

**DETERMINANTS OF ENVIRONMENTAL REPORTING IN  
MALAYSIA FOR INDUSTRIAL PRODUCT SECTOR**

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**DETERMINANTS OF ENVIRONMENTAL REPORTING IN MALAYSIA FOR  
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## **ABSTRACT**

Following the new Malaysian Code on Corporate Governance (MCCG) 2012, the Malaysian government hopes to encourage companies, specifically the Public Listed Companies to adhere to the new code of conduct. The Adherence to the MCCG guidelines works together with the Listing Requirements by Bursa Malaysia that call for disclosure on environmental as part of the Corporate Social Responsible Report in the companies' annual report.

Thus, this study is motivated to examine the determinants that are associated to promote the environmental reporting disclosure practices of corporations in Malaysia. In particular, this study aims to examine two influential factors that affect environmental reporting disclosures which are corporate governance characteristics (i.e., board size, board independence, board diversity – religion and board diversity – gender) and corporate characteristics (i.e., company size, profitability, and free cash flow).

The study uses a total of 100 samples from the industrial product corporations listed on Bursa Malaysia for the year 2013. The study employs OLS and Tobit regression inclusive of robust regression for both models. The results indicate that board diversity of religion (Muslim directors); company size; profitability; and free cash flow have positive significant influence on environmental reporting disclosure practices. In summary, the study concludes that for the industrial product sector, the initiative for companies to disclose environmental reporting is much influenced by companies that have Muslim directors, with large amount of assets, with higher profitability and a large amount of extra cash. All in all, the companies are able to comply to any government's initiative towards a sustainability economy, provided the company applies the Taqwa paradigm as the foundation for good governance and the company is secured financially.

**Keywords:** environmental reporting, industrial product, Tagwa paradigm

## **ABSTRAK**

Berikutan pembaharuan bagi Kod Tadbir Urus Korporat Malaysia (MCCG) 2012, kerajaan Malaysia berharap untuk menggalakkan syarikat-syarikat, khususnya syarikat awam yang tersenarai di Bursa Malaysia bagi mematuhi kod baru tersebut. Pematuhan terhadap MCCG 2012 ini adalah kesinambungan dengan Keperluan Penyenaraian oleh Bursa Malaysia yang memerlukan pendedahan terhadap alam sekitar. Laporan alam sekitar ini adalah sebahagian daripada Laporan Tanggungjawab Sosial Korporat yang perlu dinyatakan di dalam laporan tahunan syarikat.

Oleh itu, keperluan laporan alam sekitar ini merupakan motivasi bagi kajian ini untuk mengkaji penentu yang menggalakkan pelaporan alam sekitar syarikat di Malaysia. Khususnya, kajian ini bertujuan untuk mengkaji dua faktor yang mempengaruhi tindakan pelaporan alam sekitar iaitu ciri-ciri tadbir urus korporat (iaitu, saiz papan, papan kemerdekaan, kepelbagaian lembaga - lembaga agama dan kepelbagaian - jantina) dan ciri-ciri korporat (iaitu, saiz syarikat, keuntungan dan aliran tunai bebas ).

Kajian ini menggunakan sejumlah 100 sampel syarikat produk industri yang disenaraikan di Bursa Malaysia bagi tahun 2013. Kajian ini menggunakan OLS dan regresi Tobit termasuk regresi teguh untuk kedua-dua model. Hasil kajian menunjukkan bahawa kepelbagaian lembaga pengarah (pengarah Muslim); saiz syarikat; keuntungan; dan aliran tunai bebas mempunyai pengaruh yang signifikan terhadap amalan pendedahan laporan alam sekitar. Secara ringkasnya, kajian ini menyimpulkan bahawa bagi sektor produk perindustrian, inisiatif bagi syarikat-syarikat untuk mendedahkan laporan alam sekitar banyak dipengaruhi oleh syarikat-syarikat yang mempunyai pengarah yang beragama Islam, jumlah aset yang tinggi, tahap keberuntungan yang tinggi dan jumlah wang tunai tambahan yang banyak. Secara keseluruhannya, syarikat-syarikat dapat mematuhi sebarang inisiatif kerajaan untuk membentuk ekonomi yang mapan, jika syarikat tersebut menerapkan paradigma Taqwa pada setiap pengarah syarikat dan mempunyai kedudukan kewangan yang kukuh.

Katakunci: laporan alam sekitar, produk industri, paradigma Taqwa

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## LIST OF ABBREVIATIONS

ACCA	: Association of Chartered Certified Accountants
BFEMALE	: Female directors
BIND	: Board Independence
BM	: Bursa Malaysia
BMUSLIM	: Muslim board members
BOD	: Board of Directors
BSIZE	: Board Size
CER	: Corporate Environmental Responsibility
CG	: Corporate Governance
CSIZE	: Company Size
CSR	: Corporate Social Responsibility
CSRR	: Corporate Social Responsibility Report
DTTI	: Deloitte Touché Tohmatsu International
EBITDA	: Earnings Before Taxes, Depreciation and Amortisation
EBITDAPERS	: Earnings Before Taxes, Depreciation and Amortisation Per Share
EQA	: Environmental Quality Act
ER	: Environmental Reporting
ERI	: Environmental Reporting Index
ERSCORE	: Environmental Reporting Score
ESG	: Environmental, Social Governance
FCF	: Free Cash Flow
FRS	: Financial Reporting Standard
FTSE	: Financial Times Stock Exchange
GRI	: Global Reporting Initiative
IAS	: International Accounting Standards
IFRB	: International Financial Reporting Board
IFRSB	: International Financial Reporting Standard Board
MASB	: Malaysian Accounting Standards Board
MCCG	: Malaysian Code on Corporate Governance

MTBV	: Market to book value
OLS	: Ordinary Least Square
PLCs	: Public Listed Companies
PROFIT	: Profitability
ROA	: Return on Assets
SMEs	: Small and Medium Enterprises
STATA	: Statistics of Analysis Data
UK	: United Kingdom
VIF	: Variance Inflated Factor
WWF	: World Wide Fund for Nature

## **CHAPTER 1: INTRODUCTION**

### **1.1 Background of Study**

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.

Environmentalists had established campaigns and activities for protection of endangered species and protection of any ecologically valuable natural areas. For example, the World Wide Fund for Nature (WWF) has organised Earth Hour, a movement in uniting people to protect the environment through awareness campaign. The first campaign, which was held in Sydney, Australia in 2007, encourages people worldwide to switch off the non-essential lights for one hour as a symbol of their commitment to the planet (environment) (Celebrating Earth Hour, 2014). Also, there was another environmental campaign being launched by WWF-Malaysia and Nestle (Malaysia), for the conservation of the Setiu Wetlands in Terengganu in 2014. The human activities causing environmental degradation are usually the economic activities from corporate entities in achieving their interests (profit). These economic activities were usually executed without regard to the environment, health and socioeconomic impact on the people. As a result, the world requires an act of sustainability to prevent or reduce the effect of environmental degradation.

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