

The Determinants of Environment Disclosures of Public Listed Firms in Malaysia

Mohd Waliuddin Mohd Razali^{1,2}, Samuel Tu Ching Lee¹, Sharifah Sabrina Syed Ali¹, Josephine Yau Tan Hwang¹, and Damien Lee lung Yau¹

¹Faculty Economics & Business, Universiti Malaysia Sarawak (UNIMAS), Malaysia, ²Faculty of Economics & Management, Universiti Kebangsaan Malaysia (UKM), Malaysia

Corresponding Author's Email: walirazali@yahoo.com

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Abstract

Determining environmental disclosure is important because it promotes corporate transparency, ensures accountability for environmental impacts, and aids stakeholders in making informed decisions. The objective of this study is to investigate the link between specific firm attributes and environmental disclosure. A final sample of this study consists of 429 Malaysian public listed firms in the year 2016. Data on firm size, profitability, leverage and disperse share ownership were obtained from Eikon database while dependent variable which is environmental disclosure and other variables such as environmental management systems (EMS), age and auditor type were manually collected from firm annual reports. The environmental disclosure is measure based on 11 environment related-words highlighted which are energy or electric, water, biodiversity, emission, effluent, waste, recycle, reuse, spill, environmental impacts and ISO 14001. The regression results show that firm size, industry type, EMS and disperse share ownership are significantly influence environmental disclosures. This study proves that certain firm characteristics, coupled with good corporate governance mechanisms, can motivate firms to provide environmental disclosures. Further research proposes using alternative proxies for environmental disclosure to examine its relationship with foreign associations, brand awareness, firm value, and the cost of financing, which could offer new insights into environmental disclosure practices.

Keywords: Sustainability reporting, firm characteristic, and disclosure

Introduction

Malaysia, as a developing country, is being in the process of economic transformation to industrialisation and marketization. Over past few years, many sectors especially industrial sector has experienced booming; for example, automobile industry and electronic industry are growing rapidly with 22% from manufacturing sector contribute to Malaysia GDP in 2016 (Department of Statistics Malaysia, 2016). When the industrial sector is developing rapidly, industrial companies have become the major contributor to environmental pollution.

According to the Department of Statistics Malaysia 2015, there are three main pollutions in Malaysia which are water, air and waste pollution. The main factor is caused by industries activities and waste. In order to reduce the environmental pollution, the government implemented various methods such as environmental impact assessment (EIA) which outlines the procedure required in evaluating a new project before it can be carried out (Department of Environment Ministry of Natural Resources & Environment, 2007). Besides, the government also enforce the Environmental Quality Act 1974 in prevention, control of environment pollution and enhancement the environmental sustainability.

Along with emerging organisation and concept such as Global Reporting Initiative (GRI), Corporate Social Responsibility (CSR) and Environmental Social and Governance (ESG), many firms gradually practice and implementing environmental disclosures. Environmental disclosure is one of the elements of a firm's corporate social responsibility (CSR). Environmental disclosures can be defined as a firm's report that disclosure to the public on environment effects from their business activities. It also declares sustainability activities performed by the company in order to preserve the environment. With the legislation, public listed companies tend to declare their environmental information in annual report especially the environmentally sensitive industries (ESI) whose activities have a direct impact to the natural environment (Brammer & Pavelin, 2006). However, in Malaysia, there is no specific regulation that requires companies to have environmental disclosures reporting. Practices of environmental disclosures remain as voluntary reporting for the listed company (Bursa Malaysia Securities Berhad, 2015). The motive of Bursa Malaysia in emphasising environmental disclosure is to encourage companies to be environmentally responsible and enhance company transparency. Although in Malaysia environmental disclosures remain voluntary reporting for listed firms, we still believe companies that report environmental disclosures do have different impacts compare with those who did not.

The purpose of environmental disclosures practice is to help the firm management team to plan and reduce pollution effectively, control business activities with environment-friendly, and adopt more efficient and green production method (Cohen et al., 1997). Besides that, it shows how a firm responsible in the field of society and environment in order to get legitimacy support from society and meet stakeholder requirements (Nik Ahmad & Sulaiman, 2004). Thus, many Malaysia public listed companies had implemented and included environmental disclosures into their annual reports. For example, YTL Corporation Berhad, as one of the major infrastructure company in Malaysia, shows well implementation on environmental disclosures. YTL Corporation won the platinum award for the best environment excellence award at 9th Global Corporate Social Responsibility (CSR) Summit and Awards 2017. Besides, Tenaga Nasional Berhad (TNB) also responds to the environment change by providing sustainability report which is according to the standard of GRI. Sustainability report provided by TNB includes economic, social and environmental impact. The report is used as a communication tool for the firm, stakeholder, government and society by presenting the company's transparency, building brand trust and get legitimacy support from stakeholder and society.

Stakeholder and legitimate theories explain the needs of a firm engages in environmental information disclosures to their stakeholders in order to survive in the business environment. Environmentally sensitivity industries tend to disclose environmental information (Patten,