

RESEARCH ARTICLE

Preliminary Insights on Sustainability Reporting Practice in Cambodia

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Abstract: This paper aims to investigate the development and evolution of sustainability reporting practices in Cambodia and to identify current practices and trends in sustainability reporting in Cambodia, as well as perceptions of sustainability reporting. Interviews and surveys were used to determine respondents' perceptions of issues related to sustainability reporting. The results from this study found that 74 percent of the respondents are aware of sustainability reporting and its perceived strategic importance to businesses but only 29 percent of the respondent's companies are reporting on environmental and social impacts of their business operations as indicated in the report. The results reveal that non-financial information disclosure and sustainability reporting practices among companies are at the early stage in Cambodia. The study also reveals that the nondisclosure of environmental and social activities could be due to the lack of disclosure requirements on environmental and social impacts of business operations by national law, the lack of incentives for companies to disclose, and the lack of understanding of the strategic importance of such reporting in generating competitive advantage and achieving sustainable business model. Findings in the study revealed several issues that require further analysis to identify significant factors that would influence environmental and social activities disclosure using a sustainability report.

Keywords: Sustainable development, Sustainability reporting, Reports, Corporate social responsibility, Cambodia

1. Introduction

Investors are attracted to companies who provide information on their environmental, social and governance (ESG) goals through a sustainability report. Sustainability reports provide stakeholders with the opportunity to determine if their concerns have been resolved ^[1,2]. Companies

who publish information on the management of environmental events, social activities and governance through a sustainability report are deemed to be sustainable in their business and operations. Investors are more likely to invest in companies with clear ESG goals through a sustainability reporting as they believe will act in the

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best interest of shareholders and other stakeholders in the company. Stakeholders particularly investors realized that certain environmental event may increase the cost to the company such as insurance premiums, taxes, fines, and costs that are directly associated with environmental damage or disaster. Furthermore, social issues such as political unrest, protest, industrial actions, and instability will increase business risk. Investors are more likely to invest in companies with clear ESG goals as they believe will act in the best interest of shareholders and other stakeholders in the company. Therefore, these have created the need for companies to reduce cost and risk prompting to choose to invest in companies with clear ESG strategies and goals.

The increasing trend of global sustainability reports is clearly demonstrated through numerous reports^[3,4] and empirical studies^[5-7]. This has been as a result of stakeholders' need to understand companies ESG activities and assess whether there is material risk or opportunities connected with sustainability factors which do not appear in the traditional financial reports. In addition, pressure from stakeholder expectations for effectiveness and accountability in managing an organization's sustainability performance has also contributed to the upward trend in sustainability disclosure^[8]. ACCA-Malaysia Environmental and Social Reporting Awards (MESRA) exercises show a slight increase in sustainability reporting among ASEAN countries. The ACCA Malaysia Judges Report^[9,10] states that only one comprehensive sustainability report was submitted in 2005, and only four were submitted in 2006 and 2007. In 2009, it increased to 11 sustainability reports produced by participants. However, in Cambodia, the reporting trend of sustainability reports is still in its infancy^[11,12].

Despite these developments, there is little academic research in this area, especially in Cambodia. Over the last two decades, extensive research has been conducted on the practice of sustainability reporting in developed and developing countries^[13]. There is a lack of research on sustainability reporting in Cambodia. Most of the research conducted was on environmental reporting and voluntary disclosure^[14,15]. As a result, understanding of the nature and scope of these new practices in Cambodia is limited.

The purpose of this article is to obtain some preliminary data on the practice of sustainability reporting in Cambodia. This study will identify current practices, trends, and reasons for adopting and disapproving sustainability reports. Given the exploratory nature of the study, most of the results are descriptively discussed. Causality and association analysis was not performed. The results of this study will serve as the basis for further research in this area. This study focuses specifically on current sus-

tainability information reporting practices. The data were collected by combining content analysis, surveys, and interviews. This paper is organized as follows: The first part of the paper outlines current sustainability reporting practices abroad and in Cambodia. Next, we discuss previous studies on issues related to trends, motivations, and barriers to the practice of sustainability reporting. The next section presents methodologies and data collection, followed by results, and finally suggestions for discussion and future research.

2. Literature Review

Sustainability reporting which discloses issues relating to environmental, social, and governance activities of an organization has been an issue of interest to global businesses, researchers, investors, regulators, and society at large^[16,17]. Nowadays, the key concern for business managers is to minimize the environmental and social impact of their firm's operations by creating a sustainable business model that established business systems, models and having the right organizational behaviors necessary for the long-term value creation of the firm. Organizations need to disclose all information on their management and performance on environmental, social, governance and sustainability issues to stakeholders by engaging in sustainability reporting to demonstrate their commitment to a sustainable business model. Accordingly, the need for sustainability reporting practices by companies has been emphasized by many studies in the literature^[18,19] and within the last two decades, it has become an imperative concept in financial reporting that is getting a weighty amount of attention across the globe by various stakeholder including shareholders alike^[20].

However, despite the growing interest in sustainability reporting, it is evident that still businesses are skeptically and finding it difficult to develop such a report. Similarly, from existing literature, it is seeming that sustainability report is inadequately conceptualized as researchers and practitioners are yet to have a consensus on the descriptive constituents, processes, and expectations of a sustainability report^[21-23]. Though there are many frameworks, standards and benchmarks that can be reported to such as the Dow Jones Sustainability Index (DJSI), the Global Reporting Initiative (GRI), the Sustainability Accounting Standards Board (SASB), Principles for Responsible Investments (PRI), United nations global compact, and the UN Sustainable Development Goals (SDGs) among others, a choice will need to be made by organizations about what is the most appropriate framework. Nevertheless, sustainability reporting is generally interpreted as addressing the process by which an organization reports its social,

environmental and governance impacts to stakeholders, with positive effects on the planet, society, and economy. It shows both negative effects ^[24-26].

In addition, the sustainability reporting process integrates social and environmental concerns into core business operations, develops long-term plans, monitors, and measures the performance associated with such concerns, and integrates them into various organizations. Includes communicating with stakeholders ^[27]. Therefore, in addition to traditional financial reporting, sustainability reports include reporting to a wide range of relevant external stakeholders regarding environmental, health, safety, and other social issues. Sustainability reports in this regard are part of the external company's reporting system as they are considered an appendix or amendment to the company's accounting system aimed at promoting sustainable business model strategies ^[26,28]. According to existing literature, companies create long-term value and manage business risk by considering the social, environmental and governance implications of their business, rather than simply emphasizing their interests. Has been shown to achieve a long-term sustainable competitive advantage ^[24,25]. Therefore, companies are working on sustainability reports to better manage and communicate business risks and create and enhance long-term, sustainable shareholder value. Key stakeholders in the business environment, such as employees, businesses, industries, and governments, link their business strategies to sustainability, assess risks and opportunities, and use measurement, accounting, and reporting capabilities. It has been proposed to play an integrated role in this business value creation process ^[27,29].

In addition, over the last decade, numerous studies have been conducted worldwide on the main drivers of environmental and social disclosure ^[30-32]. Early studies have shown that regulatory compliance is a major driver of corporate disclosure of environmental and social impacts ^[13,16,19,30,31,33]. The study by Gray et al. ^[33] suggests that the compulsory disclosure of British companies emphasized that it had the highest disclosure rate in the UK from 1979 to 1991. In the survey, companies disclosing environmental and social activities were classified as legally compliant, command-driven, and regulatory or regulatory considerations ^[31]. Ahmad and Sulaiman ^[34], a study on environmental reporting, suggest that Malaysian companies are likely to take seriously if environmental reporting is mandatory and implemented in the best interests of stakeholders. Did. However, a survey of Indian companies by Sawani, Zain, and Darus ^[35] found that most Indian companies disclose environmental and social information, although there is no legal obligation to disclose such business activities. In addition, the level of disclo-

sure, in developing countries also depends on the level of enforcement ^[33,34,36,37]. This means that countries with strict regulatory requirements and enforcement tend to improve the quantity and quality of disclosures.

Pressure from stakeholder expectations for effectiveness and accountability in managing organizational sustainability performance contributes to motivation for disclosure ^[11,20,30-32]. Various stakeholders are asking organizations to report on sustainable development initiatives. This allows you to see how much natural capacity is being used and how resources are being used. It can be compared to existing world capacity resources to minimize ecosystem shortages. However, a previous study of Australian companies by Tilt ^[38] argued that companies tend to share voluntary information internally rather than outsiders. This may be because voluntary and compulsory disclosure is difficult to consider accountable because there are few opportunities to facilitate action by the stakeholders of the organization ^[39].

Investors have expressed concern about socially responsible investment, which has been found to have a strong impact on corporate behavior ^[11,40]. Other stakeholders, such as employees and consumers, also promoted the disclosure movement ^[41,42]. Other important factors are also reported, such as the pursuit of competitive advantage improved corporate image and reputation ^[43-45] and maintenance of visibility or public image ^[46-48]. In addition, a recent study by KPMG ^[20] reports that risk management, ethical considerations and new innovations have been identified as some of the most common drivers for reporting.

3. Methodology

The study used a survey method and the data used was obtained from a series of surveys and structured interviews. The questionnaire was created from the results of a qualitative study conducted by Park and Brorson ^[49], Sawani, Mohamed Zain, and Darus ^[35], Thoradeniya et al. ^[50] into a closed question form. These instruments were developed based on many existing instruments and were considered more suitable for use in this study. Therefore, the results of this study could be compared to most empirical studies with minimal difficulty. The survey's means of investigation included two different areas: questions about the respondents' key demographic characteristics and questions about the relative perception of sustainability reports in their respective organizations at the time of the survey. The second part of the survey aims to measure respondents' perceptions of the importance of non-financial information and their disclosure by companies using sustainability reports. Respondents were required to state their level of agreement or otherwise based on the five-

point Likert scale with one being strongly disagreed and five being strongly agreed.

Furthermore, a total of 200 questionnaires were administered to entrepreneurs and managers of businesses. The questionnaire was pre-tested (Dillman, 1978) among fellow academics and postgraduate students to ensure all questions were clear and precise. Individuals were asked to complete the questionnaire; discuss any problems they had encountered and suggest any modifications they felt would make the questionnaire more user friendly. Moreover, a cover letter was attached to each questionnaire sent as an overview to the objective of the study and guaranteed the confidentiality of the evidence provided by each respondent. The questionnaire survey form was designed in two languages, English and translated into Khmer language. It must be noted that the Cambodian business community is not used to this type of survey due to a culture of secrecy embedded among businesses. The questionnaires were presented in person and appointments were scheduled in advance in order to improve the response rate and to guarantee business owners understood all the questions raised. The question format was designed to reflect the exploratory and preliminary nature of the study, where most of the questions were in open-ended format. A total of 124 questionnaires were completed resulting in a response rate of 62 percent. The interview participants were selected randomly from the 124-survey respondents and a total of 20 respondents were selected for the interview. The rationale for the interview is for the researcher to have an opportunity to discuss the survey results and to further gain detailed and genuine perception and insight on certain issues about sustainability reporting practices in Cambodia. The structural interviews were performed with personnel responsible for company's reporting, mostly from the corporate function, but in some cases the person in charge on environmental and social activities was also invited in the interview session.

4. Results and Discussions

To better understand the outcome of the survey and the interviews, the results were classified under two themes: the demographic information of the respondents and respondents' perceptions on the importance of non-financial information and its disclosure using sustainability reporting by firms.

4.1 Demographic Information of the Respondents

Tables 1 and 2 present the essential demographic profile of the respondents used in the study analysis and the characteristics of companies selected in the study. Out of

the total 124 respondents, 95 were males (77%) with the remaining 29 (23%) of the sample being females. Table 1 shows that among all the respondents, 66 percent (n=81) are employees at the lower management level, 23 percent (n=29) are managers or supervisors, 7 percent (n=9) are directors or senior managers, and 4 percent (n=5) are CEO of their respective organizations. The result shows that about 34% of the respondents in total are at the supervisory level up to senior management level. This indicates that several of the respondents occupy higher level management positions and with significant amount of working experience in their respective organizations hence, their views could reasonably be relied upon for a study of this nature. The presumption is that, because of the key position these respondents hold in their organization, their role is crucial in the development of sustainability strategy for their respective companies and hence, their views/position on sustainability issues may be a fair reflection of their organizations.

Table 1. Respondent's position and industries of companies' survey

Respondent's position	No. of companies	% of companies
CEO	5	4%
Director/ senior manager	9	7%
Manager/ supervisor	29	23%
Staff/ employee	81	66%
Total	124	100%
Industries	No. of companies	% of companies
Consumer products (manufacturing)	13	10%
Construction & Real estate	14	12%
Financial services	61	49%
Technology	5	4%
Industrial products	6	5%
Trading & retail services	25	20%
Total	124	100%

Source: Survey Data

Moreover, the sample was spread across six main industry groups, as shown in Table 1. Forty nine percent (n=61) of the companies are in the financial services industry, 20 percent (n=25) from trading and retail services industry, 12 percent (n=14) from the construction & real estate industries, 10 percent (n=13) in the consumer products industry, while the remaining 4 percent (n=5) and 5 percent (n=6) are in the technology and industrial products industry respectively. Table 2 shows the characteristics of companies the respondents came from. The average years of the respondents' company is five years of establishment, ranging between 3 to 18 years within the sample.

The average number of employees in the surveyed companies were 75 employees which ranges between 22K to 10K employees of the surveyed companies in the sample. Additionally, the average turnover of the surveyed employees in 2019 was USD 55,000, ranging between USD 22,000 to USD 35 million within the sample.

Table 2. Characteristics of companies surveyed

Characteristics	Statistics	Range
Average years of respondent's companies	5	3 – 18
Average number of employees	75	22K – 10K
Average turnover in 2019 (USD million)	0.055	0.015 – 35M

Source: Survey Data

4.2 Perceived Importance of Non-financial Information and Its Disclosure Using Sustainability Reporting

This section of the questionnaire was devoted to discovering the perceived importance of non-financial information and its disclosure in Cambodia. The result from the survey revealed that 74 percent (n=92) of the respondent are aware of sustainability reporting while the remaining 26 percent (n=32) of the respondent were not aware of it. As showed in Table 3, the study further asked respondent if their companies are reporting on environmental and social impacts. The result shows that 29 percent (n=34) of the respondent's companies in the survey are reporting on environmental and social impacts of their business operations while 36 percent (n=43) of the respondent's companies are not reporting on their environmental and social activities. Thirty five percent (n=42) of the respondent are not sure whether their companies are reporting on environmental and social impact. The result clearly shows that sustainability reporting is a relatively a new concept in Cambodia. At present, a relatively small number of companies in Cambodia are reporting on environmental and social impacts of their business operations. The lack of disclosure among businesses in Cambodia could be attributed to non-disclosure requirement of environmental and social impacts of business operations by national law and most companies are not aware of the strategic importance of such reporting in generating competitive advantage.

Moreover, all the respondent's feedback to the questionnaire indicates that they are aware of at least one or more international standards or frameworks that specifies requirements on how environmental and social impact can be managed and reported. Among the top five popular standards in Cambodia, 35 percent of the respondents ranked ISO14001 as most popular standard, followed

by Global Reporting Initiative (GRI) standards (22%), then the AA1000 Assurance Standard (15%), followed by the United Nations Global Compact (15%) and the ISO26000 standard (10%). The high level of awareness of environmental and social standards/frameworks among the respondents could be related to their perception of the importance of firms to provide non-financial information, in addition to financial information. Sustainability reports have become one of the platforms for disseminating information about a company's activities beyond specified requirements.

Table 3. Reporting on environmental and social impacts

Categories	Survey Responses		
	Yes	No	Do not know
CEO	3	2	0
Director/senior manager	4	3	2
Manager	15	10	4
Staff/employee	23	28	30
Total	45(36%)	43(35%)	36(29%)

Source: Survey Data

Table 4. Frameworks/standards respondents are aware of

Frameworks/Standards	Percentage of respondents ranking
ISO14001	35%
Global Reporting Initiative (GRI)	22%
AA1000 Assurance Standard	16%
The United Nations Global Compact	15%
ISO26000	10%
AA1000 Stakeholder Engagement Standard	7%
ISAE 3000	4%
OHSAS 18001	3%

Source: Survey Data

This section aimed to discover views on the importance of firms providing non-financial information in addition financial information, usefulness of non-financial information disclosure and using sustainability reporting to disclose of non-financial information. The evidence from the survey suggests widespread agreement to the importance of non-financial information and its disclosure by firms (see Table 5). For example, over 68 percent of respondents either agreed or strongly agreed that it is important for firms to providing non-financial information in addition financial information. The reasons provided by respondents to the importance of firms providing non-financial information is that, 71 percent (n=70) believe that non-financial information are important indicators of op-

erational performance of the firm and/or management, 55 percent (n=54) believing that it is important to distinguish company as a sustainable enterprise, while 33 percent (n=33) believes it allows for comparability with financial information. The following comments were made by some directors of private companies to support this view:

If I were to be a decision-maker in all Cambodian businesses, I will order them to disclose non-financial information in all aspect that relates to their business operations. This will provide them with many benefits leading to growth in the firms. With this disclosure, companies would be able to find data relating to their performance, identify opportunities and threats and develop better business strategies for the companies and the society at large.

I strongly agree that companies should disclose non-financial information that relates to their business operations as it can that the firm know itself by enabling it to understand about risks and the opportunities they face, which is important for every firm to enhance their long-term profitability.

I believe disclosure of non-financial information can assist companies to maintain trust between investors and other stakeholders of the company. It might reduce the reputational risk and protect the reputation and brand image of the organization. Likewise, this disclosure will provide a clear picture and guidance which encourages the company to work on their strength and manage weakness for improvement.

However, more than 5% of respondents disagree or strongly disagree with the importance of companies providing non-financial information along with financial information. Respondents said that investors ultimately turn to financial information, non-financial information is mainly used to satisfy NGOs/CSOs, non-financial information is sophisticated and difficult for users to interpret it. Furthermore, there was a great consensus to the disclosure of non-financial information with 75 percent

(n=94) of respondents strongly agreeing or agreeing that disclosure of non-financial information using sustainability reporting would be beneficial for firms. Accordingly, among the top benefits perceived by respondents of disclosing non-financial information using sustainability reporting to firms is improving reputation and brand name, representing 69 percent of the respondents. Demonstrating environmental responsibility (54%) is the second most cited benefit for firms using sustainability reporting while improving stakeholders' relationship and enhancing communication and increasing long-term shareholders' value are the third most cited benefit, representing 51 percent of the respondents. The following comments were made by managers of some private companies to support this view:

The best example I will give is about my company (name withheld), which I see as among the top companies that practice sustainability in Cambodia. My company cares a lot about the environment and to demonstrate that they invest millions of USD to acquire machines that help to reduce bad air pollution. Additionally, during COVID-19 pandemic, the company invest millions of USD to donate COVID-19 vaccines, personal protective equipment (PPE), clean water project and renting billboards to increase the public awareness on COVID-19 prevention. These spendings were communicated through a sustainability reporting and has greatly increased my company reputation among its stakeholders.

It enables us to be aware of our impacts towards the environment and the public, and it would also improve our relationships with our stakeholders and create good brand image.

Additionally, increasing market access (50%), achieving improve performance evaluation (47%), identifying areas for cost savings and reduced wastage (45%), reducing or mitigating risks/improving risks management (44%), improving financial performance in the long run (42%) and improving coordination and communication

Table 5. Perceived importance of non-financial information and its disclosure

Perceived importance of non-financial information and its disclosure	Mean	SD	Percentage who strongly agree or agree with the statement	Percentage who strongly disagree or disagree with the statement
Important of providing non-financial information in addition financial information	2.3065	0.8851	68%	5%
Usefulness of non-financial information disclosure	2.0164	0.7495	75%	2%
Using sustainability reporting to disclose of non-financial information	2.0806	0.6451	80%	1%

Notes: 1 = strongly agree; 2 = agree; 3 = neither agree nor disagree; 4 = disagree; 5 = strongly disagree; SD = standard deviation.

among firms (39%) are among the cited benefits to firms disclosing non-financial information using a sustainability reporting as shown in Table 6. The following comments were made by some directors of private companies to support this view:

Sustainability reporting help organizations to understand their business operations, both positive and negative aspect and identify cost savings opportunities and improve on environmental performance.

In the long run, it will help a company to identify areas for cost savings, reduced wastages, and shows that a company is not all about the profit but also cares about the environment and local law and regulation.

I used to work in the banking industry, they have a group focus on sustainable finance and even organize events to create public awareness. The bank also included sustainable finance in the policy like providing loan with a lower interest rate to client who have business related to sustainable business.

On the other hand, only two percent of the respondents that strongly disagree or disagree that non-financial information disclosure using sustainability reporting would be

beneficial to firms. These respondents cite that sustainability reporting is costly for firms to produce citing cost such as the costs of assurance to ensure accuracy and relevancy of the report, the direct costs needed to gather the required information/difficulty in obtaining information i.e., having a data management system, the direct costs needed to prepare the reports and the costs needed to modify the existing accounting (information) system in terms of software and hardware. The following comments were made by some directors of private companies to support this view:

I think disclosure of non-financial information is not important at all because business is about maximizing shareholder’s wealth. I acknowledge about the importance of sustainability in business. However, we can just participate in CSR program without having to disclose those activities in a formal report like the sustainability report as there will be cost attached to it.

I believe some shareholders in Asia do not care about non-financial information disclosure on environment and social as reporting of this type of information is time consuming and costly.

Table 6. Benefits of using sustainability report

Benefits	Percentage of respondents ranking
Improved reputation/brand name	69%
Demonstrate environment responsibility	54%
Improved stakeholders’ relationship/enhanced communication	51%
Increased long-term shareholders’ value	51%
Increased market access	50%
Improved performance evaluation	47%
Identify areas for cost savings, reduced wastage	45%
Reduced or mitigate risks/improved risks management	44%
Improved financial performance in the long run	42%
Improved coordination and communication among firms	39%

Source: Survey Data

Table 7. Costs of sustainability reporting

Cost	Percentage of respondents ranking
Costs of assurance to ensure accuracy and relevancy of the report	64%
Direct costs needed to gather the required information/difficulty in obtaining information i.e., data management system	59%
Direct costs needed to prepare the reports	48%
Costs needed to modify the existing accounting (information) system in terms of software and hardware	38%
Risk of bad publicity if the company is transparent in its reporting	31%

Source: Survey Data

5. Conclusions

The aim of this article is to get some preparatory information on sustainability reporting in Cambodia, distinguishing the current trend, practices, and reasoning for the adaptation as well as the dismissal of sustainability reporting. This segment will discuss the issues that risen from the study and will give proposals for future in-depth studies to be conducted among Cambodian firms. Based on the findings, non-financial information disclosure and sustainability reporting practices are observed to be at the early stage in Cambodia. Most of the respondents believe that disclosing environmental and social activities would be an important indicator of operational performance, allows for comparability with financial information and distinguish companies as a sustainable enterprise, though only a handful of the respondents' companies are disclosing on non-financial information. Despite the low level of environmental and social activities disclosure using sustainability report among businesses in Cambodia, most of the respondents in this study professed that such practices would potentially improving companies' reputation and brand name, improving stakeholders' relationship, and enhancing communication, increasing long-term shareholders' value and demonstrate company's environmental responsibility. Therefore, there is need to conduct an in-depth study to investigate the factors that determine a company's propensity to prepare disclosure of environmental and social activities using sustainability report.

Based on the discoveries of the study, it is nearly clear that the root cause of this debility of the environmental and social activities disclosure is due to the lack of disclosure requirement on environmental and social impacts of business operations by national law. Additionally, there is lack of incentive to companies for this type of disclosure and most companies are not aware of the strategic importance of such reporting in generating competitive advantage and achieving sustainable business model.

The respondents too concurred that such practice will be exceedingly propelled if such motion is being regulated. Moreover, respondents point out that the absence of an appropriate information system influences the completeness, reliable and cost of associated with this type of disclosure. Appropriate data management systems should be in place to facilitate the reporting process with minimal investment in time and money. This also enables transparent reporting that benefits everyone involved. Further investigation into the impact of data management systems, mimicking factors, and regulatory requirements on the disclosure of environmental and social activities needs to be conducted.

This study focused on preliminary insights into the practice of sustainability reporting. Therefore, this conclusion should be relaxed by the following considerations: First, the research method used in this study was aimed at exploratory research. Only descriptive data have been reported and no causal or relationship studies have been conducted at this time. Second, the descriptive results are for strategically planning future research by researchers to further investigate how these identified variables affect such practices in Cambodia will be used. Finally, due to the small sample size, the findings cannot be generalized to all companies and do not reflect actual practices in Cambodia. However, it contributes to catalytic future research in this area specifically exploring the relation between the proposition of sustainability reporting and the beneficial consequences, the moderating effects of the implementation barriers on sustainability reporting.

Conflict of Interest

There is no conflict of interest.

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