

## Determinants of Corporate Environmental Reporting by the Malaysian Local Governments

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**Abstract:** The extant studies on Corporate Environmental Reporting (CER) practices within the ambit of Local Governments (LGs) in a developing country perspective are scarce. Of the limited studies, evidence suggests that the extent of disclosure is found to be minimal despite the arrays of incentives offered to LGs by the government. Moreover, prior studies have been Confined to Examining CER made in the annual reports and they have disregarded the other medium of reporting. This, therefore, provides an impetus to examine the contributing factors that may influence LGs in developing countries to make appropriate environmental disclosures within the organizational portals. The aim of the study is to conceptually discuss the pertinent factors that may potentially have significant influence on LGs to provide CER online. The in-depth discussion also develops 6 testable hypotheses which serve as a basis for an empirical investigation in the future research endeavors.

**Key words:** Corporate environmental reporting, local governments, internet reporting, developing country, voluntary disclosure

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### INTRODUCTION

Research on Corporate Environmental Reporting (CER) in the public sector environment is fitful (Sparkes and Peattie, 1998). Marcuccio and Steccolini (2005) lament similar tension and a scarcity of empirical studies attests to such a claim (Frost and Seamer, 2002). The existing studies in this domain are very much constricted to merely exploring the extent of disclosure (Gibson and Guhtrie, 1995; Burritt and Welch, 1997; Guhtrie and Farneti, 2008; Sciulli, 2009; Lynch, 2010), motives for reporting environmental disclosures (Rahaman *et al.*, 2004; Marcuccio and Steccolini, 2005; Bellringer *et al.*, 2011) and the determinants influencing organizations to report environmental information within the annual reports (Burritt and Welch, 1997; Frost and Seamer, 2002). According to Ribeiro and Guzman (2010) of the limited evidence available to date, much of which is conducted utilizing data gathered from developed economies such as the United Kingdom and the Australasian region. There lies an inherent danger if the findings of the studies from developed economies are to be extended to developing countries since Environmental Accounting (EA) is very much country and economic specific (Gray *et al.*, 1995).

Therefore or CER in developing countries has been given little attention, the study may contribute important insights that could shed some lights in understanding the extent of CER being practiced in the public sector organizations in Malaysia specifically in Local Governments (LGs). The introduction of Local Agenda 21 (LA 21) at the Rio's Earth Summit in 1992 brought a considerable impact to the social responsibility of LGs. Accordingly, the call for greater accountability and social and environmental sensitivity at the local government level has become significantly on the rise (Marcuccio and Steccolini, 2009). This further intensifies the role of LGs in combating environmental problems at the same time putting some pressures on LGs to ensure sustainable development is achieved due to their direct relationship with the local constituents (Lewis, 2000; Joseph and Taplin, 2011).

A significant amount of research has examined the extent and patterns of CER reported in the annual reports (Gibson and Guhtrie, 1995; Burritt and Welch, 1997; Frost and Seamer, 2002; Lynch, 2010). However, the medium for providing CER is not limited to annual reports but can also be found in many other sources. For example, Guhtrie and Farneti (2008) examine the patterns of environmental

disclosure from a combination of annual and sustainability reports. On the other hand, Marcuccio and Steccolini (2005) and Rahaman *et al.* (2004) have examined multiple environmental reports in addition to annual report in assessing the range of content and form of corporate environmental reports of local governments and other public sector organizations. Furthermore, the rapid wave of development in the information and telecommunication technology has to some extent motivated organizations to leapfrog others and extensively visualized environmental (and social) disclosures in other medium. For example, Adams and Frost (2006) and Jose and Lee (2007) have found that some companies have constantly uploaded environmental (and social) information on their organizational websites in an attempt to supplement the information made accessible within the annual reports.

Adams and Frost (2006) argue that the breadth of reporting practices has extended considerably beyond the disclosure in annual reports to the point where organizations provide considerable information on sustainability issues on the Internet voluntarily as an alternative means of information dissemination. The advent of the Internet and the World Wide Web (WWW) also helps organizations to provide cheap, fast and easy information dissemination tool (Jose and Lee, 2007). This has the potential to capture a broader audience and not limited to those specifically targeted by the organizations (Ashbaugh *et al.*, 1999). The amount and type of disclosure reported on the organizational websites may differ substantially from those disclosed in the annual reports as the functional features of websites are less constrained by limitations of size and their more flexible, non-linear format allows information to be accessed more readily. On top of that, disclosing information on the websites helps organizations to provide real time data and that immediate updates on events and information concerning the organizations can be uploaded more easily and timely (Ashbaugh *et al.*, 1999; Adams and Frost, 2006; Joseph and Taplin, 2011).

The setting up of the Malaysian Government Portals and Websites Assessment (MGPWA) is also believed to improve the information and service delivery of public sector online portals and websites. The establishment of such initiative may have a certain influence on the reporting of information on local governments' portals. In relation to the sustainability issues, local councils have a larger range of disclosure to make as they are being the closest level of government to the people, provide a large number of different services and activities within the realms of sustainability (Joseph and Taplin, 2011). According to Ashbaugh *et al.* (1999), this suggests that websites may have been the medium used by the LGs to provide CER.

The remaining flow of the study are structured as follows. In the next section, the review of literature is presented which discussing on the possible determinants influencing LGs to upload CER on organizational portals. The discussion also leads to the development of six testable hypotheses. A conclusion ends the study.

**Literature review:** Empirical studies on the determinants of any aspects of CER made by the LGs in the developing country settings remain limited. Consequently, a limited understanding of the CER practices being implemented by the LGS is observed. Marcuccio and Steccolini (2009) have empirically indicated that there are significant organizational factors that are likely to influence the extensiveness, the completeness and the quantity and quality of CER.

## MATERIALS AND METHODS

**Organizational size:** Organizational size representing the political visibility has been widely used in research analyzing the extent of CER made by the public sector organizations (Frost and Seamer, 2002). The results have been consistent that size has positively influenced organizations to report environmental (and social) information. Identical finding is also obtained in research within the Malaysian context (Thompson and Zakaria, 2004). Large organizations can afford more financial resources to be utilized in implementing projects or programs that are aimed at reducing the environmental impacts and subsequently report their efforts compared to smaller organizations (Hasseldine *et al.*, 2005; Ferreira *et al.*, 2010). Furthermore, the large public sector organizations are often exposed to intense public pressures with regard to the way in which public funds are used in environmental prevention and conservation activities (Frost and Seamer, 2002; Ribeiro and Guzman, 2010). These heightened pressures require a greater response on the part of the public sector organizations to achieve organizational legitimacy. Therefore, the large LGs are hypothesized to supply high quantity of CER as opposed to the smaller LGs. Therefore, consistent with the above contentions, the following hypothesis is developed:

- H<sub>1</sub>: There is a positive relationship between the size of a local government and the quantity of environmental information on the organizational portal

**Economic performance:** Gray *et al.* (2001) have theorized that any association between economic performance (measured using accounting-based tools) and

environmental disclosures, if it ever exists proves to be elusive. For example, Marcuccio and Steccolini (2009) discover no significant relationship but a positive relationship is found in cross-sectional research by Roberts (1992) and Stanwick and Stanwick (1998) and a longitudinal research by Gray *et al.* (2001). Although, their results indicate no apparent relation, Hackston and Milne (1996) put forth an argument that seems to support a positive connection between economic performance and environmental disclosures. They argue that organizations enjoying the good economic performance often have the incentives to increase their involvement in environmental activities and subsequently report such contributions in an array of reporting mechanisms. Roberts (1992) on a similar vein argues that “in periods of low profitability, economic demands take priority over discretionary social responsibility expenditures, satisfactory financial performance has a definite influence on the level of support top corporate decision makers can commit to future social responsibility activities”. Hence, the following hypothesis is developed:

- H<sub>2</sub>: The better the economic performance of a local government the higher the quantity of environmental information on the organizational portal

**Age of organization:** The age factor is relatively less explored. Roberts (1992) posits that age could serve as an important attribute to the development of CER and often, mature organizations are associated with high anticipation from the stakeholders regarding the organization’s involvement in social and environmental responsibility activities. Kobeissi and Damanpour (2009) observe the influence of organizational age by looking at the organizational life cycle process. They argue that an organization faces different phases of growth in its life cycle before it reaches its point of stability. Younger and immature organizations are inclined to put heavy emphasis on fulfilling its basic economic goals in which younger organizations are less inclined to assume a social role much beyond the traditional economic pursuits compared to mature organizations. However as the growth slows down and organizations begin to reach their maturity and stability, a greater extent begins to be emphasized on pertinent social issues that could potentially differentiate the organizations from their counterparts (Kobeissi and Damanpour, 2009). In that sense, Roberts (1992) argues that as an organization matures, “its reputation and history on involvement in social responsibility activities can become entrenched”. Hence, stakeholders’ expectations on organizational involvement in social and environmental activities become important concerns in organizational strategy. In the

context of CER, mature organizations are more driven to supply environmental disclosures in an attempt to demonstrate the extent to which their organizational activities are legitimate and incongruent with the value system shared by the wider community:

- H<sub>3</sub>: There is a positive relationship between the age of the local government and the quantity of environmental information on the organizational portal

**Reliance on government:** Political visibility may emerge to be more potent due to the fact that the LGs are seen as the representatives of the government, hence having the responsibility for policy implementation (Frost and Seamer, 2002). The closer the organization is for the government, the more susceptible the organization is to the increased scrutiny by influential external stakeholders. Amran and Devi (2008) suggest that an organization that is highly dependent on the government is often institutionalized by the government’s aspiration and vision. If the government is committed in sustainability issues, a profoundly similar situation can be anticipated in an organization that is reliant on the government. Burritt and Welch (1997) indicate that budget entities (public sector organizations that rely on government for funding) supply higher environmental disclosures compared to non-budget entities (organizations that do not rely on government’s funding). There are significant differences in the accountability requirements between budget entities and non-budget entities. The disparity between the accountability requirements of these 2 entities suggests that budget entities, being closer and more directly accountable to the government is more susceptible to political scrutinize (Frost and Seamer, 2002) and are likely to be involved in activities or programs that are aligned with the government’s aspirations as to be seen and appeared supportive (Burritt and Welch, 1997). The government of Malaysia has been actively developing several initiatives to support Corporate Social Responsibility (CSR) practices (Amran and Devi, 2007). In the Vision 2020 for example, the government has made social and environmental agenda explicit in establishing Malaysia as a united nation with its society being infused with strong moral values and ethical beliefs and instilled with the concept of a caring society among others. Moreover, the LA 21 has also been integrated into the Malaysia Plan series as part of the government’s concerted efforts to reinforce CSR agenda (Amran and Devi, 2007; Joseph and Taplin, 2011). Due to the strong commitment of the Malaysian government to CSR, LGs are

expected to place themselves in parallel to the government's vision towards CSR practices (Amran and Devi, 2008) and they are likely to increase the extent of CER. Hence, the following hypothesis is developed:

- H<sub>4</sub>: There is a positive relationship between the degree of reliance on government funding by the local government and the quantity of environmental information on the organizational portal

**Media pressures:** Negative media coverage can have more influence on the public's perceptions of and expectations for a particular issue in relation to the positive media news (Islam and Deegan, 2008). For example, intense media coverage of illegal waste dumping and open burning cases not only heightens the awareness of the general public but arguably imposes immense pressures on organizations to be more proactive rather than reactive in preventing the occurrences of major environmental problems predominantly resulted from the organizations' activities and operations

Brown and Deegan (1998) have examined the impact of media coverage on environmental impacts caused by different types of industries on the levels of environmental disclosure and a positive relationship between the extent of disclosure of the affected companies and media exposure. Brown and Deegan's (1998) findings arguably can be extended in the context of LGs on the premise that the LGs are seen politically visibly (or politically sensitive) due to media exposure and receive intense scrutiny from external stakeholders (Frost and Seamer, 2002).

Islam and Deegan (2008) contend that media coverage has the potential of creating legitimacy gaps and disclosure is often used to narrow the gaps (Deegan and Rankin, 1996; Patten, 2002; Cho and Patten, 2007). Hence, in the event where there exists an increased community concern for environmental issues which driven by the extensive coverage in the media, an increase in the extent of environmental disclosure made by relevant organizations can be anticipated. Relying on the about arguments, the following hypothesis is developed:

- H<sub>5</sub>: There is a positive relationship between the media pressures and the quantity of environmental information on the organizational portal

## RESULTS AND DISCUSSION

**Presence of an internal environmental practice:** The presence of an internal management practice responsible for CSR involvement can have a positive impact on the organization's participation in CSR related programs

(Cowen *et al.*, 1987). This in turn is likely to result in a high disclosure of related information in an array of reporting media as the management "...may consider its findings of sufficient importance to warrant publication" (Cowen *et al.*, 1987). Preston (1981) contends that providing a high level of disclosure is an attempt on the part of the organization to take the credits for their actions and bolster the organizational legitimacy. Frost and Seamer (2002) and Ribeiro and Guzman (2010) have found a positive association between the establishment of an internal environmental management practice and the level of CER made by the public sector organizations. This is evident as the internal environmental management practice serves as a support system that supplies pertinent information which can be the critical inputs for CER (Jasch, 2003; Gale, 2006). Therefore, the following hypothesis is developed:

- H<sub>6</sub>: There is a positive relationship between the existence of an environmental committee of a local government and the quantity of environmental information on the organizational portal

## CONCLUSION

The foregoing discussion has identified six potential determinants for CER made by the LGs on the organizational portals. It is posited that with the advent of technology, the process of uploading and disseminating information can become more efficient and able to capture wider target of audiences. The ability of the information to be frequently updated at a low cost not only benefit the LGs, but can also bring considerable assistance to the relevant constituents in their decision-making. The study offers some insights that could increase the understanding of some factors that impose significant influence on LGs to make environmental information available online in the context of a developing country. It is hoped that this study may contribute to the existing literature on CER and further chart the development of academic research in EA realms.

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