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## The Effects of Environmental Disclosure on Financial Performance in Malaysia

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### Abstract

Global warming and climate change have been the most challenging environmental problem the world is facing. This problem will affect the future of this planet which can be seen from different stances. The public concern over the problems caused by climate change has led to the emergence of new environmental regulations. Environmental accounting is one of the elements that contribute to the corporate governance. Motivated by the opportunity environmental accounting could achieve the sustainable growth and development, the present study aims to investigate the existences of the environmental disclosure and financial performance among top 100 company of market capitalization in Malaysia for the year 2011. The needed information was examined by content analyzing the companies' annual report. The analysis shows mixed results between the existence of the environmental disclosure practices in Malaysia and financial performance. This issue is still ongoing debating at international and national level since the environmental accounting is on developing and expanding as the social focus towards environment is increasing. There are no such regulations and statutory requirements for the companies in Malaysia to disclose on the environmental sustainability. However, the need for environmental disclosure is still there if the companies want to legitimize their position among the society to enhance the expectation in measuring the environmental. It is the role of regulators to facilitate provision of such information that need to be disclose by the companies without comprising the need of various parties.

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### 1. Introduction

In the late 1990s, the environmental accounting has been introduced in Malaysia and it is one of the element contribute to the corporate governance. Environmental information is one of the elements disclosed in corporate social responsibilities (CSR). Even though at the first introduction of the environmental accounting is a voluntary disclosure, however there are rapid acceptances as the communicating of commitments toward the performance of the stakeholder including the emerging countries especially Malaysia (ACCA, 2002). The accounting profession and authoritative bodies had arisen the issue that proper record of environmental performance as business community considered the issue as important interest for them (Rezaee, Szendi, and Aggarwal, 1995). The awareness of the importance of disclosing the environmental information had rising among the business community.

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The meaning of environmental accounting is to achieve the sustainable growth and development and foremost to maintain the relationship between the community (Ministry of the Environment, 2005). Environmental accounting is a type of accounting in the accounting field (Mahenna and Dorweiler, 2004). It is also integral part of accounting. The environmental accounting is on developing and expanding as the social focus towards environment is increasing, thus, it enhances the expectation in measuring the environmental (Mahenna et al, 2004). International Organization for Standardization (ISO) had introduced the ISO 14000 series of standards which includes various aspects of environmental management as it provided practical tools for companies in order to enhancing their environmental performance as well as lead to increase the company's productivity and success (Abdullah and Fuong, 2010).

Unfortunately, there are no such regulations and statutory requirements for the companies in Malaysia to disclose on the environmental sustainability (ACCA, 2002). The Malaysia Accounting Standard Board (MASB) does not provide a precise standard on the environmental disclosure as guideline to prepare environmental disclosure in the company's annual report, however according to Paragraph 10 of FRS 101 that is the Presentation of Financial Statements had encourages entities to prepare environmental report in addition to the financial statements provided by them (Buniamin, 2010). Apart from that, there is also a requirement under the Malaysian Environmental Quality Act 1974 that is currently used by Malaysian Companies as the guidelines in managing and disclose on their environmental sustainability as Section 33A of the Act stated the environmental audit and Section 34A stated the report on impact on environment resulting from prescribed labeling (Bursa Malaysia, 2012). These requirements from the Act are the only guiding principle for the companies on how to establish a disclosure on environmental sustainability; however the information to disclose is decided by the company itself.

The awareness about state of environment is not a new phenomenon among various groups of stakeholders (Johnson, 2005). There are a lot of researches about the environment disclosure (Nilandri, Pattanayak, and Mitali, 2008). Nowadays, the demand for company to apply environment disclosure is very high in order to save the world and it is proved that company with environment disclosure can achieve good performance. There are many effects to the financial performance with the existence of environmental disclosure. The question to answer is that the effect to financial performance as there is existence of environmental disclosure in a company. This research aims to identify the influence of the existence of environmental disclosure reporting towards the financial performance.

The previous research that had been done only determine the ISO 14001 certification towards the financial performance and the motivations for their environmental commitments (Goh E. A., Suhaiza, and Nabsiah, 2006). ISO 14001 applies the environmental features that the organization recognizes which it can control and influence. It does not state any specific environmental performance criteria. Therefore, this research is a study on the effect of existence of environmental disclosure towards the financial performance especially for the public-listed companies (PLCs) in Malaysia. Although there are researches that had been carried out to identify the environmental disclosure that affect the financial performance, there are few studies had been performed using the return on assets (ROA), earnings per share (EPS), return on equity (ROE) and profit margin as its subject.

## 2. Environmental Disclosure Development in Malaysia

Malaysia demonstrate most of the environmental problems since Malaysia is still a developing country and developing economies as it includes the massive logging of primary forest which results in the loss of wildlife habitats, soil erosion and the displacement of native communities (Perry and Singh, 2011). The dumping of hazardous waste, air and water pollution from industry and urban transportation leads to the environmental problems in Malaysia.

The stronger role that environmental NGOs are playing in encouraging environmental protection in Malaysia leading a significant difference between Malaysia and Singapore (Perry et al, 2011). Long-established environmental and consumer protection campaign groups have been joined by groups representing business interests. Apart from that, according to the authors in the year 1992, an environmental committee had been established by Malaysian International Chamber of Commerce and Industry (MICC) as the same year of formation of Business Council for Sustainable Development due to large number of environmental issues in the Malaysia Five-Year Plan and also due to awareness of international business as they open to any tightening regulations. Besides, MICC also not only providing business with cooperative representation to government but as well as it also provide an environmental award to organizations as to recognizes them as they had shown environmental leadership which is the Prime Minister's Hibiscus Award. Apart from that, the award is co-organized with Federation of Malaysian Manufactures and also ENSEARCH which is an NGO that representing the environmental scientists and managers. It also stated that in the year 2000, there are 39 companies that had received the award as they had met the criteria to obtain the award as the award would enhance the company's reputations.

In early 1990s, the development of environmental disclosure practices has taken place as there are a large numbers of studies worldwide that discussing the role of environmental disclosure in business practices (Nilandri

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