



Summary of a report prepared by ACCA Malaysia
The State of Corporate Environmental
Reporting in Malaysia

The State of Corporate Environmental Reporting in Malaysia

Since the concept of public environmental reporting was introduced in the early 1990s, it has rapidly gained acceptance as the means of communicating and demonstrating a company's commitment to improving environmental performance to stakeholders. Over the years, the trend has spread to various regions in the world, including emerging economies such as Malaysia.

Although the publication of environmental information is most common in developed economies, an increasing number of companies in emerging economies (eg. Taiwan, South Korea and China) have started to embrace the concept of voluntary environmental reporting. However, the publication of environmental information in emerging economies is still in its infancy and there is a general lack of knowledge on the status of environmental reporting in the Asia region.

This is a summary of research

assessing the current state of external environment reporting in Malaysia.

SCOPE OF THE STUDY

The following tasks were undertaken to complete the study:

Task 1: Conduct a review of relevant statutory rules or accounting standards covering mandatory environmental or social reporting in Malaysia (if any). This task was to include a review of existing regulatory requirements and guidelines (eg. accounting standards, KLSE listing requirements, etc) (if any) for the disclosure of information to the public;

Task 2: Conduct a survey of company annual reports and stand-alone environmental reports (if any), including an internet search. The scope for this survey was to be limited to companies listed in the KLSE main board between 1999 and 2001;

Task 3: Conduct a review and examine the level of environmental information disclosed by Malaysian companies. This task was to include a further review of available environmental reports to examine the level of environmental information disclosed, in terms of report content, comprehensiveness/ issues coverage and verification status.

Task 4: Identify the key drivers for disclosure of environmental information.

Task 5: Establish a database of reporting companies listed in KLSE main board.

SUMMARY OF REGULATORY REVIEW

There is no statutory requirement in Malaysia requiring public listed companies to disclose environmental information to the public. The review of the current environmental and OSH legislative framework,

The State of Corporate Environmental Reporting in Malaysia

corporate legal requirements, KLSE Listing Requirements and Malaysian Accounting Standards revealed a number of relevant requirements.

There is no specific requirement under Environmental Quality Act (EQA), 1974 on the disclosure of environmental information to the public. However, there are requirements under:

- Sub-regulation 17 of Occupational Safety and Health Act (OSHA), 1994 for the disclosure of information with respect to personal safety which could be interpreted to cover instances which affect both people and environment; and
- Sub-regulation 22 of Occupational Safety and Health (Control of Industrial Major Accidents) (CIMAH) Regulations, 1996 for manufacturers to disclose 'information to the public' relating to 'the nature of a major

accident hazard including its potential effects on the population and the environment'.

Requirements for disclosure of information under the Companies Act, 1965 are financially-oriented, with no reference to environmental information.

The newly revised Listing Requirements of KLSE includes specific requirements for Continual Disclosure (Chapter 9) and Corporate Governance Disclosure (Chapter 15). Although there are no specific requirements for disclosure of environmental information, the LR do require disclosure of information that has the potential to influence the financial performance of a company. However the full extent of the type of information to be disclosed and the implications of the newly revised LR are yet to be fully understood.

MASB has incorporated a new standard to encourage greater disclosure of environment-related financial information including:

- Paragraph 10 of MASB 1 that makes explicit reference to "environmental reports and value added statements" encouraging companies "to present additional information if management believes they will assist users in making economic decisions"; and
- MASB 20 which sets out accounting and disclosure requirements for the recognition of contingent liabilities and assets although MASB 20 does not provide specific detail of the types of liability that companies are required to disclose. It is foreseeable that environmental liabilities could potentially be included within a company's financial statement.

The State of Corporate Environmental Reporting in Malaysia

SUMMARY OF SURVEY FINDINGS

The survey findings demonstrate that there are an increasing number of KLSE main board listed companies engaging in some form of environmental reporting. The number of reporting companies grew from 25 companies in 1999, to 35 companies in 2000, reaching 40 companies by 2001. This represented 5.3%, 7.0% and 7.7% of the KLSE main board listed companies in 1999, 2000 and 2001 respectively.

The Industrial Products sector (IP) (which includes oil and gas, metals manufacturing, cement manufacturing, chemicals etc.) is the largest sector engaged in environmental reporting comprising 23% of reporting companies in 1999 reaching 28% by 2001. The Plantation sector was the second largest (18% - 19%), followed by Consumer Products (CP) (15% - 19%), Trading/ Services (8% - 13%), Construction (8% - 10%),

Infrastructure and Properties (5% - 8%) and Finance (4% - 6%).

No reporting companies were identified in the Mining, Technology and Hotel sectors.

Half of the reporting companies were in the list of the top 100 companies in Malaysia representing 20% of the top 100 Malaysian companies who engage in some form of environmental reporting. Of these companies, a total of 12 reporting companies were in the IP, Plantation and CP sectors.

A considerable number of Malaysian multinational companies have not yet made environmental information available in their annual reports.

FORMS OF REPORTING

All reporting companies used their published annual report for communicating environmental information to their stakeholders apart from one company which also publishes a stand-alone Sustainable Development Report.

There was a general increase in terms of the number of pages companies allocated within their annual reports to communicate environmental information. In 1999, more than 95% of the reporting companies limited environmental information to a page within the annual report. By 2001, 40% were devoting more than one page to environmental information.

There has been an increase in the number of companies allocating individual sections specifically for environmental information. In 1999 only 3 reporting companies allocated an individual section for environmental information. This had grown to 8 companies by 2001.

The State of Corporate Environmental Reporting in Malaysia

CONTENTS OF REPORTING

Reporting companies with greater interaction with the environment or resource-based companies (such as plantation, forestry, power generation, oil and gas extraction and water treatment and supply) tended to give a focus on environmental issues.

Manufacturing-based industries were more likely to combine environment with OSH issues, while the Construction sector tended to focus on OSH issues.

Few companies have started to include environmental performance data to provide indication of their environmental impacts and progress year on year, or to include quantifiable environmental objectives and targets.

Environmental Management and Achievements were the two areas most commonly focused on by reporting companies.

A few companies included information on Context and Commitment and Stakeholder Engagement. Very few companies reported environmental financial information or acknowledgement of negative information.

None of the reporting companies had their environmental information verified by a third party.

Criteria 1: Context and commitment

By 2001, 50% of reporting companies were including in their annual reports at least one of the key environmental issues (including OSH issues in some cases) associated with their business operations. The other half did not include mention of their EHS issues even though a number of them were operating in environmentally-sensitive industries, such as waste disposal, chemical manufacturing and marine transportation.

Companies are increasingly addressing environmental concerns

within the Chairman's Statement, growing from 13 reports in 1999, to 20 in 2001. This indicates that companies are giving greater priority to environmental management and are demonstrating greater commitment to environmental improvement.

Only 3 of the 13 reporting companies certified to ISO 14001 included an environmental policy statement within their annual report (ISO 14001 requires companies to make their environmental policy available to the public).

Criteria 2: Environmental management

About one third of the reporting companies have had their environmental management systems certified to ISO 14001 or OHSAS 18001 for at least one facility. However there does not seem to be a direct correlation between these ISO 14001 certified companies and the amount and quality of information provided in annual reports.

The State of Corporate Environmental Reporting in Malaysia

Criteria 3: Environmental objectives & targets (O&T) and achievements

Although some reporting companies provided information on both planned O&T and achievements, more companies tended to disclose information solely on their achievements.

Of the few companies providing objectives and targets in their report, most focused on improvements to OSH (eg. zero work related injuries and illnesses). Only one company provided quantitative environmental targets.

Criteria 4: Key performance indicators (KPIs)

There was a small increase in the number of companies including at least one KPI, over the three years under review. Performance indicators frequently provided related primarily to OSH issues. Only one company included environmental KPIs in its annual report.

KPIs provided by companies were

mainly for a single reporting period (ie. the past financial year) with no historical information available to enable benchmarking performance against previous years.

Criteria 5: Stakeholder engagement

The number of reporting companies including information on stakeholder engagement has increased over the three years under review. Only 9 companies included stakeholder information in 1999 increasing to 19 by 2001. Community outreach programmes, training, dialogue/ collaboration with other government or non-governmental agencies were frequently cited as means for companies to engage with their stakeholders.

Criteria 6: Environment-related financial information

Reporting companies did not generally include information on associated environmental costs within their annual reports either in the environmental information provided or in financial statements.

The four reporting companies providing environmental financial information within their annual reports primarily related to expenditure on environmental management.

Criteria 7: Candid acknowledgement of negative information

Over the three years under review only one company provided candid acknowledgement of negative information. Candid acknowledgement could include admittance of failure to achieve set objectives and targets or to comply with legal requirements.

Criteria 8: Third party verification

None of the reporting companies had their environmental information verified by a third party.

The State of Corporate Environmental Reporting in Malaysia

SUMMARY OF DRIVING FORCES FOR ENVIRONMENTAL REPORTING IN MALAYSIA

In the absence of specific mandatory requirements for public disclosure of environmental information, environmental reporting in Malaysia is a voluntary initiative.

Due to the recent emergence of environmental reporting in Malaysia it is difficult to qualify and prioritise drivers in order of significance and to predict the pace at which environmental reporting will be taken up by Malaysian companies.

Based on the survey findings and review of available secondary information, a number of drivers were identified, including:

- Introduction of the Malaysian Code on Corporate Governance in KLSE Listing Requirements
- Increased demand for corporate governance and accountability

as a result of privatisation

- Business and marketing strategy
- Demonstration of corporate environmental responsibility and strengthening of stakeholder relationships
- Improved access to capital investment.

The low growth in the uptake of environmental reporting as well as the breadth and depth of information provided by the reporting companies, indicates that there is a general low level of willingness to disclose environmental information. Considering this is a new trend, even for the developed countries, companies in Malaysia are still uncertain about the benefits of environmental reporting. The use of environmental information for performance benchmarking and business decision making has not been widely recognised by companies or by the financial community.

This study, assessing the current state of external environment reporting in Malaysia, was conducted by Environmental Resources Management Malaysia (ERM) on behalf of ACCA Malaysia.

The full report, together with a full list of other titles relating to environmental reporting, is available from the ACCA website at:
www.accaglobal.com/sustainability

ACCA publications can also be ordered from:
ACCA sales, PO Box 66, Glasgow, G41 8WN, United Kingdom
tel: +44 (0)141 309 3999
e-mail: info@accaglobal.com

The Association of Chartered Certified Accountants

ACCA Malaysia Sdn Bhd (473007 P) 27th Floor Wisma Denmark
No 86 Jalan Ampang 50450 Kuala Lumpur
tel: 603-2713 5051 fax: 603-2713 5052 www.accaglobal.com