

7th International Economics & Business Management Conference, 5th & 6th October 2015

## An Exploratory Study on Water Reporting Among Top Malaysian Public Listed Companies

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### Abstract

Climate change has brought a significant impact on the availability of water resources. This problem is further intensified by the increasing cases of water pollution affecting both the volume and quality of water. The water rationing exercise as currently being implemented in certain major cities in Malaysia would be a good example to demonstrate the severity of the issue. This has made business entities at the center of discussion as the way they withdraw, use, and discharge water impact significantly on the water resources availability and quality. Motivated by the opportunity accounting system could potentially offer to mitigate this issue, the present study aims to explore the extent and quality of water reporting among the top 10 Malaysian public listed companies based on market capitalization and water risk profile. By content analyzing the companies' annual report, the findings show that water-related disclosure is still fairly low among the ten companies with most of the information score only '1' in terms of quality. While findings the exact factors leading to these findings is beyond the scope of this study, the fact that this issue is currently being discussed at international level and the companies are sharing this natural resources with the society, the need for water-related disclosure is still there if the companies want to legitimize their position among the society. It is the role of the regulators to facilitate provision of such information without compromising the need of various parties including the companies.

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Peer-reviewed under responsibility of Universiti Tenaga Nasional

**Keywords:** Water; Governance; Reporting; Extent; Quality

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## 1. Introduction

A significant impact brought about by the climate change is the availability of water resources. According to the Intergovernmental Panel on Climate Change (IPCC), freshwater availability in several natural water rich regions, including the South-East Asia region, is predicted to decrease significantly as early as the year 2050 (IPCC, 2007). This problem is further intensified by the increasing cases of water pollution affecting both the volume and quality of water. Malaysia as a well-known tropical rainfall country has to prioritize and be absolutely aware of the climate changes since its effects have become increasingly evident worldwide. Rainfall performance and patterns are important to be monitored since it may affect the water cycle, water demand, water supply, water quality, economic activities, as well as social community. Malaysian Meteorological Department (MMD) reported that Malaysia currently facing the hot and dry condition where the rainfall anomalies for the year 2015 showed several areas in Malaysia fall below the average. The decreasing amount of rain has caused the surface temperatures, total solar radiations, and rates of evaporation to be higher than their targeted average. When the temperatures and evaporations increase, it could potentially cause a devastating impact on fresh water supplies. This issue has led to the water rationing exercise as currently being implemented in certain major cities in Malaysia.

The situation has also made business entities at the center of discussion as the way they withdraw, use and discharge water impact significantly on the water resources availability and quality. Freshwater in sufficient quantities and adequate quality is a prerequisite for human societies and natural ecosystem (Costanza and Daly, 1992). The demand for water is increasing and has been projected to exceed the supply by 40 percent by 2030 (European Commission, 2011). With the urgency of water related issues to human societies, mismanaging of water resources and inability to identify water related risk could expose companies, as one of the biggest users of water resources, to economic impact. Therefore, to be the long term winners in the industry while sustaining their competitive advantage in an increasingly water stressed world, companies have to adopt and implement good corporate water strategy. A report released in early 2013 by Carbon Disclosure Project (CDP) and Eurizon Capital analyzing the metals and mining sector, revealed that companies that manage water strategically, perform better financially (CDP, 2013). This may indicate a signal from investors that demand for more water disclosure information from companies. Research findings also revealed that the number of investors requesting corporate water data through CDP has quadrupled in just three years; however, the number of Global 500 companies taking action and disclosing the related information has not matched this rate. Thus, as claimed by CDP (2013), this implies that there is a significant difference between the investors' expectations and companies' actions and performance.

With the renewed focus on business entities and issues surrounding water availability and quality, there have been calls for promoting both water efficiency and water principles to line up with financial accountability mechanism (Egan, 2014). The challenge of the water crisis is first and foremost a 'crisis of governance' (Vörösmarty et al, 2010). The water governance framework includes, among other things, risk assessment (external and in-house gauge), engineering process, leadership and management, accounting and auditing, and reporting to enhance accountability (Gupta, 2013). Adapting to climate change, which affects the availability of water resources, will depend on the characteristics of the local region. In the local region, climate impacts will vary from sector to sector. Therefore, companies need water policies that are locally relevant, risk-sensitive, and far-reaching enough to address their business impacts, risks, and the very real threat that water scarcity can mean to business continuity (Gallagher, 2014). Even an organization is not directly sensitive to climate change, there could be indirect impact on the other areas of risk. In other words, instead of only present risks, the effects of climate change can intensify other business risks. Water risks stems from the impact an organization has on water availability and water consumption. For example, an organization that degrades scarce water supplies, possibly from over water consumption, is potentially exposed to penalties and reputational damage. Given the growth of public concern on water related issues and the risk that companies could face, it is expected that companies will take measures to ensure their activities are acceptable to the society. Reporting may therefore be used to reinforce the public's perception of management's responsiveness to specific environmental issues, in this case water, or

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