



USEFULNESS OF ENVIRONMENTAL
INFORMATION IN STAKEHOLDERS' DECISIONS:
THE CASE OF MALAYSIA

BY

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ABSTRACT

Pressure for companies to be accountable to wider stakeholders has encouraged companies to report non-financial information including information on employees, products and the environment. Although commendable, it costs companies time, energy and money. Accordingly, the information should be of value to corporate preparers and stakeholders. This study's primary purpose is to examine the usefulness of environmental information in the decision-making of fund managers and bank lending officers. Specifically, two elements of information usefulness were investigated: perceived usefulness and actual use of environmental information. Normative pressure of institutional theory was used whereby the educational background and professional training received by the fund managers and bank lending officers may influence their perception and actual use of environmental information in decision-making. Interestingly, the present study also incorporated Islamic aspects by investigating the difference in perception between Muslim and non-Muslim fund managers concerning the usefulness of environmental information. A mixed methods approach was used with quantitative (surveys and experiments) and qualitative (interviews) methods to collect the data. A total of 59 (fund managers) and 54 (bank lending officers) questionnaires were completed. Furthermore, 23 subjects volunteered in each experimental group, totaling 69 responses from fund managers and bank lending officers. The subjects were MBA students in universities located in Selangor and Kuala Lumpur. Eight fund managers and six bank lending officers were interviewed. The results reveal that both groups rated many environmental items as important. However, this is not shown in the experimental results. Additionally, no differences were found in perception between Muslim and non-Muslim fund managers. Overall, the results partly support the normative isomorphism of institutional theory. Thus, the present study makes a significant contribution to environmental reporting research, companies and practitioners in Malaysia. Further research on the usefulness of environmental information to different groups of stakeholders and experimental surveys with real practitioners is proposed.

ملخص البحث

الضغوط التي وضعت على الشركات لتكون أكثر مسؤوليّة عن أصحاب المصلحة في نطاق أوسع قد شجعتها إلى إعداد تقارير تحتوي على معلومات غير ماليّة تتمثل في المعلومات عن العاملين والإنتاجات والبيئة. وإن كان ذلك شيئاً جديراً بالثناء إلا أنها مكلفة جداً من ناحية الوقت والطاقة والمال. ومن ثمّ، إنّ هذه المعلومات يجب أن تكون ذات قيمة عند الشركات وأصحاب المصلحة. الهدف الأساسي من هذه الدراسة هو البحث عن فوائد المعلومات البيئية للقرارات التي يتخذها مديرو الصناديق المالية وموظفو البنوك الإقراضية. وعلى وجه الخصوص، قد توصلّ البحث إلى أنّ هناك فائدتين من هذه المعلومات؛ الفائدة الظنيّة و الفائدة الحقيقيّة من المعلومات البيئية. استخدم البحث الضغط المعياري للنظرية المؤسسية حيث إنّ الخلفيّة التعليمية والتدريبات المهنيّة التي تلقاها هؤلاء المديرون والموظفون قد تؤثر في وجهات نظرهم، وإنّ الفائدة الحقيقية من المعلومات البيئية قد تؤثر في اتخاذهم للقرارات. ومن الممتع أنّ البحث قد تناول أيضاً جانباً من المنظور الإسلامي، وذلك بدراسة بعض الفروق الافتراضية بين الموظفين والمديرين المسلمين وغير المسلمين في وجهات نظرهم لفوائد المعلومات البيئية. من أجل الحصول على الحقائق، استخدم البحث مناهج متعددة؛ منهج الكم (إحصاء ودراسة) ومنهج الكيف (مقابلات). قد تمّ إرسال 59 استبانة لمديري الصناديق الماليّة و54 استبانة لموظفي البنوك الإقراضية، ومن مجموعهما عادت إلى الباحثة 69 استجابة، بالإضافة إلى 23 عينات دراسية من متطوعين، و هم طلاب الماجستير لعلوم التجارة والإدارة من جامعات شتى في كوالالمبور وسلنغور. وقد أجريت أيضاً مقابلات مع ثمانية مديري الصناديق الماليّة وستة موظفي البنوك الإقراضية. أشارت النتائج إلى أنّ كلاً من المجموعتين يذهب إلى القول بأهميّة المعلومات البيئية إلا أنّ هذه النتائج لم تحصل عليها من العينات. إضافة إلى ذلك، لم تجد الباحثة أيّ فرق في وجهات النظر بين المديرين المسلمين وغير المسلمين في هذه القضية. عموماً، إنّ نتائج البحث تساند التشاكل المعياري للنظرية المؤسسية. بناءً على ذلك فإنّ البحث قد ساهم مساهمة ملحوظة في الدراسات التي تبحث في التقارير البيئية والشركات وممارسي المهن في ماليزيا. واقترحت الباحثة أن تواصل الدراسة في فوائد المعلومات البيئية للمجموعات المختلفة من أصحاب المصلحة، والدراسة الإحصائية مع الممارسين الحقيقيين.

APPROVAL PAGE

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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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**USEFULNESS OF ENVIRONMENTAL INFORMATION IN
STAKEHOLDERS' DECISIONS: THE CASE OF MALAYSIA**

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LIST OF ABBREVIATIONS

AAOIFI	Accounting and Auditing Organization for Islamic Financial Institutions
ACCA	The Association of Chartered Certified Accountants
ASSC	Accounting Standards Steering Committee
AccountAbility	Institute of Social and Ethical Accountability
BAFIA	Banking and Financial Institutions Act
BNM	Bank Negara Malaysia
BSI	British Standards Institution
CSD	corporate social disclosure
CSEAR	Center of Social and Environmental Research
CSR	Corporate Social Responsibility
DOE	Department of Environment
e.g.	(<i>exempligratia</i>): for example
EIA	Environmental Impact Assessment
EMAS	ECO-Management and Audit Scheme
EQA	Environmental Quality Act
EQR	Environmental Quality Report
ERG	Environmental Reporting Guidelines
et al.	(<i>et alia</i>): and others
FASB	Financial Accounting Standards Board
FRS	Financial Reporting Standards
GAAP	Generally Accepted Accounting Principles
GBI	Green Building Index
GRI	Global Reporting Initiative
i.e.	(<i>id est.</i>): that is
IBBM	Institut Bank-bank Malaysia
ISO	International Organization Standardization
MASB	Malaysian Accounting Standards Board
MaSRA	Malaysian Sustainability Reporting Awards
MBA	Master of Business Administrations
MCCG	Malaysian Code on Corporate Governance
MERA	Malaysian Environmental Reporting Awards
MESRA	Malaysia Environmental and Social Reporting Awards
NACRA	National Annual Corporate Report Awards
NGOs	Non-governmental Organizations
NIE	New Institutional Economics
NIS	New Institutional Sociology
OIE	Old Institutional Economics
pbuh	peace be upon him
SEC	Securities Commission Malaysia
SEE	social, ethical and environmental
SPSS	Statistical Package for Social Sciences
SRG	Sustainability Reporting Guidelines
TQM	Total Quality Management
UK	United Kingdom

UNEP
US
10MP

United Nations Environment Programme
United States of America
10th Malaysia Plan

CHAPTER ONE

INTRODUCTION

1.0 INTRODUCTION

Companies disseminate information about corporate activities to internal and external users through various forms of reports such as annual reports. They are accountable for disclosing information concerning how resources have been used to generate profits and, ultimately, to increase shareholders' wealth. However, increasing demands for companies to be accountable to other stakeholders, apart from capital providers, has drawn corporate attention to the provision of non-financial information in addition to financial information. Such information includes employee, product and environmental information, and is disclosed within corporate annual reports or stand-alone reports. The practice is known as corporate social reporting. The key aspect of corporate social reporting is the acknowledgement that companies need to be accountable and to meet the expectations of other stakeholders (Miles, Hammond and Friedman, 2002). Studies have reported increasing interest among companies to disclose social and environmental information in addition to conventional financial information (Gray, Kouhy and Lavers, 1995a, 1995b; Mathews, 1997; Owen, 2003). This interest has prevailed until today.

A similar phenomenon is emerging in Malaysia. The Association of Chartered Certified Accountants (ACCA) Malaysia reports that there has been an increase in the disclosure of social and environmental information since 2002 (ACCA, 2005). This trend indicates companies' growing awareness of, and interest in the importance of reporting such information. While companies' initiatives and motives to report social

and environmental information vary, such attempts are not without cost, time and energy (Li, Richardson and Thornton, 1997; Cormier and Magnan, 1999). The costs vary from measuring and verifying social and environmental impacts to the administrative burden of collating and publishing such information (Brammer and Pavelin, 2004). Thus, the information should be of value to both the reporters and the users of corporate information.

Despite the extensive literature examining the usefulness of social and environmental information to different groups of stakeholders in the United States (US), the United Kingdom (UK) and European countries, such studies remain scarce in many developing countries such as Malaysia (Wallace, 1990; Hackston and Milne, 1996; Islam and Deegan, 2008). While studies examining the extent companies report on the environment are many, research examining if users find such information useful is lacking, particularly in Malaysia. Accordingly, the present study attempts to address this issue. This study aims to investigate the usefulness of environmental information to Malaysian stakeholder groups. Two primary issues are examined. First, the study examines whether environmental information is *perceived* to be useful by two stakeholder groups, specifically fund managers and bank lending officers. Second, the study examines whether environmental information is *actually useful* in their decision-making.

Additionally, and more importantly, the study examines an aspect of culture (i.e. religion) and how this may influence the usefulness of corporate social responsibility (CSR) disclosure. While prior studies were developed from one strain of worldview (the Western worldview), which does not consider the aspect of religion, this study aims to examine the need for environmental information disclosure from the Islamic perspective. According to Haniffa and Hudaib (2002), the present accounting

framework emphasizes rationalism (maximization of self-interest) in which the accountability element focuses on self-interest rather than accountability to the community at large and, ultimately, to *Allah*. In contrast, the Islamic concept of accountability is that of a dual accountability (Shahul, 2000), accountability to God and God's creatures. Each Muslim should realize that he/she is accountable for his actions (inactions), which are also accounted for in the hereafter. A Muslim is obliged to fulfil moral and religious responsibilities and, thus, is expected to require full disclosure of environmental information. Further, Islam is the official religion of the country and more than half of the population are Muslims.¹ Specifically, the present study examines the difference in *perceived* usefulness and *actual use* of environmental information between Muslim and non-Muslim fund managers and bank lending officers.

It is hoped that this study will provide insights into the perception and behaviour of fund managers and bank lending officers concerning the usefulness of environmental information in their decision-making. As such, it will be useful for corporate preparers as well as regulators to weigh the significance of corporate environmental information disclosure within the Malaysian business environment.

1.1 MOTIVATION OF THE STUDY

Presently, corporate social responsibility is not a new issue and has been widely discussed by many groups in society. The societal awareness on social issues drives companies to publicly disclose social information within the annual reports or separate reports. Extensive studies have been carried out on social and environmental reporting

¹ Lee and Ackerman (1997) in their book asserted that at least 55 percent of the Malaysian population practiced Islam. In addition, a report from the Islam Awareness website revealed that 60 per cent, which represents 14.4 million of the total population in Malaysia are Muslims (2007).

from many different perspectives (Adams, 2002). However, the majority of the studies were carried out in developed countries (Teoh and Thong, 1984), whereas the literature within this field is lacking in developing countries such as Malaysia (Wallace, 1990; Hackston and Milne, 1996; Islam and Deegan, 2008). In addition, the research within this area focused on a broader context of social issues, while the environmental aspect is only a minor category of the social issues. The scarcity of in-depth studies on environmental reporting issues is the motivating factor to carry out this study in Malaysia.

Furthermore, the extant studies on social and environmental information usefulness mainly emphasize the perceptions of different groups of stakeholders. Perception studies offer findings on various characteristics of social and environmental reporting from the view of corporate information users (for example, O'Dwyer, 2002; Dawkins and Lewis, 2003; Thompson and Cowton, 2004; O'Dwyer, Unerman and Bradley, 2005a). However, this raises the important question concerning whether the information is actually used by stakeholders. Indeed, only a few studies on actual use of social and environmental information were found (for example, Belkaoui, 1980; Chan and Milne, 1999; Milne and Chan, 1999; Milne, 2002; Rikhardsson and Holm, 2008). Thus, the present study not only looks at the perceptions but also examines the actual use of environmental information. Additionally, most prior studies in Malaysia examined the extent companies report on the environment (for example, Nik Nazli and Maliah, 2004; Bakhtiar, 2005; Sumiani, Haslinda and Lehman, 2007; Smith, Khadijah and Ahmad Marzuki, 2007). However, whether stakeholders actually found such information useful was never examined.

Furthermore, prior studies on social and environmental reporting were carried out in developed countries, such as the UK and the US, which are different in their

worldviews. It is perhaps inaccurate to generalize the results of studies in developed countries to countries with a different culture and religion such as Malaysia. There is evidence that indicates that cultural factors, and the social and political structure of a society influence corporate social reporting practices across countries (Adams, Hill and Roberts, 1998). In addition, there are studies claiming that culture and religion can influence views and perceptions of the people (for example, Asma and Lim, 2001; Ramasamy, Huey and Hung, 2007). Malaysia is a multi-cultural and multi-religious country with Islam as its main religion. Within the Islamic worldview, the *Qur'an* and *Hadith* of the Prophet Muhammad (peace be upon him (pbuh)²), have been used as sources to guide humankind in their daily life. Muslims who refer to these two sources in all their doings would realize the importance of the environment and accountability of humankind towards the environment. Thus, one might expect that the *perception* and *actual use* of environmental information between Muslims and non-Muslims in Malaysia may differ. This factor motivates the researcher to conduct this study by including perspectives from Muslim and non-Muslim stakeholders.

In addition to the above factors, social and environmental issues have been explicitly included in the agenda of Vision 2020. While the ultimate objective of Vision 2020 is to have a fully developed country, the economic dimension is not the only objective to be achieved. Instead, Vision 2020 aims to establish a nation that is united, a Malaysian society infused by strong moral and ethical values, democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous (Tun Mahathir, 1991). This is evident in three of the nine challenges of Vision 2020; these are, to establish a moral and ethical society, a caring culture and an economically just society. Additionally, while other developed countries emphasize

² Every Muslim is required to cite the phrase “peace be upon him (pbuh)” after saying or hearing the Prophet’s name, Muhammad.

material achievement, one of the five strategic objectives of the Vision is to be a developed country that also highlights moral and ethical values. The importance on social and ethical issues put forward by the government motivates the researcher to examine the current state of environmental awareness among professionals in Malaysia.

Besides the above factor, the government aspiration on environmental protection and sustainability is, indeed, commendable. This is evident in the Malaysia 2010 Budget delivered by the Prime Minister, Dato' Sri Mohd. Najib Tun Abdul Razak on 23 October 2009 and in the 10th Malaysia Plan (10MP) tabled on 10 June 2010. Presently, the government gives a number of incentives to companies carrying out activities relating to environmental management such as tax exemption on income generated and pioneer status to companies generating energy from renewable sources. The 2010 Budget proposed more incentives including 100 per cent tax exemption on capital expenditure and stamp duty exemption to the owners or buyers of buildings awarded the Green Building Index (GBI) certificate.³ Additionally, the government will allocate a first ever CSR fund totalling RM100 million to finance community activities by the private sector and Government-linked companies. The government also proposed a fund of RM1.5 billion to provide loans to companies supplying and utilising green technology. While the government provides a guarantee of 60 per cent on the financing amount, two per cent of the interest on the loan will also be borne by the government (*2010 Budget commentary and tax information*, 2009). This is again emphasized by the Prime Minister in the 10MP where he called industries to use the incentives provided by the government. Indeed, the government will also introduce the

³ GBI is a green rating index on environmental friendly buildings, which was launched by the Government on 21 May 2009 (*2010 Budget commentary and tax information*, 2009).