

Environmental reporting in a developing country: a case study on status and implementation in Malaysia

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Received 18 November 2005; accepted 23 January 2006

Available online 20 March 2006

Abstract

With the increase in awareness of environmental issues, the level of environmental disclosure and stakeholder demands for environmental information is increasing. New developments in the ISO 14000 standards also make it more evident that a company's environmental performance as well as its environmental reporting should be considered as strategic issues in business strategy. Especially for a developing country like Malaysia, many companies are under external pressures to improve their environmental performance.

In this study, a review on the image and environmental disclosure, together with the challenges in environmental information management and a short case study are presented. Subsequently, the paper explores some of the strategic implications of environmental reporting as an important tool for improved environmental management.

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Keywords: Environmental reporting; ISO 14000; Strategic; Environmental management

1. Introduction

This paper furnishes the interpretation of the current state-of-art of Malaysian environmental reporting practices. It discusses corporate strategic practices of Malaysian corporations through voluntary engagement on environmental matters in their reporting systems. Consequently, illustration of the motives of voluntary accounting and reporting practices among Malaysian business corporations in this study may assist the business fraternity to understand relevant corporate environmental matters.

Many reasons have been discovered in leading the motivations for business organizations to respond to societal concerns, which include environmental matters. Specifically, economic and market pressures, environmental crises and

high population growth rates may justify engagement in voluntary approaches.¹ Environmental reporting practices have emerged among economic players as a result of various influence factors including stakeholders' benefit, pressures from various interest groups, and political and cultural conditions. At the macrolevel, responding to voluntary environmental disclosures offers economic benefits such as being able to develop stronger business relationships with suppliers, attracting ethical investors and even penetrating new markets due to improved environmental performance. Even more fundamental is the fact that global capitalism creates pressures and tendencies for corporations to act and adopt strategic environmental practices. Additionally, ISO 14001 certification might be one of the best and most suitable examples for this

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¹ Specifically, this point relates to developing countries (1) depending much on global market relationships to maintain and enhance their economic survival, and (2) exposed to enormous environmental problems, which may be due to developments and rapid human population growth.

case. Certification to international environmental standards creates significant trade and investment relationships² and in the Asia-Pacific region, ISO 14001 has been seen as an important indicator of voluntary business commitment towards environmental improvement for Singapore and Malaysia [20].

Nevertheless, the crux of the argument on the existence of organizations³ that work seriously in responding to environmental accounting matters has been argued by Margolis and Walsh [18]. As said:

From society's perspective, creating wealth and contributing to material well-being are essential corporate goals. But restoring and equipping human beings, as well as protecting and repairing the natural environment, are also essential objectives. Companies may be well designed to advance the first set of objectives, yet they operate in a world plagued by a host of recalcitrant problems that hamper the second set.

(p. 281)

In addition, O'Dwyer [19] highlighted the core motives that drive corporate environmental engagement processes, which include *moral outrage, sense of justice, decency, and desire to serve public interest and promote empowerment, needs for change and a sense of social responsibility* (p. 524). Current global environmental movements have put great pressure to promote corporate involvement in responsible environmental management. The world has been astonished by the most recent environmental disaster, the devastating killer waves of tsunami that has wiped out Aceh, a land that was extremely rich in many resources, exotic flora and fauna, as well as huge mineral and gas deposits. In total, the disasters on Mother Earth of nine Asian countries have occurred with more than 200 000 humans killed.

These environmental issues put pressures on various groups⁴ including the economic players to strategize their business and engage themselves in environmental agendas. Thus, to understand business strategies on environmental engagement, this study was designed to analyze the environmental reporting practices of Malaysian corporations on the extent of their involvement in preserving the natural environment. In this case, the voluntary environmental reporting practices are seen as corporate strategic environmental engagement. Studying Malaysia is interesting, based on her status as one of the leading developing economies of the world. This put Malaysia in a position to not only connect herself with the environmental preservation movements but also

to strategize the engagement in maintaining and ensuring growth in its economy.

The objective of this paper is to explore current Malaysian voluntary environmental reporting practices, which provide an understanding of local directions with regard to the environmental agenda. It begins with reviewing of the literature and relevant local guidelines based on the accountability and stakeholder framework.⁵ The paper continues with reviews on Malaysian settings in the (1) economic environment and (2) environmental crises. The discussion then turns to the analysis of environmental reporting practices among Malaysian publically listed companies, examining the current state and its relationship with ISO 14001 certifications. The final section of the paper interprets and draws conclusions about the Malaysian strategic environmental engagement status and its future towards sustainability reporting in the context of improved environmental management.

2. Literature review

2.1. Environmental disclosures

Businesses and organizations inevitably have connections linked by social contract with the society surrounding them, thus raising the demands for their discharge of accountability. Gray et al. [11] defined accountability and social relationship as being "*concerned with the relationships between groups, individuals, organizations and the rights to information that such relationships entail*". Environmental accountability values can be developed through discourses of accounting [23] with transparency and completeness indicating the collective meanings of the disclosures, self-respect and closeness of relationships [17]. Inevitably, corporate environmental reporting acts as the vehicle for providing environmental data designed to satisfy the accountability relationships and to indicate corporate consciousness through a moral discourse [23] on environmental issues. It justifies an environmental accountability level in creating a just society amongst business corporations.⁶

Various influencing factors that motivate strategic environmental practices have been discovered in previous social and accounting studies. Among others, characteristics of companies [5], influential factors [14] and incidents that led to the

² This is one of the results by the Organisation for Economic Co-operation and Development (OECD) Report on Trade and Investment.

³ The word existence here means the reasons for an organization's existence, its roles and reasons for running business.

⁴ Various groups are affected and pressured by environmental crises, including the public community, government, non-organizational organizations, taxpayers and others. This paper particularly defines various groups as groups with human involvements and activities that are related to any conditions of environmental activities.

⁵ The role of businesses in society is a complex and critical issue. Businesses' role is critical given their operations and associated powers depend on society's assent to their activities. Besides, corporations are accountable and have direct and indirect connection/responsibility to stakeholders. As stakeholder theory describes, under a wide corporate perspective, corporations are accountable to anyone or any entity that relies on their business information for further undertakings. Stakeholders expect business corporations to provide information on their environmental performance.

⁶ Gray [10] noted that the development of an accountability system brought in two main purposes—firstly, as a means for closer social relationships and secondly, for the incremental expansion of an organization's transparency. The most notable manner for corporations to display their accountability essence is through their accounting and reporting processes, thus, accounting acts as a means to discharge accountability between corporations and other parties.

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