



GLOBAL BUSINESS MANAGEMENT REVIEW

<http://e-journal.uum.edu.my/index.php/gbmr>

How to cite this article:

K. Abdullah, N.A. & Othman, Z. (2023). Fostering transparency among NPOs in Malaysia: A call for sustainability reporting. *Global Business Management Review*, 15(2), 77-92. <https://doi.org/10.32890/gbmr2023.15.2.5>

FOSTERING TRANSPARENCY AMONG NPOS IN MALAYSIA: A CALL FOR SUSTAINABILITY REPORTING

Nur'Aliyah Karen Abdullah^{1,2}

Zaleha Othman¹

¹ *Othman Yeop Abdullah Graduate School of Business, Universiti Utara Malaysia*

² *Corresponding author: aliakaren183@gmail.com*

Received: 01/06/2023

Revised: 24/12/2023

Accepted: 24/012/2023

Published: 31/12/2023

ABSTRACT

The Non-Profit Organizations (NPOs) sector has recently been described as undergoing transparency crisis. However, amid calls for NPOs to be more transparent, there is little attempts from both practitioners, regulators and academicians moving towards sustainability reporting. Therefore, this paper aims to provide an understanding on the importance for NPOs to produce sustainability reporting. Using desktop research as method of gathering data, the paper deliberates the importance of sustainability reporting for NPOs in Malaysia. The paper conceptualizes the role of sustainability reporting as the way forward, towards building trust and confidence, thus fostering transparency in reporting among NPOs. This paper highlights the future relationship that the NPOs and other stakeholders like government and corporate organizations should focus on towards creating sustainable development. The findings contribute to improving NPOs transparency through sustainability reporting and fostering society rights in Malaysia.

Keywords: *Non-profit, sustainability reporting, transparency, reporting, public donations.*

INTRODUCTION

There is a concern worldwide on the issues of transparency reporting among Non-Profit Organization (NPOs). The escalating financial scandals and manipulation of donor's money have increased the concern even more. Commonly described as undergoing a "crisis of accountability and transparency (McGann & Johnstone, 2006, p. 66), NPOs lack reporting has been associated with public mistrust.

Similar trend of NPOs transparency crisis noted in Malaysia. The many cases related to NPOs have taken Malaysians by storm. Several high-profile incidents in Malaysia, demonstrating the lack of information release to the stakeholders. A noteworthy example is the public outcry in September 2023 surrounding the dismissal of 47 charges against Deputy Prime Minister Ahmad Zahid Hamidi, linked to the NPO Yayasan Akal Budi and involving allegations of misappropriating nearly RM1 billion (Azmi, 2023). This has accentuated the NPOs reporting issues in Malaysia, not to mention the sustainability of NPOs. These cases underscore the urgent need for reform and enhanced reporting practices within NPOs to restore public trust and accountability in the sector.

Other giant NPOs includes Aman Palestine which has repeatedly come under scrutiny for irregularities in its fundraising efforts aimed at assisting the Palestinian people. Despite vehemently denying any misappropriation of funds, the organization did acknowledge a lapse in their transparency practices, as they failed to submit audited accounts for the years 2016 to 2019 due to a change in auditors. In October 2023, following a series of complaints supported by evidence showed that in 2021, a total of RM114.5 million was raised, where only RM70.28 million was donated to Gaza, suggesting the unaccounted-for disappearance of RM34.35 million (31%). Consequently, the state of Perlis then prohibited its residents from contributing to the fund. Subsequently, the Malaysian Anti-Corruption Commission (MACC) initiated an inquiry into this charitable fundraising (Ismail, 2023).

Additionally, several other cases have come to the forefront, each of which underscores the need for improved transparency in NPOs reporting. Other cases include the National Kidney Foundation (NKF) is one of the largest NPO dialysis provider in Malaysia. Dr. Zaki Morad, NKF's chairperson, disclosed that the Inland Revenue Board (IRB) had identified instances where the foundation did not comply with tax regulations, marking the first audit of the Foundation in 50 years (Hassandarvish, 2019).

The cases highlighted above underscore the critical importance of implementing robust transparency measures to oversee NPO activities and uphold accountability in their fundamental operations. In the absence of a firm commitment to transparency, NPOs risk eroding the trust of their stakeholders. Amidst the mounting demands for transparency reporting within Malaysian NPOs, some entities have expressed reluctance or even outright refusal to adopt transparency in their reporting practices. Empirical studies, for example, have emphasized the necessity of regulatory frameworks, reporting guidelines, and enhanced internal accounting procedures (Ali et al., 2020; Arshad et al., 2012; Bakar et al., 2011; Hasnan et al., 2012; Kamaruddin et al., 2018; Roslan et al., 2017; Zainon et al., 2013).

The call for transparent reporting among NPOs found resonance in the statements of former Deputy Prime Minister, Datuk Seri Dr. Wan Azizah Wan Ismail. She was quoted as saying:

"All non-governmental organizations (NPOs) and foundations, which receive donations and contributions in the form of cash from the public need to have in place accountability, transparency, integrity and governance in managing such funds. This includes preparing

the necessary annual reports involving the receipt and expense from such donations as well as posting such details on their websites” (Haika Khazi, 2019; Sira Habibu, 2019).

In June 2023, during the launch of a new program for a prominent NPO in Kuala Lumpur, the Prime Minister, Dato Seri Anwar Ibrahim, who also serves as the finance minister, stated,

"To earn the trust of contributors, the foundation must prepare and submit reports detailing how their contributions are utilized and who the beneficiaries are. The committees will establish a new tradition - every contributor to the foundation will receive a report from the management, providing a transparent account of how their contributions are channeled or utilized." (Tuan Buqhairah Tuan Muhamad Adnan, 2023).

Considering the circumstances delineated above, it is abundantly clear that a lack of transparency in reporting, coupled with the absence of proper reporting guidelines, is a pressing concern that demands immediate attention within NPOs. Years of highlighted cases and a plethora of academic studies have consistently underscored the conspicuous scarcity of transparency within these organizations. To avert the potential widespread of embezzlement and misuse cases, it is imperative for NPOs to adopt and implement sustainability reporting as an integral part of their operational framework. This assertion is grounded in various theoretical frameworks that advocate for heightened transparency in NPO reporting practices (Ali et al., 2012; Atan et al., 2017; Barragato, 2019; Basri, 2010; Gazzola et al., 2017; Ortega-Rodriguez et al., 2020; Roslan et al., 2017; Zainon et al., 2013).

Considering the magnitude of funds contributed by various stakeholders, including the public, it prompts us to ponder whether it is time for NPOs to embrace sustainability reporting, like public-listed companies. This shift would not only enhance transparency but also establish a comprehensive reporting framework, enabling donors, funders, and the wider public to scrutinize the allocation of funds and the overall impact of these organizations in a more accountable and credible manner. Given the importance of NPO and its implication to the society and its crucial role in addressing social issues and fostering community welfare in Malaysia, it is imperative to understand this phenomenon. Therefore, this paper seeks to provide understanding on the importance of NPOs to provide sustainability reporting.

The structure of this paper is as such: the following section deliberates the theoretical argument on the given topic. Following through is the literature review relevant for the topic. Subsequently, the methodology section is addressed to guide readers to the roadmap of conducting the study. Next the results and findings are elaborated, which are followed by the discussion section. Finally, the conclusion that summarizes the paper.

LITERATURE REVIEW

General view of the literature indicates the importance of reporting for any public listed and non-public listed companies. Past studies (Zainal Abidin, Ibrahim and Abdul Aziz, 2022; Hashim, Sidi, et al., 2020) highlighted the importance for NPOs to produce a comprehensive reporting, indicting significance of transparency, particularly in recent years.

In the last two decades of the twentieth century studies indicated NPOs played a significant role in the society and politics (Zainal Abidin, Ibrahim and Abdul Aziz, 2022), which explained the significant pressure for NPOs to adopt sustainability reporting. The increase role of NPOs in recent years established new perspective in NPOs as institutions. In many countries the role of NPOs or NGOs influenced the

political establishments, indicating significant impact of the establishment to the political arena and not to mentioned implication to the society (Abiddin, Ibrahim and Abdul Aziz, 2022).

Studies have also claimed that NPOs are particularly accountable to the donors (Ortega-Rodriguez et al., 2020; Resnik, 2020), which also explains NPOs crucial role in establishing public trust among donors.

Essentially, past studies have also revealed that there are two fundamental reasons, which emphasize the importance of transparency reporting: the principle of good governance and good reputation. Past studies (Kral and Cuskelly, 2017; Dawson and Dunn, 2006), revealed that it is imperative to emphasize that transparency is inherently intertwined with good governance and furnishes stakeholders with pertinent and reliable information (Ortega-Rodriguez et al., 2020; Kral & Cuskelly, 2017). In contrast, there are studies that found NPOs' reluctance to be transparent in its reporting because of its hidden agenda such as fear of inaccuracies in reported financial and community participation. The threat of being caught and maintaining good reputation are some of the reasons of this refusal or avoidance in being transparent. Interestingly, studies have also associated the reason for not being transparent in reporting with NGO antagonistic relations with government, unrealistic donor demands as the obstacles to transparency (Burger and Owen, 2009)

REPORTING OF NPO IN MALAYSIA

The nature of the regulatory landscape governing NPOs in Malaysia, which is diverse and decentralized (see Table 1) add to the complexity in addressing the transparency crisis. Table 1 depicts the establishment of NPOs. The table depicts the regulatory, organization types and ministry that govern NPOs. Table 1 highlights the regulatory bodies that governed by the ministry and diversity of Act that possibly create the complexity in addressing the transparency crisis.

Table 1:

Regulators, Organization Type, Ministry and Governing Act

REGULATOR	ORGANISATION TYPE	MINISTRY	GOVERNING ACT
1) Registrar of Societies (ROS)	Home Affairs	Home Affairs	Societies Act 1966
2) Registrar of Youth Societies	Youth Associations	Youth and Sports	Youth Societies and Youth Development Act 2007
3) Commissioner of Sports	Sports Associations	Youth and Sports	Sports Development Act 1997
4) Companies Commission of Malaysia (CCM)	Companies Limited by Guarantee	Domestic Trade, Cooperatives and Consumerism	Companies Act 2016

5) Registrar of Companies (ROS)	Foundations/ Trust Fund	Domestic Cooperatives and Consumerism	Trade, and	Companies Act 2016
6) Legal Affairs Division of the Prime Ministry's Department (BHEUU)	Trust / Foundation	Prime Ministry's Department		Trustee (Incorporated) Act 1952
7) Charitable and Welfare Home	Charities	Social Welfare Department		Ministry of Women, Family and Community Department
8) Labuan Financial Series Authority	Trust / Foundation	Finance		Labuan Foundation Act 2010 or Labuan Trust Act 1996
9) Department For Trade Union Affairs	Trade Unions	Human Resources		Trade Union Act 1959
10) Inland Revenue Board (IRB)	Tax Exempted NPOs	Finance		Section 44(6) of ITA 1967

Source: Authors research data

Notably, Malaysia does not mandate NPOs to furnish comprehensive reports. The Companies Commission of Malaysia (CCM) Act 2001, which extends its purview to NPOs, merely hints at the possibility of segmental reporting for a Company Limited by Guarantee (CLBG), without a comprehensive framework. Similarly, the Registration of Societies (ROS) under the Societies Act 1966 provides guidelines for audits but falls short of specifying the transparency standards. Furthermore, there is a notable absence of explicitly documented responsibilities within the Bahagian Hal Ehwal Undang Undang (BHEUU) Act 258 (Trustees Incorporation Act 1952-March 2013), regarding the obligatory transparency criteria for NPOs' reporting. This ambiguity in legal requirements poses a significant challenge and may lead to a crisis of legitimacy for NPOs, as argued by Herlin & Pedersen (2013). Legitimacy, dependent on the approval and acceptance of stakeholders and the public, is a crucial asset for NPOs.

Ironically, the current reporting practices among Malaysian NPOs vary depending on their legal structures, which can include registration with different regulatory bodies. This multiplicity of regulators, each overseeing organizations with similar goals but under separate legal frameworks, has raised concerns about efficiency and effectiveness in addressing the sector's significant issues. While prior research has primarily focused on describing and suggesting laws and frameworks, there is a lack of comprehensive analyses regarding the impact of multiple regulators on the Malaysian third sector (Ali and Hassan, 2017; Arshad et al., 2011). As a result, there has been limited exploration of the regulatory challenges faced by these organizations. Furthermore, the existence of various regulators has led to inconsistencies in regulation and potential "gaps in regulation," Phillips (2019), as different regulators may treat similar issues differently. Despite the presence of multiple regulators, some Malaysian NPOs have faced minimal regulatory requirements, particularly concerning financial reporting and governance frameworks. The fragmented and sometimes repressive nature of laws and regulations governing the third sector in Malaysia calls for rationalization and a move towards more consistent governing principles.

In addition to the governing bodies and Acts that govern NPOs, the current statistics from the Registrar of Societies (ROS), shows the total number of registered NPOs from January 2017 to March 2021 reached 107,591 (Registrar of Societies, 2020), off which 82,532 are active (Registrar of Societies, November 2023) highlight the issue at hand, The volume of NPOs highlights the sheer magnitude and significance of this sector. Shockingly, the minimum reporting requirement for these organizations, after raising and utilizing funds, is only to submit audited accounts to the relevant regulatory body.

Previous studies have debated the significant numbers of the NPOs escalates the importance of being transparency. Therefore, the lack of transparency results in even higher risk for NPOs. Studies have indicated that this raises concerns about the legitimacy of NPOs (Herlin & Pedersen, 2013). Some even views that the lack of clarity hinders transparency and could deter potential donors from making informed decisions, thus posing a threat to the effective functioning of NPOs (Friedman & Wolcott, 2018). The current reporting practices within NPOs in Malaysia, or more specifically the lack thereof, inadvertently condone a deficiency in transparency. It becomes abundantly clear when considering the available literature (Ali et al., 2020); Basri, 2010; Roslan et al., 2017), Zainon et al., 2013), that it is imperative for NPOs to be transparency in its reporting. Public sentiment exerts considerable pressure on NPOs to maintain transparency in their reporting, thereby ensuring that donations are managed with due diligence (Habibu, 2019). The establishment of a Charity Commission is deemed indispensable to reinforce the existing charitable system in Malaysia (Ali et al., 2020; Hasnan et al., 2012). Many stakeholders have also put forth proposals for the establishment of a central regulatory body to oversee the sector (Ali and Hassan, 2017; Bernama, 2020; Institute for Democracy and Economic Affairs, 2016; Othman and Ali, 2014). Nonetheless, the effectiveness of such a central body may be compromised if the underlying issues, such as the interpretation and enforcement of laws, remain unaddressed. Nevertheless, the establishment of a central regulatory entity, like a charities commission, would significantly contribute to the streamlining of regulatory processes.

Given the tangible consequences experienced in the social reality, and the limited knowledge and sound theoretical foundation supporting transparency reporting initiatives among NPOs, it is therefore important to provide an insightful knowledge to advance the field even further. On that note, this paper aims to address the transparency role of NPOs reporting in Malaysia, in addition to provide understanding of the need for sustainability reporting. The purpose of this study is to add to the body of knowledge by providing deep understanding of the necessary points to justify the need for sustainability reporting for the benefits of the public and exacerbates the transparency crisis.

METHOD

With the aim of providing understanding of the need of sustainable reporting for NPO, the present paper conducted desktop research, where the authors gathered and analyzed relevant literature. In so doing, several electronic databases were used to conduct systematic review literature reviews, including peer reviewed articles from database such as Google Scholar and scopus index (Barragato, 2019; Sanzo-Pérez, Rey-Garcia & Álvarez-González, 2017; Global Witness, 2019).

Two main keywords were used to gain the sources, such as “non-profit organization, non-governmental organizations’ role”, in addition to several other keywords which are “sustainability reporting and transparency, reporting”. These keywords were used to search for the appropriate articles suitable for our desktop research. The retrieved articles were analyzed using a thematic analysis procedure. Gioia method of analysis (2020) was employed to do the thematic analysis procedures. The process of analysis involved level of abstraction, which are: first order, second order and aggregate dimension. A total of no of some 40

articles from year 2018 -2023 to were analyzed using thematic analysis as the first stage to extract statements and data based on the study's objective. There are three significant themes emerged to support the importance of sustainability reporting for NPOs, there are communication tool, pluralism-based reporting and measuring risk.

RESULTS AND FINDINGS

This section addresses the research objective, that is, importance of sustainability reporting for NPOs. Based on the desktop analysis conducted, this study found three main themes that supports the necessity to call for NPOs sustainability reporting, they are: 1) communication tool, 2) pluralism-based reporting and 3) measuring risk. The three main themes highlighted the rationale of our proposition that sustainability reporting is important for NPOs. Subsequently support our second proposition that sustainability reporting should be made mandatory for NPOs.

Theme 1: Communication tools

An interesting theme emerged from the analysis of the literatures. Analyzing the literature, the theme "communication tool" emerged as an important point of why NPOs should provide sustainability reporting. Largely, desktop analysis indicated that sustainability reporting is a systematic presentation of companies practice and a form of tool that depicts companies' information, financial and non-financial. These result supports the disclosure theory which explains that it is imperative for companies to disclose information for stakeholders to make decisions. This is because corporate disclosure represents relevant information that is open for external evaluation of the companies' performances. Quantitative and qualitative information guide stakeholders towards inform decision (Alberti-Alhtaybat, and Hutaibat, 2012: Global reporting Initiative, 2014; Global Reporting Initiative, 2000). Because sustainability reporting provides systematic and transparent practices which offers a comprehensive view of an organization's contributions and areas for improvement concerning both internal and external stakeholders, it is therefore significant for NPOs to adhere to similar communication tool. Analysis of the literature confers that sustainability reporting is an essential means of communication that enables organizations to exhibit their unwavering commitment to sustainable development to a diverse array of stakeholders (Ali et al., 2020; Bonnafous-Boucher & Rendtorff, 2016; Parmar et al., 2010; Saraite-Sariene et al., 2020). This practice goes beyond merely conveying financial information; it serves as a vehicle for delivering comprehensive and dependable information to stakeholders, ensuring transparency and accountability (Al-Shaer, 2020).

Theme 2: Pluralism based reporting

Notably, pluralism value of reporting is the second theme, which emerged that support the importance of NPOs sustainability reporting requirement. This theme connects with the sub theme i.e., mandatory requirement for sustainability reporting. Analyzing the desktop information, it is found that since there is no legal requirement or mandated requirement for NPOs to produce sustainability reporting, NPOs tend to neglect preparing and providing information on environment, social and governance (ESG) in their audited report. In recent years, businesses seem to discourse on sustainability reporting, and even the business practitioners are requested to apply sustainability concepts in their businesses. According to Bursa Malaysia's description, sustainability has various terms such as triple bottom line, corporate responsibility, sustainable development, economic; environmental and social (EES), CSR and environmental; social and governance (ESG) widely used in various contexts with common purposes (Johari & Komathy, 2019). Unlike the public listed companies in Malaysia, under the Bursa Listing Requirement, it is a mandatory requirement for the public listed companies to disclosure its common sustainability matters in their

sustainability reports (Chong 2019). From the global context, it is importance for NPOs to disclose beyond financial information. The COVID-19 pandemic has to some extent accentuated the significance of companies extending their focus towards a broader spectrum of stakeholders. In regions like the European Union (EU), the United States, and China, listed companies are now obliged to disclose information pertaining to their ESG performance. Governmental regulatory pressures and stakeholder advocacy for greater corporate accountability in terms of social and environmental impacts have spurred the emergence of such reports (Boiral, 2013).

Ernst and Young, a multinational professional service provider, asserted in a report on the future of sustainability reporting (Drolet et al., 2021) that sustainability reporting necessitates organizations to collect data on processes and impacts that may not have been previously measured. This new data not only enhances transparency regarding organizational performance but also equips organizations with valuable insights to reduce their utilization of natural resources, enhance efficiency, and elevate operational effectiveness. Furthermore, sustainability reporting enables organizations to proactively identify and address environmental and social risks that could have significant financial implications on their operations. This, in turn, allows them to deliver greater social, environmental, and financial value, creating a mutually reinforcing cycle.

Recent data underlines the widespread adoption of sustainability reporting, with around 96% of the largest 250 companies and 80% of all companies engaging in its production (KPMG, 2020). Even small and medium-sized enterprises (SMEs) have begun embracing this practice, with 39% of SMEs publishing sustainability reports in 2019, according to insights from the Governance and Accountability Institute.

Theme 3: Measuring Risk

Third theme emerged that support the importance of NPOs to provide sustainability reporting is ‘measuring risk’. This theme appeared as an important element for NPOs to provide sustainability reporting. The desktop analysis indicated that sustainability reporting encourages organizations to collect data on processes and impacts previously left unmeasured. This data, in turn, enhances transparency and equips organizations with valuable insights for resource efficiency and operational effectiveness. Additionally, it helps organizations proactively identify and address environmental and social risks with potential financial implications. On this note, this study proactively supports the importance of NPOs towards providing sustainability reporting. Based on the results, this study strongly believe that a directives mandate sustainability reporting should not focus on large entities, the practice should not be confined solely to large organizations or publicly listed companies. Organizations of all sizes, regardless of their mission or financial structure, should actively engage in and publicly share their sustainable initiatives and activities. Although producing a sustainability report involves effort, the benefits of transparency far outweigh the associated costs, as evident from responses of organizations issuing such reports (Drolet et al., 2021).

DISCUSSION

NPOs serve as crucial conduits for societal betterment, acting as stewards of resources provided by a diverse range of stakeholders, including the public, donors, and government agencies. Given their central position in effecting positive change, ensuring transparency, accountability, and effective resource utilization within NPOs has never been more critical. However, studies have found that the NPOs are far behind the private sector businesses in organizing and reporting on sustainability (Asogwa, Varua, Humphrey and Datt, 2021). Hence, it is imperative that NPOs adhered to providing sustainability reporting and this is observed lately.

Of late, there is a significant demand in recent years for reporting of NPOs to be transparent. This is because of NPOs vital role in addressing societal problems, which impacted the nation.

Congruent with previous studies (such as Ali et al., 2021), which exemplifies how NPOs that engage in comprehensive sustainability reporting are better equipped to showcase their alignment with sustainable development goals (SDGs), this paper highlights similar proposition, that sustainability reporting is a form of pluralism-based reporting thus should provide information that are engaging and relevant to the stakeholders. Another optimistic result is that the present study found that sustainability reporting act as a communication tool thus serves as a multifaceted source that allows NPOs to evaluate and communicate their performances, extending beyond traditional financial metrics to encompass their social and environmental activities. By reporting on these dimensions, NPOs can offer stakeholders, including donors and the public, a comprehensive view of their activities (Oliver et al., 2016; Zinsou, 2018; Charity Services, 2016; Smith, 2022; Elrifi et al., 2019; Gazzola, et al., 2017; Johari & Komathy, 2019). This comprehensive view transcends mere financial data and includes their broader impacts on the community, the environment, and the causes they champion. Aligned with previous studies (Johari and Komathy, 2019; Morros, 2016), sustainability activities which involvement social and environmental matters in business activities should be communicated to stakeholders.

Sustainability reporting is also an essential means of communication that enables organizations to exhibit their unwavering commitment to sustainable development to a diverse array of stakeholders (Ali et al., 2021; Johari and Komathy, 2019). This practice goes beyond merely conveying financial information; it serves as a vehicle for delivering comprehensive and dependable information to stakeholders, ensuring transparency and accountability (Al-Shaer, 2020).

One of the primary motivations for NPOs to embrace sustainability reporting lies in its ability to build and maintain trust among stakeholders and donors. Sustainability reports are a testament to an NPO's commitment to responsible resource management and the realization of its mission. These reports showcase not only financial stewardship but also the organization's dedication to ethical practices and sustainable operations. This commitment, highlighted through sustainability reporting, is essential for fostering trust and garnering support from stakeholders and the public.

The adoption of sustainability reporting in NPOs aligns seamlessly with the overarching trend of enhancing accountability and transparency within the sector. Like their counterparts in the corporate world, NPOs need to operate within a framework that underscores their role in contributing to sustainable development goals. Sustainability reports, developed with care and precision, ensure that NPOs not only execute their operations efficiently but also remain committed to ethical and sustainable practices that align with their mission and societal responsibilities.

Sustainability reporting requires organizations to gather information about processes and impacts. In addition, it helps create greater transparency about organizational performance. This information can help provide organizations with the knowledge necessary to reduce their use of natural resources, increase efficiency, and improve their operational performance. Additionally, it helps organizations proactively identify and address environmental and social risks with potential financial implications, ultimately creating a mutually reinforcing cycle of social, environmental, and financial value (Elrifi et al., 2019; Gazzola et al., 2017; Johari & Komathy, 2019).

According to various sources, there are many important reasons for NPOs to implement a sustainability reporting process. Sustainability reports help build trust with stakeholders and manage reputation proactively. They help improve the economic, social, and environmental impact on society and

communicate those impacts to stakeholders to share best practices and encourage similar improvements from others. Sustainability reports help create a positive relationship with companies. They help improve efficiency as NPOs need to be efficient to avoid wasting money, which is an important motivator for sustainability. Sustainability reporting attracts top talent and donors. Donors, torn between too many charities, might be influenced by the transparency of a sustainability report, providing confidence that donor funds are prudently spent. Sustainability reports (Boston College Center, 2013; Business for Social Responsibility, 2011; KPMG International, 2019; Deloitte, 2018; PwC, 2019) are some references.

The concept of specific disclosures for NPOs originated from the signatories of the INGO Accountability Charter (2014), illustrating the dedication of numerous NPOs to enhancing their public accountability. This initiative also aligns with the growing public call for greater accountability of NPOs (Global Reporting Initiatives, 2014).

The Global Reporting Initiatives (2014) for NPOs dictates why reporting is important and it reads, *‘The guidelines and the NPO sector disclosures are intended to enable NPOs to demonstrably meet the same standards of transparency and disclosure of positive and negative aspects of performance that are asked of other sectors. And in this process, it is intended that the legitimacy and credibility of NPOs as key contributors to sustainable development be affirmed.’*

While there is a lack or no direct studies on sustainability reporting within NPOs in Malaysia, this gap is primarily attributed to the fact that NPOs in the country are not legally mandated to adhere to any accounting standards when preparing their annual reports, as highlighted by Zainon et al. (2013). Nevertheless, this deficiency in reporting and transparency underscores the clear necessity for regulatory measures concerning NPOs in Malaysia, as noted in the works of Ali et al. (2012), Ali et al. (2020), Bakar et al. (2011), Kamaruddin (2018), and Roslan et al. (2017).

On a serious note, the need for sustainability reporting in NPOs is irrefutable. Just as businesses increasingly recognize the value of sustainability reporting in the modern landscape, NPOs must wholeheartedly embrace this practice to effectively full-fill their social and environmental responsibilities. By consistently producing comprehensive sustainability reports, NPOs can communicate their positive impacts and demonstrate their responsible stewardship of resources, ultimately earning the trust and support of their stakeholders and the public.

The harsh reality is that millions of ringgits, intended to support noble causes, have been misappropriated, mismanaged, and remain untraceable. Instead of setting a commendable precedent by ensuring transparency in handling public funds, the highlighted cases clearly demonstrate that some of our societal leaders choose to utilize these funds according to their own discretion. While they may assert noble intentions for the fund's usage, the absence of substantiating evidence leaves their claims in question.

The pressing concern is that this problem persists, with many instances coming to light, leading to public outrage and demands for accountability. Despite these stark examples and public outcry, regulatory bodies have largely remained passive, allowing gaps and loopholes to persist. This resistance to change, can be attributed to the lack of comprehensive reporting standards in place, which extends beyond basic audited financial accounts that prove to be insufficient in shedding light on an NPO's true impact.

Sustainability reporting can provide the much-needed antidote to these issues by introducing a structured framework for NPOs to disclose their activities and impacts transparently. By delving into the social and environmental dimensions of their work, NPOs would be compelled to provide a holistic view of their

operations. Such reporting would not only encompass financial aspects but also showcase their mission achievements, community impacts, and environmental contributions.

The introduction of sustainability reporting standards would act as a deterrent against the unilateral decision-making that has been detrimental to donor trust and public faith. It would set in place rigorous reporting requirements that bind NPOs to disclose their performance in line with their stated objectives, ensuring that promises made to donors are met. The public, donors, and stakeholders would have access to a comprehensive picture of how an NPO operates, how it uses resources, and the actual outcomes it delivers. Transparency is a fundamental concern for NPOs in Malaysia, directly influencing their credibility, accountability, and the level of public trust they can garner. The existing absence of comprehensive reporting guidelines and a dedicated regulatory body has led to a transparency crisis within the sector. To address this pressing issue, the adoption of sustainability reporting is vital, but it should be accompanied by the establishment of a centralized regulatory authority to enforce transparency and accountability standards. This paper underscores the urgency of taking action to enhance the transparency of Malaysian NPOs, ultimately promoting a stronger and more ethically sound non-profit sector in the country.

Furthermore, embracing sustainability reporting within NPOs serves as a critical solution to rectify the prevailing practices where leaders wield disproportionate control over resources and decision-making processes. This approach empowers NPOs to authentically convey their actual impacts, effectively rebuilding donor trust and ensuring that promises made are duly fulfilled. Regulatory bodies must act promptly to recognize the necessity of implementing reporting standards aligned with the core mission of NPOs, thereby guaranteeing their commitment and delivery on promises. Sustainability reporting is not a mere addendum but a compelling necessity that can usher in a new era of accountability and transparency within the NPO sector.

The implementation of a structured sustainability reporting system, mandated by regulatory authorities, could potentially rectify this situation. I firmly believe that such a requirement would enforce accountability, making it imperative for funds to be meticulously documented. This way, the public would gain access to valuable insights into the performance and practices of each NPO they choose to support. This transparency would extend beyond financial aspects and encompass the management, resources, governing board, as well as the policies and procedures of NPOs, fostering a climate of trust and integrity.

Hence, my recommendations are unequivocal and demand strong consideration. Regulatory bodies must take proactive measures to ensure the highest level of transparency within NPOs, especially because these funds are designated to serve the underprivileged. I strongly recommend that regulators mandate sustainability reporting as the new standard for NPOs. This comprehensive reporting should encompass not only audited financial statements but also provide detailed breakdowns of events, activities, management and resource planning, and the presence of essential policies and procedures. This holistic approach will facilitate a thorough evaluation of their performance concerning the funds they utilize.

In addition, I advocate for stringent actions against NPOs failing to submit their sustainability reports, including the possibility of de-registration. Finally, the establishment of a Commissioner of Charities is an absolute necessity. This position should be held by independent community practitioners who can serve as both an overseeing authority, ensuring NPOs adhere to requisite standards, and as mentors, guiding NPOs in need toward good governance and transparent practices.

THEORETICAL JUSTIFICATIONS

Observing the literature, this study asserts that the underlying theory linking the phenomenon is legitimacy theory. This is because legitimacy theory explains that a company gains its legitimacy to operate when it is accepted by society (Hahn and Kuhnen, 2013). Legitimacy theory explained that companies operate subject to a greater acceptance granted by society. This represents the propositions developed in the present study, which standing on the predicament that NPOs will be recognized as legitimate if it provides information relevant to the society needs and demand, which in this case component that represents sustainable (that is ESG). The present study stands by the significance of the findings that showed it is important for NPOs to provide sustainability reporting to show commitment of it being an agent to the stakeholders especially to the donors.

CONCLUSION

This paper aims to provide insightful data on the importance of sustainability reporting for NPOs. Based on desktop analysis, where sources were gathered from relevant social scientific literature relating to transparency reporting for NPOs, the study found three main themes emerged that identify the importance of sustainability reporting, they are: communication tool, pluralism-based reporting and measuring risk. Based on the three themes, this study developed two main propositions, that sustainability reporting is importance for NPOs, and second proposition highlight the mandatory requirement for NPOs to produce sustainability reporting. Although sustainability reporting is a popular topic in the scope of public listed companies, considering the many unethical cases and the frequent NPOs manipulations cases highlighted in the media. it is apparent for government to initiative making changes and improvement to the transparency requirement for NPOs.

Overall, the findings of this study, heightened public awareness and a growing demand for accountability, the traditional approach of relying solely on audited financial statements is no longer sufficient. This paradigm shift is necessary not only to safeguard public funds but also to uphold the integrity and true spirit of charity. This holistic approach offers a 360-degree view of an organization's performance and the utilization of the funds they receive. When the public, donors, and stakeholders have access to such detailed information, they can evaluate the impact of their contributions and hold NPOs accountable for their actions.

This study contributes to the knowledge from the theoretical perspective, providing significant of sustainability reporting. It provides implication to the society regarding advocate for mandatory requirement in reporting.

Following are several of the suggested topics for future research. More studies should be conducted to explore the issue on whether sustainability reporting should be made mandatory and feasibility studies on the establishment of advocates for NPOs reporting such as developing a Commissioner of Charities lead by independent community practitioners. There are several limitations faced by the researchers of this study such as limited information in the literature focusing on NPOs sustainability reporting and gathering of primary data to provide in-depth analysis of the topic understudy.

ACKNOWLEDGEMENT

This research received no specific grant from any funding agency in the public, commercial, or not-for profit sectors.

REFERENCES

- Abiddin, N.Z., Ibrahim, I., & Abdul Aziz, S.A. (2022). Non-governmental organizations (ngos) and their part towards sustainable community development. *Sustainability*, 14, 4386. Available at <https://doi.org/10.3390/su14084386>.
- Abu Bakar, N. B., Saleh, Z., & Mohamad, M.H.S. (2011). Enhancing Malaysian Public Sector Transparency and Accountability: Lessons and Issues. *European Journal of Economics, Finance and Administrative Sciences* 31 (31), 133-145.
- Ahmad, Z., & Arshad, R. (2022). NGOs and Community: A Case Study of Roles of NGOs in Malaysia. In *International Conference on Public Organization (ICONPO 2021)* (pp. 319-322). Atlantis Press.
- Ali, I., Lodhia, S., & Narayan, A.K. (2021). Value creation attempts via photographs in sustainability reporting: a legitimacy theory perspective. *Meditari Accounting Research*, 29 (2), 247–263.
- Ali, Z., & H. Hassan. (2017). Regulating Charitable Organisations in Malaysia: Challenges and Recommendations. *Pertanika Journal of Social Science and Humanities*. 25, 45–50.
- Ali, Norli, Jamaliah Said, Normah Omar, Rashidah Abdul Rahman, & Radiah Othman. (2012). Financial Reporting Disclosure: Evidence from Malaysian Non-Profit Organizations. *British Journal of Economics, Finance and Management Sciences*, 4 (2), .
- Ali, Norli and Said, Jamaliah and Omar, Normah and Rahman, Rashidah Abdul & Othman, Radiah. (2012). Financial Reporting Disclosure: Evidence from Malaysian Non-Profit Organizations. *British Journal of Economics, Finance and Management Sciences*, 4 (2). Available at SSRN: <https://ssrn.com/abstract=2162188>
- Al-Shaer. (2021). Sustainability reporting quality and post-audit financial reporting quality: Empirical evidence from the UK. *Wiley Online Library* 29 (6), 2145-2892.
- Arshad, R., Abu Bakar, N., Sakri, H.F., & Omar, N. (2012). Organizational Characteristics and Disclosure Practices of Non-profit Organizations in Malaysia. *Asian Social Science*, 9 (1), 209–217.
- Asogwa, E., I., Varua, E.M., Humprey, P., & Datt, R. (2021). Understanding Sustainability Reporting in Non-governmental Organisation: A systematic review of reporting practices, drivers, barriers and path for future research. *Sustainability*, 13 (18), 10184.
- Atan, R., Mahmudul Alam, M., & Said, J. (2017). Practices of corporate integrity and accountability of non-profit organizations in Malaysia. *International Journal of Social Economics*, 44 (12), 2271-2286.
- Azmi, H. (2023). Malaysian PM Anwar cops' backlash as Ahmad Zahid's embezzlement charges dropped on Reformasi anniversary. *South China Morning Post*. <https://www.scmp.com/week-asia/politics/article/3233313/malaysias-ahmad-zahid-walks-free-high-court-drops-embezzlement-charges>
- Barragato, C. A. (2019). The impact of accounting regulation on non-profit revenue recognition. *Journal of Applied Accounting Research*, 20 (2), 190-206.
- Basri, H., & Abdul Khalid, S.N. (2010). Views on the Issue of Accountability in Non-Profit Organizations. *Malaysian Management Journal (MMJ)*, 14, 49-60.
- Boston College Center. (2013). *Value of sustainability reporting - A study by EY and Boston College Center for Corporate Citizenship*. Newton: USA.

- Boiral, O. (2013). Sustainability reports as simulacra? A counter-account of A and A+ GRI reports. *Accounting, Auditing & Accountability Journal*, 26 (7), 1036-1071.
- Bonnafous-Boucher, M., & Rendtorff, J. D. (2016). Stakeholder Theory in Strategic Management. In Stakeholder Theory (pp. 11-26). Springer. https://doi.org/10.1007/978-3-319-44356-0_2
- Burger, R., & Owen, T. (2009). Promoting transparency in the NGO sector: Examining the availability and reliability of self-reported data. Available at www.nottingham.ac.uk/economics/credit/.
- Business for Social Responsibility. (2011). *State of Sustainable Business Poll 2011*. San Francisco: GlobeScan.
- Charities Services. (2016). *Which Tier Will I Use?* Retrieved from www.charities.govt.nz
- Chong, C.S. (2019). *The Impact of Board Diversity on the Performance of Public Listed Companies in Malaysia*. [Master dissertation, University Tunku Abdul Rahman]. Institutional repository. <http://eprints.utar.edu.my.libezp2.utar.edu.my/id/eprint/3424>
- Dawson, I., & Dunn, A. (2006). Governance Codes of Practice in the Not-for-Profit Sector. *Wiley Online Library*, 14 (1), 33-42.
- Deloitte. (2018). *The effective not-for-profit board: A value-driving force*. Available at <https://www2.deloitte.com/content/dam/Deloitte/ca/Documents/public-sector/ca-en-public-sector-effective-npo-board.pdf>
- Drolet, S., Warnstam, M.E., Bunn, D.I & Hasmath, R. (2021). *The future of sustainability reporting standards*. Oxford: Oxford Analytica, USA.
- Elrifi, Y. M., Widagdo, A.,K., & Bawono, I.R. (2019). The impact of competing accountability requirements on NGO work performance in Indonesia. *International Journal of Business and Society* 20 (3), 1236–1256.
- Friedman, B. D., & Wolcott, A. (2018). Secrecy and Transparency in Nonprofit Organizations: If a Nonprofit Prefers Secrecy, What Does it Want to Hide?" *Southeastern Conference on Public Administration*. Birmingham.
- Gazzola, P., Ratti, M., & Amelio, S. (2017). CSR and Sustainability Report for Nonprofit Organizations. An Italian Best Practice. *Management Dynamics In The Knowledge Economy*, 5 (3) 355-376.
- Global Reporting Initiative. (2000). *Sustainability Reporting Guideline & NGO Sector Supplement*. Netherlands: Global Reporting Initiative, Amsterdam.
- Global Reporting Initiative. (2014). *G4 Guidelines – Reporting Principles and Standard Disclosures*. Amsterdam: Global Reporting Initiative.
- Global Witness. (2019). Transparency and the right to information. *In Annual Transparency*. London: Global Witness.
- Habibu, S., (2019). Wan Azizah: Foundations, NGOs should reveal donation amounts received. *The Star*. 18 November. <https://www.thestar.com.my/news/nation/2019/11/18/wan-azizah-foundations-ngos-should-reveal-donation-amounts-received>.
- Hahn, R., & Kuhnen, M. (2013). Determinants of sustainability reporting: a review of results, trends, theory, and opportunities in an expanding field of research. *Journal of cleaning production*, 59, 5-21.
- Hasan, S., Zainal Abidin, Z., Mohamad, M., & Kamarudin. N. (2012). Issues, challenges and the way forward for charitable organizations in Malaysia. *IEEE Symposium on Business, Engineering, and Industrial Applications (ISBEIA)*. Bandung, Indonesia: IEEE. 776–780.

- Hashim, A., Sidi, S.H., Abubakar, B.Z., Umar, B.F., Aliero, H.M., Yelwa, F.J. (2020). Role of local non-governmental organizations (NGOs) in community development in Zamfara state. Nigeria. *Int. J. Environ. Agric. Biotechnol.* 5, 42–50.
- Hassandarvish, M. (2023). National Kidney Foundation loses tax-exempt status after IRB audit. Singapore News. https://sg.news.yahoo.com/national-kidney-foundation-loses-tax-085329027.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xiLmNvbS8&guce_referrer_sig=AQAAAMlg12T-dIcRkCq7A2leBrsmjACoZhkzws5jUDV4ze8Rlu5J-bQsW CJW-CeyiUsE-3UXrY2kJqdbxJJChkA_oeFbSNiJAVo3joneXUnLc4LIPMpHBvHr2Q9L zvEEb O5IL-IALYBiCB-Vc5qSDC7cmkmZGveheH-39UqUlfhlMhwk
- Herlin, H. & Thusgaard P., J. (2013). Corporate Foundations: Catalysts of NGO-Business Partnerships? *Journal of Corporate Citizenship*, 50. 58-90.
- INGO Accountability Charter. *Our Accountability Commitments*; Amnesty International: London, UK, 2015.
- Ismail, S. (2023). *Aman Palestin mungkin ambil tindakan mahkamah*. Berita Harian. <https://www.bharian.com.my/berita/nasional/2023/12/1184034/aman-palestin-mungkin-ambil-tindakan-mahkamah>
- Johari, J., & Komathy.(2019). Sustainability Reporting and Firm Performance: Evidence inMalaysia. *International Journal of Accounting, Finance and Business (IJAFB)*,9 (9), 81–84.
- Kamaruddin, M.I. H., & Mazna Ramli, N.M. (2018). The Impacts of Internal Control Practices on Financial Accountability in Islamic Non-Profit Organizations in Malaysia. *International Journal of Economics, Management and Accounting*, 2 (2), 365–391.
- Khazi, H. (2019). NGOs urged to be transparent in managing donations. *The New Strait Times*. (18 November). <https://api.nst.com.my/news/nation/2019/11/539784/ngos-urged-be-transparent-managing-donations>.
- KPMG. (2019). *KPMG Sustainability Report 2019 Emerging Stronger*. Available at <https://assets.kpmg.com/content/dam/kpmg/sg/pdf/2020/11/Sustainability-Report-2019.pdf>
- KPMG. (2020). *The KPMG Survey of Sustainability Reporting 2020 – The Time Has Come: 4*. Available at https://assets.kpmg.com/content/dam/kpmg/be/pdf/2020/12/The_Time_Has_Come_KPMG_Survey_of_Sustainability_Reporting_2020.pdf
- Kral, P., & Cuskelly, G. (2017.). A model of transparency: determinants and implications of transparency for national sport organizations. *European Sport Management Quarterly*, 18 (2), 237-262.
- McGann, J., & Johnstone, M. (2006). The power shift and the NGO credibility crisis. *The International Journal of Not-for-Profit Law*, 8(2), 65–77
- Morros, J. (2016). The integrated reporting: A presentation of the current state of art and aspects of integrated reporting that need further development. *Intangible Capital*, 12(1), 336– 356. <https://doi.org/10.3926/ic.700>
- Oliver, A., Bascavusoglu-Moreau, E., & Salter, A. (2016). Toward an aspirational-level theory of open innovation. *Industrial and Corporate Change*, 25(2), 289-306.
- Ortega-Rodriguez, C., & Liceran-Gutierrez, A., & Luis Moreno-Albarracin, A. (2020). Transparency as A Key Element in Accountability in Non-Profit Organizations: A Systematic Literature Review. *Sustainability*, 12 (14), 5834.

- Othman, Ali. (2014). NPO, internal controls, and supervision mechanisms in a developing country." *VOLUNTAS. International Journal of Voluntary and Nonprofit Organizations*, 201-224.
- Parmar, B.L., et al. (2010). Stakeholder Theory: The State of the Art. *Academy of Management Annals*, 4, 403-445. <https://doi.org/10.1080/19416520.2010.495581>
- Phillips, S. (2019). Putting Humpty Together Again: How Reputation Regulation Fails the Charitable Sector. *Nonprofit Policy Forum*, 10 (4), <https://doi.org/10.1515/npf-2019-0032>.
- PwC. (2019). Sustainability Reporting tips *Simple actions to make your reporting more accessible and effective*. Available at <https://www.pwc.com/gx/en/audit-services/corporate-reporting/sustainability-reporting/assets/pwc-sustainability-reporting-tips-private-sector.pdf>.
- Resnik, D. B. (2020). *What Is Ethics in Research & Why Is It Important?* (23 Dec). Available at <https://www.niehs.nih.gov/research/resources/bioethics/whatis/index.cfm>.
- Roslan, N., Arshad, R., & Mohd Pauzi, N. F. (2017). Accountability and Governance Reporting by Non-Profit Organizations. *SHS Web of Conferences*, 36. Available at https://www.researchgate.net/publication/318665521_Accountability_and_Governance_Reporting_by_Non-Profit_Organizations
- Saraite-Sariene, L., Alonso-Cañadas, J., Galán-Valdivieso, F., & Caba-Pérez, C. (2020). Non-Financial Information versus Financial as a Key to Stakeholder Engagement: A Higher Education Perspective. *Sustainability*, 12, 331. <https://doi.org/10.3390/su12010331>
- Sanzo-Pérez, M. J., Rey-Garcia, M., & Álvarez-González, L. I. (2017). The Drivers of Voluntary Transparency in Nonprofits: Professionalization and Partnerships with Firms as Determinants. *Voluntas: International Journal of Voluntary and Nonprofit Organizations*, 28(4), 1595-1621. <https://doi.org/10.1007/s11266-016-9761-4>
- Smith, J. (2022). *Why has nobody told me this before?* The No. 1 Sunday Times bestseller. Penguin UK. The Star, Nation, 1st June 2023; Tuan Buqhairah Tuan Muhamad Adnan, Sinar Harian; 2023).
- Von Alberti-Alhtaybat, L., Hutaibat, K. & Al-Htaybat, K. (2012). Mapping corporate disclosure theories", *Journal of Financial Reporting and Accounting*, 10 (1), 73-94.
- Zainon, S., Hashim, M., Yahaya, N., & Atan, R. (2013). Annual Reports of Non-profit Organizations (NPOs): An Analysis." *Journal of Modern Accounting and Auditing*, 9 (2), 183-192.
- Zinsou, K. M. C. (2018). Integrated or non-integrated reports: French listed companies at a crossroads? *Sustainability Accounting, Management and Policy Journal*, 9(3), 253-288.