

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Chapter Four reports the extent of environmental disclosure and the statistical tests results. This chapter attempts to provide the summary and conclusion of this study and recommendations for future research.

5.2 Summary and Conclusions

This study is to investigate empirically the extent of environmental information disclosure by Malaysian companies. In addition it also examines empirically the impact of seven firm characteristics drawn from prior studies, namely firm size, financial leverage, industry membership, proportion of assets, ownership diffusion, profitability and type of audit firm employed.

This paper has studied the relationship between various firm characteristics and the quality and quantity of environmental disclosure. Three main findings:

Environmental disclosure was largely declarative and providing self-serving corporate environmental information. Consistent with Choi 1998 the type of industry showed significant relatedness to environmental disclosure. The plantation sector disclosed more and better information than counterparts in other sectors.

The result of univariate and multivariate tests are consistent. They suggest that firm size, auditors and industry membership is statistically related to the disclosure of environmental information. Firms that disclose environmental information tend to be larger, employ big five-audit firm and are located in the Plantation/Mining sector.

Currently the environmental disclosure by Malaysian companies is low compared to other developing countries like India (Gamble *et.al.*1996). The low disclosure is linked to the level of development of the country which developing countries are prone to and avoid uncertainty and have limited political freedom (William 1999). Freedman and Jaggi 1994 and Tilt (1994)

reported the importance of environmental information for decision making. Blacconaire and Patten (1993) and Blacconaire and Nortcutt (1997) reported that investors used environmental information to make investment decisions.

In Malaysian context, it is noted that environmental information disclosure is low due the management perception that disclosing environment information would reveal their competitive edge (Verrenccchia 1983). Another factor that reflects the low level environmental reporting is due to the importance of it compared to other financial information. This study also found that Malaysian companies are not environmental conscious and does not help in the conservation of environment.

Environmental information is found in the voluntary section and this is not consistent with overseas study by Gamble (1996), which reported the environmental information in the financial section. The highest location of environmental information was in the Chairman's statement and the Operations Review. This finding is consistent with Tsang (1998).

In this study the content analysis of environmental disclosure used is the number of pages. This method does not consider the meaning of the environmental disclosure but the total volume of environmental disclosure to be measured. The study reveals that the quantity of environmental disclosure is of Malaysian companies 0.5 pages.

The return on assets and return on equity does not affect the environmental disclosure by companies. There is no difference in the level of environmental information reported by the companies whether they are high returns of low returns companies. Therefore the financial performance of companies does not affect the environmental disclosures. This is consistent with Freedman and Jaggi (1986) findings, which reported that profitability does not affect the environmental disclosure. This finding is not consistent with Teoh *et al.*(1998), Choi (1998) and Deegan and Gordon, which reported that financial performance is relevant to the environmental disclosure by companies.

5.3 Contribution and Implications

This paper also provides a more up-to-date description of such environmental practices by Malaysian companies and used sampling and measurement techniques, which are consistent with those, used in other studies; hence, this paper allows some comparisons with surveys from other countries. It is hoped that the findings of this study will yield valuable information and insights into the improvement in the quality of financial reporting, especially in the aspect of environmental reporting by public listed companies in Malaysia.

This study provides a benchmark of Malaysian companies' disclosures in annual report. It is crucial that empirical research first establishes the existence of environmental disclosures in annual reports, before an attempt to examine reasons for disclosure and non-disclosure of environmental information can be undertaken. Another contribution of the study related to the methodology as the study will help to further refine and develop the content analysis method in accounting and finance.

This study adds to the existing local accounting literature on environmental reporting. Previous local research concentrate on certain industries (NIK Nazli, 2001) and the reliability of environmental information reported (Romlah, 2001), the present study extends to the coverage to include more industries and firm specific characters such as firm size, financial leverage, proportion of assets, type of audit firm and the industry as well as profitability.

5.4 Recommendation for Future Research

This study is cross-sectional in nature that it examines data for one single year – 2000. It is recommended that the robustness of the results of this study by extending the empirical analysis over a time series.

Additionally, it will also be useful to test the effects of other variables that have also been used in overseas studies; ownership structure, country of reporting, company age, capital intensity, to name a few. In other words,

examining the organizational attributes would represent substantial research contributions. Next, the use of continuous measures for variables like market capitalization rather than categorical variables will hopefully provide more robust results.

5.5 Conclusion

This paper has presented an empirical investigation into the environmental disclosure practices of the Malaysian companies. This paper also provides a more up-to-date description of such practices together with the use of sampling and measurement techniques more consistent with those used in other studies; hence, this paper allows some comparisons with surveys from other countries. It is hoped that the findings of this study will yield valuable information and insights into the improvement in the quality of financial reporting, especially in the aspect of environmental reporting by public listed companies in Malaysia.