

***Social and Environmental Disclosures
in the Annual Reports of Malaysian Companies***

**Rafat Rezeq Rajab Tantish
MATRIC No. 83838**

UNIVERSITI UTARA MALAYSIA 2003



Sekolah Siswazah
(Graduate School)
Universiti Utara Malaysia

PERAKUAN KERJA KERTAS PROJEK
(Certification of Project Paper)

Saya, yang bertandatangan, memperakukan bahawa
(I, the undersigned, certify that)

RAFAT REZEQ RAJAB TANTISH

calon untuk Ijazah Masters of Science (International Accounting)
(candidate for the degree of)

telah mengemukakan kertas projek yang bertajuk
(has presented his/her project paper of the following title)

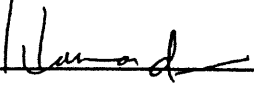
SOCIAL AND ENVIRONMENTAL DISCLOSURES IN THE ANNUAL REPORT

OF MALAYSIAN COMPANIES

seperti yang tercatat di muka surat tajuk dan kulit kertas projek
(as it appears on the title page and front cover of project paper)

bahawa kertas projek tersebut boleh diterima dari segi bentuk serta kandungan dan meliputi bidang ilmu dengan memuaskan.
(that the project paper acceptable in form and content and that a satisfactory knowledge of the field is covered by the project paper).

Nama Penyelia : Dr. Wan Nordin Wan Hussin, CPA
(Name of Supervisor)

Tandatangan : 
(Signature)

Tarikh : 17/11/03
(Date)

***Social and Environmental Disclosures
in the Annual Reports of Malaysian Companies***

Research Project submitted to the Graduate School in partial fulfillment of the
requirements for the degree Master of Science (International Accounting)

**Rafat Rezeq Rajab Tantish
MATRIC No. 83838**

UNIVERSITI UTARA MALAYSIA 2003

Social and Environmental Disclosures
in the Annual Reports of Malaysian Companies

Abstract

Since the early 1970s, a number of studies have investigated the nature and frequency of corporate social and environmental disclosures, their patterns and trends, and their general relationship to the corporate size, profitability and environmental performance. The purpose of this study is to evaluate the amount of social and environmental disclosures made in annual reports of companies listed on the main board, Kuala Lumpur Stock Exchange (KLSE). In particular, this study empirically examines the impact of five firm-specific characteristics on the general level of voluntary disclosures in the annual reports of the main board KLSE-listed companies. The five variables are firm size, ownership structure, industry type, raising capital and size of audit firm. In so doing, an indexing procedure is used to measure the contents of disclosures, and the relationship between the disclosure index and the firm characteristics is tested. The results indicate that corporate social and environmental disclosures are incomplete and very low. The results also show that firm size and ownership are weakly related with the level of social and environmental disclosure, whereas industry type, raising capital, and audit firm size are not related with the level of social and environmental disclosure.

TABLE OF CONTENTS

	Page
Abstract	i
List of Tables	ii
List of figures	iii
1. Introduction	1
2. Literature Review	3
2.1 Social and environmental disclosures in selected countries	3
2.2 The voluntary disclosure of social and environmental Disclosure	7
2.2.1 Components of social disclosure	10
2.2.2 Components of environmental disclosure	11
2.2.3 Trends in environmental reporting	12
2.3 Firm characteristics and social and environmental disclosures	13
3. Theory and Hypotheses	14
3.1 Firm Size	15
3.2 Industry Type	17
3.3 Ownership Structure	19
3.4 Size of Auditing Firm	20
3.5 Raising capital	21
4. Research Method	22
4.1 Data Source	22
4.2 Selection of Sample	22
4.3 Constructing the Disclosure Index	23
4.4 Model Specification and measurement of independent variables	26
5. Results	27
5.1 Disclosure index score	27
5.2 Univariate and multivariate analyses	34
6. Limitations of the study	36
7. Conclusion	37
References	38
Appendix	44

LIST OF TABLES

	Page
Table 1 Summary of previous studies examining firm characteristics and social and environmental disclosure	14
Table 2 Independent variables and their measurements	27
Table 3 Summary of disclosure index scores achieved by sample companies	27
Table 4 Frequency distribution of disclosure score	30
Table 5 Summary of disclosure index scores by sector	31
Table 6 Descriptive statistics for independent variables	35
Table 7 Pearson correlation matrix between variables	35

LIST OF FIGURES

		Page
Figure 1	Ranking of companies according to the level of disclosure	29
Figure 2	Number of companies by disclosure score	30
Figure 3	Disclosure score by sector	32
Figure 4	Disclosure score by type of social and environmental information	33

1. Introduction

Organizations of every type and size, public and private, profit and non-profit, now have to be able to satisfy customers, investors, creditors, suppliers, regulators and the public at large that they are operating responsibly toward the environment and, if they are not, what they are doing to improve their performance in the future. Rankin (1996) found that Australian users demand more environmental information than they are getting. A study by De Villiers (1998) indicated that corporate environmental disclosure was a popular concept among users of financial statements as well as among directors of companies and auditors.

The upsurge in corporate social and environmental disclosures, also known as triple bottom line reporting, over the past two decades has been attributed to a variety of factors. Abbott and Monsen (1979), for instance, have seen the pressure to disclose coming from two related sources, the general public and government regulatory agencies. It is doubtful that environmental groups need information from corporations in order to make financial decisions. They need it to make decisions, such as whether to launch a campaign against “ungreen” corporations (De Villiers, 1998).

During the early 1990s, public concerns about the environment were at an all time high. Public opinion poll results indicated that the public views business and industry as the major contributors to the environmental problems and that business and industry will not voluntarily protect the environment. The shareholders increasingly recognize that they have a vital role to play in ensuring that environmental reporting improves, as performance in these areas underpins business reputation and commercial success in the long term. Guthrie and Parker (1989) suggested that

The contents of
the thesis is for
internal user
only

References

- Abbott, W.F. and Monsen, R.J. (1979). On the Measurements of Corporate Social Responsibility: Self-Reported Disclosure As A Method of Measuring Corporate Social Involvement. *Academy of Management Journal*, Vol. 22, No. 3, pp. 501-515.
- Barry, C.B. and Brown, S.J. (1986). Limited Information as a Source of Risk. *Journal of Portfolio Management*, Vol. 12, pp. 66-73.
- Buzby, S.L. (1975). Companies Size, Listed Versus Unlisted Stocks and the Extent of Financial Disclosure. *Journal of Accounting Research*, Vol. 13, pp. 16-37.
- Carven, B.M. and Marston, C.L. (1999). Financial Reporting on the Internet by Leading UK Companies. *The European Accounting Review*, Vol. 8, No. 2, pp. 321-333.
- Chow, C.W. (1982). The Demand for External Auditing: Size, Debt and Ownership Influences. *Accounting Research*, Vol. 62, pp. 533-541.
- Chow, C.W. and Wong-Boren, A. (1987). Voluntary Financial Disclosure by Mexican Corporations. *Accounting Research*, Vol. 62, pp. 533-541.
- Cooke, T.E. (1989a). Disclosure in the Corporate Annual Reports of Swedish Companies. *Accounting and Business Research*, Vol. 19, No. 74, pp. 113-124.
- Cooke, T.E. (1989b). Voluntary Disclosure by Swedish Companies. *Journal of International Financial Management and Accounting*, Vol.1, pp. 171-195.
- Cooke, T.E. (1991). An Assessment of Voluntary Disclosure in the Annual Reports of Japanese Corporations. *International Journal of Accounting*, Vol. 26, pp. 174-189.
- Cooke, T.E. (1992). The Impact of Size, Stock Market Listing and Industry Type in Disclosure in the Annual Reports of Japanese Listed Corporations. *Accounting and Business Research*, Vol. 22, No. 87, pp. 229-237.
- Cooke, T.E. (1993). Disclosure in Japanese Corporate Reports. *Journal of Business Finance and Accounting*, Vol. 4, pp. 216-245.
- Cooke, T.E. and Wallace, R.S.O. (1989). Global Surveys of Corporate Disclosure Practices and Audit Firms: A Review Essay. *Accounting and Business Research*, Vol. 20, No. 77, pp. 47-57.
- Cowen, S., Ferreri, L. and Parker, L. (1987). The Impact of Corporate Characteristics on Social Responsibility Disclosure: A Typology and Frequency-based Analysis. *Accounting, Organizations and Society*, Vol. 12, No. 2, pp. 111-122.
- Craswell, A.T. and Taylor, S.L. (1992). Discretionary Disclosure of Reserves by Oil and Gas Companies: An Economic Analysis. *Journal of Business Finance and Accounting*, Vol. 19, No. 2, pp. 295-308.

DeAngelo, L.E. (1981). Auditor Size and Audit Quality. *Journal of Accounting and Economics*, Vol. 3, pp. 183-199.

Deegan, C. and Gordon, B. (1996). A Study of The Environmental Disclosure Practices of Australian Corporations. *Accounting and Business Research*, Vol 26, No. 3, pp. 187-199.

Deegan, C., Rankin, M. and Tobin, J. (2002). An Examination of the Corporate Social and Environmental Disclosures of BHP from 1983-1997: A Test of Legitimacy Theory. *Accounting, Auditing & Accountability Journal*, Vol.15, No. 3, pg. 312-343.

Depoers, F., (2000). A Cost-Benefit Study of Voluntary Disclosure: Some Empirical Evidence From French Listed Companies. *The European Accounting Review*, Vol. 9, No. 2, pp. 245-263.

De Villiers, C.J. (1998). The Willingness of South Africans to Support More Green Reporting. *South African Journal of Economic and Management Sciences*, NS, Vol.1, No.1, pp. 145-167.

Dierkes, M. and Preston, L.E. (1977). Corporate Social Accounting and Reporting for the Physical Environment: A Critical Review and Implementation Proposal. *Accounting, Organizations and Society*, Vol. 2, No. 1, pp. 3-22.

Elliot, B. and Elliot, J. (1998). *Financial Accounting and Reporting*. Prentice Hall International, Fifth Edition.

Environmental Resource Management Malaysia (2002). *The State of Corporate Environmental Reporting in Malaysia*. Certified Accountants Educational Trust, London.

Fama, E.F. and Jensen, M.J. (1983). Separation of Ownership and Control. *Journal of Law and Economics*, Vol. 26, No.2, pp. 301-325.

Firth, M. (1979). The Impact of Size, Stock Market Listing, and Auditors on Voluntary Disclosure in Corporate Annual Reports. *Accounting and Business Research*, Vol. 9, pp. 273- 280.

Firth, M. (1980). Raising Finance and Corporate Reporting Policies. *Abacus*, December, Vol. 16, pp 100-115.

Foo, S.I. and Tan, M.S. (1988). A Comparative Study of Social Responsibility Reporting in Malaysia and Singapore. *Pacific Sociological Review*, Vol. 18, pp. 12-15.

Francis, J.R. and Wilson, E.R. (1988). Auditor Changes: A Joint Test of Theories Relating to Agency Costs and Auditor Differentiation. *The Accounting Review*, Vol. 63, pp. 663-682.

Gamble, G.O., Hsu, K., Kite, D. and Radtke, R.R. (1995). Environmental Disclosures in Annual Reports and 10Ks: An Examination. *Accounting Horizons*, Vol. 9, No. 3, pp. 34-54.

Gamble, G.O., K. Hsu, C. Jackson, and C.D. Tollerson. (1996). Environmental Disclosures in Annual Reports: An International Perspective. *The International Journal of Accounting*, Vol. 31, No. 3, pp. 293-331.

Global Reporting Initiatives (2002). *The GRI Guidelines. Sustainability Reporting Guidelines*.

Gray, R. and Bebbington, J. (2001). *Accounting for the Environment*. SAGE Publications Ltd, Second Edition.

Gray, R., Owen, D.L. and Maunders, K.T. (1987). *Corporate Social Reporting: Accounting and Accountability*. Prentice Hall International, London.

Gray, S. J. and Robert, C. B. (1989). Voluntary Information Disclosure and the British Multinationals, In Hopwood A (ed) *International Pressures for Accounting Change*, pp. 116-139, Hemel Hempstead, Prentice Hall International.

Gray, S. J., Radebaugh L.H. and Roberts, C.B. (1990). International Perceptions of Cost Constraints on Voluntary Information Disclosures: A Comparative Study of UK and USA Multinationals. *Journal of International Business Studies*, Fourth Quarter (Winter), pp. 597-622.

Gray, R. (1990). *Corporate Social Reporting By UK Companies: A Cross Sectional and Longitudinal Study*. An Interim Report; Draft/Working Paper, University of East Anglia.

Gray, S.J., Meek, G.K. and Roberts C.B. (1992). International Capital Market Pressures and Voluntary Disclosure by US and UK Multinationals. American Accounting Association Conference, Washington, D.C.

Gray, R., Kouhy, R. and Lavers, S. (1995). Corporate Social and Environmental Reporting A Review and A Longitudinal Study of UK Disclosure. *Accounting Auditing & Accountability Journal*. Vol. 8, No. 2, pp. 47-77.

Guthrie, J. and Parker, L.D. (1989). Corporate Social Reporting: A Comparative International Analysis. *Advances in Public Interest Accounting*, Vol. 3, pp. 159-175.

Hackston, D. and Milne, Markus J. (1996) Some Determinants of Social and Environmental Disclosures in New Zealand Companies. *Accounting Auditing & Accountability Journal*, Vol. 9, No. 1, pp. 77-108.

Harte, G. and Owen, D.L. (1991). Environmental Disclosure in the Annual Reports of British Companies: A Research Note. *Accounting Auditing & Accountability Journal*, Vol. 4, No. 3, pp. 51-61.

Holland, J. (1997). *Corporate Communications with Institutional Shareholders: Private Disclosures and Financial Reporting*. Research Committee of the Institute of Chartered Accountants of Scotland.

Hossain, M., Tan, L.M. and Adams, M. (1994). Voluntary Disclosure in an Emerging Capital Market: Some Empirical Evidence from Companies Listed on the Kuala

Lumpur Stock Exchange. *International Journal of Accounting*, Vol. 29, No. 4, pp. 334-351.

Inchausti, B.G., (1997). The Influence of Company Characteristics and Accounting Regulation on Information Disclosed by Spanish Firms. *The European Accounting Review*, Vol. 6, No. 1, pp. 45-68.

Institute of Business Ethics (1990). *Ethics, Environmental and the Company: A Guide to Effective Action*. IBE, London.

Jensen, M.C. and Meckling, W.H. (1976). Theory of the Firm: Managerial Behavior, Agency Cost and Ownership Structure. *Journal of Financial Economics*, Vol. 3, pp. 305-360.

KPMG (1997), *UK Environmental Reporting Survey 1997*, KPMG, London.

Laufer, W. S. (2003). Social Accountability and Corporate Greenwashing. *Journal of Business Ethics*, Vol. 43, No. 3, p. 253.

Lehman, C., and Tinker, T. (1987). The “Real” Cultural Significance of Accounts. *Accounting, Organizations and Society*, Vol.12, No. 5, pp. 503-522.

Lemon, A. J. and Cahan S. F. (1997). Environmental Legislation and Environmental Disclosure: Some Evidence from New Zealand. *Asian Review of Accounting* Vol. 5, No.1, pp. 78-105.

Leventis, S.N. and Weetman, P. (2001). Voluntary Disclosure in the Annual Reports of Companies Listed on a European Emerging Capital Market: Some Evidence from the Athens Exchange. 2001 Annual Conference.

Malone, D., Fries, C. and Jones, T. (1993). An Empirical Investigation of the Extent of Corporate Financial Disclosure in the Oil and Gas Industry. *Journal of Accounting, Auditing and Finance*, Vol. 8, pp. 249-273.

Mathews, M.R. (1993), *Socially Responsible Accounting*, Chapman and Hall, London.

McKinnon, J.L. and Dalimunthe, L. (1993). Voluntary Disclosure of Segment Information By Australian Diversified Companies. *Accounting and Finance*, Vol. 33, No. 1, pp. 33-50.

Meek, G.K., Roberts, C.B and Gray, S. J. (1995). Factors Influencing Voluntary Annual Reports Disclosures by US, UK and Continental European Multinational Corporations. *Journal of International Business Studies*, Third Quarter, pp. 555-572.

Niskala, M. and Pretes, M. (1995). Environmental Reporting in Finland: A Note on the Use of Annual Reports. *Accounting, Organizations and Society*, Vol. 20, No. 6, pp. 457-466.

Nobes, C and Parker, R. (1991). *Comparative International Accounting*, 3rd edition, Prentice Hall, Hemel Hempstead, UK.

Patten D.M (1991). Exposure, Legitimacy, and Social Disclosure. *Journal of Accounting and Public Policy*, Vol. 10, pp. 277-308.

Perera, M.H.B. and Mathews, M.R. (1990). The Cultural Relativity of Accounting and International Patterns of Social Accounting. *Advances in International Accounting*, Vol. 3, pp. 215-251.

Raffournier, B., (1995). The Determinants of Voluntary Financial Disclosure By Swiss Listed Companies. *The European Accounting Review*, Vol. 4, No. 2, pp. 261-280.

Rankin, M. (1996) Corporate Reporting – The Green Gap, The Environmental Accounting Task Force of The Institute of Chartered Accountants in Australia, Sydney.

Roberts, C.B. (1991). Environmental Disclosures: A Note on Reporting Practices in Mainland Europe. *Accounting Auditing & Accountability Journal*, Vol. 4, No. 3, pp. 61-72.

Robertson, D.C. and Nicholson, N. (1996). Expressions of Corporate Social Responsibility in UK Firms. *Journal of Business Ethics*, Vol. 15, pp. 1095-1106.

Romlah Jaffar, Takiah Mohd. Iskandar, Jusoh @ Nordin Muhamad (2002). An Investigation of Environmental Disclosures in Malaysia”, Conference paper. www.aanz.org/web2002/accepted%20_papers/jaffarr.pdf.

Ronen, J. and Livnat, J. (1981). Incentives for Segment Reporting. *Journal of Accounting Research*, Autumn, pp. 459-481.

Rubbins, W.A. and Austin, K.R. (1986). Disclosure Quality in Governmental Financial Reports: An Assessment of the Appropriateness of Compound Measure. *Journal of Accounting Research*, Vol. 24, Autumn, pp. 412-421.

Schadewitz, H.J. (1994). Development and Determinants of Disclosure Policy in Interim Reports. Paper Presented at the 17th EAA Congress, Venice.

Schipper, K. (1991). Discussion of Voluntary Corporate Disclosure: The Case of Interim Reporting. *Journal of Accounting Research*, Vol. 19, pp. 85-88.

Sekaran, Uma (2000) *Research Methods for Business*. Third edition. USA.

Singhvi, S. and Desai, H.B., (1971). An Empirical Analysis of the Quality of Corporate Financial Disclosure. *Accounting Review*, Vol. XLVI, pp. 621-632.

Stanwick, S. and Stanwick, P. (1998a). Corporate Social Responsiveness: An Empirical Examination Using the Environmental Disclosure Index. *International Journal of Commerce & Management*, Vol. 8, No. 3/4; pp. 26-40.

Stanwick, S. and Stanwick, P. (1998b). The Relationship Between Corporate Social Performance and Organizational Size, Financial Performance, and Environmental

Performance: An Empirical Examination. *Journal of Business Ethics*, Vol. 17, No. 2, pp. 195-204.

Tilt, C.A. (2001). The Content and Disclosure of Australian Corporate Environmental Policies. *Accounting, Auditing & Accountability Journal*, Vol. 14, No. 2, pp. 190-223.

Touche Ross Management Consultants (1990). Heads in the Clouds or Head in the Sand?" UK Manager Attitudes to Environmental Issues - A Survey. Touche Ross Management Consultant, London.

Trotman, K.T. and Bradley, G.W. (1981). Associations Between Social Responsibility Disclosure and Characteristics of Companies. *Accounting, Organizations and Society*, Vol.6, No. 4, pp. 355-362.

Trotman, K.T. (1979). Social Responsibility Disclosure in Australian Companies. *The Chartered Accountant in Australia*, pp. 24-28.

United Nations Environment Programme. (1994). Company Environmental Reporting, A Measure of the Progress of Business & Industry Towards Sustainable Development. Technical Report No. 24.

Wallace, R. (1988). Corporate Financial Reporting in Nigeria. *Accounting and Business Research*, Vol. 18, No. 72, pp. 352-362.

Wallace, R. and Naser, K. (1995). Firm-Specific Determinants of the Comprehensiveness of Mandatory Disclosures in the Corporate Annual Reports of Firms Listed on the Stock Exchange of Hong Kong. *Journal of Accounting and Public Policy*, Vol. 14, pp. 311-368.

Watts, R.L. and Zimmerman, J.L. (1978). Towards a Positive Theory of the Determination of Accounting Standards. *The Accounting Review*, Vol. 53, No. 1, pp. 112-143.

Watts, R.L. and Zimmerman, J.L. (1986). *Positive Accounting Theory*. Englewood Cliffs, NJ: Prentice Hall.

Wiseman, J. (1982). An Evaluation of Environmental Disclosure Made in Corporate Annual Reports. *Accounting, Organizations and Society*, Vol. 7, No. 1, pp. 53-63.

Wong, J. (1988). Economic Incentives for the Voluntary Disclosure of Current Cost Financial Statements. *Journal of Accounting and Economics*, April, pp. 151-167.

Zeghal, D. and Ahmed, S. A. (1990). Comparison of Social Responsibility Information Disclosure Media Used by Canadian Firms. *Accounting, Auditing and Accountability Journal*, pp. 39-53.