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بِوَسِيْلَتِي اِسْلَامًا اَنْبَارًا اِيْجَانًا مِلِّيْنًا

COMPARING ENVIRONMENTAL REPORTING  
PRACTICES OF PUBLIC-LISTED COMPANIES  
IN MALAYSIA IN 1999 AND 2003: AN  
INVESTIGATION OF QUANTITY AND  
QUALITY

BY

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INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA

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OF QUANTITY AND QUALITY

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A dissertation submitted in partial fulfilment of the requirement  
for the degree of Master of Science in Accounting

Kulliyyah of Economics and Management Sciences  
International Islamic University  
Malaysia

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## **ABSTRACT**

This study examines the trends in the environmental reporting practices of 110 companies listed on Bursa Malaysia in 1999 and 2003. Based on the content analysis of the annual reports, it is found that the number of reporting companies in the sample period increases from 48% to 62% whilst the mean of environmental sentences increases by nearly threefold. The study also assesses the comprehensiveness (i.e. quality) of disclosure using a 100-item index. This index is drawn based on a review of various scoring systems including the adjudication criteria used in the Association of Chartered Certified Accountants' Malaysian Environmental and Social Reporting Awards (ACCA's MESRA) and the National Annual Corporate Report Awards–Environmental Reporting (NACRA). Unlike the quantity of reporting, the quality of disclosure only increases very slightly (from 4% to about 7%). Additionally, the study also found that (1) more environmentally sensitive companies experienced significant increases in the quantity and quality of environmental disclosure, (2) larger companies in “all sample” and “more environmentally sensitive” group significantly increased the quantity of environmental information between the period, and (3) both environmental sensitivity and size do not influence the changes in the number of reporting companies. All these findings, to a certain extent, support social issue life cycle theory and legitimacy theory.

ملخص البحث

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## APPROVAL PAGE

I certify that I have supervised and read this study and that in my opinion, it conforms to acceptable standards of scholarly presentation and is fully adequate, in scope and quality, as a thesis for the degree of Master of Science in Accounting

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## DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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Signature.....

Date.....

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### **COMPARING ENVIRONMENTAL REPORTING PRACTICES OF PUBLIC-LISTED COMPANIES IN MALAYSIA IN 1999 AND 2003: AN INVESTIGATION OF QUANTITY AND QUALITY**

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## LIST OF ABBREVIATIONS

ACCA	The Association of Chartered Certified Accountants
ASSC	Accounting Standards Steering Committee
BAT	British American Tobacco (Malaysia) Bhd
BCSDM	Business Council for Sustainable Development Malaysia
CA 1965	Companies Act 1965 (Act 125)
CAP	Consumers' Association of Penang
CEO	Chief Executive Officer
CEP	Council on Economic Priorities
DOE	Department of Environment, Malaysia
DS	Disclosure Scores
DTT	Deloitte Touche Tohmatsu
DWB	Davis-Walling and Batterman
e.g.	( <i>exempligratia</i> ); for example
ENSEARCH	Environmental Management and Research Association of Malaysia
EPSM	Environmental Protection Society Malaysia
EQA 1974	Environmental Quality Act 1974 (Act 127)
et al.	( <i>et alia</i> ): and others
FCCG	Finance Committee on Corporate Governance
FMM	Federation of Malaysian Manufacturers
FRS	Financial Reporting Standards
GLC	Government-linked companies
GRI	Global Reporting Initiative
ibid.	( <i>ibidem</i> ): in the same place
ISEA	Institute of Social and Ethical Accountability
ISO	International Organization for Standardization
KLSE	Kuala Lumpur Stock Exchange
MASB	Malaysian Accounting Standards Board
MAST	Media Agency Setting Theory
MCCG	Malaysian Code on Corporate Governance
MERA	Malaysian Environmental Reporting Awards
MESRA	Malaysian Environmental and Social Reporting Awards
MIA	Malaysian Institute of Accountants
MICC	The Malaysian Chamber of Commerce and Industry
MICPA	Malaysian Institute of Certified Public Accountants
MIM	Malaysian Institute of Management
MNCs	Multinational Corporations
MNS	Malaysian Nature Society
MSTE	Ministry of Science, Technology and Environment
NACRA	National Annual Corporate Report Awards
N/A	not available
n.d.	no date
NGO	Non-governmental Organization
NSAs	Non-shari'ah approved Companies
P.B.U.H	Peace Be Upon Him
R&D	Research and Development
SACs	Shari'ah-approved Companies
SAM	Sahabat Alam Malaysia



SA-UNEP	SustainAbility-United Nations Environment Programme
SEA	South East Asia
SIC	Standard Industrial Classification
SMI	Small Medium Industries
YAWA	Yayasan Anak Warisan Alam

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 INTRODUCTION**

The current research aims to provide empirical evidence on environmental reporting practices among companies listed on the Main Board of Bursa Malaysia. To achieve this, it analyses the annual reports of the largest 150 companies based on market capitalisation as at 31 December 2003. In order to provide a meaningful insight into the trend of reporting practices, a comparison between 1999 and 2003 annual reports is made and the present study is concerned with the changes (if any) in the number of reporting companies, as well as the quantity and quality of environmental disclosure.

In addition, the current research is also enriched with an analysis on the relationship between several corporate characteristics, i.e. environmental sensitivity and size, and the reporting behaviour. In so doing, it is hoped that the findings can fill the gap in the environmental reporting literature, particularly in the context of Malaysia. Moreover, by having a better understanding of the environmental reporting practices in Malaysia, necessary action could be taken so as to improve the current situation and hence emphasise the important role of environmental reporting among the Malaysian companies.

### **1.1 BACKGROUND OF THE STUDY**

There has been a growing demand since the past three decades for companies to be more socially responsible in their operations (Roberts, 1991; Hackston and Milne, 1996; Matthews, 1997; Moneva and Llana, 2000; Wilmshurst and Frost,

**2000). In fact, to survive in the future, financial success is no longer the only requisite. The concept of sustainable development, which refers to “the development that meets the needs of the present generation without compromising the ability of future generations to meet their own needs” (Niskala and Pretes, 1995: 463), introduced in Brundtland Report in 1987 has really triggered many companies, if not all, to start integrating social and environmental considerations into their business decisions.**

Environmental problems such as the greenhouse effect, open burning, indiscriminate land hill clearings, river pollutions, oil and chemical spills in the ocean, and the extinction of thousands of animal species have increased public awareness of and concern for the adverse impacts of business on our natural environment. Accordingly, there is an increasing pressure now for businesses to be good corporate citizens. In fact, they are not only accountable to shareholders for profit maximisation but also to consider other stakeholders as well. This includes the public at large.

Due to that, they have to demonstrate their concern for the environment. In a way, they have to make sure that their operations will not pollute the air, toxic waste will not flow into the river and any chemical substances will be properly treated. However, by just having an environmentally friendly system put in place is still not adequate. In fact, a company must publicly demonstrate such efforts by disseminating the information to the general public. This can be done through various means, ranging from formal medium including annual report and separate environmental report to informal brochures, press release and media coverage.

Environmental reporting is still a voluntary initiative in Malaysia. Nevertheless, there are signs of increasing environmental awareness in the recent years. These can be seen, at least, in four areas. Firstly, in terms of environmental regulation, Environmental Quality Act 1974 (Act 127), henceforth referred to as EQA 1974, has been amended in 1998 and further in 2001 to include prohibition of open burning (EQA, 1974). In addition, several new other legislations were also introduced.

Secondly, there are several reporting recommendations and guidelines, with direct and indirect reference to environmental information. These include the introduction of Financial Reporting Standards 101 and 137 (henceforth, FRS 101 and FRS 137) by Malaysian Accounting Standards Board (MASB) in 1999 and 2001 respectively, Malaysian Code on Corporate Governance (MCCG) in 2000, and Association of Chartered Certified Accountant's (ACCA) Environmental Reporting Guidelines in 2003.<sup>1</sup>

In addition, to further encourage environmental reporting, two awards were introduced, (1) National Annual Corporate Report Awards (NACRA) which has included a category on environmental reporting since 2000, and (2) Malaysian Environmental Reporting Awards (MERA) by ACCA since 2002. During MERA's launching, the former Minister of Science, Technology and Environment expressed the possibility of making environmental reporting mandatory if there is a continuous reluctance among Malaysian companies to report on environmental information (Thompson and Zarina, 2004).

After three successful years of organising the event, it is now being replaced by Malaysian Social and Environmental Reporting Award (MESRA), with the integration of social disclosure in the award. At this juncture, the Malaysian government through its Deputy Minister in the Prime Minister's Department Datuk M. Kayveas has again made a promising statement with regard to the possibility of mandatory reporting.<sup>2</sup>

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<sup>1</sup> FRS 101 and 137 were formerly known as MASB 1 and MASB 20 when they were first introduced. However, with effect from January 1, 2005, all MASB standards are renamed as Financial Reporting Standards (FRS). "MASB Unveils New Name for Accounting Standards," Malaysian Accounting Standards Board, <[http://www.masb.org.my/masbmr\\_pr\\_detail.asp?prid=2912204-171339](http://www.masb.org.my/masbmr_pr_detail.asp?prid=2912204-171339)> (accessed 29 December 2004).

<sup>2</sup> "Corporate Reporting on Environs Likely by 2007," *The Star*, 29 October, 2004, via The Star Online, <<http://thestar.com.my/services/printerfriendly.asp?file=/2004/10/29/business/>>.

Speaking after the launch of MESRA in October 2004, he was hinted at the possibility of reporting requirements on local companies around 2007.

**Finally, there have also been continuous campaigns by Malaysian Department of Environment (DOE) as well as various non-governmental organisations (NGOs) such as Sahabat Alam Malaysia (SAM), Malaysian Nature Society (MNS), Yayasan Anak Warisan Alam (YAWA), Business Council for Sustainable Development Malaysia (BCSDM), Environmental Protection Society Malaysia (EPSM) and Consumers' Association of Penang (CAP). Therefore, these constitute anecdotal evidences on the increasing concern on the environment that may enhance the environmental reporting practices among the Malaysian companies.**

## **1.2 MOTIVATION FOR THE STUDY**

The main motivation for the study stems from the increased importance of environmental reporting. The importance, according to Jaggi and Zhao (1996), can be described in at least two areas. The first area draws upon the notion that companies do not exist in a vacuum, but are part of a society that creates and supports them. As such, they have a social contract to be fulfilled. In essence, the fact that we are living in a world with limited natural resources has led the society to demand that businesses assume greater responsibility for their use of these resources.

Meanwhile, the second argument relates to the quality of life. With all the environmental problems surrounding our world, society nowadays perceive a business as a villain and, therefore, should be held responsible for these problems. Thus, companies are being constantly argued to have a responsibility to contribute to a

cleaner and healthier environment that should improve the quality of life (Jaggi and Zhao, 1996).

In addition, even with various environmental reporting studies, it is interesting to find that it has remained a complex field to be understood (Gray, Kouhny and Lavers, 1995a). The fact that it is still a voluntary practice in majority parts of the world raises a fundamental question on the reasons for companies embarking on environmental reporting. In essence, there is no single theory that is able to explain the practices.

In Malaysia, most of the previous studies on environmental reporting are predominantly cross sectional. This is despite the importance of longitudinal studies or comparative year studies especially in improving the robustness of the findings (Zauwiyah, Salleh and Junaini, 2003; Thompson and Zarina, 2004). As a result, findings from the previous studies are fragmented and incomparable. In relation to this, since they are mostly cross-sectional, factors that might influence the changes in the environmental reporting practices over a longer time period is relatively under-developed.

However, the efforts by ACCA (2002b, 2004) should not be undermined. While ACCA (2002b) had studied the environmental reporting practices among the Malaysian companies in 1999, 2000, and 2001, ACCA (2004) has extended that study for the years 2002 and 2003 with the inclusion of social reporting. However, an in-depth comparison between the findings from these two studies and other environmental reporting studies in Malaysia (for example, Romlah, Takiyah and Jusoh, 2002; Nik Nazli and Maliah, 2004) has revealed inconsistent finding especially with regards to the number of reporting companies. This might be the result of differences

in how these different studies define environmental reporting. As such, a separate thorough study may be warranted to fill the gap.

Finally, there is still lack of studies that look at the quality of reporting. Except for Romlah et al. (2002), other studies had focused on the quantity of reporting (see, for example, Teoh and Thong, 1981; Andrew, Gul, Guthrie and Teoh, 1989; Hairul Azlan, Maliah and Nik Nazli, 2004; Nik Nazli and Maliah, 2004). Meanwhile, ACCA (2002b, 2004) only provide qualitative description of the environmental reporting in Malaysia, which according to Jones and Alabaster (1999) can be very subjective. They further contend that a quantified approach such as the use of disclosure index is more precise, accurate and more effective.

### **1.3 OBJECTIVES OF THE STUDY**

Thus, the current researcher formulates two broad research questions:

Research question 1: Is there any significant change in the number of companies reporting environmental information, as well as the quantity and quality of such reported information between 1999 and 2003?

Research question 2: Do environmental sensitivity and size of the corporation affect the changes in the reporting behaviour?

In essence, the present study examines the environmental reporting practices among Malaysian companies in 1999 and 2003. Specifically, it intends,

- i. To assess whether there is a significant change in the number of reporting companies,
- ii. To identify whether there are significant changes in the quantity and quality of the environmental disclosure, and

- iii. To evaluate whether environmentally sensitive and larger companies significantly change their reporting behaviour as compared to their counterparts.

## **1.4 CONTRIBUTION**

The contribution of this study can be seen from three aspects. The first aspect deals with the contribution towards the body of knowledge. The current research enhances the existing literature with the discussion on the recent developments in the environmental awareness in a developing country, Malaysia. Furthermore, since it examines the data of 1999 and 2003, any trend in the reporting practices can be clearly observed. In doing so, it offers the discussion on the applicability of social issue life cycle theory and legitimacy theory.

In addition to that, the current research improves the previous environmental reporting studies in Malaysia with regards to the research methodology and findings. Specifically, the disclosure index developed as the measurement of quality in this research is derived after reviewing various literatures including the adjudication criteria used to select the winners of NACRA and MERA.

The second aspect concerns with the contribution towards the environmental reporting practices. Since the disclosure index is relatively comprehensive, it assists the practitioners to understand the relevant issues to be addressed in the environmental report so as to improve transparency and accountability. Finally, in conjunction with the intention of the government to make environmental reporting mandatory, this will provide evidence on the level of readiness among the Malaysian companies to implement environmental reporting. Subsequently, any standards or reporting