

ENVIRONMENTAL REPORTING PRACTICES IN THE INDUSTRIAL PRODUCT INDUSTRY IN MALAYSIA

Nurul Huda bt Yahya

Commerce Department, Politeknik Sultan Abdul Halim Mu'adzam Shah
houdyahya@gmail.com

Abstract: Globally, governments and legislators have also established its concern on the environment through developing regulations and policies such as the International Financial Reporting Standard Board (IFRSB), the Association of Chartered Certified Accountants (ACCA), and the Global Reporting Initiative (GRI). Environmental Reporting Practices is a disclosure by corporations that their businesses are environmentally related regarding environmental impacts, environmental risks, policies, strategies or costs. This study attempts to add the gap in the literature, particularly in providing a review on the whether PLCs in Malaysia (Industrial product sector) involves the environmental activities in their business environment through environmental reporting indexes. Results shows that the environmental reporting practices in the selected sector is still low. However, the companies have started to concentrate on promoting sustainability as it was their highest achievement on environmental reporting practices index.

Keywords: *environment reporting, indexes, sustainability*

1. INTRODUCTION

Environmental issues have been one of the topics being discussed by governments, legislators and environmentalists worldwide. Such issues have harmful effects of human activity on the biophysical environment. Issues may include climate change, pollution, environmental degradation, and resource depletion such as air, water and soil. This leads to the destruction of ecosystems and the extinction of wildlife. Efforts to counteract such issues include environmental protection and environmental resources management.

Due to this, corporations are introduced to the Corporate Social Responsibility (CSR) term. The term was defined by Bowen (2013) as a social responsibility of businessmen which means responsibilities on societies and environment. Corporations were suggested to establish a report of their non-financial activities that improved the well-being of human (community), workplace, market and environment. The report is known as Corporate Social Responsibility Report (CSRR). That means CSRR has made the Environmental Reporting (ER) an important component of CSR. The ER is established to provide environmental information such as corporate activities in protecting and preserving the environment (Shearer, 2002).

Thus, Malaysia now begins to address the CSRR as an important information to be disclosed in the annual reports. This has made ER needed to be included in the annual reports for all the Public Listed Companies (PLCs) under the Bursa Malaysia (BM) Securities Berhad Main Market Listing Requirements (amended in September 2006) as part of the CSRR (Securities Commission Malaysia (SCM), 2013). According to SCM (2013), the current report and disclosure framework in Malaysia by listed companies must comply to the BM listing requirements under Chapter 9, paragraph 9.25 (1), where a listed issuer must set out separately in its annual report, the items set out in part A of Appendix 9C (Paragraph 29). The items specifically states of a description of the corporate social responsibility activities or practices. This includes the business activities concerning the environmental issues.

Bursa Malaysia has launched Environmental, Social and Governance (ESG) index for PLCs in Malaysia on 22 December 2014 (Bursa Malaysia, 2018). The ESG index was named FTSE4Good Bursa Malaysia Index as it is collaboration between Financial Times Stock Exchange (FTSE) and Bursa Malaysia. The index is one of the first in Asia to be part of the globally benchmarked FTSE4Good Index Series and is the latest step in the Bursa Malaysia sustainability's target to maintain a better standard of corporate governance in the marketplace (Bursa Malaysia, 2015). The FTSE4Good Index relates closely to the Global Reporting Initiative (GRI) (latest version entitled 'GRI: G4' and published in 2013). Referring to the activities above, this has made it certain that the Malaysian government is moving towards building an image of better corporate governance model that balances between profitability and sustainability of the environment.

This study represents the attempt to address the gap in the literature, particularly in providing a review on the whether PLCs in Malaysia involves the environmental activities in their business environment through indexes created and replicated by other researches (e.g. Yusoff and Darus, 2014; Darus *et. al.*, 2013) on environmental reporting. Specifically, this study attempts to examine on a particular sector which is the Industrial product sector. Industrial Products sector (which includes oil and gas, metals manufacturing, cement manufacturing, chemicals, etc.) was chosen as according to Sulaiman, Abdullah and Fatima (2014), this sector have the perception to be one of the major environmental hazardous to the natural environment (Wiseman, 1982 and Deegan and Gordon, 1996).

2. LITERATURE REVIEW

2.1 Environmental Reporting (ER)

There are a number of reviews on the definition of ER. Gray, Kouhy and Lavers (1995) define ER as the process of communicating the impact on environmental through the organizations' economic action to stakeholders within the community. This effort was done by companies through communicating environmental information to influence the public's perception especially its stakeholders towards their business operations.

This perception on ER is also agreed by Hooghiemstra (2000) clarifying that companies use environmental report as a communication instrument. The author uses the "Shell/Royal Dutch" case as the communication instrument in proving that a report on environmental information can influence public's perception on a corporate image. The publishing of "The Shell Report 1999" (The Shell/Royal Dutch case) is to defend its decision to do a deep-sea disposal of the Brent Spar in the Atlantic Ocean. As a result from the report, it has contributes in improving Shell's corporate image to become an environmentally awareness company.

2.2 Development of ER in Malaysia

Many studies have been done in different parts of the world to investigate the existence of environmental disclosures. According to Sulaiman et al. (2014), one of the earliest researches done on ER was by Wiseman (1982). She examines the evaluation of quality and accuracy of ER. The study uses 26 largest environmentally sensitive companies where these companies are more likely to be associated with visible environmental concerns, such as the greenhouse gas emission, pollution and the risk environmental disasters. The sampled companies are from oil, steel and paper industries in the United States of America (USA) for the year 1972, 1974 and



1976. She finds that ER for the companies was vague and incomplete. However, over the years, there's been a steady growth of ER especially among companies in the UK since 1980s (Gray, Collison and Bebbington, 1997).

Some governments have made their initiatives in adopting a mandatory requirement for ER to be included in the annual reports such as Denmark, the Netherlands, and France. According to Gray *et al.* (1995), Denmark and the Netherlands have made ER as part of its annual reports in 1996. This was followed by France when the regulation was enforced in 2002 under the New Economic Regulations (Nouvelles Regulations Economiques) for all of its listed companies (Barbu *et al.*, 2014). Malaysia has started its regulation on having the ER in the annual report of listed companies as prescribed by Chapter 1 of the Listing Requirements of Bursa Malaysia starting 2006. However the disclosure stood as part of the four main areas of the Corporate Social Responsibility Report (CSRR) (Bursa Malaysia, 2014). This means that companies would adopt the compliance of the listing requirements of producing the CSRR which may include the ER.

The International Financial Reporting Board (IFRB) has also made initiatives to support the idea of producing ER in the annual reports through the enhancement of its International Financial Reporting Standards (IFRSs) and International Accounting Standards (IASs). According to Barbu *et al.* (2014), some of the standards that have an indirect influence on ER are; (1) IAS 1 – Presentation of Financial Statements, (2) IAS 2 – Inventories (waste) and (3) IAS 36/IFRS 6 – Tangible assets with exploration of mineral resources. Barbu *et al.* (2014) investigates whether the level of ER under IFRSs/IASs is related to firm size and the strength of legal and regulatory constraints on ER for countries in UK, France and Germany that initiate the regulations. The result shows that the standards of IFRSs/IASs were not applied consistently across firms and across countries.

The closest guideline in recommendation of the environmental disclosure is through the accounting bodies such as the Malaysian Accounting Standards Board (MASB), the Malaysia Code on Corporate Governance (MCCG), ACCA, ER Guidelines and the Bursa Malaysia Listing Requirements. In 1999, the MASB introduced the guideline on the Financial Reporting Standard (FRS) 101- Presentation of Financial Statements, where the guideline suggests that companies to prepare environmental reports and value added statements to supplement the financial reports. This was supported by the ACCA ER Guidelines for Malaysian Companies in 2003 in collaboration with the Malaysian Development of Environment (DOE). The guidelines specify what ER might contain which follows examples from companies around the world. This guideline was then improved by the Sustainability Reporting Guidelines in 2005.

Bursa Malaysia Securities Berhad has also participated in the ER through its Corporate Social Responsibility (CSR) Framework. In 2006, Bursa Malaysia produced the CSR Framework (paragraph 29C of the listing requirements) where all PLCs are required to report their social activities including the environmental information in the annual reports beginning the year of 2007. In conjunction to the listing requirements, Malaysia has also launched the enhancement of MCCG 2012. Under the MCCG 2012, ER is encouraged to be presented in the annual reports as compliance to the listing requirements of Bursa Malaysia. This is particularly stated under the Principle 7 of MCCG 2012.

In Malaysia, researchers have find that the percentages of environmental disclosures are still at minimal level (e.g. Thompson and Zakaria, 2004; Sumiani, Haslinda and Glen,



2007). Jaafar and Buniamin (2004) examined the manager's perception of the awareness of the ER. They find that managers are aware that by disclosing environmental information can enhance their corporate image. Thus their preference to disclose is in the special environmental report rather than the annual report. However, a longitudinal study by Eljido-Ten (2007) shows that the number of companies in Malaysia that voluntarily provide environmental disclosure for the year 2000 and 2001 have increased but most of the disclosures were still confined to general descriptions. Thus, there is still some room of improvements to be tackled in future reporting's. Alrazi, Sulaiman, and Nik Ahmad (2009) examine the ER practices using a longitudinal analysis for 150 largest companies in Malaysia (by market capitalization) between the year 1999 and 2006. Over the eight years period, they find that there was an increase of ER from the sampled companies from 45 companies in 1999 to 64 in 2006. This study compliments the action taken by Bursa Malaysia with its introduction of the Listing Requirements of Public Listed Companies in 2006.

Researches in Malaysia have also been done on specific industries or sectors. A study done by Othman and Ameer (2010) on the extent of annual ER was specifically on the palm oil companies in Malaysia. They investigate the location of the disclosure of related environmental activities for the protection of earth, air and water. The results shows that there is still little transparency on the environmental disclosure even for the palm oil companies. It was argued that less transparency in reporting would probably be due to the ignorant of stakeholders (Othman and Ameer, 2010). The extent of ER was examined on financial institutions that has Islamic status by Yusof and Darus (2014) using an Islamic CSR-environmental index. The study finds that the environmental information disclosed is still at a minimal level and in qualitative form (Darus, Yusoff and Mohd Azhari, 2013). Although the study expects that with managers being a Muslim, the environmental information should be more transparent on their concern on the effects of business activities to the environment.

3. METHODOLOGY

The study was carried out based on samples of listed industrial products sector in Bursa Malaysia. Industrial Products companies were chosen because Industrial sector was considered as one of environment-sensitive industry (Deegan and Gordon, 1996). There were 233 companies under the listed industrial products sector. 100 sampled companies were selected randomly from the population using the random number generator available in Microsoft Excel in accordance to Buniamin *et al.* (2011). The number of samples chosen was consistent with the minimum sample size table that was suggested by Krejcie and Morgan (1970).

The study was conducted on the basis of secondary data being collected from annual reports of the selected companies for the year 2013. This period was chosen in conjunction with the introduction of MCCG 2012 as it portrays whether the companies takes serious action when concerning enhancing good governance following the MCCG 2012. This study employed content analysis method to analyse the data from annual reports as it was the most accessible form of information concerning the disclosure of environmental information (Neuendorf, 2002). Previous studies (e.g., Smith, Yahya, and Amiruddin, 2007; Buniamin, 2010) prefer this method to measure environmental reporting disclosures (Yusoff and Darus, 2014). The annual reports were critically reviewed for any existence of environmental information via the environmental reporting index.

The ERI was also constructed based on the 34 items of environmental indicators. The index was developed using the guideline by the Global Reporting Initiative (GRI) (latest version entitled ‘GRI: G4’ and published in 2013). Table 3.1 presents the final list of 19 items that were included in the environmental reporting disclosure. These items considered all the 12 categories in GRI: G4 which were materials, energy, water, biodiversity, emissions, effluents and waste, products and services, compliance, transport, supplier environmental assessment, environmental grievance mechanisms and overall aspects of environmental. The ERI was extracted from the annual reports of the sampled companies.

Table 3.1: Environmental Reporting Index

| No | Environmental reporting index |
|----|--|
| 1 | Any mention of promoting sustainability |
| 2 | Company’s Statement of corporate commitment to environmental protection |
| 3 | Environmental Policy Formulation |
| 4 | Environmental Management System (ISO 14001) |
| 5 | Efficiency of energy and water consumption |
| 6 | Trees planting or replanting programmes and initiatives |
| 7 | Protection and preservation of natural environment in areas of high biodiversity |
| 8 | Sustainable waste management |
| 9 | Reduce greenhouse gas emissions |
| 10 | Incorporate pollution prevention practices (e.g. reduce, recycle and reuse) |
| 11 | Green/Safe Products and Services |
| 12 | Use of environmental alternative technology in managing business production |
| 13 | Fines/lawsuits/noncompliance incidents related to environment |
| 14 | Compliance to any laws and regulations related to environmental |
| 15 | Corporate fleet to use eco-friendly vehicle |
| 16 | Networking with 'green' stakeholder groups |
| 17 | Environmental budgets/expenditures |
| 18 | Environmental Education for employees and community |
| 19 | Environmental Awards/Achievements |

Sources: Adapted from Yusoff and Darus (2014) and Global Reporting Initiative (GRI: G4) (2013)

Table 3.2: Disclosure Score for the Environmental Reporting Index

| Score | Description of table format |
|-------|---|
| 0 | items that are not disclosed |
| 1 | items that are disclosed in qualitative |
| 1 | items that are disclosed in diagram or picture |
| 2 | items that are disclosed in quantitative or financial |

Sources: Adapted from Sulaiman, Abdullah and Fatima (2014)



The disclosure score is calculated using a disclosure score which is presented in Table 3.2. A score of '2' was given for items that were reported in quantitative or financial terms. A score of '1' was given for items that were reported in qualitative disclosure. A score of '1' was also given for items that were reported in a form of diagrams or pictures. A score of '0' was given for items that were not reported. The index score was adapted from prior research by Sulaiman, Abdullah and Fatima (2014). In theory, a company could score up to a maximum score of 38 (19 X 2) and the total score was presented in percentage from the computation of the ratio of actual scores given divided by the maximum score.

4. RESULTS AND DISCUSSION

The results presents a descriptive statistics analysis regarding the Environmental Reporting Index Score based on selected activities that companies held in accordance to environmental actions. Table 4.1 shows the descriptive analysis for all of the ER Index explored. Result shows that *any mention of promoting sustainability* achieved the highest reporting mean score i.e. 0.87.

This finding indicates that most companies would mention in the annual report about their activities in promoting sustainability. This is consistent with the expectation of Bursa Malaysia where it advocates sustainability as key to business success today. The achievement with the highest mean score of 0.63 following the latter is *sustainable waste management and incorporate pollution prevention practices (e.g. reduce, recycle and reuse*. Next highest mean score i.e. 0.58 is *Use of environmental alternative technology in managing business production*. This follows index item on *efficiency of energy and water consumption and Green/Safe Products and Services* with reporting mean score i.e. 0.55. *Environmental Awards/Achievements* is the lowest reporting mean score i.e. 0.1.

In Table 4.2, a company could score up to a maximum score of 38 (19 X 2) and the total score was presented in percentage from the computation of the ratio of actual scores given divided by the maximum score. Table 4.2 shows the percentage of the Environmental Reporting Index Score from the sampled companies. It can be seen that only 22 percent of the ER practices that were reported by the companies in the Industrial Product industry. These findings shows that the industrial products industry in Malaysia have yet to achieve their environmental accountability through their business programmes and activities.

**Table 4.1: Environmental Reporting Index Score**

| No | Index | Sum | Mean | Std. Deviation |
|----|--|-----|------|----------------|
| 1 | Any mention of promoting sustainability | 52 | 0.87 | 0.343 |
| 2 | Company's Statement of corporate commitment to environmental protection | 48 | 0.8 | 0.403 |
| 3 | Environmental Policy Formulation | 42 | 0.7 | 0.462 |
| 4 | Environmental Management System (ISO 14001) | 23 | 0.38 | 0.49 |
| 5 | Efficiency of energy and water consumption | 33 | 0.55 | 0.534 |
| 6 | Trees planting or replanting programmes and initiatives | 7 | 0.12 | 0.324 |
| 7 | Protection and preservation of natural environment in areas of high biodiversity | 18 | 0.3 | 0.462 |
| 8 | Sustainable waste management | 38 | 0.63 | 0.581 |
| 9 | Reduce greenhouse gas emissions | 32 | 0.53 | 0.503 |
| 10 | Incorporate pollution prevention practices (e.g. reduce, recycle and reuse) | 38 | 0.63 | 0.52 |
| 11 | Green/Safe Products and Services | 33 | 0.55 | 0.502 |
| 12 | Use of environmental alternative technology in managing business production | 35 | 0.58 | 0.497 |
| 13 | Fines/lawsuits/noncompliance incidents related to environment | 3 | 0.05 | 0.287 |
| 14 | Compliance to any laws and regulations related to environmental | 24 | 0.4 | 0.494 |
| 15 | Corporate fleet to use eco-friendly vehicle | 5 | 0.08 | 0.279 |
| 16 | Networking with 'green' stakeholder groups | 20 | 0.33 | 0.475 |
| 17 | Environmental budget/expenditures | 5 | 0.08 | 0.381 |
| 18 | Environmental Education for employees and community | 29 | 0.48 | 0.504 |
| 19 | Environmental Awards/Achievements | 6 | 0.1 | 0.303 |

Table 4.2: Total Percentage of Environmental Reporting Practices Score

| | |
|---------------------------|------|
| ER Index Score (N=100) | |
| Total Score | 853 |
| Possible Score (19x2x100) | 3800 |
| Score ER (%) | 22% |

5. SUMMARY AND CONCLUSION

This study is motivated by the government's initiatives in promoting CSR disclosure of companies in Malaysia. The initiatives are inclusive of the Listing Requirements of Bursa Malaysia and the introduction of the FTSE4Good Bursa Malaysia Index for the Malaysian market in 2014. In particular, PLCs are the initial target for realizing this objective. The annual reports acts as the tool for the justification of the compliance on the two initiatives mentioned earlier. However, companies tend to ignore environmental issues to be disclosed in their annual reports (Buniamin *et al.*, 2011).

Hence, this matter has motivated the study to investigate whether these initiatives can promote companies in Malaysia to disclose more environmental issues in the annual reports. In addition, companies can portray that they are environmental responsible towards their stakeholders. As a result, the objective of this study is to examine the PLCs in Malaysia on the

involvement of environmental reporting practices in their business environment with companies from the Industrial Product Listed Companies of Bursa Malaysia. The study reveals that overall, the environmental reporting practices is still at its minimal level. However the companies have started to concentrate on promoting sustainability as it was their highest achievement on environmental reporting practices index. But concentrating on dwelling the environmental activities in the business environment is still low.

In addition, the study recommends for future studies to employ the FTSE4 Good Bursa Malaysia Index as it is the latest step for the Bursa Malaysia to maintain better corporate governance in the marketplace via its sustainability target (Bursa Malaysia, 2015). It is a new Environmental, Social and Governance (ESG) Index that is designed to measure companies' performance that practices good ESG. In line with the Global Reporting Initiative (GRI) and the Carbon Disclosure Project, the use of FTSE4Good Bursa Malaysia Index, can demonstrate that Malaysian listed companies supports the transition to a lower carbon and more sustainable economy.

REFERENCES

- Alrazi, B., Sulaiman, M., & Nik Ahmad, N.N. (2009). A longitudinal examination of environmental reporting practices in Malaysia. *Gadjah Mada International Journal of Business*, 11 (1), 37 - 72.
- Barbu, E. M., Dumontier, P., Feleagă, N., & Feleagă, L. (2014). Mandatory Environmental Disclosures by Companies Complying with IASs/IFRSs: The Cases of France, Germany, and the UK. *The International Journal of Accounting*, 231-247.
- Bowen, H. (2013). *Social Responsibilities of the Businessman. USA: The University of Iowa Press.*
- Buniamin, S. (2010). The quantity and quality of environmental reporting in annual report of public listed companies in Malaysia. *Issues in Social & Environmental Accounting*, 4(2), 115 - 135.
- Buniamin, S., Alrazi, B., Johari, N. H., & Abd Rahman, N. R. (2011). Corporate governance practices and environmental reporting of companies in Malaysia: Findings possibilities of double thumbs up. *Jurnal Pengurusan*, 55 -71.
- Bursa Malaysia Securities Berhad. (n.d.). *Bursa Malaysia Securities Berhad*. Retrieved January, 2014, from <http://www.bursamalaysia.com/market/sustainability>.
- Deegan, C., & Gordon, B. (1996). A study of the environmental disclosures practices of Australian corporations. *Accounting and Business Research*, 187 - 199.
- Elijido-Ten, E. (2007). Applying stakeholder theory to analyze corporate environmental performance: Evidence from Australian listed companies. *Asian Review of Accounting*, 15 (2), 164 - 184.

- Gray, R., Kouhy, R., & Lavers, S. (1995). Corporate social and environmental reporting: A review of the literature and a longitudinal study of UK disclosure. *Accounting, Auditing & Accountability Journal*, 47 - 77. <http://dx.doi.org/10.1108/09513579510146996>.
- Gray,R., Collison,D., & Bebbington,J. (1997). Financial Reporting Today: Current trends and emerging issues. Dundee,UK: *Accountancy Books*.
- Hoogiemstra,R. (2000). Corporate communication and impression management - new perspectives why companies engage in corporate social reporting. *Journal of Business Ethics*, 27, 55 - 68.
- Jaafar, R., & Buniamin, S. (2004). Environmental reporting in Malaysia: Perspective of the management. *Malaysian Accounting Review*, 3(1), 43 - 60.
- Kerjcie, R.V., & Morgan, D.W. (1970). Determining sample size for research activities. *Educational and Psychological Measurement*, 30, 607 - 610.
- Othman,R., & Ameer, R. (2010). Environmental disclosures of palm oil plantation companies in Malaysia: A tool for stakeholder engagement. *Corporate Social Responsibility and Environmental Management*, 52 - 62.
- Securities Commission Companies. (2013). Corporate Responsibility: Guidance to Disclosure and Reporting. *Best Business Practice Circular 5/2013*. Suruhanjaya Syarikat Malaysia (Companies Commission of Malaysia). ISBN: 978-967-12003-0-8.
- Shearer, T. (2002). Ethics and accountability: From the for-itself to the for-the-other. *Accounting Organisations*, pg. 541 – 573.
- Smith, M., Yahya, K., & Amiruddin, A.M. (2007). Environmental disclosure and performance reporting in Malaysia. *Asian Review of Accounting*, 15 (2), 185-199.
- Sulaiman,M., Abdullah,N., & Fatima, A.H. (2014). Determinants of environmental reporting in Malaysia. *International Journal of Economics, Management and Accounting*, 22(1), 63 - 90.
- Sulaiman,M., Abdullah,N., & Fatima, A.H. (2014). Determinants of environmental reporting in Malaysia. *International Journal of Economics, Management and Accounting*, 22(1), 63 - 90.
- Sumiani, Y., Haslinda, Y., & Lehman, G. (2007). Environmental reporting in a developing country: a case study on status and implementation in Malaysia. *Journal of Cleaner Production*, 15, 895 - 901.
- Thompson, P., & Zakaria, Z. (2004). Corporate social responsibility reporting in Malaysia. *Journal of Corporate Citizenship*, 13, 125 - 136.



Wiseman, J. (1982). An evaluation of environmental disclosures made in corporate annual reports. Accounting, *Organisations and Society*, 7(1), 53 - 63.

Yusoff, H., & Darus, F. (2014). Mitigation of Climate Change and Prevention of Pollution Activities: Environmental Disclosure Practices in Islamic Financial Institutions. *Procedia - Science and Behavioural Sciences*, 145, 195 - 203.