dimensions are significantly and positively related to institutional ownership, but community involvement and environment dimensions are found to be significantly negative to institutional ownership, which explains that institutional investors perceive that by engaging in the two dimensions, a significant amount of financial resources might need to be used and thus may give negative impact on companies' cashflows. On the contrary, Muniandy and Barnes (2010) find there is neither a negative or positive correlation between CSP and institutional investors' shareholding. This finding signals that institutional investors in Malaysia do not take CSP as one of the measures to be taken into consideration when making investment decisions.

Following the findings from previous studies, this paper conceptually extends the literature of the impact of sustainability reporting on institutional ownership, particularly by segregating dedicated and transient institutions' ownership. Although previous studies have demonstrated the impact of sustainability reporting on several types of institutions, the findings are limited to pension funds, mutual funds and insurance companies (Cox et al., 2004, Cox and Wicks, 2011, Johnson and Greening, 1999). This paper expands the literature by adding two types of institutions, namely the sovereign wealth funds and pilgrims funds, where studies on the impact of sustainability reporting on the ownership of these institutions is limited. Furthermore, this study also extends the literature by segregating the mutual funds into government-managed unit trust funds and privately-managed mutual funds, where a different investment horizon is predicted between the two. The following section discusses the theories used to predict the relationship, followed by the types of institutional investors in the Malaysian market and their investment horizons.

2.2 Stakeholder Theory vs Myopic Institutions Theory

The Stakeholder Theory explains that firms are not only responsible to its shareholders, but must address the needs of the stakeholders, the group or individuals who are affected or may be affected by the activities of the organisations in achieving their objectives (Freeman, 1984). The firms' responsibility to the stakeholders comes in the form of "explicit claims" and "implicit claims" (Cornell and Shapiro, 1987). The former refers to firms' policies that assume and articulate responsibility for some social interests (Matten and Moon, 2008), such as product warranties, and wage contracts (Cornell and Shapiro, 1987), while the latter refers to the role of corporations to act within the values, norms and rules (Matten and Moon, 2008), such as promises of continuing services and job securities to employees (Cornell and Shapiro, 1987), and work safety and on-time delivery and product quality (Saleh et al., 2011).

By considering the rights of the stakeholders, firms may experience some benefits, for instance, shareholders are found to benefit financially when the management meets the demands of the various stakeholders (Ruf et al., 2001). When firms engage in sustainability activities, it may create a behaviour of trust and cooperation, not opportunistic behaviour, and this might give the firms a competitive advantage, therefore explaining why these firms may survive and often thrive (Jones, 1995). Further, firms may create value by gaining competitive advantage, which may assist the firms to act as going concern, experience financial improvement, and ultimately, have the ability to attract potential investors.

The Myopic Institutions Theory suggests that institutional owners are myopic or short-sighted when making investment decisions (Hansen and Hill, 1991). This means institutional owners prefer short-term profitability when making investment decisions. A myopic or short-sighted attitude may direct the fund managers of the institutions towards risk aversion and to focus on achieving short-term profit from an investment (Hansen and Hill, 1991). Myopic behaviour is due to several factors, for example, institutional managers are under tremendous pressure from their superiors to perform (Hansen and Hill, 1991); thus, institutional managers need to translate their actions into short-term financial performance. Besides, institutional managers are forced to make corporate decisions while responding to their own desires for job security and advancement (Karake, 1998). Their performance is reviewed on annual or even quarterly basis, and the reward for their performance accounts by these yearly or quarterly basis review (Graves and Waddock, 1994). Thus, by engaging in short-term profit orientation decision making, institutional managers may be able to secure their position and reputation by achieving good performance and short-term profitability.

Previous studies justify that institutional investors are myopic; for example, they prefer firms which engage in sustainability commitments only when their financial performance is good (Wahba, 2008). Furthermore, negative associations have been found between institutional shareholdings and their investment on R&D, for which returns may only exist in the long-run (Graves, 1988). In addition, Cox and Wicks (2011) state that institutional investors, such as mutual fund managers, seem to be interested in market liquidity, and not in sustainability commitments when making investment decisions; another demonstration of myopic behaviour. Moreover, Saleh, et al. (2010) justify that the negative associations between two sustainability dimensions, namely the community involvement and environmental dimensions, and institutional ownership may be because institutional investors are heavily profitoriented and focus more on short-term profits, where benefits from engagement in community and environmental dimensions may not be directly achieved.

2.3 Institutional Investors

The role played by institutional investors in shaping firms' ownership structure should not be underestimated. In the United States, 60 percent of the shareholdings in 2003 belonged to institutional investors (Hayashi, 2003), while in the United Kingdom, the last decades show increasing shareholdings by the institutional investors, which mainly involve the pension and mutual funds (Cox et al., 2004). In East Asia, the assets of institutional investors amounted to USD1.5 trillion, or approximately 45 percent of GDP in the region as a whole (Ghosh, 2006), while in Malaysia, the pension funds, life insurance and mutual funds, which are the three largest institutional investors in the Malaysian market, hold total assets of USD114 billion, or 96.4 percent of Malaysian GDP (Ghosh, 2006).

Having institutional investors in the ownership structure can bring about several benefits. Firstly, good governance may be achieved, as institutional investors are seen to be in a unique position to exercise influence over firms in which they invest (Securities Commission Malaysia, 2011a). Therefore, their presence is good for monitoring purposes, as the institutions might have a good access to information and resources to build the necessary monitoring capabilities (Abdul Jalil and Abdul Rahman, 2010, Chung et al., 2002). Secondly, the presence of institutional investors in the ownership structure may also help in mitigating aggressive earnings management (Abdul Jalil and Abdul Rahman, 2010, Chung et al., 2002, Hsu and Koh, 2005), especially when the institutions have large or substantial shareholdings (Chung et al., 2002). Thirdly, the presence of institutional investors in the ownership structure is also linked to positive engagement in sustainability (Coffey and Fryxell, 1991, Hayashi, 2003, Johnson and Greening, 1999, Oh and Chang, 2011).

Lang and McNichols (1997) define institutional investors as large investors, other than natural persons, who exercise discretion over the investment of others. Institutional investors may be categorised according to the type of organisations, such as pension funds, mutual funds, financial institutions such as banks, investment companies and credit cooperatives, insurance companies and private firms (Chaganti and Damanpour, 1991, Koh, 2003). With regards to the categorisation of dedicated and transient institutions, the former is related to institutions with long-term investment horizon, while the latter is linked to institutions having short-term investment horizon (Bushee, 2001, Cox et al., 2004, Cox and Wicks, 2011, Johnson and Greening, 1999, Lang and McNichols, 1997). The various types of major institutional investors in Malaysia and their investment horizons are discussed in the subsequent sections.

2.3.1 Pension Funds

The basic functions of pension funds are to collect, pool and invest the funds contributed by the beneficiaries for the purpose of providing retirement income or financial securities to the beneficiaries (Davis, 2002). In 2004 in Malaysia, it was estimated that the pension funds held USD70 billion in assets. Of this amount, USD63.3 billion belongs to the Employees Provident Fund (EPF), thus making pension funds the largest institutional investor in Malaysia (Ghosh, 2006). Besides the EPF, there are two other major pension funds, i.e., the Kumpulan Wang Amanah Pencen (KWAP) or Retirement Fund Incorporated and Lembaga Tabung Angkatan

Tentera (LTAT) or Armed Forces Fund Board. All these three large institutions are under the control of the Malaysian Government. Besides these three major governmental pension funds, there are also private pension funds, for example the Tenaga Nasional Berhad Retirement Benefit Trust and the Public Bank Officers' Retirement Benefit Fund or foreign pension funds.

In terms of investment horizons, pension funds are categorised as dedicated institutions, where they exhibit a long-term investment horizon (Ryan and Schneider, 2002). As the beneficiaries of this type of fund only receive their benefits upon their retirement, the pension funds can have the luxury of a long investment period before benefits are paid out (Copeland et al., 2005). As such, pension fund managers are expected to invest in non-financial strategic activities (Davis, 2002), such as sustainability commitments, the benefits of which may only be paid-off over a long-term period.

2.3.2 Sovereign Wealth Funds

Sovereign Wealth Funds (SWF) refer to a separate pool of government-owned or government controlled financial assets that include some international assets, which may take many forms, and are designed to achieve a variety of economic and financial objectives (Truman, 2008). Several categories are associated with this type of fund, such as stabilising funds, savings funds, pension reserve funds and investment corporations (Kunzel et al., 2010). It is therefore important to identify to which category an SWF belongs, as this identification can explain its investment objectives and behaviour (Kunzel et al., 2010). The objective of the savings funds is to provide wealth for future generations, while the main purpose of establishing the reserve pension funds is to cover identified liabilities resulting from aging population. Hence, both categories fall within the long-term investment horizon (Kunzel et al., 2010). On the other hand, stabilising funds, which aim to reduce volatility of price fluctuation in commodity and investment corporations, with the purpose of enhancing returns on reserves, is an example of short-term investment behaviour (Kunzel et al., 2010).

In the Malaysian market, Khazanah Nasional Berhad (KNB), which was incorporated on 3 September 1993, as a private limited company, governed by the Companies Act 1965, is among the established SWF funds (Kunzel et al., 2010). The equity of KNB is owned by the Ministry of Finance, which in essence makes KNB a wholly-owned entity of the Malaysian Government. KNB operates as the government's investment holding arm with the objective of promoting economic growth and making strategic investments, which may contribute to nation building (www.khazanah.com.my). KNB is categorised as a savings fund, to generate wealth for future generations; as such, the investment horizon of this institution is expected to be long-term in nature.

2.3.3 Unit Trusts and Mutual Funds

Unit trusts or mutual funds refer to the investment tools or vehicles created by asset management companies specialising in pooling savings from both retail and institutional investors (Abdullah et al., 2007), with the aim of helping investors to grow their wealth by diversifying their investment portfolios. In Malaysia, the growth of these types of funds is encouraging. In 2004, Malaysian unit trusts and mutual funds assets were amounted estimated to USD23 billion, or 19.4 percent of GDP (Ghosh, 2006). Furthermore, statistics by the Securities Commission Malaysia reveal that in 2006, there were 387 launched funds, with total net asset value (NAV) of RM112 billion (Securities Commission Malaysia, 2006) and the figures increased to 587 launched funds with total NAV of RM222 billion at the end of 2011 (Securities Commission Malaysia, 2011b).

In Malaysia, a unique situation may be observed as the unit trust and mutual funds may be divided into government-managed and privately-managed funds. The government-managed funds are mainly the Amanah Saham Nasional Berhad (ASNB), which is wholly owned by Permodalan Nasional Berhad (PNB). PNB was incorporated in 1978 to act as a pivotal instrument of the federal government's National Economic Policy (NEP), the objective being to promote share ownership in the corporate sectors among the Bumiputeras[1] (www.pnb.com.my). On the other hand, the privately-managed unit trust and mutual funds are under the corporate control of banks, for instance, Public Mutual Berhad is a wholly owned subsidiary of Public Bank Berhad, while Mayban Investment Management Sdn Bhd acts as the fund management company under the control of Maybank Group.

Previous findings have determined that unit trusts and mutual funds are categorised as funds with transient or short-term investment horizon due to several factors. Firstly, the funds can be redeemed by the investors by re-selling them to the fund on any business day (Cox and Wicks, 2011), and may also be switched from one fund to another in the same fund family. In order to meet the redemption and switching of funds by the investors, the mutual fund managers must have the cash sufficiency; therefore, unit trusts and mutual fund managers might prefer liquidity, and not social responsibility (Cox and Wicks, 2011). Secondly, the ability of unit trusts and mutual fund managers to maintain their position is determined by their performance and also the managers' portfolio choices (Chevalier and Ellison, 1999). As such, unit trusts and mutual fund managers are pressured to present persistent short-run performance (Du et al., 2009). This situation explains why unit trusts and mutual funds may exhibit transient behaviour when making investment decisions, and social responsibility factors may not be considered as the benefits from these activities only occur over the long-run. Thirdly, privately-managed unit trusts and mutual funds have close connections with the banking sectors; therefore, due to the peer group benchmark, unit trusts and mutual funds may be forced to concentrate on profit making in their daily operations (Cox and Wicks, 2011).

With regards to government-managed unit trusts, limited evidence has been found to support its investment horizon. Although previous research indicates that unit trusts have short-term investment horizons (Cox et al., 2004, Cox and Wicks, 2011), however, in Malaysia, the government-managed unit trust is under the administration of PNB, and the investment philosophy of PNB is that *"We have always adopted strategies which reflect our trademark policy of "prudent dynamism", one which places emphasis on fundamentals and long-term investment horizon to capitalise on new opportunities available"* (www.pnb.com.my), which shows that the government-managed unit trusts have the tendency to invest in long-term investment strategies, supporting dedicated behaviour in making investment decisions.

2.3.4 Banks

The banking system in Malaysia may be broadly divided into three categories, i.e., commercial banks, finance companies and merchant banks. These banks deal with the traditional functions of banks, including retail-banking services, cross-border payment services, hire-purchase financing, leasing, short-term credit, trade financing and many more (Sufian, 2006). The banking operating system may also be divided between conventional and Islamic system, where the latter operates within the boundary of Shariah law. What is unique in the Malaysian banking system is that conventional banks are allowed to offer Islamic banking and financial products, along with conventional products (Sufian, 2007). With regards to the investment horizon of banks, previous studies identify banks as transient institutions, or having short-term investment horizon (Zahra, 1996). This is supported by the situation where banks, mutual funds and insurance companies are mainly under the same corporate control; therefore, they are subject to peer-group benchmarks, which may shorten their investment horizon to avoid underperformance (Cox and Wicks, 2011).

2.3.5 Pilgrims Fund

One of the major institutions in Malaysia is the pilgrims fund, or the Lembaga Tabung Haji (LTH), with the objective of providing a means of savings for the Muslims who wish to embark on a pilgrimage journey. Prior to the establishment of LTH, Muslims, especially in the rural areas, tend to sell their livestock and properties in order to gain cash for the pilgrimage expenses. However, this could pose serious economic problems for these people. Therefore, based on a working paper to improve the economy for future pilgrims by Royal Professor Ungku Aziz[2], the Malaysian government decided to establish the Future Pilgrim Funds Corporation (www.tabunghaji.gov.my). The establishment of this institution, or LTH, is consistent with the objective of managing the funds of the future Malaysian Muslim pilgrims, which is not based on the riba' (usury) system, but through investments which comply with Shariah law (Mohd Nor et al., 2012).

The LTH was incorporated under Act 8 of the Pilgrimage Fund and Management Board Act 1969. Due to its establishment as a non-financial institution, LTH is categorised as one of the "other Development Financial Institutions (other DFIs)" (www.bnm.gov.my), or a non-bank financial institution, established by the Government with specific mandates to assist in developing and promoting identified strategic sectors of the economy (Maning, 2011). Although LTH has been acting as a finance company that invests the savings of would-be pilgrims in accordance with Shariah law, its role is rather limited, as it is established as a non-bank financial institution (Ariff, 1998). With regards to the investment horizon of the pilgrims funds, limited evidence has been found. However, previous studies suggest that institutions which involve with societal obligations such as foundations and charities, may have dedicated investment behaviour (Cox, et al., 2004), thus, as the objective of pilgrims funds is to fulfil societal obligations towards future pilgrims, it is expected that this type of institution to have dedicated behaviour in investment decision making.

2.3.6 Insurance Companies

The insurance sector in Malaysia is unique as it has dual operating systems, i.e., the conventional and takaful (Islamic insurance) operationing systems. Although the takaful system is relatively new compared to the conventional insurance system, both systems are considered to be competitive (Md Saad et al., 2006). Both takaful and conventional insurance systems provide efficient services to their customers. With the takaful system, Muslim customers are provided with an alternative way of procuring proper security, in compliance with Shariah laws (Islamic Law).

The Malaysian insurance sector has been showing signs of an escalating trend. In the year 1990, the assets of insurance fund was estimated at only RM9.5 billion, where RM7 billion represented the assets for life insurance and the remaining for general insurance (Bank Negara Malaysia, 2010). However, the 2010 Malaysian Annual Insurance Statistics show that the assets of insurance funds escalated from RM122 billion in 2007 (RM102 billion for life insurance and 20 billion for general insurance) to RM166 billion (RM141 billion for life insurance and RM25 billion for general insurance) in 2010 (Bank Negara Malaysia, 2010). Therefore, the insurance sector plays a significant role in the market for institutional investors and should not be taken lightly.

In determining their investment horizon, previous studies identify insurance companies as transient institutions (Cox and Wicks, 2011), which may be explained by several factors. Firstly, insurance companies are mainly a division under the corporate control of banks; therefore, these divisions are under pressure to perform well as they are observed through peer group benchmarks. Consequently, the competition and the need to perform well may shorten the investment time horizon, as the need for commercial profit is greater to avoid underperformance compared to other divisions (Cox and Wicks, 2011). Secondly, insurance funds share similarities with mutual funds, where both funds indicate liquidity as preference when making investment decisions (Cox and Wicks, 2011), thus showing a transient investment orientation. Cox and Wicks (2011) also acknowledge that life insurance funds mark social responsibility as the third factor to be considered when making investment decisions, after the consideration for liquidity and risks and returns (portfolio theory). Furthermore, among four determinants of social responsibility, which are non-financial news, health and safety, equal opportunities and environment, life insurance funds only indicate an association to non-financial news, while the other three indicators have no associations (Cox and Wicks, 2011).

3. Research Propositions

The Stakeholder Theory posits that firms which address the claims of the stakeholders, in the long-run may create value (Freeman, 1984); therefore, these firms may have the ability to attract institutional investors. Previous studies have proven the ability of sustainability reporting to attract investment from institutional owners (Cox et al., 2004, Cox and Wicks, 2011, Graves and Waddock, 1994, Hoq et al., 2010, Mahoney and Roberts, 2007, Muniandy and Barnes, 2010, Saleh et al., 2010). Based on these evidences, this study predicts that sustainability reporting has a positive impact on institutional ownership.

Besides the justification of the Stakeholder Theory, the benefits arising from engagement in sustainability commitments are commonly associated with long-term benefits (Branco and Rodrigues, 2006). These benefits may only be realised after a period of time, such as waste reduction from environmentally friendly equipment or low employee turnover and increase in production as a result of health and safety programmes for employees. As such, firms that engage in sustainability commitments can be expected to attract long-term or dedicated institutional investors, who can wait for their investments to pay-off (Cox et al., 2004, Cox and Wicks, 2011, Johnson and Greening, 1999). Hence, sustainability reporting may have a positive impact on dedicated institutional ownership.

As the beneficiaries of pension funds may only receive their benefits upon their retirement, pension funds experience a long investment period before any pension benefits are paid out (Copeland et al., 2005). As such, pension funds may exhibit a long-term investment horizon, since they hold their share ownership for a long period of time (Ryan and Schneider, 2002). In Malaysia, both the EPF and KWAP, face regulatory instructions to consider favourably firms with good sustainability practices in their investment decisions (Ministry of Finance, 2006). Although limited evidence has been found on the investment preferences by SWFs, the KNB, a Malaysian incorporated SWF, is categorised as a savings fund, whose purpose is to generate wealth for future generations; as such, the investment horizon of KNB is considered to be long-term in nature (Kunzel et al., 2010). Limited empirical evidence has been found on the investment preferences of the government-managed unit trust funds in Malaysia, which is dominated by PNB. Although previous studies identified unit trust funds as having short-term investment horizons (Cox et al., 2004, Cox and Wicks, 2011), however, PNB dictates its investment philosophy as "....... *adopted strategies which reflect our trademark policy of "prudent dynamism", one which places emphasis on fundamentals and long-term investment horizon......"* (www.pnb.com.my), which points to dedicated behaviour. Furthermore, limited evidence have been found on the investment preferences by pilgrims funds in previous studies. However, previous studies suggest that institutions which are established with the objective to fulfil societal obligations may exhibit dedicated behaviour in investment decision making process (Cox, et al., 2004) Hence, based on the above explanations, this paper predicts that sustainability reporting may likely have a positive impact on ownership by pension funds, SWFs, government-managed unit trust funds and pilgrims funds.

The Myopic Institutions Theory suggests that institutional owners tend to be myopic or short-sighted when making investment decisions (Hansen and Hill, 1991), as the managers may face tremendous pressure to earn short-term profit to maintain their reputation and job security; therefore, earning short-term profit may be an indicator of their job performance. Hence, transient institutions may not consider sustainability reporting when making investment decisions, which is evident in previous studies (Cox et al., 2004, Cox and Wicks, 2011, Johnson and Greening, 1999). Based on these evidences, sustainability reporting is expected to exert no impact transient institutional ownership.

The performance of bank managers is evaluated yearly or quarterly (Chaganti and Damanpour, 1991, Zahra, 1996), and the financial performance of the banks may become one of the variables for the managers' performance evaluation. As such, the managers may only consider engagement in activities which may boost the financial performance, thus leading to their being categorised as having short-term investment horizon (Zahra, 1996). Furthermore, banks, mutual funds and insurance companies are mainly under the same corporate control; therefore, they are subject to peer-group benchmarks, which might shorten their investment horizon to avoid underperformance (Cox and Wicks, 2011). Privately-managed unit trusts and mutual funds in Malaysia have a close connection and are under the corporate control of banks; therefore, they may exhibit short-term investment horizon, which may be due to peer group benchmark, (Cox and Wicks, 2011). In order to maintain their positions, unit trusts and mutual fund managers are pressured to present persistent short-run performance (Du et al., 2009). Therefore, social responsibility factors are not considered as benefits, as these activities may only occur over the long-run. The non-associations of sustainability reporting and ownership by unit trusts and mutual funds have also been made evident in previous research (Cox et al., 2004, Cox and Wicks, 2011). Furthermore, previous research posits that insurance companies are associated with transient behaviour when making investment decisions, since many insurance companies act as a division under the corporate control of banks. As such, competition and the need to perform well may shorten their investment time horizon, as the need for commercial profit is greater, so as to avoid underperformance compared to other divisions (Cox and Wicks, 2011). Insurance companies tend to prioritise the liquidity factor in their portfolios, with social responsibility being given the least consideration when making investment decisions (Cox and Wicks, 2011). Based on these explanations, sustainability reporting is expected to have no impact on the ownership by banks, private-managed unit trust and mutual funds and insurance companies.

4. Summary and Conclusions

This paper theoretically extends the literature in determining the relationship between sustainability reporting and institutional ownership. Although the Stakeholder Theory posits that firms which accommodate sustainability activities for their stakeholders may create value (McPeak and Tooley, 2008, Orlitzky et al., 2003, Saleh et al., 2011, Tsoutsoura, 2004, Van de Velde et al., 2005) , thus, become an attraction to institutional investors, however, the ability of firms' sustainability reporting to attract investment from institutional investors in previous studies has shown inconsistent results (Graves and Waddock, 1994, Hoq et al., 2010, Mahoney and Roberts, 2007, Muniandy and Barnes, 2010, Petersen and Vredenburg, 2009, Saleh et al., 2010, Teoh and Shiu, 1990) . The inconsistencies may be due to treating the institutions as a monolithic group (Zahra, 1996), as different types of institutional investors may exhibit different investment horizons. For instance, dedicated or long-term institutions which have the patience to wait for long-term benefits, may be attracted to invest in firms that cater to the needs of the stakeholders (Cox et al., 2004, Cox and Wicks, 2011, Johnson and Greening, 1999) . As such, dedicated institutions such as pension funds, SWFs, government-managed unit trust funds and pilgrims funds may demonstrate positive behaviour to sustainability reporting by potential firms. Contrarily, for transient or short-term institutions, sustainability reporting may not be their main concern when making investment decisions, as their myopic behaviour leads them to prioritise short-term financial performance (Cox et al., 2004, Cox and Wicks, 2011, Johnson and Greening, 1999) . Hence, transient institutions such as banks, privately-managed mutual funds and insurance companies, may not favour sustainability reporting while making investment decisions.

Besides probing the inconsistencies in previous through the insights of The Stakeholder Theory and Myopic Institutions Theory, this paper highlights two major institutions in Malaysian market for institutional investors, namely the sovereign wealth funds (SWF) and pilgrims funds, where limited evidence have been found on their investment behaviour in previous studies. Further, even though unit trust and mutual funds have been justified as having short-term or transient behaviour in making investment decisions in previous studies, this paper conceptually discusses on the different behaviour between private-managed mutual funds and government-managed unit trusts funds in a country where the market for institutional investors is highly controlled by the government.

Endnotes

[1] 'Son of the soil' – to accommodate the Malays and the native Muslims and non-Muslims of Sarawak and Sabah in a single category (Shamsul, 2001)

[2] Ungku Abdul Aziz bin Ungku Abdul Hamid graduated with a PhD from Waseda University in Tokyo. He was the Vice-Chancellor of the University of Malaya from 1968 to 1988 and was awarded the title of Professor Diraja (Royal Professor) in 1978.

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