

COULD ENVIRONMENT, SOCIAL AND GOVERNANCE (ESG) AND HALAL PRACTICES BE CONVERGED? PRELIMINARY EVIDENCE BASED ON INTEGRATED REPORTING AND SUSTAINABILITY REPORTING OF A HALAL-CERTIFIED COMPANY

Nathasa Mazna Ramli Author^{1a*}, Aimi Nurshahirah Shahrul Kamil^{2b}, Nurul Nazlia Jamil^{3c} & Hasnah Haron^{4d}

^aFaculty of Economic & Muamalat, Universiti Sains Islam Malaysia (USIM), Bandar Baru Nilai, 71800 Nilai, Negeri Sembilan, MALAYSIA

E-mail: nathasa@usim.edu.my

^bFaculty of Economic & Muamalat, Universiti Sains Islam Malaysia (USIM)

E-mail: aiminurshahirah012@gmail.com

^cFaculty of Economic & Muamalat, Universiti Sains Islam Malaysia (USIM)

E-mail: nurulnazlia@usim.edu.my

^dFaculty of Economic & Muamalat, Universiti Sains Islam Malaysia (USIM)

E-mail: hasnahharon@usim.edu.my

*Corresponding Author: nathasa@usim.edu.my

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Abstract

One of communication mechanism that used by corporations to state their focus, concerns and activities is corporate reports, such as annual report and stand-alone sustainability report. On top of mandatory reporting of financial statements, corporations use corporate reports to convey their philosophy, construct visibility and image. Integrated Reporting (IR) and Sustainability Reporting are two recent reporting frameworks that have been adopted by corporations. The corporations' value creation process is the main focus of IR, which is based on six capitals of corporations. Sustainability Reporting is a way for a corporation to become more sustainable and focuses on economic, environmental and social aspects. The main objective of this study is to compare the two-reporting frameworks. Particularly, the suitability of the reporting frameworks for halal industry players to communicate their halal commitment and activities. This study also examined whether ESG and Halal practices can be converged based on the reporting framework. This study provides an analysis of corporate reports of a leading halal food manufacturer that is listed in Bursa Malaysia. Based on content analysis, this study highlights halal-related information in the company's IR and Sustainability Reporting. Results from the study might provide evidence on non-financial reporting that may acts as a communication tool to the stakeholders. Utilizing IR and Sustainability reporting could build trust of capital market and society, thus ensure the sustainability of halal industry.

Keywords: ESG, Integrated Reporting, Sustainability Reporting, Annual Report, Halal

1. INTRODUCTION

Can we converge ESG and Halal practices to create a sustainable future for the generations to come?

-The Halal Times, December 2021

When reporting on the 2021 Global Halal Business Forum in Brazil, the Halal Times put forward the above question that has yet to be answered and supported by research evidence. However, the conviction in the statement resulted in an interesting discussion in the forum session and led to several important research questions. The growth of Halal economy and the importance of the net-zero economy undoubtedly provide stronger reasons to explore the environment, social and governance (ESG) issues. This paper aims at understanding of how the ESG initiatives of a Halal-certified company can be converged with Halal practices by analyzing two reporting frameworks, namely Integrated reporting and Sustainability Reporting.

Integrated Reporting and Sustainability Reporting are the two recent reporting frameworks for corporations. Integrated Reporting focuses on the corporations' value creation process which is based on six corporate capitals. Sustainability Reporting is a way for a corporation to become more sustainable and focuses on economic, environmental and social aspects. Communicating with stakeholders is important for the success of a company since their support could ensure the company's existence for the foreseeable future (Yusoff et al., 2006). For a company in Halal industry, communicating its halal commitment become more vital for the stakeholder. Annual report is one of mechanism that the company could use to state its focus, concerns and activities is corporate reports. Based on these two frameworks, this study investigates the reporting on halal-related information in one of the largest Halal product manufacturers in Malaysia.

2. BACKGROUND

The Halal market is gaining market traction backed by a growing consumer population globally. Over the last three decades, the Muslim population has increased by approximately 63.6% and is expected to increase by 66.7% from 2018 to 2060 (Pew Market Research, 2017). Without a doubt, the worldwide Halal market will reach USD5 trillion by 2030, making it a key sector for nations all over the world (HIMP, 2020).

Malaysia is one of the countries that majority of the population practicing Islam in their daily life. The latest record by Department of Statistic Malaysia

was 61.3% of Malaysian population are Muslims. Halal products especially food and beverage are a major concern for those who is practicing Islam. Therefore, Halal market growing rapidly in Malaysia. As the results, in 1997, United Nation have named Malaysian Halal Certification as the world's best example for Halal food benchmarking. In addition, some of the Halal system introduced by Malaysian has gained international recognition (Nadzirah et al. 2020). Positive economic growth has broadened opportunities for Malaysian Halal industries penetrate international level. One of the efforts taken by the government to make Malaysia as worldwide reference for halal knowledge, services and accreditation was by developing Global Halal Support Centre (GHSC). Malaysia also have made a tremendous effort to make Malaysia as global Halal hub by empowering the regulation, trade and industry support as the importance of Halal industry is clearly stated in the 11th Malaysian Plan 2016-2020 (Rafida et al. 2020). Although Halal products is the major concern of Muslims, but in 2018, New Straits Times reported the growth Halal industry across the countries are dominated by non-Muslims countries such as Australia, Thailand, and Singapore. Therefore, it has been proven that not only Muslims, but also non-Muslims product manufacturers are competing to penetrate Halal market. This is because the world's Muslims population growing rapidly worldwide and non-Muslims also have started to choose Halal products as their preference. Halal products well-known throughout the countries as its cleanliness and safeties. The definition of Halal is something that is permitted by Islamic Law. Halal products are not limited to food and beverages but also pharmaceuticals, cosmetics, and finance (Erfan et al. 2020). In Malaysia, Jabatan Kemajuan Islam Malaysia (JAKIM) are the authority body that responsible for the Halal regulatory. Meanwhile, other than government sector, private sector also has been given license to accredit Halal certification locally and internationally (Rafida et al. 2020). It shows how importance Halal certification locally and globally as most of Malaysian consumers and global consumers preferred to buy Halal products. Halal certification is important as it gains consumers trust for its cleanliness and safety.

The growth of the Halal economy, however, needs to be in parallel with the net-zero economy agenda. A net-zero economy by 2050 aims to achieve a balance between the quantity of greenhouse gases produced and the amount of greenhouse gases removed from the environment. It represents a significant shift in the economy. The move towards a net-zero economy is indeed crucial in a comprehensive Halal ecosystem.

'Halal' is an all-encompassing term that refers to anything that is permitted and allowed from the Islamic law (Laldin, 2006). By referring to Halal economy, the term provides a broader meaning besides producing goods and

services that can fulfill the Halal requirements. Companies in Halal economy are expected to implement ESG practices that are consistent with Shariah requirements. During the 2021 Global Halal Business Forum, it was pointed out that being Halal-certified basically means that a company doesn't pollute, handles waste well, is socially responsible, and has internal governance processes that meet global standards (Halal Times, 2021). Certain country requires Halal committee, Halal Executive and Halal Auditor in the governance system The importance of ESG and Halal practices highlights the need for convergence between the two initiatives.

3. LITERATURE REVIEW

Basically, companies' reporting includes two types of disclosures: mandatory disclosure and voluntary disclosure. Bogdan (2008) defined voluntary information disclosure as information provided in addition to mandatory requirements. The author contrasted voluntary disclosure by highlighting mandatory requirements, which are prescribed by regulations issued by governmental bodies. However, dissatisfaction with mandatory financial reporting has led investors, financial markets and other key stakeholders to demand that companies voluntarily provide more comprehensive information about their long-term strategies and performance (Boesso, 2007). Usually, voluntary disclosure non-financial in nature. There are There two recent non-financial reporting initiatives, namely Integrated reporting and sustainability reporting.

A variety of sustainability accounting frameworks have been developed to enhance standardized disclosure of environmental, social and governance (ESG) information due to the increasing demand from investors for non-financial information from organizations. These frameworks help investors to evaluate the sustainability implications of capital allocation decisions using more standardized, publicly accessible, and understandable information (Bose, 2020). Gillan et. al. (2021) and Hoang (2018) mentioned that ESG have been developed for corporations to report to their stakeholders about how they integrate environmental, social and governance matters into their business models. ESG elements are frequently referred to as non-financial factors (Hoang, 2018). Hoang (2018) also stated that ESG data specifies a perception into the quality of company operations and has a significant impact on the company's financial performance, which includes approach to capital; cost savings and improved operative effectiveness; risk management; sales progress and market extension; and brand value and reputation all of which aid in forecasting the business results as well as making investment evaluations.

There is an increased need for business all over the world to be socially responsible (Lokuwaduge and Heenetigala, 2016) thus many reporting frameworks to enhance ESG information have been developed including the Integrated Reporting (IR) framework. International Integrated Reporting Council (IIRC, 2021) defined IR as a comprehensive communication for organizations to their stakeholders in creating value over the time. IR aims to link together the financial and important non-financial information to acquire concise outlook of financial performance (Adhikariparajuli et. al., 2021 and Hoang, 2018). Based on Table 1 below, the content of IR framework that issued by the IIRC are presented in the form of questions rather than set of standards measurement or disclosure. By using the concept of the integrated thinking (IT), IR can be prompted for organization to focus on the connectivity among financial and non-financial information which have a material impact on organizations to create values over time (IIRC, 2021).

Table 1: Content Element

Content Element	Question
Organizational overview and external environment	What does the organization do and what are the circumstances under which it operates?
Governance	How does the organization’s governance structure support its ability to create value in the short, medium and long term?
Business Model	What is the organization’s business model?
Risk and Opportunities	What are the specific risks and opportunities that affect the organization’s ability to create value over the short, medium and long term, and how is the organization dealing with them?
Strategy and resource allocation	Where does the organization want to go and how does it intend to get there?
Performance	To what extent has the organization achieved its strategic objectives for the period and what are its outcomes in terms of effects on the capitals?
Outlook	What challenges and uncertainties are the organization likely to encounter in pursuing its strategy, and what are the potential implications for its business model and future performance?

Basis of preparation and presentation	How does the organization determine what matters to include in the integrated report and how are such matters quantified or evaluated?
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Source: IIRC 2013

IR also acknowledges multi-capitalism consist of six capitals, which are the intellectual, manufactured, natural, social, human, and financial capital. The IR framework interpretation of the significance of six different types of capital is distinctive (Bose, 2020). The IIRC's concept of multi-capitalism is intended to demonstrate how an organization's business activities impact the environment and society, creating value by assessing the net growth in the value of capitals. Flower (2015) stated that IR capitals include not only for organization capital in traditional way, however, there are resources on which society relies for wealth, such as biodiversity.

According to Vegt et. al. (2015), Adam (2013) and Coulson et. al. (2015) there is an increasing number of organization social and environmental cataclysms which affected the organizations relationship with stakeholders and their business performance, which why the importance of managing ESG risks for long-term corporate development need to be highlighted. Stakeholders who are determined on long-term value creation of organization tend to demand for ESG information and ESG risks to organization performance (ACCA and Eurosif, 2013). The current organizational report weaknesses are short-term focus, complex and do not provide all the required information to stakeholders, they only include their business activity data (Bernandi and Stark, 2016; Hoang, 2018). Even that the ESG information is crucial to organizations reports, there is a deficiency of guidance framework for ESG information to follow resulting to the complicated and too long exiting corporate reporting (Hoang, 2018).

There is an increasing knowledge of ESG risks and opportunities in the IR based on Adam (2017) empirical research. The study linking both social and environmental issues by connecting the concept of value creation process which allow the connection of ESG risks and opportunities. As a result, organizations can use the IR framework to deliver ESG information to accomplish and present the effect of their industry on social and environmental issues (Hoang, 2018).

Eccles and Krzus (2010) highlight that the interest has been growing in the concept and practice of integrated reporting. Integrated reporting can be described as 'a holistic and integrated representation of the company's performance in terms of both its finance and its sustainability' (King III, 2009,

p. 54). It is suggested that IR could even supersede annual reports in the near future (Burritt, 2012; Adams, 2013; Jones and Slack, 2012). Interconnectedness between financial and nonfinancial aspects and the reflection of internal management decisions into corporate social, environmental, governance, strategic, economic, risks and forward-looking information is also to be emphasised in an integrated report (IIRC, 2013b; Burritt, 2012; Churet and Eccles, 2014).

However, sustainability reporting focuses on giving a detailed account of how an organisation interacts with society (Adams, Hill, & Roberts, 1998; Gray, Owen, & Adams, 1996). "Sustainability reporting is the process of measuring, revealing, and being accountable to internal and external stakeholders for organisational performance towards the objective of sustainable development," according to the Global Reporting Initiative (GRI) (Global Reporting Initiative, 2006b, p. 3).

Sustainability and sustainable development are terms that are frequently used interchangeably. Sustainability was defined in the Brundtland Report (1987), a publication of the World Commission on Environment and Development (WCED), as an intergenerational development that satisfies the requirements of the present generation without jeopardising those of the following generation. Sustainability was particularly defined by Pfeffer (2010) as initiatives to protect natural resources and reduce waste in business operations. While Biart (2002) described sustainability as attempts to recognise the problems that can eventually impede society's function and progress. Thus, attempts to address the three dimensions of issues—economic, environmental, and social—can be summarised as sustainability (ESS). The dimensions are congruent with Bursa Malaysia's Sustainability Reporting Requirement Guide, which provides the following explanation of the dimensions (Refer Table 2).

Table 2: Dimensions of Bursa Malaysia's Sustainability Reporting

Economic	Environmental	Social
An organisation's impacts on the economic conditions of its stakeholders and on economic systems at local, national, and global levels. It does not focus on the financial condition of the organisation.	An organisation's impact on living and non-living natural systems, including land, air, water and ecosystems. Note: These may include the organisation's usage of energy and water, discharge of emissions, or	the economic conditions of its stakeholders and on economic systems at local, national, and global levels. It does not focus on the financial condition of the organisation. Note: These may include the organisation's

Note: These may include the organisation's procurement practices, or loss of biodiversity, etc. community investment.

procurement practices, or community investment.

An organisation's impact on living and non-living natural systems, including land, air, water and ecosystems.

Note: These may include the organisation's usage of energy and water, discharge of emissions, or loss of biodiversity, etc.

The impacts an organisation has on the social systems within which it operates.

Note: These may include the organisation's relationships with communities, employees, consumers, etc.

Source: Bursa Malaysia Sustainability Reporting Guidelines

The advantages of businesses incorporating sustainability into their operations are outlined in the Bursa Malaysia Sustainability Reporting Guidelines. These advantages include improved risk management, the promotion of innovation and the acquisition of new clients, the maintenance of a business licence, access to capital, increased productivity, cost reduction, and improved brand value and reputation. Sustainability reporting has transformed into a medium of communication for businesses from an accounting standpoint. A report on a company's economic, environmental, and social performance is referred to as sustainability reporting. Global Reporting Initiatives (GRI, 2013) emphasises that businesses must ensure or maintain performance based on the economic, environmental, and social dimensions. This is in line with the idea of sustainability. Additionally, sustainability reporting may serve as a tool for promoting, facilitating, achieving, and documenting efforts toward the world's sustainable development goals (Adams, 2015; Brusca et al., 2018).

Materiality is a concept in accounting that in general refers to the need to provide relevant information to users of corporate reporting (Bernstein, 1967). The materiality principles involve a process in where preparers utilise their expertise and judgments to differentiate between useful information that must be disclosed and irrelevant, insignificant information (Bernstein, 1967; Dohr, 1950; Reininga, 1968). Guthrie and Parker (1990) stated that materiality appears even more difficult to apply in non-financial setting compared to financial context. In the Global Reporting Initiative (GRI) guidelines, materiality reflects an organization's significant economic, environmental and social impacts, together with their influence on stakeholders' assessments and decisions. In non-financial reporting contexts, materiality assessments involve not reporting misstatements (as in financial reporting contexts) but rather selecting which issues have the strongest sustainability impacts (CDP et al., 2013). The IIRC however, does not offer a strict definition of materiality but instead suggests that "[i]n Integrated Reporting, a matter is material if it could substantively affect the organization's ability to create value in the short, medium or long term", so what materiality is actually "varies across report forms due to differences in audience, purpose and scope" (IIRC, 2015, p. 4).

4. RESEARCH METHODOLOGY

This research aims to examine the halal-related information of a listed company in Malaysia, namely Nestle (M) Berhad. for financial year-ended 2020. The main activities of Nestle (M) Berhad is producing halal products in the Malaysian food and beverage industry. The study uses two reports of company, namely annual report and stand-alone sustainable report. The analyses based on Integrated reporting framework is done annual report, while analyses based on sustainability reporting is done on the stand-alone report.

This study analyses the annual reports using content analysis. Content analysis has been commonly used in voluntary disclosure research. It is a research technique employed to determine the presence of certain concepts or words within the text, which are suitable to meet the objectives of this study. Bauer (2000) defined content analysis as a research approach for systematically coding the symbolic contents created in all forms of noted communication. It allows for systematic, replicable and standardized processes in analysing annual reports (Gray et al, 1995).

This study uses sentence counts to measure the extent of halal related information disclosed in annual reports. The word 'halal' was used as the keyword to search for any halal-related information in each dimension of

the reporting indices. Milne and Adler (1999) suggested that sentences counts are more reliable than any other approach in content analysis, consistent with Nik Zam Nik Wan and Noraida Saidi (2014), who stated that sentence count is considered to be appropriate as an inference of the narrative statement and is necessary in halal-related information disclosure research. Indeed, Toms, Hasseldine and Salama (2005) mentioned that sentences are more natural units of written English to count than words. In addition, sentences are easier to identify.

Two indices are used for this study. For Integrated reporting framework, this study adapts an integrated reporting index. The index was constructed by Lee and Yeo (2015), where a composite Integrated reporting index is measured by assigning equal importance (and thus, equal weights) to each of the eight content elements in the IR framework. However, as this study uses sentence counts, the word 'halal' is searched at each of the following dimensions: (1) Organizational overview and external environment; (2) Governance; (3) Business model; (4) Risks and opportunities; (5) Strategy and resource allocation; (6) Performance; (7) Outlook; and (8) Basis of preparation and presentation.

The SR index utilise in this study is adapted from Jamil et. al (2020). Jamil et. al (2020) had summarized 48 items that were adapted from GRI, which are relevant to Malaysian companies. The index by Jamil et. al (2020) utilise a six-point scale to measure the quality of the sustainability reporting This study focuses on the. As our study focus on halal-related-information, this study therefore, this study adapted the items in Jamil et. al (2020) and sentence counts approach. The word 'halal' is searched at each of the following dimensions: 1) Economic performance, 2) Environmental performance; and 3) Social performance.

5. FINDINGS

The research was conducted to compare the reporting framework regarding the suitability of the reporting frameworks for halal industry players to communicate their halal commitment and activities. The reporting framework that included in this study are sustainable reporting and integrated reporting. There are eight dimensions that being used as framework in integrated reporting, while three dimensions are used as indices for the sustainable reporting. Thus, Halal-related information disclosed in annual report were identified based on these dimensions. Based on Table 1 and Table 2, the study found that there are 9 Halal-related words stated in Integrated Reporting which are much lower compared to

Sustainable Reporting (60 Halal-related words count). In integrated reporting (Table 1), the highest total Halal-related word count based on each dimension is two and the lowest is zero.

Table 3: Halal related information based on Integrated Reporting Framework

Dimension	Total Halal-related words
Organizational overview and external environment	2
Strategy and resource allocation	1
Business model	2
Governance	1
Risk and opportunities	1
Performance	2
Outlook	0
Basis of preparation and presentation	0
Total	9

As stated by Hoang (2018), ESG data specifies a perception into the quality of company operations and has a significant impact on the company's financial performance, including approach to capital, cost savings and improved operational effectiveness, risk management, sales progress and market extension, and brand value and reputation, all of which help forecast business results and make investment evaluations. Based on the findings, Organization overview and external environment, business model, and performance showed two times Halal-related words count. While there are no Halal-related words in the outlook and basis of preparation and presentation dimension, which are expected. In terms of Governance, there is a disclosure in the Board of Directors profile, where one of its members oversees the sustainability and Halal affairs of the company. Thus, there is an indication that there is a convergence of the ESG and Halal practices due to the governance structure.

In sustainable reporting (Table 2), the different between the highest and the lowest total Halal-related words count based on the dimension is large compared to integrated reporting. The highest Halal-related words was found in the social performance dimension (28 words) followed by economic performance dimension which is slightly lower (26 words) and the lowest is environmental performance dimensions (6 words). Based on the findings, the study found that halal-related information is not material in integrated reporting due to the small amount of total Halal-related words were found. Contrarily, Halal-related information found to be material in sustainable reporting as 60 Halal-related words were stated in the report.

Table 4: Halal related information based on Sustainable Reporting Framework

Dimension	Total Halal-related words
Economic performance	26
Environmental performance	6
Social performance	28
Total	60

Example of disclosure in the annual report that indicate the possible convergence of ESG and Halal practices includes social performance, where there were community programmes, namely Halal awareness targeted to schools.

6. CONCLUSION

Communication mechanism that has been used by corporations is annual reports. There are two type of reporting frameworks that have been adopted by corporation recently, which are integrated reporting and sustainable reporting. Integrated reporting is representative integrated of organization performance while sustainable reporting is a way for an organisation to become more sustainable and focuses on economic, environmental and social aspects. Based on the result, both reporting framework are used by the company to communicate Halal-related information disclosed in annual report. However, there are more Halal-related information stated in sustainable reporting compared to integrate reporting. There is also indication that the ESG and Halal practices are being converged in the company.

This study has several limitations, much like other previous studies. This study is restricted to the issue of non-financial reporting for a particular corporation based on information that is readily available to the public. Future studies could build on this work by speaking with the organisations to learn how the management views the disclosure of non-financial information as well as ESG and Halal policies. Interviews can also be tailored to discuss the advantages and difficulties of revealing halal-related material. It would also be interesting to examine the concerns by comparing ESG and Halal-related data amongst other halal-certified businesses, particularly those with diverse industries, ownership structures, and sizes.

In conclusion, the study might provide evidence on non-financial reporting that may acts as a communication tool to the stakeholders. Utilising integrated reporting and sustainability reporting could build trust of capital market and society, thus ensure the sustainability of halal industry.

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