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بِوَسِيلَتِنَا مِنْكُمْ لَتَرْحَبُنَا لِنَكُنَّ مَلِكًا

**SOCIAL AND ENVIRONMENTAL REPORTING:
PERCEPTIONS OF NGOs IN MALAYSIA**

BY

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**INTERNATIONAL ISLAMIC UNIVERSITY
MALAYSIA**

JULY 2005

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ABSTRACT

Prior literatures have acknowledged the existence of multiple groups of stakeholders and their demand for Corporate Social and Environmental Disclosures (CSED). Most of the studies on CSED are largely focused on the content of disclosures and the viewpoint is either from the company or the investors. Less emphasis is given to the needs and preferences of external stakeholders with regards to CSED. Being aware of the fact that there are very few studies ever conducted on CSED practice in Malaysia, this study attempts to investigate the perception of a user group, non-governmental organizations (NGOs) in particular, with regard to CSED in Malaysia. The investigation is particularly aimed at the perception of NGOs as to whether current disclosures are understandable, credible and sufficient.

Data were gathered using dual methods; questionnaire survey and post interview survey. First, questionnaire surveys were mailed to a sample of 50 organizations which is identified as social and environmental NGOs. Later, post interview surveys were conducted on three Executive Directors from three selected organizations that have participated in the prior post survey.

Generally, the analysis show that social and environmental NGOs are aware of the CSED with annual reports as the most commonly used medium in seeking CSED. The findings indicate that NGOs can be considered as a user group of CSED in Malaysian context. However, due to a few constraints, their power and influence is not to the extent of pressure groups as those in developed countries. NGOs also strongly demand for legislation and standards that require minimal levels of disclosures. Indirect approaches such as lobbying activities, promotional and educational programs are more likely to be used against companies that do not provide CSED. Unfortunately, due to the small sample size, the findings fail to reject null hypotheses. This indicates that no conclusive statement can be made whether the perception of NGOs on current CSED is understandable, credible and sufficient.

ملخص البحث

أكدت الدراسات السابقة بوجود مجموعة عديدة من حاملي الإسناد ومطالبتهم بالنشرة الإجتماعية والبيئية المشتركة. معظم البحوث للنشرة الإجتماعية والبيئية المشتركة يركز تركيزا كبيرا على محتوى النشرة ووجهة النظر من قبل الشركة و المستثمرين. ومع ذلك يقل الاهتمام على الحاجات والخيارات لحاملي الإسناد الخارجيين، وعلاقتهم بالنشرة الإجتماعية والبيئية المشتركة. ومن الملاحظة لحقيقة عدم توفر الدراسات التي أجريت على ممارسة نشرة الإجتماعية والبيئية المشتركة بماليزيا، يحاول هذا البحث استقصاء الشعور لمجموعة مستعملة و منظمات غير حكومية على وجه الخصوص وعلاقتها بالنشرة الإجتماعية والبيئية المشتركة بماليزيا. ويهدف هذا البحث إلى الإشارة إلى المنظمات غير حكومية خاصة سواء كانت النشرة الحالية مفهومة أو معقولة أو كافية. وقد تم جمع البيانات على المنهجين التاليين: الإستبيان و المقابلة. أولا وزّع الاستبيان إلى 50 عينة من منظمات أثبتت أنها منظمات اجتماعية وبيئية غير حكومية عن طريق البريد. وثانيا أجريت المقابلة على ثلاثة من المديرين التنفيذيين من ثلاث منظمات مختارة تحت العينة نفسها. وعموما، أبرزت التحليلات بأن منظمات اجتماعية و بيئية غير حكومية تدرك النشرة الإجتماعية والبيئية المشتركة من خلال التقارير السنوية التي تمثل الوسيلة المستعملة في طلب النشرة الإجتماعية والبيئية المشتركة. وقد بينت نتائج البحث بأن منظمات غير حكومية تعتبر مجموعة مستعملة للنشرة الإجتماعية والبيئية المشتركة في نطاق ماليزيا. وبالرجوع إلى عدة قيود، تبينت إلى حدّ ما أن قدرة وتأثير هذه المنظمات غير الحكومية لا تماثل بمجموعة ضغطية في البلدان المتطورة. حيث إنها تطالب بحق التشريع والنماذج التي تقتضى إلى المستوى الأدنى للنشرة. وبطرق غير مباشرة أصبحت الدعاية وبرنامج ترويجية وتربوية وسيلة لمقاومة الشركات التي لم تزود النشرة الإجتماعية والبيئية المشتركة. ومن سوء الحظ فإن حجم العينة المحدودة لا يؤدي إلى نتائج البحث إلا من حيث الإفتراض. حيث إنه لا يمكن إقامة بيان نهائى عن شعور المنظمات غير الحكومية تجاه النشرة الإجتماعية والبيئية المشتركة الحالى ويكون مفهوما ومعقولا وكافياً.

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 thesis is the result of my own investigations, except where otherwise stated. Other sources are acknowledged by footnotes giving explicit references and bibliography is appended.

Name: **AZURAI DAH BINTI TAIB**

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**SOCIAL AND ENVIRONMENTAL REPORTING:
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TABLE OF CONTENTS

Abstract (English)	ii
Abstract (Arabic)	iii
Approval page	iv
Declaration page	v
Acknowledgements	vii
List of Tables	xi
List of Abbreviations	xii

CHAPTER ONE: INTRODUCTION

1.1	Introduction.....	1
1.2	Background of the study.....	2
1.3	Motivation for the study.....	9
1.4	Objectives of the study.....	10
1.5	Significance of the study.....	12
1.6	Research questions.....	13
1.7	Definition of the terms.....	14
1.8	Organization of the study.....	16

CHAPTER TWO: LITERATURE REVIEW

2.1	Introduction and organization of the chapter.....	18.
2.2	Corporate social responsibility.....	19
	2.2.1 CSER and CSED.....	20
2.3	The development of CSED.....	22
	2.3.1 Financial accountability and extended accountability.....	24
	2.3.2 CSR stream of research.....	26
	2.3.3 CSR research in developing countries.....	29
	2.3.4 CSR research in Malaysia.....	33
2.4	Social and environmental stakeholders.....	40
	2.4.1 The users of CSED.....	40
	2.4.2 Pressure groups research.....	45
2.5	Social environmental NGOs roles and power.....	50
2.6	Understandability, sufficiency and credibility of information.....	55
2.7	Summary of the chapter.....	60

CHAPTER THREE: THEORETICAL FRAMEWORK

3.1	Introduction and organization of the chapter.....	61
3.2	Social contract theory.....	61
3.3	Legitimacy theory.....	63
3.4	Stakeholder theory.....	65
3.5	Hypotheses development.....	68
3.6	Summary of the chapter.....	69

CHAPTER FOUR: RESEARCH DESIGN AND METHODOLOGY

4.1 Introduction and organization of the study.....	70
4.2 Research design.....	70
4.3 Sample selection.....	72
4.3.1 CETDEM.....	75
4.3.2 BCSDM.....	76
4.3.3 CETEC.....	77
4.4 Survey instrument.....	78
4.5 Pilot test.....	80
4.6 Data collection procedures.....	81
4.7 Data analysis procedures.....	82
4.8 Summary of the chapter.....	84

CHAPTER FIVE: FINDINGS AND ANALYSIS (QUESTIONNAIRE SURVEY)

5.1 Introduction and organization of the chapter.....	85
5.2 Final samples of analysis.....	85
5.3 Demographic profile.....	86
5.4 Yes or No responses.....	88
5.5 First objective.....	91
5.6 Second objective practice.....	93
5.7 Third objective.....	95
5.8 Fourth objective.....	95
5.8.1 Hypotheses.....	97
5.9 Summary of the chapter.....	102

CHAPTER SIX: FINDINGS AND ANALYSIS (INTERVIEW SURVEY)

6.1 Introduction and organization of the chapter.....	103
6.2 First objective.....	103
6.2.1 NGOs function as pressure group.....	103
6.2.2 Voluntarily sent information.....	107
6.2.3 NGOs experience in CSED among Malaysian companies.....	108
6.2.4 Why NGOs are involved with CSED.....	109
6.2.5 CSED as part of accountability.....	110
6.3 Second objective.....	112
6.4 Third objective.....	114
6.5 Fourth objective.....	116
6.5.1 Understandability of information.....	116
6.5.2 Credibility of information.....	117
6.5.3 Sufficiency of information.....	117
6.5.4 In what manner should information be disclosed.....	118
6.5.5 Why company should disclose.....	120

6.6	Overall comments on the CSED issue.....	121
6.7	Summary of the chapter.....	122

CHAPTER SEVEN: DISCUSSION AND CONCLUSION

7.1	Introduction and organization of the chapter.....	123
7.2	Discussion on the major findings.....	123
7.2.1	First objective.....	124
7.2.2	Second objective.....	126
7.2.3	Third objective.....	128
7.2.4	Fourth objective.....	130
7.3	Comparison of results.....	133
7.4	General conclusion.....	136
7.5	Limitations and recommendations for future research.....	139
7.6	Implications of the study.....	140

REFERENCE.....	143
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APPENDIX 1.....	155
------------------------	------------

APPENDIX 2.....	162
------------------------	------------

APPENDIX 3.....	164
------------------------	------------

LIST OF TABLES

Table No.	Title of the Tables	Page
Table 2.1	Types of corporate social responsibility	20
Table 3.1	Summary of research hypotheses	69
Table 4.1	Summary of questionnaire design	79
Table 4.2	Summary of statistical methods employed	83
Table 5.1	Domestic Information	87
Table 5.3	Yes or No questions	88
Table 5.4	Chi-square two sample of independence	89
Table 5.5	Respondent's view on current CSED	90
Table 5.6	Respondents' views on first objective	93
Table 5.7	Respondents' view on understandability, credibility and sufficiency of information	96
Table 5.8	One sample Kolmogorov Smirnov Test	98
Table 5.9	Kendall Tau correlation between understandability and credibility	100
Table 5.10	Kendall Tau correlation between variable understandability	101
Table 5.11	Kendall Tau correlation between variable credibility	101

Table 7.1	Comparison of results between Tilt's (1994) and the present (2004) study	134
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LIST OF ABBREVIATIONS

ACCA	Association of Chartered Certified Accountant
AICPA	American Institute of Certified Public Accountant
BCSDM	Business Council for Sustainable Development Malaysia
CAP	Consumer Association of Penang
CEO	Chief Executive Officers
CETDEM	Centre for Environmental, Technology and Development Malaysia
CETEC	Centre for Environmental Technology
CPA	Certified Public Accountant
CSED	Corporate social and environmental disclosure
CSR	Corporate social responsibility
CSSR	Corporate social responsibility reporting
DOE	Department of Environmental
EPSM	Environmental Protection Society of Malaysia
FOMCA	Federation of Malaysian Consumers Association
MASB	Malaysian Accounting Standards Board
MCA	Mineral Councils of Australia
MIA	Malaysian Institute of Accountant
MIDA	Malaysian Industrial Development Authority
MITI	Ministry of International Trade and Industries
MNCs	Multinational companies
MNS	Malaysian Nature Society
MTCC	Malaysian Timber Certification Council

List of abbreviations (continued)

NGOs	Non-governmental organizations
SAM	Sahabat Alam Malaysia
SMEs	Small medium industries
WWF	Worldwide Fund for Nature
ROS	Registrar of Societies

CHAPTER 1

INTRODUCTION

1.1 Introduction

Disclosure for corporate social as well as environmental information has become a debatable issue over the past several years. Proponents of social and environmental accounting (Gray, Owen and Maunders 1987; Gray, Owen and Adams 1996; Williams 1999) argue that disclosure of social and environmental information is crucially demanded so as to reflect business accountability to the stakeholders and to ensure the sustainability of the business entity. Firms should not satisfy only their investors, but other parties as well. Moreover, a firm's accountability in entertaining its stakeholders should not limit the eligible party to investors only but should be extended to other groups of stakeholders as well. Stakeholders are defined as "*parties, which can influence, or be influenced by the organization's continuity with their participation in decision-making process*" (Owen and Swift, 2001 p. 6).

Among the stakeholder groups, pressure group (non-governmental organizations-NGOs) is a party that has been acknowledged to belong together with the stakeholder group. This means that businesses need to pay attention to the demand for social and environmental information by various parties including pressure groups or NGOs (Belkaoui 1980; Ogan and Ziebart 1991; Pattern 1992). The power and influence of pressure groups on social

and environmental issues can be seen clearly in the United States, Australia, Europe and other developed countries (Adams, Hill and Roberts 1998; Steadman, Zimmerer and Green, 1995; Tilt 1994). Their power and influence are expressed in terms of direct or indirect action against the company, for example through lobbying for mandatory disclosure or product boycotts.

In the case of Malaysia, however, so far there is no evidence concerning NGOs' demand for corporate social and environmental disclosure (CSED). In fact, there are very few studies on external stakeholders' demand for CSED. Most of the corporate social reporting literature focuses more on disclosure content in annual reports and management opinions with regard to CSED. It is for this reason that this study attempts to fill this gap in the literature by examining the perceptions of NGOs as an external party, on CSED. It is hoped that the study will provide some insights into the awareness of the NGO on CSED and perceptions relating to CSED in Malaysia, as well as to whether NGOs have any influence on the social and environmental reporting process in Malaysia.

1.2 Background of the study

Globalization and rapid changes in information and communication technology have resulted in a tremendous growth in the economic and business environment as well as social life of the public. However, growth without proper plans and regulations will result in some price to pay. Experience from industrialized nations suggests that unregulated economic growth can cause undesirable consequences such as deterioration in the quality

of the natural environment, water, safety, and health, which in turn affects the quality of life (Teoh and Thong 1984). Consequently, societies now have become more aware of the impact of economic activities on their well-being and firms have been forced to satisfy the demands of broader groups of stakeholders. Besides that, corporations must take into account the impact of their policies and strategies as well as possible feedback from the wider group of stakeholders¹ as the users of CSED (Steadman et al. 1995).

Due to the changes, CSED has been used as a means to respond to social and environmental issues concerning the impact of economic activities on the well-being of the society (Chan, 2002). Such disclosure is also a useful tool to minimize the likelihood of negative action (strikes, product boycotts, or introduction of new legislation) against the companies (Trotman, 1979 cited in Deegan, 2002).

There are a few studies that focus on stakeholders' demand for the usefulness or advantage of CSED². These studies investigate the interests of particular groups of stakeholders including investors (Epstein and Freedman, 1994); AICPA 2000), pressure groups (Tilt 1994), and management executives (Jaggi and Zhao, 1996; Woodward, Edward and Birkin, 2001).

¹ The stakeholder groups may comprise of stockholders, suppliers, customers, labor unions, the financial community, local community organizations, environmentalist, director, management and bondholders (Freeman, 1984)

²- See for example Ingram (1978); Anderson and Frankle (1980); Shane and Spicer (1983) for market reaction to disclosure of social and environmental information.

- Epstein and freedman (1994); Blacconiere and Patten (1994) for research on investors reaction on CSED

- see Tilt (1994); Deegan and Rankin (1997) for other stakeholder group demand for CSED

Epstein and Freedman (1994) for example, in their study of individual investors (non-institutional investors) indicate that shareholders are interested in company reports, including in certain aspects of social activities, especially information about product safety and quality, as well as the company's environmental activities. In addition to that, they also discovered that shareholders want companies to report on business ethics, employee relations, and community involvement as part of the firm's disclosure in the annual report. The American Institute of Certified Public Accountants (AICPA, 2000) survey confirmed these results where the majority of respondents believe that "corporate responsibility" information, for example, compliance with policy and environmental standards information was necessary.

Further evidence on stakeholders' participation in CSED can be seen in Deegan and Rankin's (1997) survey where they examined the importance or materiality of environmental information on decisions made by various groups of annual report users. The surveyed groups comprised shareholders, accounting academics, stockbrokers and financial analysts, financial institutions, environmental lobby groups, industry associations and other groups performing a review or oversight function. The results showed that the majority of respondents believed that environmental issues were material to their decisions and they do look for this information in the annual report. All user groups except for stockbrokers and research analysts are of the opinion that environmental information is material to their decision-making. The findings also indicate that shareholders, academicians, and review organizations are the most important groups, which seek environmental information in the annual report. The authors,

therefore, conclude that environmental information is material to the users of annual reports.

This evidence is similar to what was found in Tilt's (1994) study, where pressure groups were found to be users of corporate social and environmental information and the annual report is recognized as the most commonly used medium for such information.

Among the stakeholder groups, pressure groups have been recognised as one of the major user groups of accounting information (Ogan and Ziebart 1991; Patten, 1992; Tilt 1994). However, there is only anecdotal evidence and very little attention has been given to the needs and requirements of this group. In fact, many researchers have ignored pressure groups since they only focus more on investors as the primary stakeholder group.

For the purpose of filling this vacuum, this study replicates Tilt's (1994) study regarding the influence of external pressure groups on social disclosure in Australia. It is interesting to investigate the same area as Tilt, since differences in the period of study, location and the nature of community surveyed would enable us to make a comparison between the previous and the present study. Tilt's study was conducted almost ten years ago. Therefore, there is a possibility that the results would be different now, since societies are becoming more aware of the social and environmental effects of businesses. Moreover, differences in culture and nationality might affect the findings since they are likely to affect accounting and corporate social reporting (CSR) practices as well (Mathews, 1993; Perera and Mathews, 1990). Furthermore, the previous results cannot be generalized to

the Malaysian population due to the different stages of social and environmental accounting, which exist in Australia and Malaysia. It is also “*dangerous to generalize results in developed countries to developing nations,*” as economic performance is likely to be a fundamental factor that affects CSR practices (Tsang 1998 p.624).

In view of that, the present study is primarily concerned with NGOs in Malaysia. This is due to the fact that, significant attempts to produce systematic social accounts are basically derived from the influences, initiatives, and supports of various organizations including NGOs, value based organizations and companies (Gray, 2001).

In Malaysia, most of the NGOs are either established as community based organizations or for the purpose of defending or promoting specific issues, i.e. environmental damages or social problems. With regard to funding issues, many Malaysian NGOs rely on the government and foreign funds to aid their operation. However, most of the time such aid is limited. Therefore donation from private sectors and individuals is very much needed. Consequently, every NGO is required to submit yearly reports to the Registrar of Societies (ROS) containing the audited financial reports, constitutional amendments and etc.

Social and environmental NGOs emerged in Malaysia in the 1970s with the establishment of a few organizations such as the Malaysia Nature Society (MNS) in 1970, Federation of Malaysian Consumers Association (FOMCA) in 1973,

Environmental Protection Society of Malaysia (EPSM) in 1974, and Sahabat Alam Malaysia (Friends of the Earth-SAM) in 1977 (Kean and Singh, 1994; Rasiah, 1999).

The emergence of these NGOs may be attributed to the fact that the ruling government at that time had a development policy that did not take social and environmental aspects of sustainable development into much consideration. There is also a claim that the government dealt with these NGOs aggressively. Weiss (2003) argued that the regulatory environment is the most significant factor that inhibits the development of advocacy NGOs in Malaysia. For example demonstrations organized by the Consumers' Association of Penang (CAP) and Sahabat Alam Malaysia (SAM) on sewage effluents into the Juru and the Kedah rivers in the 1970s and 1980s have been condemned as unlawful anti-government incitements (Rasiah 1999).

Despite being labelled "anti-development" and facing the threat of legal action, Malaysian NGOs then exploited other means of highlighting their concerns on environmental and social issues. Some of the actions include raising public awareness and objections, letters and petitions to Members of Parliament and participating in dialogues and negotiations with government and project proponents. Eventually, these efforts by the NGOs and their consequent effects in raising media attention have raised significant changes in government regulations, as expressed by Rasiah (1999);

"Nonetheless, environmental pressure groups have managed to convince the government to adopt environmental standards particularly from the 1990s, albeit selective enforcement has undermined its credibility" (p.30).

The development of NGOs has witnessed increasing involvement and exposure in recent years. Well-publicized controversial issues such as the Bakun Dam project and environmental damages caused by illegal land clearing in Cameron Highlands have pushed NGOs to the forefront of public attention. In some cases, well-known NGOs like SAM, FOMCA and CAP had led the public in protests or even legal action on certain issues.

The power and influence of NGOs in Malaysia is increasing and cover both domestic as well as international issues. This is evidently shown when a joint statement by environmental and social NGOs on June 2002 rejected the Malaysian Timber Certification Council's (MTCC) scheme to urge international timber buyers to buy Malaysian timber (www.fern.org). One of the main reasons is because the scheme was not developed through a due consultative process (the NGOs felt that their concerns were ignored during the process). The statement urged that the process should involve equal participation process from groups representing the social, economic and environmental aspects of sustainable development. In addition, the NGOs felt that the scheme emphasizes more on economic considerations and fail to adequately safeguard social values and environmental conservation (infor@fern.org).

At the same time, there is limited evidence on the NGOs and societies in Malaysia. However, some of the early literature that do provide information on NGOs' performance are articles by Khong Kim Hoong (1988-1989) on the development of Malaysian public