

**EXTENDING THE APPLICATION OF
STAKEHOLDER THEORY TO
MALAYSIAN CORPORATE
ENVIRONMENTAL DISCLOSURES**

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ABSTRACT

The central thesis in this research is that voluntary environmental disclosures are used by corporate entities to manage their stakeholders. This is in accordance with the basic proposition of stakeholder theory which states that the firm's success is dependent upon the successful management of the relationships that firms have with their stakeholders (Freeman 1983). Hence, the position taken in this investigation is that corporate managers will voluntarily provide environmental disclosures according to the demands of their 'salient stakeholders' (Mitchell, Agle & Wood 1997). Corporate environmental disclosures, therefore, are perceived as part of the dialogue between the firm and its salient stakeholders.

Given the limited application of stakeholder theory in the area of environmental disclosure and the scarcity of studies conducted from the context of developing countries, much of this study is concerned with exploring ideas as to how stakeholder theory can be further refined and applied in the Malaysian context, the focus of this investigation. The purpose of this study is three-fold: (1) to identify the determinants of Annual Report environmental disclosures of Malaysian publicly listed companies using the stakeholder model; (2) to understand the corporate motives for providing such disclosures; and (3) to apply and refine stakeholder theory by developing a framework that can be used to analyse environmental disclosures prepared for and/or required by its stakeholders in the Malaysian context. These purposes call for a mix of *descriptive*, *analytical/explanatory* and *exploratory* type of research necessitating an appropriate mix of both quantitative and qualitative methods.

Data are collected in three distinct phases. Phase 1 is quantitative, using the ordinary least squares (OLS) method for analysis. The purpose here is to document the current Annual Report environmental disclosure practices of Main Board listed Malaysian companies using Ullmann's (1985) stakeholder model. Phase 2 is qualitative, using semi-structured and unstructured interviews as well as perusing relevant website and media reports. The aim is to find explanations to Phase 1 quantitative findings and to explore how stakeholder theory can be further refined and applied in the Malaysian context. The findings led to the conclusion that for Malaysian companies to actually show their concern for the environment and to provide environmental disclosures in their Annual Reports, the demand must come from their salient stakeholders.

While Phases 1 and 2 attempt to describe and understand the 'real-world' environmental reporting and business practices of Malaysian firms, Phase 3 uses fictitious vignettes based on real-life Malaysian corporate scenarios from which various representatives of stakeholder groups are asked to comment. Structured interviews, using a combination of closed and open-ended questions, are conducted to collect the data for this phase. The primary purpose here is to explore the application of stakeholder theory while seeking explanations on the intricacies involved in the decision to provide environmental disclosures.

In the main, the findings confirm the suitability and usefulness of the stakeholder framework developed in analysing corporate environmental disclosures from the context of a developing nation particularly Malaysia.

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“Trust in the Lord with all your heart and lean not in your own understanding. In all your ways acknowledge Him and He will direct your paths.” (Proverbs 3: 5-6)

This research represents a culmination of many years of hard work and sacrifice, not only from my part, but also from my family.

The tolerance, love and support of my husband, David, can not be expressed in words. Although I have never monopolised our kitchen in the past, during the course of this study, David has willingly taken over meal preparations for the family regardless of how busy his day has been in his office. And amazingly, every now and then, he will come home with some relevant news articles or books for me. For these, I can't thank him enough.

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And above all, thank you LORD for everything!

STATEMENT

This thesis contains no material published elsewhere or extracted from a thesis presented by me for another degree or diploma. The work of no other person has been used without due acknowledgment, and the thesis is not written in collaboration with any other person. This thesis has not been submitted for the award of any other degree or diploma in any other institution.

EVANGELINE ELIJIDO-TEN

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CHAPTER 1

OVERVIEW OF THE STUDY

1.1 INTRODUCTION

The purpose of this chapter is to provide an overview of the study as a whole. It starts with a brief introduction to the research objectives. This is followed by a discussion of the motivation and justification for this study. A brief description of the research methodology is also provided followed by the structure of the thesis.

1.2 RESEARCH OBJECTIVES

As recently as forty or fifty years ago, it was a struggle to arouse general public interest concerning the declining state of the environment even in developed countries like the United States (US), the United Kingdom (UK), Canada and Australia but more so in the developing economies in Asia where hunger and poverty are given more priority than the concern for the planet. The continuing pursuit of economic progress and the desire to increase living standards, particularly in the Western world, also appear to take precedence, albeit at a price to the environment. There is now sufficient scientific evidence that links global warming, ozone depletion and acid rain, just to name a few, to the activities inherent in industrialisation. This creates an increasing demand on the corporate world to act in a socially responsible manner thereby creating the need for companies to provide environmental disclosures.

The main thesis in this research is that voluntary environmental disclosures are used by corporate entities to manage their stakeholders. Stakeholder theory offers a useful framework given its basic premise that the firm's success is dependent upon the successful management of the relationship that a firm has with its stakeholders (Freeman 1983).

The country of Malaysia is chosen as the focus for this study because it is a developing country that has very limited mandatory requirement to provide environmental disclosures. Furthermore, Malaysia is aiming to become a developed economy by the year 2020 (Vision 2020). The lessons learned from the Western experience hint that with rapid economic growth comes the price of environmental degradation as a downside to industrialisation.

As such, Malaysia offers a unique setting from which an investigation on how corporate entities manage their possibly competing stakeholder demands through the provision of environmental disclosures could provide relevant insights. The three-fold objective of the study corresponds to the three phases of the investigation as shown in Table 1.1.

Table 1.1: Research Objectives and the Three Phases of the Study

Research Objectives	Phase of the Study
1. To identify the determinants of Annual Report Environmental Disclosures (AREDs) of Malaysian public companies using the stakeholder model.	Phase 1 (Quantitative) Content Analysis of Annual Reports from Kuala Lumpur Stock Exchange (KLSE) Main Board listed companies
2. To investigate the motives for providing AREDs and ... to understand the Malaysian business psyche	Phase 2(a) (Qualitative) Semi-structured interviews
	Phase 2(b) (Qualitative) Unstructured interviews and website/media reports perusal
3. To apply and refine stakeholder theory by developing a framework that can be used to analyse environmental disclosures prepared for and/or required by its stakeholders in the Malaysian context.	Phase 3A – From the Management’s Point of View Phase 3B – From Stakeholders’ Point of View (Quantitative and Qualitative) Structured interviews with various representatives of stakeholders groups identified from Phase 2

1.3 RESEARCH BACKGROUND AND MOTIVATION

The conventional view that the company’s sole objective is to maximise profits (Friedman 1970) has been increasingly challenged. Arguably, increased profitability and enhanced shareholder value are not the only reason why business entities continue to exist. The changing nature of the business environment has created a demand for firms to acknowledge their responsibility to a broader constituency. Hence, in order to survive and justify their continued existence in an extremely competitive global economy, companies must continue to find ways to enhance their competitive advantage while balancing societal concerns. Although it may sound like a conundrum as some believe that societal concerns could impose additional costs to the firm making it less competitive, there is evidence in the environmental management literature suggesting that product differentiation, process innovation and competitive advantage (Hart 1995; Reinhardt 1998, 1999; Porter & Van der Linde 1995) can be achieved by adopting environmentally superior practices. These studies affirm that being environmentally friendly can add value to the firm. The environmental accounting literature, on the other hand, attempts to relate the firms’ environmental performance by observing environmental disclosures mostly from the

companies' annual reports (e.g. Ingram & Frazier 1980; Patten 2002, Wiseman 1982). Not surprisingly, corporate social and environmental reporting has received considerable attention both in the professional and the academic accounting literature (ASCPA 1999; Deegan 2002; Deegan & Gordon 1996; Gamble, Hsu & Radtke 1995; Guthrie & Parker 1990; Nash & Awty 2001; Trotman 1979; Wilmshurst & Frost 2000) albeit with mixed results¹. These studies seem to suggest that in the absence of stringent environmental reporting regulatory regime, the wide variations in reporting practices could make it difficult for the report users to rely solely on the information provided to make informed judgments and decisions about the company.

Whilst previous studies have focused mainly in the developed economies of North America, the UK and Australia, there is a scarcity of studies conducted from the context of the developing economies. This study aims to extend this body of literature by providing empirical evidence on the possible motivations behind voluntary environmental reporting practices by Malaysian publicly listed firms. Furthermore, as this study aims to develop a stakeholder model that can be used to analyse environmental disclosures, this investigation adds to the literature on the application of stakeholder theory.

Although stakeholder theory has been used quite extensively in the management literature since Freeman's landmark book '*Strategic Management: A Stakeholder Approach*' was published in 1984, its application on corporate environmental disclosures has been limited. Freeman (1984 p. 1) proposes that "current approaches to understanding the business environment fail to take account of a wide range of groups who can affect or are affected by the corporation, its stakeholders." He further argues that in order to manage effectively in "turbulent times" which typify the dynamic nature of today's business environment, stakeholder theory offers a way to address the changing demands by different groups with varying but legitimate stakes in the firm.

¹ A wide diversity on corporate environmental (and social) reporting practices were observed with many companies documented to provide disclosures that are only favourable to their corporate image (Deegan & Rankin 1996; Kent, Kwong & Marshall 1997), others provide inadequate environmental disclosures which showed no relationship with the firm's environmental performance (Wiseman 1982; Harte & Owen 1991; Fekrat et al 1996) and still others showing a negative association between environmental disclosures and environmental performance (Patten 1991, 1992, 2002; Hughes et al 2001).

Corporate social responsibility (CSR) is one area in which stakeholder theory has been commonly applied (Clarkson 1995; Davenport 2000; Roberts 1992; Ullmann 1985) because there is an increasing demand for firms to help solve important social problems especially those they have helped to create. CSR commonly includes such things as the firm's community involvement, acknowledgment of concern for employees, energy conservation, making products safer, pollution abatement and other environmentally related issues, amongst others. This investigation adopts the stakeholder framework to examine the motivations behind corporate environmental reporting practices (a subset of CSR) by publicly listed firms in Malaysia.

The decision to focus on the environmental issues is made due to the increasing environmental concern and the urgency of calls to address the declining state of our planet. For example, an opinion poll revealed that in 1989, Canadians believe pollution to be the top ranking problem facing the country (Maclean's 1989 as cited in ASCPA 1999). At about the same time, Bragdon and Donovan (1990) report from a US opinion poll that environmental concern was at an all-time high as most people felt that continuing environmental improvements must be made regardless of cost. In a similar manner, Deegan and Gordon (1996) document a growing interest on environmentalism in Australia as evidenced by a 1200% increase in membership of environmental lobby groups like the Australian Conservation Foundation (ACF) and Greenpeace and Wilderness Society (GWS) during the period 1975-1990. Further evidence of increased concern for the environment is expressed in the Federal government report entitled '*Environmental Issues: People's Views and Practices*' (Australian Bureau of Statistics 1997). The report indicates that 70% of the people surveyed believed that the protection of the environment is as important as economic growth.

Concern for the environment does not seem to be exclusive to only a few countries. For example, in a public opinion survey of 22 countries involving more than 20,000 citizens around the world, the George Gallup International Institute finds that majority of the people surveyed want more priority be given to environmental protection even at the expense of economic growth (cited by Elkington 1994). The survey also confirms that majority of the citizens around the world felt that the decline in the environment is detrimental to human

health and most of them are willing to pay higher prices to protect the environment and are taking action through the adoption of green consumerism practices.

Another indication of the global community's response to protect the planet from rapid environmental degradation is the 1992 Earth Summit held in Rio de Janeiro². In the same year, a coalition of concerned scientists issued this warning signed by over 1,500 members (including a majority of the Nobel laureates in the sciences) from sixty nine countries:

The earth is finite. Its ability to absorb wastes and destructive effluent is finite...And we are fast approaching many of the earth's limits. Current economic practices which damage the environment, in both developed and underdeveloped nations, cannot be continued without the risk that vital global systems will be damaged beyond repair... If we are to halt the destruction of our environment, we must accept limits to that growth... A great change in our stewardship of the earth and the life on it, is required, if vast human misery is to be avoided and our global home on this planet is not to be irretrievably mutilated. (Green Network cited 15/7/05)

These calls to promote sustainability and to protect our planet are not just empty propaganda as others might think. There are scientific studies providing evidence that the exponential increase in greenhouse gas emissions is linked to global warming, acid rain and ozone layer destruction, amongst others. Hence, it is generally accepted that environmental degradation presents a clear and present danger to the earth's capacity to sustain the needs of current and future generations. The recent ratification of the Kyoto Protocol³ on February 16, 2005 by 141 countries, despite the Americans and Australians backing out from the agreement, is seen as a promising step towards environmental preservation, albeit controversial.⁴

² Twenty years after the first global environment conference, the United Nations (UN) sought to help Governments rethink economic development and find ways to halt the destruction of irreplaceable natural resources and pollution of the planet...Leaders were persuaded to go to Rio and join others in making the decisions to ensure a healthy planet for generations to come (Earth Summit 1992). Ten years after the Rio Summit, another Earth Summit was held in Johannesburg where the UN President, Kofi Annan, invites "the leaders of the world to ... commit themselves to sustainable development..." (Johannesburg Summit 2002)

³ The Kyoto Protocol is an amendment to the United Nations Framework Convention on Climate Change (UNFCCC), an international treaty on global warming. Countries which ratify this protocol commit to reduce their emissions of carbon dioxide and five other greenhouse gases, or engage in emissions trading if they maintain or increase emissions of these gases. A total of 141 countries have ratified the agreement. Notable exceptions include the United States and Australia. It was negotiated in Kyoto, Japan in December 1997, opened for signature on March 16, 1998, and closed on March 15, 1999. The agreement came into force on February 16, 2005. ('Kyoto Protocol' in Wikipedia cited 18/7/05).

⁴ Some estimates indicate that even if successfully and completely implemented, the Kyoto Protocol is predicted to reduce the average global rise in temperature by somewhere between 0.02°C and 0.28°C by the year 2050 compared to the predicted increase of 1.4°C to 5.8°C between 1990 and 2100. Because of this

Whilst it is true that every individual has an important part to play in the preservation of the planet, it is evident that businesses, as an inevitable part of their activities, contribute a great deal on the declining state of the environment. Gray and Bebbington (2001 p.66), in introducing the topic of the adoption, establishment and implementation of environmental policy claim that...

All aspects of a company's operations, from accounting and purchasing, to product design, manufacturing, sales and marketing and distribution, will have an impact on the environment.

It is in this context that an examination of the significance of corporate actions affecting the environment is of utmost importance.

1.4 RESEARCH JUSTIFICATION

There is a scarcity of studies conducted in the context of the Third World countries. One of the motivations for this study is to extend the CSR body of literature by providing empirical evidence on the motivations behind the provision of environmental disclosures in a developing country like Malaysia. As noted earlier, Malaysia is chosen as the focus of this investigation for two reasons. Firstly, like many countries, Malaysia has very limited mandatory environmental reporting requirements (see 2.4.4). Not surprisingly, only a very small number of Malaysian publicly listed firms have started to include environmental disclosures in their Annual Reports⁵. Given the urgency of the global community's call to save our dying planet, it is of utmost importance that the level of environmental awareness not only in the developed economies but also in the Third World countries be adequately investigated. Malaysia is chosen in this study as it offers a non-transparent setting of voluntary environmental reporting regime. This is because, unlike other developed countries where public access to specific information on corporate environmental performance like the Council on Economic Performance rating and/or the Toxic Release

many critics and environmentalists question the value of the Kyoto Protocol should required modifications fail to produce deeper cuts in the future. ('Kyoto Protocol' in Wikipedia cited 18th July 2005).

⁵ In 2002, the Association of Chartered Certified Accountants (ACCA) engaged Environmental Resources Management Malaysia (ERMM) to conduct a study on the current status of environmental reporting in Malaysia. The study covering the period 1999 to 2001 surveyed all the companies listed in the Kuala Lumpur Stock Exchange (KLSE) Main Board. It was found that the number of main board listed companies providing environmental disclosures "grew from 25 in 1999, to 35 in 2000 reaching 40 companies by 2001." (ERMM 2002, p. 8).

Inventory in the US or its equivalent in Australia called the National Pollutant Inventory are available, the Department of Environment in Malaysia keeps this information confidential. Attempts to get an alternative indication on Malaysian companies' environmental performance such as a list of companies issued with letters of warnings, penalties and/or court sanctions pertaining to environmental activities are also unsuccessful. The relevant government agencies raise the issue of confidentiality as the main reason for not providing this information to any interested parties. This implies that the general public has no way of accessing the information on the environmental performance of Malaysian companies unless voluntarily provided by those firms. Under these circumstances, the public as well as the other report users' ability to cross-check the accuracy of the environmental information provided in the Annual Reports may be problematic. Given this scenario, it appeals to intuition that the firms' voluntary provision of environmental disclosures may be driven by their deliberate choice to manage their relevant stakeholders if ever there is a demand for this type of information. Therefore, the Malaysian setting is most suitable for a study of this kind which is focused on investigating how companies manage their stakeholders through the use of voluntary environmental disclosures.

Secondly, the Malaysian setting has the potential to provide a meaningful analysis on how corporate entities manage the varying demands of different stakeholders through the provision of voluntary environmental reports from the perspective of a developing economy aiming to become a developed country in less than one and a half decades, that is, by the year 2020. This is what the Malaysians passionately refer to as their Vision 2020⁶. Malaysia is a country in the Southeast Asian region that has been experiencing a tremendous economic growth in the past thirty years or so as described in the following quote from the then Prime Minister Dr. Seri Mahathir Mohamad's Vision 2020: The Way Forward working paper:

In the 1960s, we grew by an annual average of 5.1 per cent; in the 1970s, the first decade of the NEP (National Economic Policy), Malaysia grew by an average of 7.8 per cent; in the 1980s, because of the recession years, we grew by an annual average of 5.9 per cent... If we take the last twenty years,

⁶Referring to Vision 2020, Dr. Mahathir Mohamad, states that 'the ultimate objective that we should aim for is a Malaysia that is a fully developed country by the year 2020... Malaysia should ... be a nation that is fully developed along all the dimensions: economically, politically, socially, spiritually, psychologically and culturally.' (Wawasan 2020 cited on 19th July 2005).

we grew by an annual average of 6.9 per cent. What is needed is an additional 0.1 per cent growth... If we do succeed, and assuming roughly a 2.5 per cent annual rate of population growth, by the year 2020, Malaysians will be four times richer (in real terms) than they were in 1990. (Wawasan 2020, cited on 19/7/05).

With its Vision 2020 and its fast economic growth, Malaysia is seen to be in the early stages of becoming an industrialised nation. As such, this country is also likely to be experiencing more of the downside of industrialisation. Teoh and Thong (1984, pp. 189-90) note that “in recent years there have been many cases of pollution of rivers caused by effluents discharged from palm oil mills and rubber factories which have seriously affected the livelihood of many fishing communities”. The Malaysian context offers a rich data source on how corporate entities may manage their stakeholders in a unique setting of rapid economic development. If Malaysia is to continue to achieve its vision (which supposedly is also the goal of many other developing countries), then the findings from this investigation could provide relevant insights both to the report providers, the report users and the regulators in order to devise ways and means on how to move forward.

1.5 RESEARCH METHODOLOGY

A brief outline of the research methodology used in this investigation is provided in this section. As shown in Table 1.1, there are primarily three distinct phases in this investigation. **Phase 1** uses stakeholder theory by operationalising Ullmann’s (1985) three-dimensional stakeholder model consisting of *stakeholder power*, *strategic posture* and *economic performance* by replicating similar quantitative studies conducted in developed countries like the US (see Roberts 1992) and Australia (see Chan 1996; Chan & Kent 2003; Elijido-Ten 2005). This phase consists of performing content analysis on the quality and quantity of Annual Report Environmental Disclosures (AREDS) of the forty Main-Board listed Malaysian firms identified as disclosing companies by the Environmental Resources Management Malaysia Report (ERMM Report).

Phase 2 has a dual purpose: (a) to seek explanations on the motives behind AREDS through direct interviews with the top management of publicly listed companies included in Phase 1; and (b) to explore how stakeholder theory can be further refined and applied in the Malaysian context by attempting to have a general understanding of the Malaysian business environment. **Phase 2(a)** achieves the first purpose through the analysis of semi-structured

interviews with top executives of companies included in Phase 1. **Phase 2(b)** achieves the second aim through various means including qualitative interviews and media/website perusal which are envisaged to lead to the identification of relevant Malaysian environmental issues/events and the salient stakeholders which should inform the design of structured interviews for Phase 3.

Phase 3 is different from the first two phases in that whilst Phases 1 and 2 attempt to describe and understand the ‘real-world’ environmental reporting and business practices of Malaysian firms, the final phase uses fictitious vignettes based on real-life Malaysian corporate scenarios from which various representatives of stakeholder groups are asked to comment. Although Phase 3 seeks further explanations on ARED motivations, its main purpose is to extend the application of stakeholder theory to corporate environmental reporting particularly in the context of a developing country that aims to achieve a developed status in less than two decades. To achieve this aim, a stakeholder framework that accommodates a two-way analysis both from the management’s point of view (Phase 3-A) and the stakeholders’ point of view (Phase 3-B) is developed.

As noted earlier, the main thrust of this research is the investigation of how corporate entities in a developing country like Malaysia manage their stakeholders via the provision of environmental disclosures. This is in accordance with the basic premise of stakeholder theory. Prior to this study, stakeholder theory was not commonly used to understand the motivations behind environmental disclosures particularly from the context of a rapidly developing economy such as Malaysia. Hence, this study offers an empirical contribution to the body of knowledge. Furthermore, this investigation contributes further to the body of knowledge by gathering data both from an *ex post* and *ex ante* perspective. Much of previous research provides evidence from an *ex post* perspective thereby excluding the possibility of uncovering the motivations behind the management’s decision to either disclose or not disclose environmental information.

1.6 OUTLINE OF THE THESIS

This thesis is developed into nine chapters. A brief description and the purpose of each chapter are provided in Table 1.2.

Table 1.2: Thesis Organisation

Chapter	Brief Description	Purpose of Each Chapter
1	Research overview	To introduce the research objectives and to provide an overview and justification for this study.
2	Review of literature on corporate social and environmental responsibility and reporting (CSERR)	To examine extensively the CSERR literature in order to make an informed assessment on the extent to which social and environmental reporting has been adopted in different countries both from the developed and developing world including Malaysia which is the focus in this study and to unravel the possible motivations behind corporate social responsibility and reporting as suggested in the literature.
3	Review of stakeholder theory literature	To establish from the literature the connections between the stakeholder concept and the various relevant theories in order to place the processes used to identify and manage stakeholder relationships to an appropriate theoretical model that may provide a practical way of understanding corporate management and stakeholder behaviour.
4	Stakeholder framework and hypotheses	To develop the hypotheses to be tested for Phase 1 and to develop the framework used to guide the analysis for Phases 2 and 3 based from the literature reviews in Chapters 2 and 3.
5	Methodology and methods	To discuss research design issues and to justify the methodological assumptions adopted in this study as well as the methods used in light of these assumptions.
6	Establishing relationships between disclosures and stakeholder factors	To discuss the results of Phase 1 quantitative analysis and Phase 2(a) – analysis of the semi-structured interviews conducted with Malaysian executives from the companies included in Phase 1.
7	Exploring the extension of stakeholder framework to the Malaysian context	To discuss the results of Phase 2(b) – analysis of unstructured interviews and relevant media and website perusal.
8	Extending the application of stakeholder framework to environmental disclosures	To discuss the findings from Phase 3 – quantitative and qualitative analysis of the structured interview responses of various stakeholder representatives identified from Phase 2.
9	Summary and conclusion	To summarise and report on the conclusions arrived at in relation to the main findings from the three phases of this study and to discuss the constraints to the interpretation of the research findings. Some recommendations for future research are also provided.

1.7 SUMMARY

In this chapter, an overview of the study is presented. The research objectives are introduced in conjunction with the three phases of this investigation. The background, motivations and justification for this study are discussed and the methodology as well as the organisation of the thesis are described. The next chapter provides an extensive review of the literature on corporate social and environmental responsibility and reporting.

CHAPTER 2

CORPORATE SOCIAL AND ENVIRONMENTAL RESPONSIBILITY AND REPORTING: A REVIEW OF LITERATURE

2.1 INTRODUCTION

This research draws upon and extends two major research areas: first, corporate social and environmental reporting; and second, the application of the stakeholder theory to analyse corporate environmental disclosures. This chapter reviews the literature on corporate social and environmental responsibility and reporting (CSERR) in order to understand what motivates companies to provide social and environmental disclosures. Specifically, the aims in this chapter are four-fold:

- (1) to discuss the development of corporate social responsibility and environmental accounting as it relates to the changing business environment;
- (2) to establish from previous research the importance of the annual report as a means of providing social and environmental information to various stakeholder groups;
- (3) to analyse the extent of social and environmental reporting as documented from different countries both from the developed and developing world including Malaysia which is the focus in this study;
- (4) to understand the possible motivations behind CSERR as suggested in the literature.

2.2 CORPORATE SOCIAL RESPONSIBILITY: CHANGING PERCEPTIONS

Research on different aspects of corporate social responsibility (CSR) has been prevalent in the literature for a number of decades (see for example, Gray et al 1995a; Griffin & Mahon 1997; Wood 1991) as has the increasing dissatisfaction on the notion of maximising financial returns to shareholders being the sole objective of the business community (Freeman 1983, 1984; Halal 1996; Handy 1995). Traditionally, companies are regarded as purely economic institutions whose function is to provide goods and services at a price the public is willing to pay. This *classical view*, proposed by Milton Friedman (1970), suggests that the firm's sole responsibility to society is to increase its owners' wealth mainly through profit maximisation. The entity, whilst performing its function, must utilise society's resources efficiently such that as the firm increases its wealth, it also increases society's wealth. This view assumes that the business

organisation's social and economic performance is one and the same. Whilst there may be some truth to this view, its main weakness lies in its failure to consider the negative externalities created by the firms in their pursuit to maximise their wealth. Negative externality is said to be present "when the actions of one party negatively affect other parties who are not charged (or compensated) via the price mechanism" (Posner & Scott 1980, p. 320). Some common examples of negative externalities resulting from the firm's pursuit of economic goals are the neglect of employees' safety in the workplace, and the degradation of the environment through pollution, amongst others. Hence, it is submitted that the Friedmanite view of wealth maximisation fails to take into account the idea that wider social and environmental issues are not necessarily served by the firm's pursuit to increase the wealth of its investors.

As perceptions of the corporate entities' role in society change, a new breed of supporters for the *neo-classical view* has emerged. This view, as described by Freeman (1984), still acknowledges that the firm's primary function in society is to create wealth. However, this function is tempered with an obligation to act in a socially responsible manner. The neo-classical view is said to embrace three elements, namely: (1) corporations have a broader constituency than stockholders alone; (2) corporations have responsibilities that go beyond the production of goods and services at a profit; and (3) these responsibilities involve helping to solve important social problems, especially those they have helped to create. Because business entities are created and given permission to operate by the society in which they exist, then society can choose to create or not create the firm (Donaldson 1982). The rationale for the increasing interest in CSR is explained in terms of a different view of the relationship between the firm and the various groups in the society having an interest or stake in the company's activities. This has led to the increased use of the term "stakeholder" which, according to Freeman (1984) and Epstein and Freedman (1994), pertains to anyone who can affect or is affected by the firm, including investors, creditors, employees, suppliers, customers, government and the community, among others. Further discussion on the importance of stakeholder management as a possible motivation for providing environmental reports and the role of stakeholder theory is discussed in section 2.5.2.3 and in Chapter 3.

Although the neo-classical view of corporations clearly acknowledges the notion of 'social responsibility', it is still widely accepted that the primary objective of the firm is

wealth maximisation. Estes (1996) reports that, more than 150 years ago, companies were established with the primary purpose of providing public benefit and profitability was only a secondary aim. This suggests that the concept of social responsibility is not a new phenomenon - in fact, it was the company's original function. Whilst it is beyond the scope of this study to investigate the reason why businesses have favoured the economic more than the social objective over the years, it is now generally acknowledged that there is an adequate push from various interest groups for companies to once again recognise their responsibility not only to their investors but also to a broader group of people affected by their continued existence. The company's acknowledgment of its ethical and moral responsibility to society and acting on this responsibility is what corporate social responsibility broadly entails. Because firms do not exist in a social vacuum (Bucholz 1995), responsible corporate entities are expected to put back something to society in return for their continued existence.

2.3 CSERR AND THE ANNUAL REPORT

If one accepts that companies have moral obligations to society and there is an increasing demand from various interested parties from society for this obligation to be fulfilled, how then should companies discharge their accountability? One way of ensuring that companies discharge their responsibility to society is for the government to have this mandated. This is, of course, easier said than done given that social responsibility may include both tangible (e.g. tamper-free products) and intangible constructs (e.g. existence of social programs). Social programs may include such intangible things as community involvement (e.g. involving the community in making some company decisions or supporting community programs), concern for the safety of workers, making products safer and other environmentally related activities such as energy conservation, recycling initiatives and pollution abatement, just to name a few. Hence, even the development of the legal requirements will take time and research because while some aspects of social responsibility may have already been developed (e.g. Occupational Health and Safety Laws, Clean Air Act), others are still evolving as society's demands change.

Many companies demonstrate good corporate citizenship over and above what is legally required. There are a number of ways in which the firm can voluntarily discharge its

accountability to society but letting society know how and why it is done is equally important. Corporate social and environmental reporting (CSER) is the practice used by companies to inform interested groups in society about the social impacts and effectiveness of the firms' social programs and the stewardship of their own social resources (Parker 1986). CSER, although gaining popularity, is still largely unregulated in many countries including Malaysia (see 2.4.4).

One of the most commonly used vehicles to inform the public of the firm's social and environmental accountability is the Annual Reports (ARs) (Cormier, Gordon & Magnan 2004; Neu, Warsame & Pedwell 1998; Niskala & Pretes 1995; Rankin 1996; Tilt 1994; Wiseman 1982). Although much of the financial information in the ARs providing details of the company's financial performance is mandated, today's annual reports contain more voluntary information than before (Anderson & Epstein 1995).

Previous studies suggest that ARs are used by management to persuade and send specific signals and messages to the public as well as to manage its public image (Amernic 1992; Neu et al 1998; Salancik & Meindl 1984). Although early accounting writers like Edwards and Bell (1961) note that the main users¹ of this public document are the business managers, it is clear from the voluntary disclosures literature that the users of ARs have now evolved to include various interested parties. It is now well documented that the AR has a significant influence on the way the general public and financial markets react to a company. For example, from as early as the 1970s through to the 2000s, studies have found that institutional and individual investors (Epstein & Freedman 1994; Freedman & Patten 2004; Longstreth & Rosenblom 1973), mutual fund directors (Buzby & Falk 1978; Harte, Lewis & Owen 1991; Rockness & Williams 1988) and various other users like pressure groups (Tilt 1994) consider social and environmental information from the ARs (including 10-K² reports for US companies) in their investment decision-making. Likewise, Hainsworth (1996) finds, in a survey of

¹ It is generally acknowledged that the users of annual report information are the interested parties who have some kind of stake (either legal, moral or both) in the firm, hence in this chapter, users and stakeholders are used interchangeably.

² A 10-K report is the official annual business and financial report filed by public companies in the US with the Securities and Exchange Commission. US publicly-owned corporations commonly use two types of reports to disseminate information to interested parties: the Annual Report and the 10-K report. Required to file with the SEC are companies with at least 500 shareholders of one class of stock and at least \$5 million in assets. This document contains comprehensive information about the company including detailed financial information and a business summary among others.

118 various users of ARs such as the shareholders, stockbrokers/analysers, accounting academics, financial institutions and organisations performing review functions, that majority of the respondents (67%) seek environmental information from the AR. This is considerably less than those who seek information from other sources (43%) like the media, ethical investment funds and separate environmental reports. It is also noted that more environmental information is required, suggesting that an expectation gap exists between what the users desire and what is provided in the report. This finding is reinforced by Rankin (1996) when she identifies a gap between what the AR preparers perceive as necessary to disclose and what the users want. Interestingly, this gap, according to Rankin, also extends to the issue of perceived opportunities and threats arising from mandatory environmental reporting. With the exception of the financial analysts and stockbrokers, the users of the ARs support the mandatory environmental disclosures while the preparers are not supportive of this mandatory requirement.

On this note, Deegan and Rankin (1997) re-examine and confirm this perceived gap. Their key findings suggest that while 67% of users representing various stakeholder groups want more environmental information, only 24% of the companies surveyed disclose environmental information. Although this reported percentage of disclosers appear to be lower than other reported Australian studies (see for example, Deegan & Gordon 1996; KPMG 1996), these findings reinforce the mismatch between the users and preparers expectations. Deegan and Rankin conclude that shareholders and organisations performing oversight functions, like the relevant government agency, consider ARs to be a significant source of environmental information and that this information is considered to be highly relevant in their decision making process. The studies reviewed in this section highlight two important points:

- (1) Although it is acknowledged that other forms of communications are used, it is clear, from the literature, that the AR is the major disclosure medium used by companies to communicate social and environmental information. In the same manner, this public document is also the preferred primary source of information by the users from various stakeholder groups.
- (2) Whilst both the preparers and users appear to agree on the usefulness of ARs as an important medium of communicating environmental information, there appears to be a mismatch between what the preparers provide and what the users deem to be important in their decision making.

These issues are important in this study since the focus here is to understand how corporate entities manage their various stakeholders through the use of environmental

disclosures primarily through AR disclosures. It is clear, from the studies reviewed so far, that many companies are now providing voluntary environmental disclosures in their ARs. This seems to be moving towards the right direction since the relevance of ARs as the primary means of communication has now been established. However, the studies also suggest that corporations are slow to react to different stakeholder needs. The next section examines the extent of environmental disclosures in the AR in order to uncover the possible motives and influences behind this voluntary disclosure regime.

2.4 ANALYSING CORPORATE SOCIAL & ENVIRONMENTAL REPORTING

There is a proliferation of social and environmental themes as reflected in the corporate social and environmental reporting (CSER) literature. The analysis of ARs has been commonly used as the primary vehicle to examine social and environmental disclosures. This section aims to establish and critically evaluate the extent of CSER practices. Although most of the literature considered in this section is on environmental disclosure practices, the literature on corporate social responsibility (CSR) reporting is referred to in order to provide a broader view of corporate reporting practices. An analysis of a selection of studies conducted on social and environmental disclosures in the ARs both in the international and country-specific settings is presented below.

2.4.1 International Comparative Studies

Multiple-country studies are useful for comparative purposes and for making an assessment as to how each country's reporting practices fare with others. Since the early 1990s, the international accounting firm, KPMG has published five triennial reports on surveys of international social and environmental reporting practices (KPMG 1993, 1996, 1999, 2002, 2005). Whereas the 1993 and 1996 reports are concerned with the AR environmental disclosures by the top 100 corporations in 10 and 13 countries respectively, the last three surveys (1999, 2002 and 2005) are conducted on the world's largest 250 (called Global 250 or G250) companies as well as a survey of the top 100 (referred to as National 100 or N100) companies from 11, 19 and 16 countries, respectively. All five surveys report a marked increase in the level of corporate environmental (and social) reporting practices across the globe from 13% in 1993, 17% in 1996, 24% in 1999, 23% (this is the average for all 19 countries but for 11 countries,

the average is 28%) in 2002 and 33% for 2005. There has also been an observed change on the type of reports as the 2005 report states:

A dramatic change has been in the type of CR [Corporate Responsibility] reporting which has changed from purely environmental reporting up until 1999 to sustainability (social, environmental and economic) reporting which has now become mainstream among G250 companies (68%) and fast becoming so among N100 companies (48%)... (KPMG 2005, p. 4)

The 2005 survey includes the 16 countries of Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, South Africa, Spain, Sweden, UK and USA. The findings suggest that reporting has increased considerably over the last three years in most of the countries surveyed with Italy, Spain, Canada and France seeing the highest increases. The report notes that the top two countries in terms of separate CR reporting are Japan (80%) and the UK (71%). The study also confirms two commonly used bases for report contents namely: (1) the Global Reporting Initiative (GRI)³ guideline; and (2) consultation with their stakeholders.

The importance of stakeholder consultation in the development of corporate social responsibility (CSR) strategy is also highlighted as one of the main findings in Ernst and Young's (2002) interviews with senior executives from 147 of the Global 1000 companies throughout Europe, North America and Australasia. The study, which aims to obtain information on participants' perspectives, strategies, activities, and projections in relation to CSR, finds that majority of the respondents indicate that CSR is high on the boardroom agenda and that "...many have taken this a step further by putting a CSR strategy in place" as many believe that "the development of CSR strategy can deliver real business benefits" (Ernst and Young, 2002, p. 3). So what drives CSR high on the corporate board's priority list? The section of the report entitled "The Importance of Stakeholders" provides some answers:

Surveyed companies identify five key drivers as influencing the increasing business focus on CSR ... These five drivers are: greater stakeholder awareness of corporate ethical, social and environmental behaviour; direct stakeholder pressures; investor pressures; peer pressures and an increased sense of social responsibility ... (Ernst & Young 2002, p. 6).

It is clear from the above quote that stakeholders' concerns have direct impact on the level of CSR commitment, yet the study also reports that few organisations have been engaged with stakeholder dialogues in their strategy development. This is a possible

³ GRI is a non-profit independent institution founded in Netherlands in July 2002. According to Hanns Michael Hoelz, "GRI's goal is to create a global and generally accepted reporting framework – not only for businesses, but also for municipalities, public institutions, universities, international organizations (sic) and NGOs." (GRI Annual Report 2004, p. 7).

reason for the perceived misalignment between what the stakeholders want and what the companies report (see for example the findings by Deegan & Rankin 1997 cited earlier). This may also relate to another key finding of the same study which pertains to the “wide diversity in current CSR reporting practice...” (Ernst & Young 2002, p. 3).

The use of Global Reporting Initiative (GRI) guidelines (mentioned earlier in KPMG’s 2005 study) as a common basis for report contents is a possible catalyst for external reporting uniformity. It has the potential to significantly improve the usefulness and quality of information reported by companies by developing a “voluntary reporting framework that will elevate sustainability reporting practices to a level equivalent to that of financial reporting in rigour, comparability, auditability and general acceptance” (Willis 2003, p. 233). This view is shared by Cormier, Gordon and Magnan (2004, p. 161) who applaud “the emergence of formal environmental disclosure frameworks such as the GRI... as they constrain the management’s ability to downplay the disclosure of unfavourable information”. Cormier et al’s (2004) study of multinational companies from Canada, Germany and France reveals that the management emphasises positive news or pro-environment decisions. A major finding in their investigation, which is in accordance with the basic premise in this study, indicates that “manager’s perceptions about stakeholders’ concerns help to shape a firm’s environmental disclosure” (p. 160).

Another study conducted from a global perspective that also used GRI guidelines is one commissioned by the Association of Chartered Certified Accountants (ACCA 2004). This study reports on the current reporting practices in four geographic regions⁴ of the world in accordance with the GRI Guidelines for Sustainability Reporting. While the report shows an increasing trend in sustainability reporting, within the past 10 years or so, the ... “evidence suggests that globally, the number reporting is levelling off; after significant growth in the late 1990s, momentum has been slowing since 2000” (ACCA 2004, p. 7). In outlining their global overview, the report states that:

In absolute figures, North America and Western Europe are the most active reporting regions. In contrast, non-financial reporting of any kind remains practically unknown in the Caribbean and most of Latin America. *In Asia, there remains a low incidence of corporate reporting outside Australasia and Japan* – and across Africa and the Middle East, only South Africa is showing significant reporting activity (ACCA 2004, p. 7, italics added).

⁴ The four geographic regions identified are: (1) Africa and the Middle East; (2) the Americas; (3) Asia and Australasia; and (4) Europe.

This report confirms that non-financial reporting (including environmental and social disclosures) remains low in most Asian countries including Malaysia, the focus of this study. While the above studies give us an idea as to the extent of CSER practices on a global scope, it is also important to understand whether environmental performance and the disclosures provided by the firms coincide with each other. International studies of this kind have been conducted. A good example of such studies is the one conducted by Fekrat, Inclan and Petroni (1996). In a study of 168 companies from 18 countries representing 6 industries, Fekrat et al use Wiseman's (1982) model of environmental disclosures. They find no apparent relationship between performance and disclosures. They also report that the level of disclosure varies between industries and countries.

In an earlier study, Guthrie and Parker (1990) sample 50 largest companies in Australia, 50 from the UK and 47 from the US. They find significant difference in disclosure levels, content themes, methods and locations of disclosure. US companies lead in disclosing environmental information with 58%, followed by Australia with 21% and 14% for UK. In disclosing social information, Australian companies lag behind the other two with only 56% of Australian companies making social disclosures compared with 85% from the US companies and 98% from the UK companies. Guthrie and Parker conclude that a big proportion of social disclosures are made reactively rather than proactively and that companies may choose to disclose only minimum information to subdue the calls for further disclosure or regulations. These findings seem to suggest that environmental disclosures are used by companies to manage certain group of users of information (e.g. the regulators or the government).

2.4.2 Country-Specific Studies: Developed Countries

Country-specific studies are useful in providing insights on the reporting practices of each country. Most of the published studies are conducted from the developed western countries like the US, UK, Canada, New Zealand and Australia. The major findings in selected studies from about the last quarter of the twentieth century are discussed next.

2.4.2.1 US and North American Studies

There are many studies investigating the extent of environmental disclosures in the North American context, particularly those showing how disclosure practices relate to

environmental performance. Ingram and Frazier (1980) observe four testable dimensions (of evidence, time, specificity and theme) from a sample of 40 firms representing 4 industries. They find that poorer environmental performers provide more narrative environmental disclosures than better performers, which lead them to conclude that the association between environmental performance (EP) and environmental disclosure (ED) is relatively weak. The findings provided by Wiseman (1982) and Rockness (1985) are similar but show a weaker association. Drawing from a sample of 26 large US companies in the steel, oil and paper and pulp industries and using an index of 18 environmental issues, Wiseman finds no relationship between the measured contents of a company's EP and ED. In Rockness' experimental study of 26 US firms' annual reports, she tests the reliability of voluntary environmental disclosures by asking 128 subjects to make comparative judgments of environmental disclosures and performance. She reports that the subjects mistakenly identified the worst environmental performers as the best (and vice versa) based on the environmental information disclosed in the annual report.

Later studies in the 1990s also confirm these previous findings. For example, Freedman and Jaggi (1996) show mixed results in their study of US companies from 2 highly polluting industries. They find negative association between EP and ED for pulp and paper firms and no association for companies in the electric utilities. Hughes, Anderson and Golden (2001) report, in their study of 51 US manufacturing firms, that the poor performers make the most disclosures (i.e. negative relationship between ED and EP). This is further confirmed by Patten (2002) when he examines the relation between 1990 annual report EDs for a sample of 131 US companies and their EP based on toxic release data from 1988 (made available in 1990). His result shows (after controlling for firm size and industry classification), a significant *negative* relation between EP and ED for the sample firms. A possible explanation for the weak or even negative association between EP and ED is that business entities use their annual report disclosures as a way to manage their relevant stakeholders and to disclose in their own terms perhaps before the media put a very negative view of the organisation's performance.

On a slightly different focus of longitudinal company disclosure practices, Hogner's (1982) study observes the social disclosure practices of US Steel from 1901 to 1980.

Hogner finds that the frequency of social disclosure occurrence depends on a matrix of societal forces. Hence even for a single entity, there is a variation of social disclosure over time depending on what is considered important in each period which reinforces the use of disclosures as a mechanism to manage the demand of its users/stakeholders. A similar finding is reported by Buhr (1998) in another single-company study of environmental disclosures from 1964 to 1991 of Falconbridge, a Canadian company involved in mining and smelting nickel. Changes in themes of disclosure such as an increase in emphasis on 'political' matters are observed. Also, in the last 3 years analysed, a move from disclosure of fact to making 'claims' and 'promises' is found.

Still focusing on Canadian environmental disclosures, Neu, Warsame and Pedwell (1998) sample 15 public companies in each of the mineral extraction, forestry, oil and gas, and chemical industries from 1982 to 1991. They find that the reporting practices are associated with shareholder concerns, media coverage and general level of societal attention. These studies seem to suggest that firms provide CSER disclosures to manage the changing demands at different time periods of different groups of stakeholders. This is, indeed, confirmed by US studies conducted in the 1990's. Although a common finding from a number of American studies has been that environmental disclosures increase, it is also noted that the content of the environmental reports are different depending on what is deemed significant at that time by the users of the report. For example, Gamble, Hsu, Kite and Radtke (1995), in their study of 10-K and annual reports from 1986-1991 of 234 US companies representing 12 industries, note that the descriptive disclosure index of environmental issues are different for the two types of reports. This is not difficult to explain since the 10K report is mainly for Securities and Exchange Commission (SEC) while the annual report is presented to a wider audience or group of stakeholders, perhaps suggesting that the disclosures are geared towards different users. Their findings confirm that overall quality of environmental disclosure was low but the total disclosures significantly increased from 1989 for both 10Ks and the annual reports.

Whilst Patten (1992) also finds an increase on environmental disclosures, the setting of this study is altogether different. Patten attempts to capture the change on environmental reporting practices post the *Exxon Valdez* oil spill. In a study of 21 companies in the petroleum industry obtained from Fortune 500, it is reported that firms

disclosed significantly more environmental information in the annual report immediately after the *Exxon Valdez* oil spill compared to previous reporting periods. This finding confirms that firms in the petroleum industry deem it necessary to increase the amount of environmental disclosure in order to manage the increased concern of different stakeholders following the accident which the author refers to as establishing legitimacy⁵.

2.4.2.2 UK and European Studies

Harte and Owen (1991) investigate the disclosure of environmental information and the type of disclosures made by 30 companies identified as ‘good’ disclosers. Their conclusions follow the same path as their American counterparts, that is, that disclosures are not directly related to quality of actual performance. It is also concluded that even ‘good’ disclosers provide little specific detail and that environmental information is still at a very general level, not far removed from a mere general commitment to green issues.

Looking at a broader scope of UK company reporting practices, Gray, Kouhy and Lavers (1995a) use the social responsibility disclosure index in their study of 444 random observations from 1979-1987 and the top 100 companies from 1988-1991. They observe a change in the reporting behaviour over the period analysed with a significant increase in information disclosed particularly on environmental information post 1988. They discover that size is an important factor in determining voluntary disclosure. They conclude that environmental reporting is used by firms to establish their legitimacy in society.

The change in company reporting practice is also confirmed in Niskala and Pretes’ (1995) study of 75 Finnish corporations drawn from the largest firms in the most environmentally sensitive industries. Niskala and Pretes use content analysis of annual reports to analyse the willingness of firms to disclose environmental information in the years 1987 and 1992. Their results indicate marked changes in environmental reporting practices in the period considered. In 1987, slightly over one quarter of the firms

⁵ Legitimacy theory argues that firms can only continue to exist if the society in which they are based perceive them to be operating in line with society’s own value system. The theory of legitimacy together with the other theories used in the literature to explain and understand the different motivations for CSERR is discussed briefly in section 2.5.2.2 and in Chapter 3, section 3.5.2.

analysed disclose environmental information in their annual reports. In 1992, this number has reached nearly half of the firms. Most of the disclosures made are in qualitative form. The results from the above studies are consistent with other studies which indicate that CSER practices have been changing and have significantly increased in response to the demand for this type of information particularly in certain industrial sectors which are considered to be highly environmentally sensitive.

2.4.2.3 Australian and New Zealand Studies

Trotman's (1979) early study of 100 largest (according to market capitalisation) companies in Australia looks for social responsibility themes in the 1967, 1972 and 1977 annual reports. He concludes that there is a significant increase in disclosure, from 6% to 35%, over the period analysed. Kelly (1981) also finds an increase on the level of disclosure in a sample of 50 selected Australian companies from 1969 to 1978. In addition, it is concluded that larger firms tend to disclose more information. This finding is confirmed by another two Australian studies: Trotman and Bradley's (1981) study of 207 companies and Pang's (1982) sample of 70 largest firms by market capitalisation and 30 randomly chosen companies. Trotman and Bradley conclude that the decision to disclose is significantly associated with firm size, high risk (Betas) and decision horizon of management. Similarly, Pang finds that larger firms are more likely to disclose and that the industry influenced the level of disclosure on environment and energy.

In an attempt to document the extent of environmental reporting of 197 Australian companies from 50 industries in 1991 and another 25 companies covering the period 1980-1991, Deegan and Gordon (1996) find that only 36% disclosed environmental information. Several conclusions drawn from this study are: (1) that majority of the disclosures are positive in nature; (2) disclosures significantly increase over the period 1980-1991; and (3) that disclosures are concentrated on environmentally sensitive industries. Similar conclusions are offered by Burritt and Welch (1997) and Deegan and Rankin (1996). Burritt and Welch observe a significant increase on environmental disclosures from their sample of 60 Australian government entities from 1984-1993. Deegan and Rankin design their Australian study to focus on 20 companies prosecuted for environmental offences matched against 20 companies not prosecuted for the period 1990-1993. They find that companies which are prosecuted for environmental breaches

disclose more post prosecution possibly to neutralise the negative publicity resulting from the prosecution. Similar to Deegan and Gordon's (1996) conclusion, Deegan and Rankin confirm that most disclosures are of a positive nature.

Kent, Kwong and Marshall's (1997) industry-specific study of nine Australian chemical companies' 1993-1994 ARs reveals similar findings, i.e, that environmental disclosures are primarily positive. Kent et al also find that company size is significantly associated with the level of social responsibility and environmental disclosures provided. In another industry-specific study made by Christopher, Cullen and Soutar (1998) of 104 Australian mining companies in 1993, it is found that larger companies that are members of Australian Mining Industry Council provide better quality voluntary environmental disclosure. A possible reason offered is the companies' higher public profile, i.e. being in an environmentally sensitive industry. Tilt and Symes (1999) confirm that Australian companies in the mining industry disclose a greater amount of environmental information. Although this could be partly due to the environmental sensitivity of the mining industry, their findings also suggest that the presence of mandatory disclosure requirement is seen to increase such disclosures.

The findings in the above Australian studies are confirmed in Hackston and Milne's (1996) New Zealand study. Hackston and Milne measure corporate social responsibility disclosures using content analysis of the 1992 annual reports of 47 of the top 50 companies listed on the New Zealand stock exchange. Hackston and Milne report that size and industry are significantly associated with the amount of disclosure while profitability is not. It is concluded that size-disclosure relationship is much stronger for high profile than low profile industries.

It is clear from the literature reviewed that CSER have been increasing and changing over the past decades. It is also evident that the disclosures provided vary widely across countries and industries with more incidence of reporting observed in high profile companies, i.e. large companies and those that belong to environmentally sensitive industries. Although CSER may or may not be related to the actual social and environmental performance as shown by some of the studies reviewed (e.g. Fekrat et al 1996; Hughes et al 2001; Wiseman 1982), what is apparent from both the international and developed country-specific studies is that this type of disclosure are used by companies to manage the changing demand of their stakeholders (Cormier et al 2004)

perhaps in response to specific events (e.g. Alaskan oil spill as in Patten 1992) or to a general change in social perception (e.g. overall dissatisfaction on companies putting profits ahead of social concerns).

2.4.3 Country-Specific Studies: Developing Countries

Most of the studies from the 1980s through to early 2000s from the point of view of developing countries and some newly industrialised economies in Asia, albeit limited, are in the area of corporate social responsibility (CSR) disclosures with only a few specifically focusing on environmental reporting.

2.4.3.1 South Asian Studies

Singh and Ahuja (1983), in their Indian study, analyse the relationship between CSR disclosures and certain firm characteristics such as industry type, company age and other financial attributes like profitability, rate of return, sales and total assets. In examining the annual reports of 40 Indian public sector companies for the year 1975/76, they find that size, industry type and profitability measure (earnings margin) are significantly related to the extent of CSR disclosures. Another Indian study, Hegde, Bloom and Fuglister (1997), focus on a single case study of a public sector company called Steel Authority of India Limited. They report that the company prepared a social balance sheet and income statement as well as a value-added statement together with an extensive human resource disclosure in the annual report.

Still in the context of South Asia, a number of CSR disclosure studies in Bangladesh have been published. Belal (1999) reports that 90% of the companies studied made some environmental disclosures, 97% made employee disclosures and 77% made ethical disclosures. Whilst the percentage of companies reporting appears to be quite high, the study does not provide further details on the reporting practices in Bangladesh. Imam's (2000) survey of Bangladeshi CSR reporting, however, finds that while all companies provide some form of human resource disclosure⁶, only 25%, 22.5% and

⁶ Note that in Bangladesh, the Companies Act of 1994 requires that expenditures incurred on the following headings should be shown on the face of the profit and loss account: salaries, wages and bonus, contribution to provident and other funds, and staff welfare expenses. In addition, the Act also requires that the notes to the accounts must include information on managerial remuneration, number of employees drawing more than Taka 36,000, non resident shareholdings, foreign currency transactions and taxes paid (Belal 2001). It appears that much of the information mandated by the Act are considered as

10% provide community, environmental and consumer disclosures, respectively. Hence, the conclusion reached is that the disclosure level is very poor and inadequate. In a later study by Belal (2001), a sample of 30 companies (28 listed companies) are chosen representing about 15% of the total listed companies in Bangladesh. Using content analysis of the ARs, it is reported that all the companies surveyed made some form of mandatory and voluntary social disclosure. About 97% of the companies surveyed provide voluntary disclosures mostly in the director's or the chairman's statement. These non-mandatory disclosures are mainly descriptive and positive in nature, i.e. mostly 'good news'. It is also interesting to note that 51% of the companies do not disclose mandatory information suggesting inadequacy and ineffectiveness in the implementation of the country's regulatory framework. This study, however, only considers social disclosures and excluded environmental disclosure.

2.4.3.2 Middle Eastern Studies

Moving now to the Middle East, Abu-Baker and Naser (2000) report a modest amount of disclosure in their Jordanian sample of 143 companies from four industries. In terms of quantity, a weighted average of 0.45 page per AR is devoted to social disclosure in the ARs for 1996/97. The themes most commonly disclosed are human resources and community involvement. Environmental disclosures are not given much attention by the Jordanian shareholding companies. Jahamani's (2003) United Arab Emirates (UAE) and Jordanian study is a variation from the previous studies reviewed, as it shifts its focus from CSR disclosures to three environmental aspects, namely: (1) environmental awareness; (2) environmental involvement; and (3) environmental reporting. Jahamani's survey questionnaires are sent to randomly selected sample of decision-makers from the industrial, commercial and insurance sectors taken from the UAE Industrial Directory 1998 and Amman Financial Market Directory 1998. The results show no significant difference between Jordan and UAE in terms of circumstances leading to the three environmental aspects. Utilising Teoh and Thong's (1984) suggested responses on *environmental awareness*, Jordanian decision makers choose the following top 3 factors promoting environmental awareness: (1) environmental laws; (2) philosophy of top management; and (3) suggestions from

part of human resource information which may explain why it is reported that all companies included in the study are providing some form of human resource disclosure.

Environmental Protection Agency. On the other hand, UAE decision makers choose ‘philosophy of top management’ as ranked one, ‘environmental laws’ as second and ‘alignment with parent company’ as third. As to *environmental involvement*, it is reported that 35% of Jordanian companies and 37% of UAE companies have environmental units with approximately half of the companies in both countries setting aside some funds for environmental protection. The annual reports of the companies are also surveyed to determine the extent of *environmental reporting*. It is found that only 9 and 11 companies in Jordan and UAE, respectively, provide mostly descriptive environmental disclosures. It is concluded that while developed countries have achieved much progress in the environment front, developing countries such as Jordan and UAE are still at the early stages of development.

2.4.3.3 South East Asian Studies

Shifting now to South East Asia, Choi (1999) examines the content of the 1997 annual report by a group of companies that provide the first incidence of Corporate Social and Environmental Reports (CSER) in Korean financial reports. South Korea is one of the newly industrialised countries (NICs)⁷ in Asia, hence it is interesting to know whether this country, while evidently developing economically, is also catching up on the CSER front. Using the initial voluntary CSER, Choi examines the relationship between various firm characteristics and the quality and quantity of disclosures. Three major findings are reported: (1) industry is shown to be significantly related to both the quality and the quantity of disclosure, i.e. high profile industries disclose systematically more and better information than low-profile industries; (2) when the industry type is controlled to discriminate between disclosers and non-disclosers, it is found that firm size (positively), the audit firm (negatively) and the sales growth rate (moderately positively) are associated with the propensity to disclose; (3) when the analysis is confined to disclosing firms, the level of leverage appears to be the significant factor for the disclosure level particularly in the high-profile industries while in the low-profile

⁷ Newly industrialised countries (NICs) are those that were formerly classified as developing nations but are rapidly becoming industrialised. These countries underwent rapid industrial growth in the 1970s through to the 1980s. As a result, they attracted significant financial investments and are now associated with high-technology industries. The first wave of countries identified as NICs include Hong Kong, South Korea, Singapore and Taiwan. More recently, Thailand, China and Malaysia have been identified as NICs (Hutchinson Encyclopedia Online, viewed 14 November 2005).

industries, it is found that as corporate age increases, the quality of disclosure tends to improve as well.

Turning to Thailand, Kuasirikun and Sherer (2004) have conducted content analysis of 63 (1993) and 84 (1999) ARs of large Thai companies listed on the Stock Exchange of Thailand. They report that 54 (86%) of the 1993 sampled companies and 65 (77%) of the 1999 companies provide CSER. Although there is a slight reduction from 86% to 77% in 1993 and 1999 respectively, the authors suggest that this may be attributable to the financial crisis in 1997, i.e. as the country entered into economic recession, the number of disclosing companies is also reduced. Their empirical findings also show that the most disclosed subject is employee information followed closely by environmental information.

Singapore is another NIC that has numerous CSER studies. For example, Tsang's (1998) longitudinal study of CSER in Singapore is focussed on the banking, food and beverages and hotel industries. Over a ten-year period from 1986-95, he examines 33 listed companies and finds that 52% of the companies provide social disclosures. A steady increase is observed during the late 1980s which then stabilise from 1993 onwards. On the other hand, Perry and Sheng (1999), while looking at Singaporean companies' reporting practices, provide an overview of trends relating to environmental reporting. They review company ARs covering two years 1995/96 and 1996/97 to identify the level of reporting made by 264 publicly listed companies in Singapore. They observe that less than 10% of reports in either financial year include environmental information. They also find that disclosure is significantly greater amongst the larger organisations, with the top 100 providing almost three-quarters of the environmental disclosure. The second stage of their study seeks explanation for the level of disclosure by sending a separate questionnaire to the disclosers (45% response rate) and non-disclosers (30% response rate). The survey reports three main reasons for non-disclosure namely: (1) lack of environmental awareness; (2) lack of perceived benefit; and (3) lack of government pressure. Perry and Sheng conclude that the low level of environmental disclosures is symptomatic of the gap between the environmental responsibility accepted in Western countries and those accepted in newly industrialised economy like Singapore. They suggest that educational initiatives aimed at investors

and consumers are necessary to stimulate demand for disclosure, otherwise business organisations are not likely to invest in reporting without a perceived need and benefit.

In another study of 60 Singaporean listed companies, Purushothaman, Tower, Hancock and Taplin (2000) use a political economy framework to investigate CSER on ARs. Their content analysis show that human resources theme received the most attention. Similar to Perry and Sheng's findings, their result indicates that larger Singaporean companies as well as those with a higher debt to equity ratio provide more CSR disclosure. Finally, in a more recent study on the state of environmental reporting in Singapore commissioned by the Association of Chartered Certified Accountants (ACCA), Fun (2002)⁸ uses the ARs of 160 companies listed in Singapore Stock Exchange taken between 1998 and 2000. He reports that only 14% (23) of the companies sampled provide some form of environmental disclosure in the ARs ranging from a one-liner disclosure to a full section with a maximum of two pages. A majority of the disclosers are from environmentally sensitive industries (e.g. construction, energy or transport) and none provide quantitative information or negative news, i.e. all the environmental disclosures are positive.

Whilst there are more CSER studies conducted from the context of other developing countries like for example, Nigeria (Disu & Gray 1998), Uganda (Kisenyi & Gray 1998) and no doubt more will be published while this research is in progress, it is clear from the literature reviewed so far that many of the findings reported from the developing countries are consistent with the early studies in the developed nations. Of particular interest is the common finding that CSER practices in the developing economies are still at the early stages, hence, there is still a lot of room for improvement in this area of disclosure. The next section examines the CSER studies conducted in Malaysia, which is the country of focus in this study.

2.4.3.4 Malaysian CSER Studies

Teoh and Thong (1984) interview Chief Financial Officers (CFOs) of 100 Malaysian companies using a structured questionnaire to draw attention to the CSER practices in Malaysia. They use a hierarchy of social objectives: 1) social awareness; 2) social

⁸ This study also included ARs of 13 government-linked companies and statutory boards. The results from this group of companies are similar to the findings reported from the main sample except that a higher percentage, 23% (3 companies) provided environmental reports not exceeding one page of the AR.

involvement (human resource, products/service, community involvement & physical environment); 3) social reporting; and 4) social audit (this fourth objective was excluded since no Malaysian company audits CSER). They report that the top three reasons leading to social awareness are: (1) top management philosophy; (2) legislation via *Environmental Quality Act*; and (3) alignment with parent company practice. Their investigation shows that corporate size and national origin of corporate ownership reflects the commitment to socially responsible practices made by the firms. They observe that Malaysian-owned companies are less likely to fulfil their social responsibility than the foreign-owned firms. They also find that CSER are more concerned with the improvement of human resources and products or services than with alleviating environmental degradation or rendering related services as the first two are highly likely to lead to more profits than the latter. They conclude that social reporting lags behind corporate social involvement implying that companies do not see the need to provide CSERs despite their social and environmental involvement.

Andrew, Gul, Guthrie and Teoh (1989) examine the 1983 ARs of 119 Malaysian and Singapore listed companies using content analysis. They find that only 26% of those surveyed made CSER with declarative disclosures prevailing in the annual report (only about 20% of CSERs have some form of quantification – both monetary and non-monetary). Similar to Teoh and Thong's report, majority of the information provided are on the theme of human resources, accounting for 71% of all CSER.

Following up on Teoh and Thong's Malaysian survey, Rashid and Ibrahim (2002) examine the attitudes of Malaysian managers and executives towards social responsibility as well as the extent of corporate disclosure and the factors determining their attitudes. From a total of 198 responses to structured questionnaires, they report that about 69% believe that business involvement in improving the community's quality of life will also improve long run profitability. Nearly 65% agree that socially responsible practices improve their public image. Almost all the respondents claim that their companies are involved in socially responsible activities with about 83% stating that they are responsive to consumers' complaints and about 77% claiming that they maintain product/service quality. More than half of the respondents (almost 54%) state that their companies made some kind of disclosure to inform the public of their socially responsible practices.

In another study conducted by Environmental Resources Management Malaysia (ERMM 2002) which is commissioned by the Association of Chartered Certified Accountants (ACCA), the state of corporate environmental reporting in Malaysia is revealed. An analysis of annual reports and stand-alone environmental reports of companies listed in the Kuala Lumpur Stock Exchange (KLSE) Main Board from 1999 to 2001 reveals an increase in environmental reporting, albeit minimal. The main findings of the study are summarised as follows:

The number of reporting companies grew from 25 in 1999, to 35 in 2000, reaching 40 companies by 2001. This represented 5.3%, 7% and 7.7% of the KLSE main board listed companies in 1999, 2000 and 2001 respectively. The Industrial Products (IP) sector (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... Half 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. (ERMM 2002, p. 8).

In a study investigating Malaysian environmental disclosures and environmental performance, Jaffar, Iskandar and Muhamad (2002) use content analysis of ARs and adopt a scoring system based on the legal actions taken against companies by the Department of Environment as a measure of environmental performance. Consistent with the American and Australian findings, they find a negative relationship between environmental disclosure and performance indicating that companies that are environmentally problematic (i.e. those firms issued with fines and/or prosecuted and belongs to environmentally sensitive industries) provide more disclosures in their ARs.

Looking at a more recent single case study of Tenaga National Berhad, the largest electricity producer in Malaysia, Abdul Rahman and Ayob (2005) examine the environmental disclosures in the ARs. Using the 8 criteria suggested by the Environmental Reporting Guidelines for Malaysian Companies (ACCA 2003), they conclude that Tenaga's disclosure practice have a lot of room for improvement as it only fully satisfied one criterion of the reporting guidelines, i.e. on the CEO Statement. Interestingly, the authors report that despite the company adopting a number of environmentally-friendly programs/activities, the management does not see the need to provide disclosures in their ARs. Through in-depth interviews with Tenaga's personnel, the factors attributing to non-disclosure includes the absence of mandatory requirements, lack of awareness, knowledge and expertise as well as lack of government and public pressure. This study is useful as it provides some insights on the possible

reasons why environmental disclosures are not provided widely in the Malaysian setting which is the focus of this study.

The Malaysian CSER literature reviewed above highlights a number of important points. First, similar to the findings in the developed countries, larger companies and those in the environmentally sensitive industries (i.e. high profile companies) provide more environmental disclosures although EDs and EP are negatively associated implying that EDs are used possibly to improve public image, a ‘green washing’ mechanism (Greer & Bruno 1996). Second, the areas of CSER which are given more attention by corporate management are those that are likely to improve corporate image and profitability such as responding to customers’ complaints, human resource or employees’ concerns and improving product/service quality (notice that caring for the environment is not high in the priority list). Third, CSR disclosure practices in Malaysia lags behind the adoption of socially and environmentally responsible practices (as shown in the Tenaga study). This implies that even if some companies may have adopted environmentally-friendly measures, environmental reporting is not deemed important as there is no sufficient pressure both from the public and the government to provide these disclosures (Abdul Rahman & Ayob 2005). Therefore, it is conceivable that without sufficient public awareness and mandatory reporting requirement, environmental reporting in Malaysian ARs as it exists today will be more likely to mislead rather than to provide useful information to the users. At this point, it may be useful to have an understanding of the Malaysian environmental reporting regulatory regime hence, a short discussion is provided in the following section.

2.4.4 Malaysian Environmental Reporting Regulations

The main authority for the prevention and control of environmental pollution in Malaysia is the Department of Environment (DOE), a department under the umbrella of the Ministry of Science, Technology and Environment (MOSTE). DOE is empowered to develop standards and guidelines to ensure compliance and to enforce the Environmental Quality Act of 1974 (EQA).

There is no compulsory requirement for companies to provide environmental disclosures in their annual reports under the EQA and the Malaysian Companies Act of 1965 (CA). Section 37 of the EQA entitles the Director General of DOE to demand environmental information from companies in the event of non-compliance with the

EQA but such information is not disclosed to the public. Section 169 subsection 7 of the CA requires directors to include information on any item, transaction or event of a material and unusual nature that may have arisen during the course of the financial year. Whilst this can be interpreted to include environmental information, it is often not provided as the phrase “material and unusual nature” can be vaguely interpreted.

The Listing Requirements (LR) of the Kuala Lumpur Stock Exchange (KLSE) 2001 are another source of reporting regulations. “Item 16 of Appendix 9C specifies the inclusion of particulars of all sanctions and/or penalties imposed on the listed issuer and its subsidiaries, directors or management by the relevant regulatory bodies. This requirement therefore makes it compulsory for any public listed company to disclose in their annual report environment-related litigation or penalties.” (ERMM 2002, p. 33).

Probably the only other source of environmental reporting guidelines is the Malaysian Accounting Standards Board (MASB) 1 and 20. MASB 1, par. 10 makes explicit reference to environmental reports encouraging companies “to present additional information if management believes they will assist users in making economic decisions”. MASB 20 sets out the disclosure requirements for the recognition of contingent liabilities and assets. Although MASB 20 does not provide specific details of the types of liability, it is foreseeable that environmental liabilities could potentially be included within a company’s financial statement.

It is clear from the discussion above that, despite the requirements of MASB 1 and 20 which are very much subject to management interpretation, environmental reporting in Malaysia is largely optional. This is confirmed by the ACCA commissioned study which states that:

“environmental reporting is still a voluntary initiative in Malaysia...” (ERMM 2002, p.39).

The results of international and country-specific studies both in the developing and developed countries suggest that despite the inconsistencies in the findings between environmental disclosures and performance (i.e. either having no relationship or negative relationship), the literature review overwhelmingly indicates that environmental disclosures are on the increase. It is therefore critical to probe deeper as to the possible motivations behind environmental disclosures.

2.5 MOTIVATIONS BEHIND CORPORATE DISCLOSURES

*Unfortunately, Macnamara was right. He said, in what has come to be known as the Macnamara Fallacy: ‘The **first step** is to measure whatever can be easily measured. This is OK as far as it goes. The **second step** is to disregard that which can’t be easily measured or to give it an arbitrary quantitative value. This is artificial and misleading. The **third step** is to presume that what can’t be measured easily really isn’t important. This is blindness. The **fourth step** is to say that what can’t be easily measured really doesn’t exist. This is suicide.’ *What does not get counted does not count. Money is easily counted. Therefore, all too soon, money becomes the measure of all things. A just society needs a new scorecard.* (Handy 1995, p. 219)*

Given the widely held view of wealth maximisation in the business world (despite being now tempered with an obligation to act in a socially responsible manner), conventional wisdom suggests that entities would only provide voluntary disclosures when the benefits of disclosure exceed the cost. It is generally easy to quantify the direct costs of providing additional information (e.g. professional fees, printing costs, etc.) but indirect costs are harder to measure. For example, it is not easy for a company to measure its loss of goodwill or its competitive advantage. What is more difficult to identify, more so to quantify, are the benefits of reporting - both direct and indirect – and the benefits to whom?

Furthermore, it’s not only the costs and benefits of reporting that are hard to measure. The inherent limitations of current accounting practice make way for further constraints on the reporting and measuring of environmental costs (ASCPA 1999). For example, failure to measure the depletion of natural resources would naturally overestimate the company’s bottom line. An example provided in the Pearce Report explained this phenomenon from a macroeconomic point of view:

If an entire forest is logged and the resulting revenues invested in a cement factory, national income would show a rise because of the investment in the cement factory and it would show a rise because of the logging activities. This, however, is a misrepresentation of the sustainable income level because it fails to allow for the decline in one productive asset (forests) while allowing for the increase in another asset (factories). (Pearce Report as cited in ASCPA 1999, pp. 8-9).

This is one classic example of the Macnamara Fallacy in action. Handy (1995) is right to suggest that what is needed in a ‘just society’ is a new scorecard because it is obvious that money is not the measure of all things. To pretend that environmental issues like the degradation of the ozone layer (having no monetary value) really do not exist is tantamount to suicide. Despite this, it is clear from the review of literature that CSER has been increasing and that firms vary substantially in the amount of additional

information they provide. Why then do firms disclose environmental information in their annual reports voluntarily?

The KPMG 2005 report (as mentioned in 2.4.1), which includes the 16 countries of Australia, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, Netherlands, Norway, South Africa, Spain, Sweden, UK and USA, provides useful information as to why companies commit to corporate responsibility (CR) and what influences the content of reports as summarised below:

Business drivers for CR are diverse, both *economic* (74%) and *ethical* (53%). The top 3 reported economic drivers are innovation and learning, employee motivation and risk management and reduction with about 50% companies reporting these as motivating factors ... Stakeholder dialogue was mentioned in almost 40% of reports with dialogue focused more on CR policies rather than reporting (KPMG 2005, p. 5, italics added).

Gray and Bebbington (2001) provide a comprehensive list of reasons for disclosure and non-disclosure of environmental information in ARs shown in Table 2.1 below:

TABLE 2.1 REASONS FOR DISCLOSURE AND NON-DISCLOSURE OF ENVIRONMENTAL INFORMATION IN THE ANNUAL REPORT	
Reasons for Disclosure	Reasons for Non-disclosure
<ul style="list-style-type: none"> ■ if not done voluntarily it will become mandatory ■ to provide impetus for internal developments ■ to legitimise current activities ■ to distract attention from other areas ■ to develop corporate image ■ to build up expertise in advance of regulation ■ positive impact on share price ■ reduction in perceived (company and information) risk ■ political benefits ■ competitive advantage ■ shareholders' and other stakeholders' right to know ■ to explain expenditure patterns ■ the desire to tell people what the company has done/achieved ■ to forestall disclosure by other parties 	<ul style="list-style-type: none"> ■ obverse of the reasons for disclosure ■ no need/motivation to do so ■ wait and see ■ cost ■ data availability (and related costs) ■ secrecy ■ absence of demand for the information ■ absence of a legal requirement ■ never thought about it ■ prioritizing (sic) areas for disclosure
<p><i>Source: Gray and Bebbington (2001, p. 242)</i></p>	

Although many of the reasons provided above have been the object of research into motivations for voluntary environmental reporting, it is widely acknowledged that the motives behind corporate disclosures are varied and complex. For example, Mathews (1997) writes:

It would appear that in many instances management regards social disclosures as useful, although we do not know whether the motivation comes from capital market, organisational legitimacy, social contract, or some other source of justification (p. 277).

Gray and Bebbington (2001) back this up and further add the range of influences supporting these motives:

If the motives of organizations (sic) voluntarily undertaking environmental reporting are complex then the range of influences which played upon those motives are more complex still... but what is remarkable is that they, together, provide an intense atmosphere in which the demands upon organizations (sic) to involve themselves in environmental reporting became really quite significant indeed. (pp. 244-5).

A few of the more visible examples of the influences on corporate environmental disclosure are provided by Gray and Bebbington and these are summarised in Table 2.2 as follows:

<i>Business and Market Influences</i>	<i>Social Pressures</i>
<ul style="list-style-type: none"> ■ customer and supplier pressure ■ international competitiveness ■ peer pressure (from other companies) ■ employee considerations ■ environmental policies ■ public relations ■ stakeholder pressures 	<ul style="list-style-type: none"> ■ personal and family beliefs ■ media attention ■ schools and education ■ stakeholders
<i>Industry and Voluntary Initiatives</i>	<i>Legislations & Regulations and the Threat thereof</i>
<ul style="list-style-type: none"> ■ United Nations - UNCTAD, ISAR and UNEP (with SustainAbility) ■ The Global Reporting Initiative ■ Signing up to charters (e.g. ICC Business Charter for Sustainable Development) ■ EMAS (Eco-Management and Audit Scheme) ■ Industry initiatives (e.g. the Chemical Industries Association) ■ Country-specific influences (e.g. in the UK: ACBE, Business in the Environment, UK Environment Business Forum) ■ Eco-labelling⁹ ■ Environmental Reporting Award Schemes (e.g. ACCA) 	<ul style="list-style-type: none"> ■ Freedom of access to information ■ Environmental impact assessments ■ Environmental protection acts and environmental protection agencies ■ Developing legislation in Australia, Canada, Denmark, Indonesia, Korea, Norway, Sweden, Netherlands, and discussion of such regulation in (e.g.) the UK and New Zealand
<i>Source: Gray and Bebbington (2001, p. 245)</i>	

Most of the examples provided in Table 2.2 are self explanatory and useful in identifying the influences behind corporate environmental disclosures. However, in order to have a deeper understanding and to unravel the complexity of corporate motivations, it is useful to consider the theoretical perspectives underpinning those varied reasons and influences. A number of authors (Gray et al 1995, Mathews 1993, 1994, 2004, O'Donovan 2000) suggest that the motivations behind corporate

⁹ *Eco-labelling* allows organisations to 'badge' products/services that meet the highest environmental standards in their manufacture and operation. The European Eco-Labeling Regulation was first established in 1991 and takes a cradle-to-grave approach to products. Based upon the German 'Blue Angel' programme, an eco-label will attach to a product in such a way as to ensure 'free' passage of the product through the countries of the European Union. (Gray & Bebbington 2001, p. 111).

disclosures can be classified into two main theoretical perspectives namely *market-based motives* and *social motives*. These are discussed in the next two sub-sections.

2.5.1. Market-Based Motives

Several empirical studies on capital markets (e.g. Barry & Brown 1985; Botosan 1997; Glosten & Milgrom 1985; Lang & Lundholm 1993, 1996; Sengupta 1998) suggest that possible benefits from additional disclosures include increased investor following and reduced estimation risk through reduced information asymmetry¹⁰ which in turn leads to increased share value (higher stock prices) and reduced cost of equity and debt finance. These market-based motives assume that the market is able to make better judgments and decisions through additional disclosures. Arguably, the theoretical underpinnings of these economic motives can be traced back on the premise of the *efficient market hypothesis*¹¹ (*EMH*) (Fama, 1960) and the *agency theory*¹² (Jensen & Meckling 1976). *EMH* claims that in an active efficient market that includes many well-informed and intelligent investors, securities or stocks will be appropriately priced and will reflect all available information. Consequently, it is in the best interest of the company to disclose relevant information for the market to make a fair assessment of the company value. On the other hand, agency theory implies that agency costs arise because the agent (the company's management) will not always act in the best interests of the principal (shareholders and/or the various stakeholders of the company) as the agent will attempt to maximise its own interest. A common mechanism used to reduce agency costs is for the principal to monitor what the agent is doing. This, in the context of reporting, is

¹⁰ Information asymmetry exists when one party has more or better information than another party. In the voluntary disclosure literature, it is typically the provider of information who knows more than the user of the information although it is possible for the reverse to happen. Akerlof (1970) used the term asymmetric information in his work entitled "The Market for Lemons" where he suggested that non-disclosure is sometimes perceived in the negative sense. Hence, the proponents of voluntary disclosure believe that an additional incentive to provide additional information is to disprove the notion that a firm could be a 'lemon'.

¹¹ An 'efficient' market is defined as a market where there are large numbers of rational, profit-maximisers actively competing, with each trying to predict future market values of individual securities, and where important current information is almost freely available to all participants ... in an efficient market at any point in time the actual price of a security will be a good estimate of its intrinsic value (Investor Home cited on 28th November 2005).

¹² The agency theory (also known as principal-agent relationship) describes the relationship between the principal (traditionally the investors of the firm) and the agent (the firm's management). This theory has been prevalent in the accounting literature explaining the choice of accounting techniques used for reporting purposes (Watts & Zimmerman 1978).

done through the provision of disclosures. Another way to lower agency costs, especially when monitoring is too expensive or too difficult, is to make the interests of the agent more aligned with the interests of the principal. In the capital market literature, this is done by compensating the managers with bonuses or share options commensurate with the increase in company performance, which is mostly based on profit maximisation.

Although market-based motives have been prevalent in capital market studies, early CSER studies (pre-1985) have also adopted market-based motives claiming its mark in the literature as shown in the literature reviewed in section 2.4. Most of these studies use quantitative methods and secondary data to analyse the relationships between environmental disclosures, environmental performance and some measure of economic performance in the analysis. Results from these studies have been mixed ranging from inadequate environmental disclosures which showed no relationship with the firm's environmental performance (Fekrat et al 1996; Harte & Owen 1991; Wiseman 1982) to a negative association between environmental disclosures and environmental performance (Hughes et al 2001; Patten 1991, 1992, 2002). Some studies, however, show that to some extent, there are perceived benefits from providing environmental disclosures in the form of reduced negative market reaction arising from an environmental disaster (Blacconiere & Patten 1994; Freedman & Patten 2004) and a limited support for the hypothesis that environmental disclosures and timely remediation efforts are positively associated with the market value of equity (Hutchison & Fleischman 2002). Ullmann (1985) criticises these inconclusive results and attributes them to inconsistent definitions of measures of social performance, disclosures and economic performance and deficiencies in databases available which in essence are the main limitations of empirical quantitative studies. Ullmann (1985) proposes that these data need to be analysed from the context of theories, hence the title of his paper '*Data in Search of Theory*'.

Although it is acknowledged that market-based motives can provide a powerful motivation for increased environmental disclosures, critiques on the inadequacy of efficient market and agency theories to explain the complexity of social and environmental motives have been on the increase (Gray et al 1995; Gray & Bebbington 2001; O'Donovan 2000, 2002; Deegan 2004). Therefore, although economic motives

may be useful as a starting point in CSER studies, it is considered insufficient. Hence, there is a need to understand social-based motives which are discussed next.

2.5.2 Social-Based Motives

The theory from which social-based motives originated has its roots in the concept of social contracts. This theory, as introduced by the *Age of Enlightenment* philosopher Jean-Jacques Rousseau (Russell 1946), argues that for human beings to live in society, they must agree to an implicit social contract that provides certain rights in return for accepting certain responsibilities. Thus, the rights (and responsibilities) of individuals are the terms of the social contract, and an entity is created for the purpose of enforcing that contract. However, rights and responsibilities are not fixed, therefore the parties may change the terms of the contract if they so desire but in general, more rights always entail more responsibilities, and fewer responsibilities always entail fewer rights.

Many modern day management and accounting researchers have adopted this notion of social contracts to possibly extend and make market-based research more meaningful. Proponents of this idea argue that business entities exist because they are given the right to exist by the society and in return for this right, companies have an implicit responsibility to act according to the expectations of society (Shocker & Sethi 1973; Guthrie & Parker 1989). Underpinned in the social contract are theories that attempt to explain CSER practice within a systems-oriented perspective as explained in this quote.

Within a systems-oriented perspective, the entity is assumed to be influenced by, and in turn to have influence upon, the society in which it operates. Corporate disclosure policies are considered to represent one important means by which management can influence external perceptions about their organisation (Deegan 2002, p. 292).

These theories allow researchers to understand the role of CSER between the company and society in general and the various groups of stakeholders in particular. In the accounting literature, the most commonly used theories falling under the umbrella of systems-oriented theory are: (1) political economy theory; (2) legitimacy theory; and (3) stakeholder theory (Gray et al 1995, 1996).

2.5.2.1 Political Economy Theory

The definition of political economy theory (PET) suggests a higher order framework which covers both the legitimacy and stakeholder theories. Its definition also denotes

that both the economic and social domain of CSER can not be separated which reinforces the limitations of market-based assumptions. PET suggests that environmental (and social) disclosures are “pre-emptive and used to enforce an agenda to stave-off intervention” (Frost 2000, p. 668). The emergence of pressure groups creates a threat to companies who may face increased government intervention in the form of regulatory action which then creates ‘political costs’ (Whittred, Zimmer & Taylor 1996). Companies are therefore predicted to counter possible political costs by resorting to government lobbying and providing social responsibility disclosures (Watts & Zimmerman 1978).

2.5.2.2 Legitimacy Theory

Legitimacy theory claims that the company’s survival depends on its ability to conform to society’s expectations. Legitimacy also posits that while companies need to comply with the expectation of society, firms also have the ability to influence societal expectations. Hence, by providing sufficient corporate disclosures, the entity hopes to improve its overall public image and ultimately justify its continued existence. While some may view the motivation behind PET as another variant of legitimacy (Guthrie & Parker 1990; Gray et al 1995) the main distinction is that legitimacy is seen at a micro level while political economy is at the macro level (Buhr 1998; O’Donovan 2000). While legitimacy theory has been used quite extensively in the CSER literature, stakeholder theory has much to offer and is therefore considered next.

2.5.2.3 Stakeholder Theory

Table 2.3 provides some definitions and the basic premise of each theories. As shown in this table, the basic proposition of stakeholder theory is that the firm’s success is dependent upon the successful management of the relationships that a firm have with its stakeholders. When viewed as such, the conventional view that the success of the firm is dependent solely upon maximising shareholders’ wealth is not sufficient because the entity has a relationship not only to its shareholders but also with its various stakeholders. Although stakeholder theory, according to Gray et al (1995), is typically explicitly bourgeois because the world is seen from the perspective of the firm’s management whose concern is to continue the company’s success, stakeholder theory tempers it with explicit and implicit attempt to align its success by managing competing

stakeholder concerns. This is done through efficient identification of the more powerful, legitimate and urgent (Mitchell, Agle & Wood 1997) stakeholders and managing their concerns in a timely manner. Corporate social and environmental disclosures, therefore, are perceived as part of the dialogue between the firm and the more important stakeholders (Gray et al 1995).

Table 2.3 Overview of System-Based Theories		
THEORY	DEFINITION	UNDERLYING PREMISE
<i>Political Economy</i>	<i>Political economy</i> – “the social, political and economic framework within which human life takes place” (Gray et al 1996, p. 47).	- that “accounting systems act as mechanisms used to create, distribute and mystify power” (Buhr 1998, p. 165).
<i>Legitimacy</i>	<i>Legitimacy</i> - “a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs and definitions” (Suchman 1995, p. 574)	- that companies can only survive if the society in which they exist perceives that the company is operating within the bounds of its acceptable value system (Dowling & Pfeffer 1975). -“legitimacy is conferred when stakeholders – that is, internal and external audiences affected by organizational (sic) outcomes – endorse and support an organization’s (sic) goals and activities” (Pfeffer & Salancik 1978, p. 194)
<i>Stakeholder</i>	<i>Stakeholder</i> - “those groups without whose support the organization (sic) would cease to exist” (Freeman 1983, p.33); - stakeholders are categorised into <i>primary</i> (those without whose support the company cannot survive) and <i>secondary</i> (those who influence or affect, or are influenced or affected by, the company whose support is not essential to company survival, at least in the short-term) (Clarkson 1995)	- that the firm’s success is dependent upon the successful management of the relationships that a firm has with its stakeholders (Freeman 1983). -“the more powerful the stakeholders, the more the company must adapt. Social disclosures is thus seen as part of the dialogue between the company and its stakeholders...” (Gray et al 1995, p. 53)

Between legitimacy and stakeholder theory, there are certainly a number of overlapping features (Gray et al 1995). For example, although under the legitimacy framework, it is originally society in general that confers legitimacy to an organisation (see the underlying premise of legitimacy theory according to Pfeffer & Salancik quoted in Table 2.3), it is clear that it is now the stakeholders that legitimate the organisation. This is seen as a cross-over to stakeholder theory given that under this concept, stakeholders can only be successfully managed if the company has the continued support (seen as legitimate) by its relevant stakeholders. Another similarity shared by both theories is the assumption that companies have the ability to influence its various stakeholders through the provision of relevant disclosures. Hence, stakeholder theory is capable of borrowing the legitimation tactics in legitimacy literature to manage its various stakeholders. This blurring of boundary between the two theories is not

considered a problem because both theories are seen as complementary rather than competing theories (Gray et al 1995).

However, perhaps the main strength of stakeholder theory lies in its more refined form. It is a dynamic (not static) concept focused on how to manage competing stakeholder concerns. As such, it is more likely to be a well rounded view as it needs to consider market-based motives but not at the expense of foregoing social-based motives as long as the relevant stakeholders' value system commands a balance of both. It is for this reason that stakeholder theory is chosen in this study.

2.6 SUMMARY

The main purpose of this chapter is to review the corporate social and environmental responsibility and reporting literature by firstly discussing the development of corporate social responsibility and environmental accounting as it relates to the changing business environment, and secondly by establishing the importance of the annual report as a means of providing social and environmental information to various stakeholder groups. The chapter also intends to analyse the extent of social and environmental reporting both in the developed and developing world, including Malaysia which is the focus in this study. The purpose is to have an understanding of the possible influences driving the provision of environmental and social disclosures in different parts of the world. The last part of the chapter unravels the complexity of motivations behind corporate disclosures and discusses both the market-based and social motives in CSER literature. The theoretical perspectives behind both motives are introduced and examined. This leads to the choice of stakeholder theory as the one adopted in this study. The next chapter reviews the extensive literature on stakeholder theory.

CHAPTER 3

STAKEHOLDER THEORY AND CORPORATE STRATEGIC MANAGEMENT

3.1 INTRODUCTION

In Chapters 1 and 2, it is stated that this study adopts stakeholder theory to develop a model that can be used to analyse environmental disclosures in the Annual Reports. There are different theoretical frameworks used in the literature to explain why companies may provide voluntary disclosure. Understanding and using frameworks are helpful particularly in clarifying abstract concepts like social and environmental responsibility. This chapter provides an overview of the development of the stakeholder concept and how it is originally intended to assist organisations to manage effectively in “turbulent times” which typifies the dynamic nature of the business environment of today. Specifically, the chapter aims to analyse the connections between the stakeholder concept and the various relevant theories in order to place the processes used to identify and manage stakeholder relationships to an appropriate theoretical model that will provide a practical way of understanding corporate management and stakeholder behaviour. A brief discussion of the origins of stakeholder concept including how the view of business entities changes over time and how the shift in public expectations helped shape the view of business organisations is provided next.

3.2 THE IMPETUS FOR STAKEHOLDER VIEW

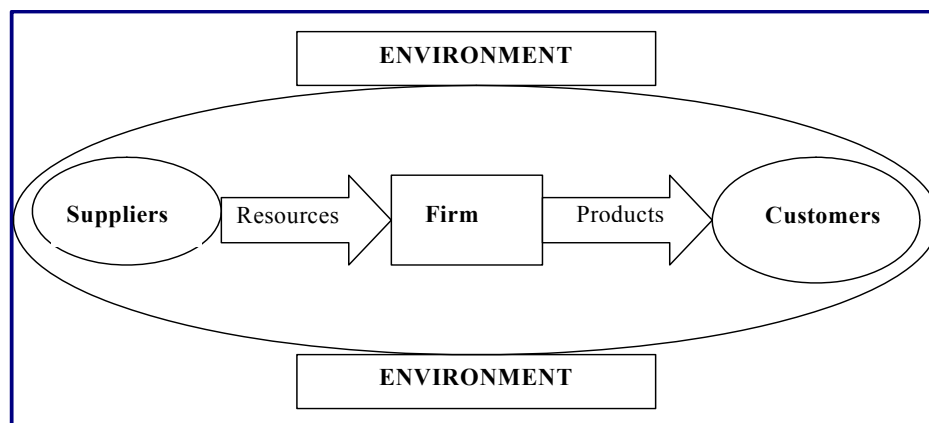
Freeman’s (1984) book, entitled ‘*Strategic Management: A Stakeholder Approach*’, is generally acknowledged to have brought stakeholder theory into the forefront of management literature. This book clearly spells out the central purpose of stakeholder theory that is, “to enable managers to understand stakeholders and strategically manage them” (Frooman 1999, p. 191).

To describe the impetus for stakeholder concepts, Freeman (1984) contends that current approaches or ‘world-views’ do not encompass the changes happening in the business environment. Thus, he argues that a new conceptual framework is needed to accommodate the firm’s dynamic external environment which changes over time.

3.2.1 The Traditional Family-Dominated Entities: A Production View

To illustrate this dynamic change, Freeman provides a chronology of changes starting from the early days when organisations were simple production institutions and doing business consisted mainly of converting raw materials (bought from suppliers) to finished products (sold to its customers). Freeman refers to this as the *Production View* of the firm. These firms are mostly family-dominated as their owners who are also managers and employees work with their family members. Under this view, Freeman points that, “the owner-manager-employee need only worry about satisfying suppliers and customers in order to make the business successful” (p.5). Figure 3.1 shows how the Production View of the firm is illustrated by Freeman.

Figure 3.1: Production View of the Firm



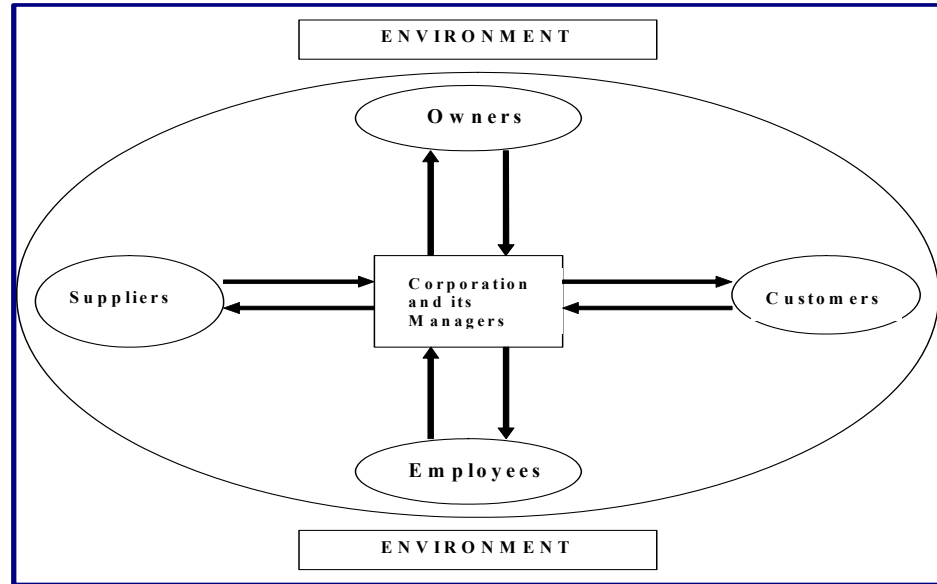
(Source: Freeman 1984, p. 5)

3.2.2 The Need for a Conceptual Shift: From Production to Management View

Whilst many businesses today may still start as a family-owned business, several factors such as massive diversity and intense global competition make larger firms more resource efficient and sustainable. Likewise, technological advancement allows for job specialisation which means that more work could be accomplished if investments in new equipment and technology are feasible. These make it easier for firms to expand at the price of seeking larger capital injection and more man power. The expansion necessitates the employment of non-family-member workers and larger capital requirement means that ownership becomes more dispersed. Other individuals/institutions such as shareholders and banks emerge to finance the firm. Freeman calls this stage of evolution the *Managerial View*. As firm ownership become more dispersed, the manager (who may or may not be the owner) must not only focus

on its suppliers and customers, he/she must also consider the interests of its owners and employees. Figure 3.2 shows the *Managerial View* of the firm.

Figure 3.2: Managerial View of the Firm



(Source: Freeman 1984, p. 6)

It is clear that *Managerial View* of the firm is more complex than *Production View*. However, if management insists on using the Supplier-Firm-Customers model to manage the business, it would remain oblivious to the needs of its owners and employees, each of which now have a stake in the firm. Success in this new environment necessitates a conceptual shift, one which incorporates dealing with owners and employees as part of its norm rather than as an exception to the rule. Failure to do so would guarantee the demise of the firm particularly if the owners withdraw their capital and/or employees withhold their services through strikes. Whilst the latter view of the firm appears to be the current norm, the shift from *Production View* to *Managerial View* has not happened overnight. Over the years, the simple Supplier-Firm-Customers model has become more and more inadequate making the *Managerial View* the norm.

3.2.3 Managing in Turbulent Times: From Managerial to Stakeholder View

The dynamic nature of business environment, however, calls for a continuous change rendering even the *Managerial View* incapable of capturing the changes that confront businesses of today. Hence, the *Stakeholder View* of the firm is proposed in order to address two types of changes: (1) *internal change*; and (2) *external change*.

Internal change includes the new demands brought about by the groups dealt with by the managers in **Managerial View**. For example, the employees may not only want increased wages, they may also demand a safe working environment. Likewise, the owners/shareholders' primary concern is not just a higher return on investment, they also want control. Although *internal change* needs to be addressed, Freeman argues that another important change that should not be taken for granted is the *external change*. This change pertains to the emergence of new groups which are previously not identified in the existing **Managerial View** of the firm. Freeman provides a discussion of how a number of groups like the government, competitors, consumer advocates, environmentalists, special interest groups and the media, could change the way firms should be managed. As an illustration, Freeman explains that the changing role of governments as stakeholders of the firm can no longer be ignored. Government intervention in the marketplace provides real social and economic benefits. For example, social benefits like cleaner air and water, safer working environment and a general increase in the standard of living are partly attributed to government actions. Likewise, governments can provide economic costs and benefits to the firm by imposing fines for polluting the environment or providing tax incentives for certain types of industries. And despite the move to globalisation, government rules and regulations are different for each country as depicted in this quotation:

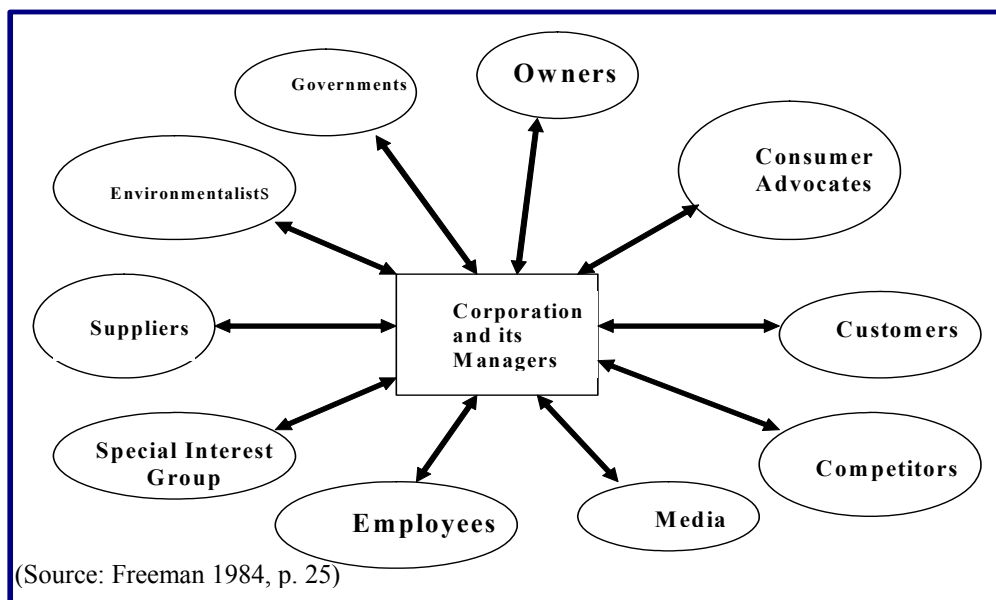
The most often heard complaint is that other governments don't "play fair," meaning that there are different sets of rules for home companies and for foreign companies. "How can we compete with Japan, Inc. when we must spend resources overcoming government obstacles, and Japanese companies not only have no obstacles, but have protection and assistance in access to markets, capital and basic research and development?" (Freeman 1984, p. 16)

Such an example, i.e. the ability of the government to intervene, reinforces the idea that firms could not afford to remain oblivious to the influence of governments as a possible active stakeholder that need to be managed if the firm is to remain successful. Freeman contends that sufficient external changes, like the strengthening of both local and global competitors, the increasing awareness and concern for environmental degradation and changing consumer demands and behaviour, among others, have occurred in the business environment to warrant the abandonment of the **Managerial View** in favour of a new framework, the **Stakeholder View**. In the same manner as the separation of Owner-Manager-Employee requires a shift in the view of the firm from **Production**

View to *Managerial View*, the emergence of various stakeholder groups and new strategic issues necessitate a remodeling of the traditional picture of the firm.

Freeman suggests that many of the external changes brought about by new groups having some form of stake on the firm have been around for some time. Yet corporate managers have been slow to incorporate these changes into a framework, thereby rendering them ill-equipped to effectively and efficiently manage their businesses to survive in a world of intense global competition, changing social demands and massive diversity. Figure 3.3 illustrates the *Stakeholder View* incorporating various stakeholders of the firm.

Figure 3.3: Stakeholder View of the Firm



It is acknowledged that the above mapping of firm-stakeholder relationship is overly simplified as each category of stakeholder groups can be sub-divided into several categories. For example, not all employees, governments and/or special interest groups are alike. Despite this, the *Stakeholder View* offers a way to accommodate the various demands of other stakeholder groups which are not included in the previous views of the firm.

The above discussion provides an understanding of the significance of adopting a broader perspective particularly if the analysis calls for this. Knowledge of how the *Stakeholder View* evolved through recognition of the changes faced by organisations brought about by both internal and external changes is useful in order to assess the

appropriateness of the concept. However appropriate a concept may be, if its theoretical development is not clear, its application would be limited. Thus, the next section reviews the historical development of stakeholder concept as documented by Freeman (1983, 1984).

3.3 THE DEVELOPMENT OF THE STAKEHOLDER CONCEPT

Although the introduction of the term ‘stakeholder’ is difficult to track as Freeman (1984, p. 49) admits, this term is generally accepted to have been formally used in an internal memorandum at the Stanford Research Institute (SRI). Originally intended to generalise the notion that “stockholders are the only group to whom management need be responsive” (Freeman 1984, p. 31), the term “stakeholder” is thus defined as “those groups without whose support the organization (sic) would cease to exist”. Hence, “the list of stakeholders originally included shareowners, employees, customers, suppliers, lenders and society” (Freeman 1983, p. 33).

Freeman’s (1983, 1984) discussion of the history of stakeholder concept provides an overview of the various theories from which its early development is attributed. Table 3.1 provides a summary of the main references and concepts/comments cited by Freeman relating to the bodies of literature and theories from which the origins of the stakeholder concept stem.

3.3.1 The Corporate Planning Literature

Despite the numerous variants in the definitions of ‘strategy’, ‘policy’ and ‘planning’, the concept of strategic planning is concerned with setting some direction for the organisation based on the analysis of capabilities and environmental opportunities and threats. Hence, sufficient information regarding past, current and future changes including emerging strategic issues are vital to effective planning and policy making procedure. As planning moves from *reactive* to *proactive* formulation of strategy, the corporate planning process is enhanced through the use of stakeholder analysis as it develops ‘measures of satisfaction’ of those groups whose support is vital for the firm’s survival. Information systems can then be developed to track the responses of key stakeholder groups to changes in corporate strategy while adjustments are made if stakeholder expectations get far enough to warrant the withdrawal of their support.

Strategies are then formulated based on this environment which can be forecasted in the long run.

Table 3.1 Origins of Stakeholder Concept

Literature/Theory	Main References	Concept/Comments
Corporate strategic planning literature	Taylor 1971	Stockholders' importance will diminish & business will be run also for the benefit of other stakeholders.
	Haselhoff 1976	Implications for formulation of organisational goals
	Hussey & Langham 1978	Model of organisation & stakeholders in analysing role of mngt in planning processes
	Davis & Freeman 1978	Technology assessment
	Mitroff & Emshoff 1979	Strategic assumption analysis
	Emshoff 1980; Mason & Mitroff 1982; Rowe, Mason & Dickel 1982	Formulation of techniques for strategy analysis
Organisation theory literature & Systems theory literature	Rhenman, 1968	Used stakeholder concept on industrial democracy
	Evan 1966; Katz & Kahn 1966;	Analysed interactions of organisation with networks in its environment; used 'open-systems approach' to study organisations.
	Thompson 1967	Resurrected 'clientele' as a way to designate outside groups
	Pfeffer & Salancik 1978	Model of organisation-environment interaction
	Ackoff & Churchman 1947	Applying Jungian psychology to develop a personality theory instrumental in developing systems theory into a powerful tool for addressing issues in social science.
	Churchman 1968; Ackoff 1970; 1974	Argues that many societal problems could be solved by the redesign of fundamental institutions with the support and interaction of the stakeholders in the system.
Corporate social responsibility literature	See for example: Post 1981; Sethi 1971, Preston 1980, 1982 (too many to mention)	Social movements of the 60s and 70s in civil rights, anti-war, consumerism, women's rights & environmentalism served as catalyst for rethinking role of business in society
	Harvard Business School Project in the 1970s	Development of pragmatic model called "The Corporate Social Responsiveness Model"
Source: Cited in Freeman (1983, 1984)		

3.3.2. The Organisation Theory and Systems Theory Literature

Although the development of the stakeholder concept has been slow in the 1960s, a number of organisation theorists have tried to understand the organisation-environment relationship contributed, albeit subtly, in the development of the stakeholder concept. Organisation theorists like Rhenman (1968), Evan (1966), Katz and Kahn (1966) and Emery and Trist (1965) are concerned with exploring the relationships between organisation and environment because organisational analysis which depended solely on

looking within an organisation does not seem to have enough explanatory power. Thompson (1967) resurrects the notion that the management should be working with those groups in the environment which make a difference to the organisation which he designates as 'clientele'. This is the precise notion which underlies the stakeholder concept, i.e. those groups which make a difference. Pfeffer and Salancik (1978), while reviewing the literature, provide a model of organisation-environment interaction which depends on an analysis of the resources of the organisation and the relative dependence of the organisation on environmental actors to provide those resources. This resource dependence theory is another concept that has attracted considerable attention in the literature and this will be revisited later in the chapter when the stakeholder model is developed as a framework for this study in Chapter 4.

The 1970s has seen systems theorists from way back in the 1940s, like Ackoff and Churchman (1947), rediscovering stakeholder analysis. Systems theory denotes an explicit conception that any part of the world is: "(a) one element of a larger whole with which it interacts (influences and is itself influenced by); and (b) also contains other parts which are intrinsic to it" (Gray, Owen & Adams 1996, p. 12). Hence, "within a systems-oriented perspective, the organisation is assumed to be influenced by, and in turn to have influence upon, the society in which it operates" (Deegan 2002, p. 292). According to Ackoff (cited in Freeman 1984, p. 37), the notion of 'stakeholders in a system' is concerned with the redesign of fundamental institutions with the support and interaction of the stakeholders in the system. Thus, issues should be understood and tackled through synthesis. For example, the issue of low profitability which affects shareholders, would first of all be approached in terms of how it affects the entire stakeholder system, which forms the context of the problem. Ackoff argues that system design can only be achieved through stakeholder participation. Hence, corporate strategy developed using the systems view is similar to that of collective strategy. It follows therefore that, in systems terms, it would be a grave mistake to formulate a strategic plan of maximising profits at the expense of destroying the larger system, e.g. the environment from which the organisation derives its natural resources.

3.3.3 The Corporate Social Responsibility Literature

The corporate social responsibility (CSR) literature has spawned diverse concepts ranging from women's rights to consumerism to environmentalism and served as a

catalyst for the rethinking of the role of business in society. A significant contribution of this body of literature to the development of stakeholder theory is that it allows the application of this theory to include non-traditional stakeholder groups who are commonly thought of as having adversarial relationships with the firm (e.g. environmentalists, competitors, employees' union and consumer advocate groups). This permits a more balanced stakeholder analysis, putting less emphasis on satisfying owners at the expense of other stakeholders. Dill (1975) advocates that the time has come to reject the assumption that views and initiatives of 'outside' stakeholders could be dealt with as externalities to strategic planning and suggests accepting the idea that some of these stakeholders might seek and earn active participation with management decision making. Dill's challenge, therefore, is to move from stakeholder influence towards stakeholder participation. This sets the stage for the use of the stakeholder concept as an umbrella for strategic management. Voluminous research commissioned by Harvard Business School on corporate social responsibility has given birth to a pragmatic model of social responsibility called "the corporate social responsiveness model". This model essentially addresses Dill's challenge by advocating for proactive response to the increased pressure for positive social change, i.e. 'responsiveness', rather than just accepting 'responsibility' for its actions. It is this link between CSR literature, strategic planning and the stakeholder concept which makes the use of a stakeholder approach appropriate for this study. Hence, in order to broaden the understanding of how this concept has been used in conjunction with corporate social responsibility and responsiveness, an examination of the more recent literature on stakeholder theory is presented in the following section.

3.4 THE PROFIT MOTIVE AND CSR REVISITED

As the focus of this study is aimed at understanding corporate motives for providing voluntary environmental disclosures using the stakeholder theory lense, this section revisits the corporate social responsibility (CSR) literature and discusses the usefulness of stakeholder concept in finding a balance between social responsibility and economic interests.

Carroll (1979, 1987, 1991), in providing a definition of CSR, sets forth a four-part conceptualisation which includes the idea that the corporation has not only *economic*

and *legal* obligations, but *ethical* and *discretionary (philanthropic)* responsibilities to society at any given point in time. Thus for CSR to be accepted as legitimate, it has to address the entire spectrum of obligations the business has to society, including the most fundamental - economic.

The limitation of profit maximisation as the sole motivation for the existence of business organisations has been noted earlier. In order to have a deeper understanding of how limited the traditional profit motive is, it is useful, at this point, to retrace its origins and the forces that necessitate another conceptual shift.

3.4.1 The Classical View: Friedmanite Profit Maximisation Objective

The *classical* view of the corporation, according to Milton Friedman's (1970) seminal work, promotes that there is no divergence between the economic and social performance of business organisations. A business organisation is formed to provide goods and services that people are willing to buy at prices they can afford. To accomplish this, a firm must economise its use of resources in order to maximise profits for its shareholders. As the business does this successfully, society benefits as the business provides goods and services for consumers, jobs and income for employees, and increases the wealth of society. Hence, according to this traditional view, social responsibility is subsumed or totally contained in the profit maximisation objective.

Buchholz (1991, p. 21) is of the view that although not everyone accepted the notion that business is solely an economic institution with only economic responsibilities, it appears to have been the prevailing view in our society for quite a long time. He adds that as long as the system works well enough for most people, there are not likely to be any serious questions raised about the social performance of business outside the marketplace context. However, as society becomes increasingly conscious that issues such as pollution and unsafe workplaces are in large part created by the companies' profit maximisation objective, the notion that economic and social aspects of business are one and the same are being questioned.

3.4.2 From Classical to Neo-Classical View

It can be argued that this point of divergence between the firm's economic performance and changing social values exposed the deficiencies of the *classical view* of the

corporation. Thus, a new consensus is needed to address this divergence in the form of what Bowie (1991, 1982) calls the *neo-classical view*. The thrust in this view is that while the firm's primary function in society is to maximise profits for its owners, it also has an obligation to avoid inflicting harm. Bowie explains this in his own words:

... the corporation has to make profit while (1) honouring the moral minimum or (2) respecting individual rights and justice. (Bowie 1991, p. 56)

This 'moral minimum' and 'respect for individual rights and justice' is shown in the same light as the social contract¹. Because corporations are created and given permission to operate by the society in which they exist, the society then can choose to let it continue or hinder its existence (Donaldson 1982, 1989). Therefore, the corporation has a responsibility to honour the 'moral minimum', that is, the same rights and responsibilities expected of any citizens in society.

However, despite the addition of social consideration in the *neo-classical view*, the primary objective of business entities still remains the same - that is, to maximise profits for its owners. This view could still be taken to mean that if social responsibilities get in the way of economic performance, the latter should supersede the former as long as the 'moral minimum' is achieved. Others argue (Halal 1996; Svendsen 1998) that this is not sustainable in the long-run. Hence, this has been the subject of much theorising and research in the corporate social responsibility literature.

3.4.3 Profit Maximisation as a Means to an End

Another way of viewing the profit maximisation objective that is conceptually different from the *neo-classical view* is to consider it as a means to an end rather than an end in itself. In his widely-read book entitled '*The Empty Raincoat*', Charles Handy suggests that it is wrong to overly emphasise the profit maximisation objective of the business. He argues that:

The principal purpose of a company is not to make profit, full stop. It is to make a profit in order to continue to do things or make things, and to do so ever better and more abundantly. To say that profit is a means to other ends and not an end in itself is not semantic quibble, it is a serious

¹ A social contract refers to a hypothetical agreement between society and its citizens regarding the rights and responsibilities of both parties. In essence the social contract theory implies that in order to live in society, human beings agree to an implicit contract which gives them certain rights in return for giving up certain freedoms. Thus, the rights (and responsibilities) of individuals are the terms of the social contract, and the state is the entity created for the purpose of enforcing that contract. (Wikipedia cited 11/1/06).

moral point. A requirement is not a purpose. In every day life those who make means into ends are usually called neurotic or obsessive. We have to eat to live, but if we live to eat we become distorted in more senses than one. (Handy 1995, p. 136)

Hence, it is argued that the traditional view of profit maximisation for the sake of increasing shareholder's wealth should not be the only reason why companies exist. The increasing discontentment with the view of corporations being solely economic institutions having only economic responsibilities paved the way to the development of new theories and rationales for the notion that a corporation has responsibilities to society that go beyond economic duties. Perhaps what Estes (1996) reports regarding companies, more than 150 years ago, being established with the primary purpose of providing public benefit and profitability being only a secondary aim should become the norm once again. Does this call for business entities to prioritise social responsibility over economic incentives? The next section unravels the literature in this area.

3.4.4 Should Social Responsibility Supersede Profit Motive?

In his book entitled '*The New Management: Democracy and Enterprise are Transforming Organisations*', William Halal (1996) explains the limitation of both the profit and social responsibility motives. Citing a number of studies which showed American companies being involved in illegal practices like price fixing, pollution, bribes and other white collar crimes, he is convinced that its cause is not primarily attributable to 'greed' because he believes that most business managers are moral and dedicated professionals. The problem, he argues, lies on the profit-centred model which is based on a capitalistic ideological system that focuses on serving the interests of shareholders. Capitalism may have some good virtues but if the goal of business is defined as profit making, the interests of companies are opposed to the interests of society.

Halal documents that in a sincere attempt to remedy this situation, some American businesses, more than 30 years ago, have embraced the concept of corporate social responsibility (CSR). They have voluntarily created programs to improve the treatment of their social constituencies and even conducted 'social audits' to measure their progress. The downside to this approach, according to Halal is that:

...the idea became an empty piety because it focused on "doing good" while ignoring the need to increase productivity, sales revenue, and profits... These concepts have been useful in educating businesspeople about their social obligations. However, social responsibility is a limited idea

because it goes to the opposite extreme by advocating social service while ignoring economic realities (Halal 1996, p. 59)

What is needed, Halal submits, is an economic equivalent of Copernican revolution. In the same manner as Copernicus² caused astronomers and scholars to take a more skeptical attitude toward established dogma at that time, Halal suggests an analogy of the coming economic Copernican revolution³:

The profit-centered model of business is comparable to the Earth-centered model of the universe. Like the central role once attributed to the Earth, profit has been rather arbitrarily selected as the center of today's economic universe ...The social interests of stakeholders were placed in successively distant orbits as being of lesser importance even though they may in fact be as huge as the Sun. In contrast, the social responsibility model goes to another extreme by positing an economic universe that revolves about social interests but ignores financial realities. This is roughly equivalent to a solar system that revolves about Mars, Saturn, or Venus rather than the Earth (Halal 1996, p. 68).

Halal goes on to suggest that this continual conflict between profit and the social welfare has left societies bereft of what economists call a workable 'theory of the firm'. He proposes that the stakeholder model provides a balanced view, that is:

The stakeholder model reconciles this confusion by showing that all such interests are equally important. Shareholder wealth, employee welfare, customer satisfaction, the public good, and other corporate interests all revolve about a common economic goal that is as central to society as the Sun is to our solar system – serving the human needs of all these diverse members of the corporate community (Halal 1996, p. 68).

Halal's economic equivalent of Copernican revolution is not so different from what Handy (1995) is suggesting as an alternative answer to the question ...

What then is a company for ... The only real answer, I suggest, is 'for itself'. We might call it the existential company... unless the *six interest groups* are satisfied, the company will be unlikely to live that long... A company will only be allowed to survive as long as it is doing something useful, at a cost which people can afford, and it must generate enough funds for their continued growth and development. Existentialism in business is not, therefore, a form of selfishness (p. 143, *italics added*.)

Whilst Handy's response does not explicitly prioritise between economic and social motives and might sound overly simplistic, it makes sense that a company will only

² Nikolaus Copernicus was a Polish astronomer who theorised that the Sun rather than the Earth is at the center of the universe. Although he was correct in believing that the planets orbited the Sun and not the Earth, he mistakenly thought that the Sun is the centre of the universe and that the planets moved in perfect circles. Despite this mistake, Copernicus' theory marked the starting point of modern astronomy as it encouraged astronomers, philosophers and theologians to question currently established dogma (The Guinness Compact Encyclopedia 1994).

³ It is noted that Halal was not the only one to use the Copernicus example to suggest a changing societal perspective (see, for example Buchholz 1991, p. 27). However, Halal's analogy is more meaningful in this context.

continue its existence for as long as it is able to satisfy the *interested groups*. Handy identifies the six interest groups as he reflects on the meaning of business. Referred to as *hexagonal stakeholders*, the six groups consist of the company's "financiers, employees, and suppliers most obviously but also their customers, their environment and society as a whole" (p. 130). He proclaims what some hoped for, that is, that the businesses of Britain and America would start to emulate the way in which the Japanese and the continental Europeans had a form of six-sided or hexagonal Chinese contract with the six stakeholders. A Chinese contract, Handy explains,

...embodies a principle which went far beyond the making of lasting commercial deals...It was about the importance of compromise...and a belief in the future...It was about sacrifice, the willingness to forego some present good to ward off future evil (Handy 1995, p. 81).

As noted earlier, Handy's vision and Halal's proposal of the economic equivalent of Copernican revolution are very much related to promoting a *Stakeholder View* of the organisation. As a matter of fact, the main proponents of stakeholder theory (Bowie 1991; Donaldson & Preston 1995; Freeman 1983, 1984; Jones 1995; Svendsen 1998) are of the same view. Svendsen (1998), for example, shows her agreement in the preface to her book, called '*The Stakeholder Strategy: Profiting from Collaborative Business Relationships*', stating that:

Researchers dealing with corporate social responsibility were beginning to make claims about the corporate benefits of stakeholder management... The instrumental argument was made that companies that responded to the interest of their stakeholders in proactive fashion would be better than those who buffered themselves from outside influence. (Svendsen 1998, p. x).

However, just as Copernicus' theory of the Sun being the centre of the universe is not perfect in its first publication in 1543 in the book '*Concerning the Movement of the Heavenly Bodies*' (Guinness Compact Encyclopedia, p. 18), stakeholder theory is still evolving and stakeholder researchers continue to conduct forums and debate in their quest to further refine the concept and its application. This body of literature is reviewed in the succeeding section.

3.5 LITERATURE REVIEW: WHAT STAKEHOLDER THEORY IS & ISN'T

Donaldson and Preston (1995) note that the management literature has been replete⁴ with the stakeholder concept since Freeman's landmark book is published in the early

⁴ By 1995, it was estimated that about a dozen books and more than 100 articles with primary emphasis on stakeholder concept have been published (Donaldson & Preston 1995) probably including the articles from the October 1994 issue of the Business Ethics Quarterly (Jones & Wicks 1999). Since then,

1980s. Since then, the theory has been questioned, defended, battered and refined by its opponents and proponents. One such debate questioning the normative core of the stakeholder concept is centred on the primacy of shareholders *versus* stakeholders as the corporate objective.

3.5.1 Stakeholder Theory vs. Shareholder Theory

As earlier noted, the basic proposition of stakeholder theory is that the firm's success is dependent upon the successful management of all the relationships that a firm has with its stakeholders. When viewed as such, the conventional view that the success of the firm is dependent solely upon maximising shareholders' wealth is not sufficient because the entity is perceived to be a nexus of explicit and implicit contracts (Jensen & Meckling 1976) between the firm and its various stakeholders. Despite the proliferation in the literature of the idea of achieving a balanced view of both economic and social objectives of the firm, there are others who still continue to promote shareholder value maximisation. A more recent one was Sundaram and Inkpen's (2004) article entitled "The Corporate Objective Revisited" arguing for the primacy of shareholder value maximisation over stakeholder views. Their argument is centred on five grounds shown in Table 3.2 together with a summarised counter-argument by Freeman, Wicks and Parmar (2004). Freeman, Wicks and Parmar (2004) offer a comprehensive response to Sundaram and Inkpen's arguments as summarised in the same table. In defending the basic tenets and assumptions underlying stakeholder theory, they succinctly explain that:

The focus of stakeholder theory is articulated in two core questions. First, it asks, what is the purpose of the firm? This encourages managers to articulate the shared sense of the value they create, and what brings its core stakeholders together. This propels the firm forward and allows it to generate outstanding performance, determined both in terms of its purpose and marketplace financial metrics. Second, stakeholder theory asks, what responsibility does management have to stakeholders? This pushes managers to articulate how they want to do business – specifically, what kinds of relationships they want and need to create with their stakeholders to deliver their purpose. Today's economic realities underscore the fundamental reality we suggest is at the core of stakeholder theory: *Economic value is created by people who voluntarily come together and cooperate to improve everyone's circumstance* (Freeman et. al. 2004, p. 364, italics added).

Thus, it is submitted that managers have a responsibility to develop relationships with their stakeholders and create communities where everyone strives to give their best to deliver the value the firm promises. It is certainly acknowledged that shareholders are

interests in stakeholder theory has continued to attract both followers and critics (e.g. a solely dedicated issue of *Academy of Management Review* in 1999, Vol 42, Number 2 and Svendsen's (1998) book.

an important constituent and profit forms a significant part of the business activity but it is equally important to remember that profit is the result rather than the driving force in the value creation process. This is what Freeman (1994) meant when he pointed out that stakeholder theory begins with the assumption that values are necessarily and explicitly a part of doing business. As such, it clearly rejects the ‘separation thesis’ that connotes an assumption that social (ethical) and financial (wealth maximisation) motives can be neatly separated.

Table 3.2 Corporate Objective Revisited: Arguments and Counter-Arguments

Sundaram and Inkpen’s (2004, p. 353) Arguments	Freeman, Wicks and Parmar’s (2004) Counter-Argument & Reasons
1) The goal of maximising shareholder value is pro-stakeholder.	<i>The goal of creating value for stakeholders is decidedly pro-shareholder.</i> This is true because shareholders are stakeholders, hence, there is no need to argue that these theories are oppositional. The fact remains, though, that companies should not only serve shareholders’ interests but a broader set of constituency.
2) Maximising shareholder value creates the appropriate incentives for managers to assume entrepreneurial risks.	<i>Stakeholder theory gives the correct way to think about entrepreneurial risks.</i> Their view that stakeholder theory as one of allocating benefits to other stakeholders at the expense of shareholders is misguided. Venkataraman (2002) suggests that taking stakeholder approach enables the development of a more robust theory of entrepreneurship making it better to understand the role of entrepreneurial risk.
3) Having more than one objective function will make governing difficult, if not impossible.	<i>Having one objective function makes governance and management difficult.</i> The world is complex and managers are boundedly rational. In reducing this complexity, the shareholder view is more susceptible to moral myopia – it downplays the language of morality. There is no clear moral grounding for the stance that “business is about making money for shareholders”.
4) It is easier to make shareholders out of stakeholders, than vice versa, (i.e. non-shareowning stakeholders can become shareholders, but the reverse is not easy.)	<i>It is easier to make stakeholders out of shareholders.</i> This one is easy as argued above, i.e. shareholders are stakeholders.
5) In the event of a breach of contract or trust, stakeholders, compared with shareholders, have protection (or can seek remedies) through contracts and the legal system.	<i>Stakeholders have remedies that shareholders do not have.</i> This may be true as there are mechanisms in society that protects some nonshareholder stakeholders like employees. But it can be argued that shareholders and nonshareholders have more in common than what would appear (see Freeman & Evan 1990). What is more important is value creation whereby parties to the contracts pay the costs of safeguarding those contracts rather than imposing those costs externally on others – this is what stakeholder approach advocates.

3.5.2 Social & Political Theory Studies: Legitimacy & Stakeholder Theory Link

The review of literature on stakeholder theory can not be complete without reference to other surrounding theories of social and political economy theory including legitimacy. As earlier discussed in Chapter 2, it is proposed that ‘stakeholder theory’ and

‘legitimacy theory’ are better seen as two overlapping perspectives on issues which are set within a framework of assumptions about ‘political economy’ (Gray, Kouhy & Lavers 1995a). Political economy is described by Zald as:

...the study of the interplay of power, the goals of power wielders and the productive exchange system... As a framework ... it first of all analyses exchanges in whatever institutional framework they occur and second, analyses the relationships between social institutions such as government, law and property rights, each fortified by power and the economy, i.e. the system of producing and exchanging goods and services (cited in Gray et al 1995a, p. 52).

Given that the underlying premise in legitimacy theory (see Table 2.3) is that companies can only survive if the society in which they exist perceives that the firm is operating within the bounds of its socially acceptable value system (Dowling & Pfeffer 1975), it follows that the quest for firm survival and legitimacy is founded within the tenets of political economy. Given also that legitimacy is conferred when stakeholders affected by organisational outcomes endorse and support an organisation’s goals and objectives (Pfeffer & Salancik 1978, p. 194), it is clear that both the concept of legitimacy and political economy are embedded into stakeholder management theory. No stakeholder management can be successful without an explicit or implicit examination of the institutional framework (including the analysis of its relationship with social institution such as governments) within which the firm exists. This is why the government is considered one of the powerful stakeholders affected by and affecting the firm operation. And in the same manner as legitimacy theory seeks societal approval for company survival, stakeholder theory seeks to balance the possibly competing goals between various groups of stakeholders in the society in which the company exists. In essence, both political economy and legitimacy theory, being inextricably linked to stakeholder theory, offer support for its normative (moral/ethical) core, e.g. firms should do the right thing because this is what the society and its institutional framework collectively believes to be the right thing to do.

3.5.3 Stakeholder Theory: One Grand Theory or Multiple Perspectives?

The ‘separation thesis’ (as mentioned in 3.5.1) has not only appeared in stakeholder theory from the context of the social *versus* economic motives debate but also in the context of stakeholder theory development. Over the years, a number of variants of theories under the umbrella of stakeholder concept have emerged. Hence, some criticisms that have been raised against stakeholder theory range from ‘being relatively

vague giving little direction to management practice' (Jones & Wicks 1999) to 'possessing too broad conceptual interpretation' (Phillips, Freeman & Wicks 2003). Donaldson and Preston (1995) suggest that one of the main problems in the development of stakeholder theory has been the confusion about its nature and purpose. Stakeholder theory, they posit, is intended both to explain and to manage the operation of the firm. The business is viewed as an entity through which numerous and diverse groups accomplish multiple and not always congruent goals. As such, they argue that stakeholder theory goes well beyond the descriptive observation that firms have stakeholders. Unfortunately, Donaldson and Preston (1995) claim that:

...much of what passes for stakeholder theory in the literature is implicit rather than explicit, which is one reason why diverse and sometimes confusing uses of the stakeholder concept have not attracted more attention (p. 70).

Donaldson and Preston are of the view that stakeholder theory can be, and has been, used in a number of quite distinct ways involving varied methodologies, types of evidence and appraisal criteria. Hence, in an effort to clarify and justify the essential content and significance of the stakeholder concept, they developed a typology based on the division of stakeholder theories into descriptive/empirical, instrumental, and normative. A *descriptive/empirical approach* is used to describe and/or explain certain firm characteristics and behaviours like the nature of the firm, how management thinks about managing its constituents (see for example Brenner & Molander 1977; Wang & Dewhirst 1992) and how companies are managed (e.g. Clarkson 1991; Halal 1990; Kreiner & Bhambri 1991). An *instrumental approach* is used to identify the connections, or lack thereof, between stakeholder management activity and the achievement of traditional profitability or wealth maximising goal (e.g. growth) either using conventional statistical methodologies (e.g. Cochran & Wood 1984; Preston, Sapienza & Miller 1991; Roberts 1992) or direct observation and interview methods (e.g. Kotter & Heskett 1992; O'Toole 1991). However, instrumental studies, particularly those adopting statistical methodologies, usually stop short of exploring the links between cause and effect in detail although such links are commonly implicit. Finally, the *normative approach*, which dominated the classic stakeholder theory (Dodd 1932) and continued in their more recent versions (Carroll 1989; Kuhn & Shriver 1991), attempts to offer guidance and interpret the function of the firm on the basis of some underlying moral or philosophical principles.

Whilst both normative and instrumental are prescriptive, their bases are entirely different. The normative approach is categorical - it prescribes: “*Do (don’t do) this because it is right (wrong)*”. On the other hand, the instrumental approach is hypothetical – it says: “*If results A, B and C are preferred (not preferred), then principles and practices X, Y and Z should be adopted (avoided).*” The central theses of Donaldson and Preston’s typology are summarised in Exhibit 3.1.

Exhibit 3.1: Central Theses Advanced by Donaldson and Preston (1995)

<p>Thesis 1: Stakeholder theory is unarguably descriptive. It presents a model describing what the corporation is. It describes the corporation as a constellation of cooperative and competitive interests possessing intrinsic value. Aspects of this model may be tested for descriptive accuracy: Is this model more descriptively accurate than rival models? Moreover, do observers and participants, in fact, see the corporation this way? The model can also serve as a framework for testing any empirical claims, including instrumental predictions, relevant to the stakeholder concept (but not for testing the concept’s normative base).</p>
<p>Thesis 2: Stakeholder theory is also instrumental. It establishes a framework for examining the connections, if any, between the practice of stakeholder management and the achievement of various corporate performance goals. The principal focus of interest here has been the proposition that corporations practicing stakeholder management will, other thing being equal, be relatively successful in conventional performance terms (profitability, stability, growth, etc.)</p>
<p>Thesis 3: Although Theses 1 and 2 are significant aspects of the stakeholder theory, its fundamental basis is normative and involves acceptance of the following ideas: (a) stakeholders are persons or groups with legitimate interests in procedural and/or substantive aspects of corporate activity. Stakeholders are identified by their interests in the corporation, whether the corporation has any corresponding functional interest in them; and (b) the interests of all stakeholders merit consideration for its own sake and not merely because of its ability to further the interests of some other group, such as the shareowners.</p>
<p>Thesis 4: Stakeholder theory is managerial in the broad sense of that term. It does not simply describe existing situations or predict cause-effect relationships; it also recommends attitudes, structures, and practices that, taken together, constitute stakeholder management. Stakeholder management requires, as its key attribute, simultaneous attention to the legitimate interests of all appropriate stakeholders, both in the establishment of organizational (sic) structures and general policies and in case-by-case decision making.</p>
<p>Source: Donaldson and Preston 1995, pp. 66-67)</p>

Donaldson and Preston’s taxonomy of stakeholder theory has been widely cited and many find it useful as a way to understand this large and evolving body of literature in stakeholder theory. However, various researchers (Carroll & Nasi 1997; Freeman 1994, 1999; Rowley 1997) argue that the normative-instrumental-descriptive categorisation could result in a ‘separation thesis’ thereby rendering the firm-stakeholder analysis partial and incomplete. To combat this criticism, Jones and Wicks (1999) suggest a convergence of stakeholder theory, one which:

... involves applying instrumental theory (what happens if?) to normative cores to see if they result in personally and organisationally viable outcomes; instrumental theory helps evaluate the practicability of the behavioural contingency (normative core) of the convergent theory (Jones & Wicks 1999, p. 217).

Thus, the integration attempted is for the normative to dominate the instrumental. Jones and Wicks' proposal for a convergence, however, has faced a lot of disagreement (see Donaldson 1999; Freeman 1999; Friedman & Miles 2002; Gioia 1999; Trevino & Weaver 1999) for varied reasons. Friedman and Miles (2002, p. 2) argue that this integration is premature given that "not enough work has been done on the organization/stakeholder (sic) relation itself in order to combine different strands of stakeholder theory into a single meaningful framework". Trevino and Weaver (1999) disagree with Jones and Wicks' proposal of convergent stakeholder saying that stakeholder theory should be characterised not as a 'class of theories' but as a 'research tradition'⁵. However, Freeman (1999), whilst also arguing against Jones and Wicks' convergent theory, outrightly dismisses the need for convergence saying:

I have suggested that relying heavily on the fact-value – or descriptive-normative – distinction is a form of the separation thesis: the view that it is meaningful to separate the discourse of business from the discourse of ethics. Now, if we drop the tripartite typology of Donaldson and Preston, then plainly there is no need for anything like convergent stakeholder theory. There is nothing to converge – no separate contributions for philosophers and management theorists. There are just narratives about these narratives – that is, theory (Freeman 1999, p. 234).

Freeman goes on to argue that what is needed is not more theories that converge but more narratives that show divergent accounts of organisation and stakeholder relationships because surely there is more than one way to be effective in stakeholder management. On the other hand, Donaldson's (1999) proposition, in response to Jones and Wicks' convergent proposal, is to make stakeholder theory whole, i.e. to find out whether a conceptual glue can be found that is strong enough to bind the separate methodological strands of stakeholder theory. He suggests that this conceptual glue is possible and will make stakeholder theory whole.

What is clear from the discourse presented above is that, even though there are some disagreement in differentiating stakeholder theories (see also Kaler 2003⁶), everyone seems to agree that for stakeholder theory to be whole, its normative (ethical and moral

⁵ A research tradition, according to Trevino and Weaver, incorporates multiple, varied theories that are focused on the same domain of observed or postulated phenomena or related sets of questions or problems. Furthermore, research traditions not only typically specify a subject domain but may also delineate important questions, basic concepts and taken-for-granted assumptions (Trevino & Weaver 1999, p. 224).

⁶ Kaler (2003) rejects the typology based on the division of stakeholder theories into normative, descriptive and instrumental on the grounds that the latter two designations refer to second order theories rather than divisions within stakeholder theory and the first is a designation which, for the purposes of business ethics, applies to all stakeholder theories.

core) and managerial (i.e. descriptive and instrumental) aspects should co-exist. Donaldson (1999) argues for appropriate methodologies to be used while Freeman (1999) promotes the acceptance of divergent views that show different but useful ways of understanding corporations on stakeholder terms. Trevino and Weaver (1999) believe that stakeholder theory provides this ‘research tradition’ – one that incorporates multiple, varied approaches focused on the same domain. Indeed, the common strand arising from this continuing discourse is that stakeholder theory:

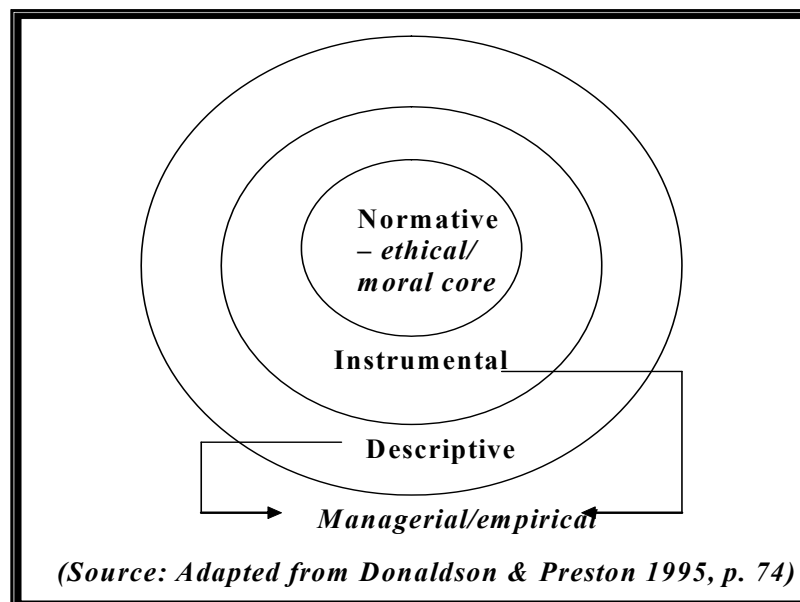
- a) is a pragmatic concept – suggesting that “if organizations (sic) want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization’s (sic) purposes ... regardless of the content of the purpose of a firm, the effective firm will manage the relationships that are important” (Freeman 1999, p. 234).
- b) is a research tradition – “incorporating shared concepts (e.g. stakeholder) and a common, normative concern for organization-stakeholder (sic) concerns – Donaldson and Preston (1995) have provided one analysis of these shared concepts and concerns, and Jones and Wicks have offered an alternative explication. But rather than generating a convergent theory ... [they are contributing] to the ongoing development of a research tradition that incorporates theories of different kinds... Doing so eliminates the need to subsume all research within the tradition under the scope of one grand theory” (Trevino & Weaver 1999, p. 224).
- c) is both managerial (descriptive and instrumental) and normative (ethical/moral)⁷ - that is “stakeholder theory is a theory of organizational (sic) management and ethics... Stakeholder theory is distinct because it addresses morals and values explicitly as a central feature of managing organizations” (Phillips, Freeman & Wicks 2003, pp. 481-482).

The managerial aspect is concerned with the identification of the motives underlying the interaction between the firm and the stakeholder while the normative aspect prescribes what should underlie this interaction. In terms of the provision of environmental disclosures which is the focus of this study, the managerial perspective is concerned with providing this information if the stakeholders who have the power or the ability to influence the survival of the firm demand this type of information. On the other hand, the normative view is concerned with the stakeholders’ right to information. Wilmshurst (2004, p. 3) argues that existing theory development created “confusion since different researchers have tended to adopt either a managerial or a normative

⁷ Other authors use similar notions in slightly different context. For example, Goodpastor (1991) observed that the definition of stakeholder implies two types of stakeholders: (1) the *strategic stakeholders* –the one who can affect the firm whose interests must be dealt with; and (2) the *moral stakeholders* –the one who is affected by the firm.

perspective and any overlap of perspectives often goes unrecognized (sic)". Hence, he proposes, as Freeman (1994) and Carroll and Nasi (1997) did, to give up the 'separation thesis' and embrace the idea of stakeholders "as fully complex normative beings who are inseparable from the idea of business" (Wilmshurst 2004, p. 3). This inevitably leads to the "need to strive diligently, not for one single theory, but for many often complicated theories organised around the stakeholder idea" (Carroll & Nasi 1997, p. 48). Indeed, this researcher believes that this is what the original intention of Donaldson and Preston's (1995) tripartite typology should be, that is, the three aspects of stakeholder theory being nested within each other as shown in Figure 3.4.

Figure 3.4: Three Aspects of Stakeholder Theory



The outermost layer of the theory is its descriptive aspect, one that presents and explains management-stakeholder relationships that are observed in the external world. Its accuracy is supported by its instrumental aspect which provides its predictive value. However, as Donaldson and Preston (1995, p. 74) clearly state: "the central core of the theory is ... normative. Thus, the managerial (i.e. descriptive and instrumental) accuracy of the theory "presumes the truth of the core normative conception, insofar as it presumes that managers and other agents act as if all stakeholders' interests have intrinsic value. In turn, recognition of these ultimate moral values and obligations gives stakeholder management its fundamental normative base."⁸

⁸ The normative justification for stakeholder theory has been well researched in the literature as documented by Phillips, Freeman and Wicks (2003). For example, authors like Argandoña (1998) wrote

This study adheres to these calls to break down the ‘separation thesis’ by maintaining that the normative aspect of the stakeholder theory is implicitly at the core of managerial (instrumental/descriptive) component as Freeman (1999, p. 234) suggests: “such normative cores are always dependent on the instrumentality built into the idea of stakeholder management.” Donaldson (1999) recalls that Jones and Wicks’ logic in proposing for normative and instrumental convergence seems to agree with the common belief that, if integration means the same methods must be employed, then “full integration of normative and empirical theories is highly improbable (Jones and Wicks, 1999, p. 216). Hence Donaldson (1999) posits that:

These different methodologies are doomed to coexist within the same theory; in other words, stakeholder theory’s normative component demands normative methodology, but its empirical component demands empirical methodology (p. 237).

By adopting multiple research methodologies employing both quantitative and qualitative techniques in data analysis and using various sources of data ranging from publicly available documents such as Annual Reports (secondary data) and through unstructured, semi-structured and structured interviews (primary data), it is believed that both the managerial and normative aspects are preserved. The challenge, however, is to find and/or develop a framework that accommodates both the normative and managerial aspects of the theory and, at the same time, allows for both quantitative and qualitative examination. Once again, the existing literature provides some light in response to this challenge. A number of these studies are discussed in the succeeding sections.

3.5.4 Ullmann’s Proposed Stakeholder Framework

After conducting an extensive analysis of prior corporate social responsibility (CSR) studies, Ullmann (1985) concludes that one of the reasons for the inconsistent findings in previous research is the lack of theory. He argues that CSR models developed in prior studies are misspecified because the relationship between firm strategy and social responsibility decisions is not included in the empirical tests. In line with the basic tenet of stakeholder theory, Ullmann suggests that firms use social disclosures as a

about the ‘common good’ as a normative core of stakeholder theory while others like Burton and Dunn (1996) and Wicks, Gilbert and Freeman (1994) traced its connection with ‘feminist ethics’; Donaldson and Dunfee (1994) with ‘integrative social contracts theory’; Donaldson and Preston (1995) with ‘property rights’; Freeman (1994) with the ‘doctrine of fair contracts’; and Phillips (1997, 2003) with the ‘principle of stakeholder fairness’.

means to manage their relationships with their stakeholders and the external environment. He further states:

Therefore, unless social disclosure actually represents an external demand, it is either a supporting strategy connected with social performance or an alternative strategy for managing stakeholder relations ... (1985, p. 552).

Ullmann develops a three-dimensional strategic framework consistent with the concept advanced in stakeholder theory by Freeman (1984). Ullmann's framework is useful to explain the correlations between social (and environmental) disclosures and performance including economic performance. The first dimension, *stakeholder power*, explains that a firm will be responsive to the intensity of stakeholder demands. For example, when stakeholders control critical resources, the firm is likely to react in a way that satisfies their demands. In contrast, if the power of stakeholders is low, the firm is likely to ignore their demands. This implies that stakeholder power tends to be positively correlated with social disclosures. The second dimension, *strategic posture*, describes the mode of response the firm is likely to take concerning social (and environmental) demands. Companies employing an *active posture* try to influence their status by continuously monitoring their position with stakeholders, for example, by initiating social responsibility programs as well as disclosing their commitment to social responsibility. Conversely, companies displaying a *passive posture* are neither interested in searching for an optimum strategy to disclose social responsiveness nor involved in monitoring activities. The third dimension, *past and current economic performance*, determines the relative weight of a social demand and the attention it receives. This dimension is relevant because it is conceivable that firms suffering from poor profitability may place economic demands ahead of social demands. Also, economic performance inevitably affects the financial capability of the firm to undertake costly programmes related to social demands.

Roberts (1992) has tested Ullmann's model to understand the determinants of corporate social responsibility disclosure using a sample of 80 companies drawn from a population of 130 major companies investigated in 1984, 1985 and 1986 by the Council of Economic Priorities (CEP). Roberts has found that his "measures of stakeholder power, strategic posture and economic performance are significantly related to levels of corporate social disclosure" (p. 595).

Previous Australian studies adopting Ullmann's framework (Chan 1996; Chan & Kent 2003; Elijido-Ten 2005) have examined Australian listed companies' environmental disclosures. By analysing the content of Australia's top 110 listed companies' 1995 annual reports, Chan and Kent regress the quality and quantity of environmental disclosures against the variables chosen using Ullmann's three-dimensional framework and find some significant relationships. Their findings contribute to our knowledge on how Australian companies manage their stakeholders using environmental disclosures. However, the extent to which such disclosures are related to corporate environmental performance remains debatable. For example, numerous studies from the 1980s through to 2000s report either no significant or negative relationship between environmental disclosure and performance (see Freedman & Jaggi 1996; Hughes, Anderson & Golden 2001; Patten 1991, 1992, 2002; Rockness 1985; Wiseman 1982). As a result, Freedman and Jaggi (1996) concluded that environmental disclosures as they exist cannot be used as a proxy for environmental performance.

To improve on prior research, Elijido-Ten (2005) uses an independent, third-party ranking system (Australian Conservation Foundation's (ACF) 2002 environmental performance ranking of Australia's Top 100 companies) as a measure for the level of environmental performance. The aim is to test empirically whether there are significant associations between the firm's environmental performance and Ullmann's three dimensions of stakeholder power, strategic posture and economic performance. Table 3.3 shows a comparison of the findings from Roberts (1992), Chan (1996), Chan & Kent (2003) and Elijido-Ten's (2005) more recent study.

It is clear that Ullmann's framework can be a useful tool in the conduct of empirical studies particularly since it has already been used in the literature using statistical methodologies. Statistical studies like the ones reviewed earlier provide a descriptive account of what can be objectively observed. Using what is termed 'hard data', they could provide compelling evidence depending on the presence or absence of significant associations between certain variables. Hence, these studies could be used to make hypothetical predictions as in *instrumental studies*, e.g. '*if variable A and B are significantly and positively correlated with variable Z and Z is what we want to achieve, then perhaps we should attempt to increase A and B.*

TABLE 3.3: SUMMARY OF STUDIES ADOPTING ULLMANN'S (1985) FRAMEWORK								
ROBERTS (1992)			CHAN (1996); CHAN & KENT (2003)			ELIJIDO-TEN (2005)		
Sample => US	HOW MEASURED	FINDING	Sample => Australia	HOW MEASURED	FINDING	Sample => Top 100 Australian	HOW MEASURED	FINDING
cos. investigated in 1984-86 by the CEP		(Sign)	102 largest listed firms (BRW, 1995)		(Sign)	cos. ranked by ACF in 2002 accdg to env't'l performance		(Sign)
Dependent Variables			Dependent Variables			Dependent Variables		
SOCIAL DISCLOSURE	CEP ratings		QUALITY	Questionnaire rated		Australian Conservation Found'n	ACF Ranking on environmental performance	
			QUANTITY	No. of sentences		Environmental Performance		
Independent Variables (expected sign)			Independent Variables (expected sign)			IVs (expected sign)		
1ST DIMENSION			1ST DIMENSION			1ST DIMENSION		
Stakeholder Power			Stakeholder Power			Stakeholder Power		
Stockholders (-)	% ownership - 5%+	not sig/ -	Shareholder (+/-)	% ownership - 5%+	sig. / +	SP (-) => Shareholder Power	% ownership - 5%+	sig. / -
Creditor (+)	Ave. D/E => '81-84	sig./+	Creditor (+)	Ave. D/E	not sig.	CP(+)=>Creditor Power	Ave. D/E	not sig.
Gov'/Regulators (+)	Political contributions	sig./+	Regulator (+)	1=prosecuted; 0=not	not sig.	GP (-) =>Government power	1= high env. sensitivity	sig. / -
			Lobby Group (+)	1=high ind. Sensitivity	sig. / +		0 = low env.sensitivity	
				0 = low sensitivity				
2ND DIMENSION			2ND DIMENSION			2ND DIMENSION		
Strategic Posture			Strategic Posture			Strategic Posture		
Public Affairs (+)	Ave. size of public affairs staff - '83-'84	sig./+	Mission Statement (+)	1 = acknowledgment	sig. / +	EC(+)=>Environmental Concern	1=disclosure of environmental activities on A/R &/or env'l concern	sig. / +
Philanthropic foundation (+)	1 = PF; 0 = nil	sig./+	Env't'l Committee (+)	1 = committee exist	sig. / +		0=none	
				0 = no committee				
3RD DIMENSION			3RD DIMENSION			3RD DIMENSION		
Econ. Performance			Econ. Performance			Econ. Performance		
MGRROE (+)	Ave. change in ROE 1981-84	sig./+	ROE '94 (+)	1994 Return on Assets	not sig.	AROA(+)=> Ave. Ret.on Assets	2001-2002 Average	not sig.
			ROE '95 (+)	1995 Return on Assets	not sig.	PastROA(+)	2001 ROA	not sig.
BETA (-)	1984 beta mrkt mode with 60 month prd	sig./+	Average ROE (+)	Ave ROE	not sig.	CurrentROA(+)	2002 ROA	not sig.
Control Variables			Control Variables			Control Variables		
AGE (+)	age in 1984	sig./+	SIZE (+)	log market capitalisation	sig. / +	LSIZ(+)=>log size	log market capitalisation	not sig.
IND (+)	1 = auto, airline, oil; 0 = others	sig./+	RISK (+)	age since inception	sig. / +	AGE(+)	age since listed up to 2002	not sig.
SIZE (+/-)	Ave. revenues '81-84	not sig/ -						

However, as noted earlier, instrumental studies specifically those adopting statistical methodologies usually stop short of exploring the links between cause and effect in detail. Whilst it may be true that Z is significantly positively correlated with A and B, the statistical analysis does not show whether A and B cause Z or vice versa. It is only through further theorising that the cause and effect relationship can be made apparent. Furthermore, the choice of the variables included in the model must also be well supported by the theory supporting the framework. Therefore, although it is acknowledged that the Ullmann framework is useful as a starting point for this investigation, it is further acknowledged in this study that whatever findings it will provide will stop short of making further connections which perhaps only qualitative research is able to provide.

If stakeholder theory is concerned with managing the operation of the firm by balancing multiple and not always congruent goals of numerous and diverse groups, it follows that, for stakeholder theory to be practical and applicable, management needs to be able to identify and prioritise the needs of the most influential or ‘salient’ stakeholder group or individual. This is what Freeman (1994) refers to as “The Principle of Who or What Really Counts.” This is discussed next.

3.5.5 Stakeholder Identification and Salience

Up until Mitchell, Agle and Wood’s (1997) paper was published, there was no consensus in providing the answer to the two questions: 1) “who (or what) are the stakeholders of the firm?” and 2) “to whom (or what) do managers pay attention?” According to Mitchell, Agle and Wood (1997, p. 853):

The first question calls for a *normative theory of stakeholder identification*, to explain logically why managers should consider certain classes of entities as stakeholders. The second question call for a *descriptive theory of stakeholder salience*, to explain the conditions under which managers do consider certain classes of entities as stakeholders (italics original).

The stakeholder theory literature offers a wide variety of stakeholder classifications ranging from owners as opposed to non-owners of the firm; capital owners versus owners of less tangible assets; actors versus those acted upon; resource providers

versus dependents of the firm; voluntary versus involuntary risk-bearers⁹; risk takers versus influencers; normative versus derivative¹⁰; and primary versus secondary¹¹. Because of this maddening variety of signals to identify the firm's stakeholders, virtually anyone can affect or be affected by the firm's actions. Hence, Mitchell et al (1997) argue that:

What is needed is a theory of stakeholder identification that can reliably separate stakeholders from non-stakeholders (p. 854).

Stakeholder identification should address the first question of '*who or what are the stakeholders?*' And to answer the second question of '*to whom or what do managers pay attention?*', they propose that given the pragmatic reality that managers simply cannot attend to all claims (both actual and potential), an attempt should be made to prioritise managerial attention. This, they suggest, is the question of **stakeholder salience**, that is, the degree to which managers give priority to competing stakeholder claims. Therefore, Mitchell et al (1997) further argue that:

What is needed also is a theory of stakeholder salience that can explain to whom and to what managers actually pay attention (p. 854).

3.5.5.1 Stakeholder Identification

Mitchell et al (1997) propose that "classes of stakeholders can be identified by their possession or attributed possession of one, two or all three of the following attributes: (1) the stakeholder's **power** to influence the firm, (2) the **legitimacy** of the stakeholder's relationship with the firm, and (3) the **urgency** of the stakeholder's claim on the firm" (p. 854). In attempting to clarify the attributes put forward in stakeholder identification,

⁹ Clarkson (1994) defined voluntary stakeholders as those bearing some form of risk as a result of having invested something of value to the firm like capital while involuntary stakeholders are those placed at risk as a result of a firm's activities.

¹⁰ **Normative stakeholders**, according to Phillips (2003, p. 30-31) "are those stakeholders to whom the organization has a moral obligation, an obligation of stakeholder fairness, over and above that due other social actors simply by virtue of being human... **Derivative stakeholders** are those groups whose actions and claims must be accounted for by managers due to their potential effects upon the organization (sic) and its normative stakeholders".

¹¹ According to Clarkson (1995), a **primary stakeholder group** is one without whose continuing participation the corporation cannot survive (high level of interdependence) e.g. the shareholders and investors, employees, customers, and suppliers together with what is defined as public stakeholder groups like, the government and communities that provide infrastructures and markets, whose laws and taxes must be obeyed and paid (p.106). **Secondary stakeholder groups** are those who influence or affect, or are influenced or affected by the corporation, but are not engaged in transactions with the corporation and are not essential for its survival (p. 107), e.g. the media, competitors and special interest groups.

they consider both the broad and narrow definition of stakeholder. Freeman's (1984) classic definition that a 'stakeholder is any group or individual who can affect or is affected by the achievement of the organisation's objective' is certainly one of the broadest stakeholder definitions. In this definition, the stakeholder could be almost everyone and the stake can be unidirectional or bidirectional. A narrow definition, proposed by Freeman and Reed (1983), reverts back to the Stanford Research Institute (cited in Freeman 1984) definition referring to 'stakeholders as those groups on which the organisation is dependent for its continued survival', a definition that is solely unidirectional. Mitchell et al (1997) suggest that the narrow views of stakeholders are based on the practical reality of limited resources, time and attention of managers in dealing with external constraints. Hence, they argue that:

... those favoring [sic] a narrow definition of stakeholders [are] searching for a "normative core" of legitimacy so that managers can be advised to focus on the claims of a few legitimate stakeholders. The broad view of stakeholders, in contrast, is based on the empirical reality that companies can indeed be vitally affected by, or they can vitally affect, almost anyone. But it is bewilderingly complex for managers to apply (p. 857).

It follows that in order to make stakeholder theory more practical, the narrow view of focusing on a normative core of legitimate stakeholders could be a starting point. Thus, one attribute of an important stakeholder is legitimacy – having a legitimate stake on the firm. However, there is a need to clarify the term 'stake' by differentiating between groups that have a legal, moral or presumed claim on the firm. Savage, Nix, Whitehead and Blair (1991) consider two necessary attributes to identify a stakeholder: 1) a claim; and 2) the ability to influence the firm. Whilst some authors (Brenner 1993; Starik 1994) propose that these attributes are used as either/or components of defining those with stake, Mitchell et al (1997) argue that both attributes of claim and ability to influence are muddled into their proposed attributes of *power* and *legitimacy*:

"Influencers have power over the firm, whether or not they have valid claims or any claims at all and whether or not they wish to press their claims. Claimants may have legitimate claims or illegitimate ones, and they may or may not have any power to influence the firm" (Mitchell et al 1997, p. 859).

Although they note that *power* and *legitimacy* are different, they admit that sometimes, these attributes may overlap and each one can exist without the other. It is suggested further that another crucial point in order to clarify the term 'stake' is to include both *actual* and *potential* relationships with the firm. Thus, Mitchell et al (1997) argue that "potential relationship can be as relevant as the actual... because such identification

can, at a minimum, help organizations (sic) avoid problems and perhaps even enhance effectiveness” (1997, p. 859).

In relating the attributes of *power* and *legitimacy* to the stakeholder’s broad and narrow definition, Mitchell et al’s (1997) review of literature suggests that scholars who attempt to narrow the definition of stakeholders emphasise the claims *legitimacy* based upon contract, exchange, legal or moral right. On the other hand, those who favour a broad definition emphasise the stakeholder’s *power* to influence the firm’s behaviour regardless of whether or not their claims are legitimate. To bridge the two concepts, they offer the following argument:

... the broad concept of stakeholder management must be better defined in order to serve the narrower interests of legitimate stakeholders. Otherwise, influencing groups with power over the firm can disrupt operations so severely that legitimate claims cannot be met and the firm may not survive. Yet, at the same time, it is important to recognize (sic) the legitimacy of some claims over others (pp. 862-3).

Thus, they submit that *power* and *legitimacy* are necessary core attributes of a comprehensive stakeholder identification model. They further advocate that in order to make ‘systematic, comprehensible and dynamic stakeholder identification model’, these two attributes of power and legitimacy must be examined in light of the intense demands of *urgency* – the degree to which stakeholder claims call for immediate attention. The definitions of these three stakeholder identification attributes are summarised in Table 3.4.

3.5.5.2 Stakeholder Salience

Stakeholder salience is the degree to which managers give priority to competing stakeholder claims (Mitchell et al 1997, p. 878). In using the three attributes of *power*, *legitimacy* and *urgency* to understand stakeholder salience, Mitchell et al (1997) are cautious in stating that the stakeholder identification and salience theory is only dynamic if it is acknowledged that:

- 1) Stakeholder attributes are variable, not steady state.
- 2) Stakeholder attributes are socially constructed, not objective reality.
- 3) Consciousness and willful exercise may or may not be present. (p. 868)

Hence, for example, the attribute of power is transitory – it can be acquired or lost. Also, the possession of power does not imply the consciousness of such possession nor does it imply its actual use. A special interest group may have the power to impose its will upon a firm but unless it is aware of its power and intends to use it on the firm, it is

not considered a stakeholder with high salience. The same reasoning goes for legitimacy – it is a variable, dynamic attribute. Claimants may or may not perceive the legitimacy of their claims likewise managers may perceive stakeholder legitimacy differently from the stakeholder’s perception. Hence, “power gains authority through legitimacy, and it gains exercise through urgency” (Mitchell et al 1997, p.869) and “legitimacy gains rights through power and voice through urgency” (p.870).

Table 3.4: Defining the Three Attributes Proposed by Mitchell et al (1997)

ATTRIBUTES	DEFINITION	COMMENTS
Power	<ul style="list-style-type: none"> - “the probability that one actor within social relationship would be in a position to carry out his own will despite resistance” (Weber 1947) - “a relationship among social actors in which one social actor, A, can get another social actor, B, to do something that B would not otherwise have done” (Dahl 1957) 	<p>According to Etzioni (1964), there are three types of power namely:</p> <p>Coercive power – control based on application of physical means like the threat to use physical sanctions such as a gun, a whip or a lock.</p> <p>Utilitarian power – the use of material rewards for control purposes such as granting symbols (e.g. money) to acquire goods or services.</p> <p>Normative-social or Social power – the use of ‘pure’ symbols (those whose use does not constitute physical threat or claim on material rewards, e.g. prestige, esteem, love and acceptance) for control purposes.</p>
Legitimacy	-“a generalized (sic) perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman 1995, p. 574)	<p>Legitimacy and power are distinct attributes that can combine and create authority (defined by Weber as the legitimate use of power).</p> <p>The implicit assumption that “legitimate stakeholders are necessarily powerful” is not always true, e.g. minority stockholders in a closely held company have legitimate claim but no power while corporate raiders have no legitimate claim in the eyes of current managers but they have the power. (Mitchell et al 1997)</p>
Urgency	<ul style="list-style-type: none"> - “calling for immediate attention” (Merriam-Webster Dictionary) - “the degree to which stakeholder claims call for immediate attention” (Mitchell et al 1997) 	<p>Two conditions that must exist to consider something urgent:</p> <p>(1) Time sensitivity – the degree to which managerial delay in attending to the claim or relationship is unacceptable to the stakeholder.</p> <p>(2) Criticality- the importance of the claim or the relationship to the stakeholder. (Mitchell et al 1997)</p>

Using various combinations of the three attributes, Mitchell et al (1997) develop a stakeholder typology shown in Figure 3.5 and Table 3.5. Based on the assumption that managers’ perceptions of stakeholders form the crucial variable in determining organisational resource allocation in response to stakeholder claims and in conjunction with the analysis of stakeholder classes derived from the three attributes, their main proposition is formed stating that “stakeholder salience will be positively related to the cumulative number of stakeholder attributes – power, legitimacy, and urgency – perceived by managers to be present” (p. 873).

Figure 3.5: Mitchell et al (1997, p. 874) Stakeholder Typology

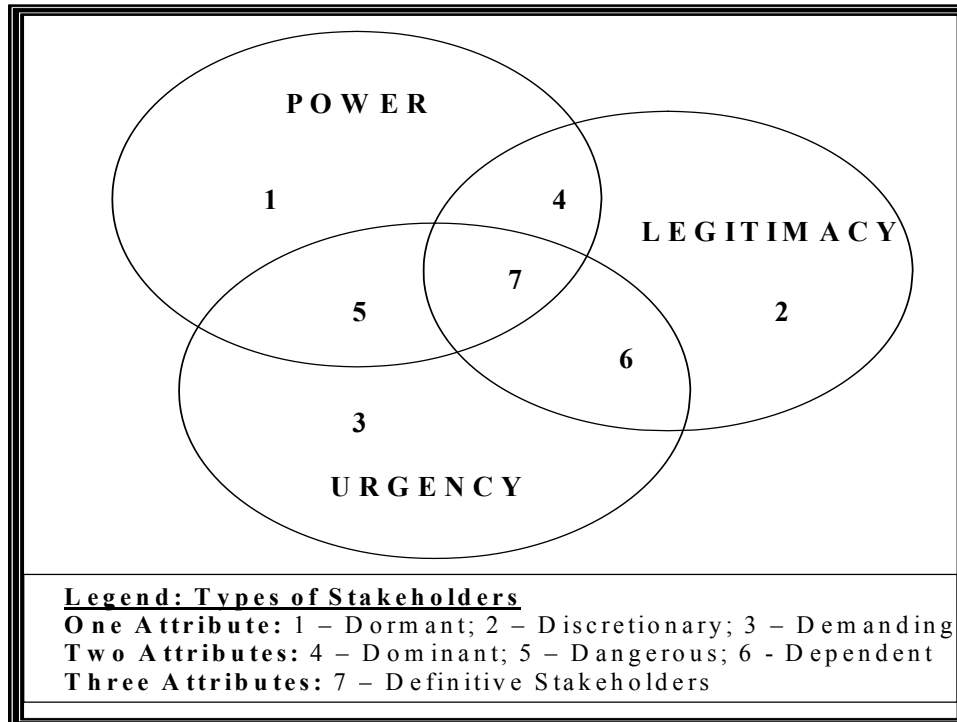


Table 3.5: Stakeholder Types & Management Predictions/Propositions

SALIENCE CLASS	PREDICTIONS / PROPOSITIONS
Low Salience Classes: Latent Stakeholders - the one-attribute-stakeholders called <i>latent stakeholders</i> include:	Proposition: Stakeholder salience will be low where only one of the stakeholder attributes is perceived by managers to be present.
(1) the ‘dormant stakeholders’ – those who possess power but without legitimate relationship or urgent claim, their power remains unused	Managers may well do nothing and may not even go as far as to recognise those stakeholders’ existence.
(2) the ‘discretionary stakeholders’ – those who have a legitimate claim but possess no power to influence the firm and no urgent claims	Same as above.
(3) the ‘demanding stakeholders’ – those with urgent claims but having no power nor legitimacy.	Same as above.
Moderate Salience: Expectant Stakeholders - the two-attribute-stakeholders called <i>expectant stakeholders</i> include:	Proposition: Stakeholder salience will be moderate where two of the stakeholder attributes are perceived by managers to be present.
(4) the ‘dominant stakeholders’ – those who are both powerful and legitimate and whose influence in the firm is assured (e.g. directors, investors, creditors, government, etc.);	These stakeholders will expect and receive much of manager’s attention (but they are by no means the full set of stakeholders to whom managers should relate to).
(5) the ‘dependent stakeholders’ – those who lack power but have urgent and legitimate claims (e.g. special interest groups, local residents and even the natural environment itself (Starik 1993)).	Managers will only give them attention if they themselves take the initiative to carry their will or these stakeholders win the support of dominant stakeholders.
(6) the ‘dangerous stakeholders’ – those who have the power and urgent claims but lack legitimacy could be potentially dangerous, coercive and violent (e.g. wildcat strikes, employee sabotage and even terrorism.	Claims arising from this typology as outside the bounds of legitimacy and stakeholder-manager relationship.
(7) High Salience: Definitive Stakeholders – those who possess all three attributes of power, legitimacy and urgency	Stakeholder salience will be high where all three of the stakeholder attributes are perceived by managers to be present.

The analysis made possible by the stakeholder typology provided by Mitchell et al (1997) is useful in identifying who are the stakeholders and making an assessment of how important it is for managers to give attention to their claims based on their salience to company survival. Agle, Mitchell and Sonnenfeld (1999) have operationalised this model using data provided by the CEOs of 80 large US firms to examine relationships among the stakeholder attributes of power, legitimacy, urgency, and stakeholder salience as well as CEO values and corporate performance. They find strong support for the attribute-salience relationship and some significant relationships among CEO values, salience, and corporate social performance. These findings suggest that the stakeholder attributes do affect the degree to which top management prioritise competing stakeholder demands. However, they find no support for the salience-financial performance link which lead them to suggest a need for a continued emphasis on the development of normative stakeholder theory. The next step after stakeholder identification and assessment of their salience is to understand the types of strategies available to manage these relationships.

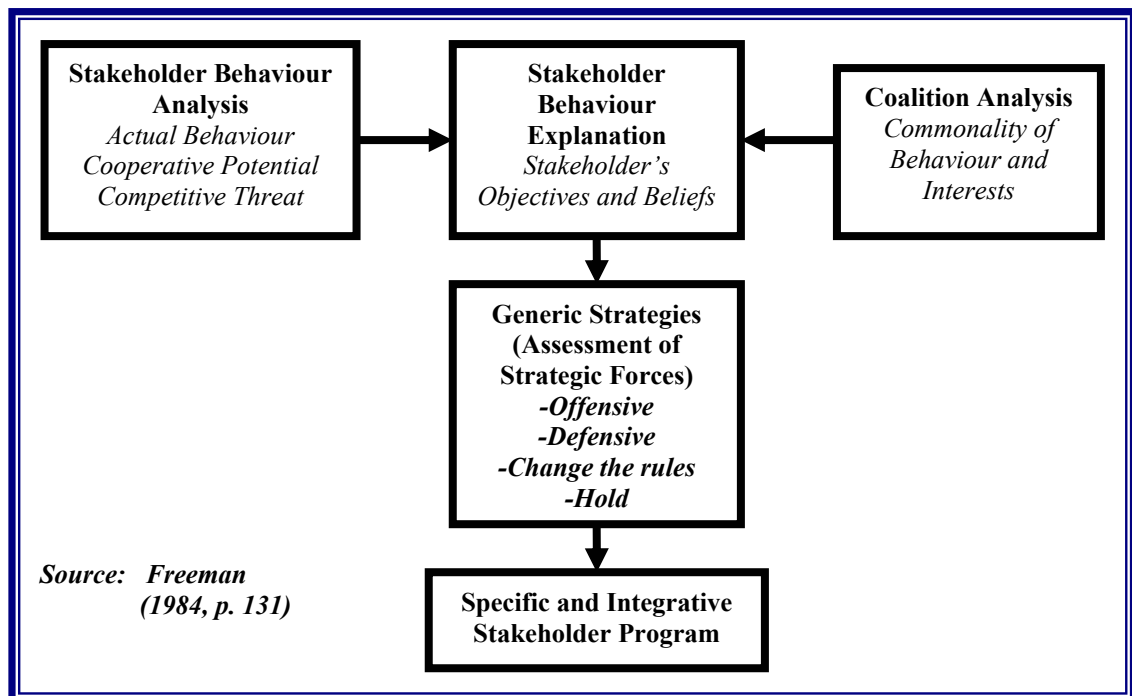
3.5.6 Stakeholder Strategy Formulation

Combining Porter's (1980) generic strategies to establish competitive advantage, Freeman (1983, 1984) introduces a process in which stakeholder strategy can be formulated as shown in Figure 3.6. Freeman (1984, pp. 131-36) suggests that the first step in constructing strategic programs for stakeholders is to **analyse** their actual and potential behaviour. The *actual or observed behaviour* describes the current state of the relationship between the organisation and stakeholder on the issue in question. The potential behaviour can be divided into: *cooperative potential* – represents the 'best scenario', i.e. what the stakeholder could do to help the firm achieve its desired outcome; and *competitive threat* – represents the 'worst scenario', i.e. what could the stakeholder do to prevent or help prevent the firm from achieving its goal.

The second step is to **explain** stakeholder behaviour by asking the manager to put him/herself in the stakeholder's place in order to feel and to see the world from their point of view. By trying to play the role of a particular stakeholder, the manager is able to synthesise and fully understand the *objectives* and *beliefs* of a particular stakeholder. It is useful to look at stakeholder objectives in terms of: (1) what the stakeholder is

trying to accomplish over the long term; (2) what the stakeholder group is trying to accomplish on the issue under analysis; and (2) what is the linkage between the current issue and the stakeholder’s long-term objective. To explain their beliefs, it is important to consider whether the group believes that the firm is ‘incompetent, unresponsive or pays too little attention to them’ or whether they believe otherwise.

Figure 3.6: Stakeholder Strategy Formulation Process



Finally, **coalition analysis** allows the manager to search for commonalities in terms of: **commonality in behaviour** – to look for stakeholder groups who have similar actual, cooperative or competitive behaviour; and **commonality in interests** – to look for groups who share common objectives and beliefs about the firm. Rowley (1997) further explores this concept as he promotes the theory of stakeholder influences by moving beyond dyadic relationships between individual stakeholders and the focal organisation.

According to Freeman (1984, pp. 141-42), the above analysis should provide relevant insights for the formulation of generic strategies. By analysing the **cooperative potential** and **competitive threat** of each stakeholder, a surrogate for the stakeholder potential to affect any strategic program is developed. A typology of, at least, four categories of groups can thus be formed:

(1) those with high *cooperative potential* and high *competitive threat* were called ‘**swing**’ stakeholders – they have strong ability to influence the outcome of a particular situation, hence strategic programs which seek to *change the rules* by which the firm interacts with those stakeholders are appropriate.

(2) those with low *cooperative potential* and high *competitive threat* were called ‘**defensive**’ stakeholders – they can be of relatively little help but can take steps to prevent the firm from achieving its objectives. Defensive stakeholders may currently display helpful behaviour so their possibility for improvement is quite limited. Thus, the most appropriate strategy is to *defend*.

(3) those with high *cooperative potential* and low *competitive threat* were called ‘**offensive**’ stakeholders – they can help a great deal in achieving objectives but pose little relative threat. It is possible that they are already killing the firm so the firm could not be any worse. Since there is relatively little downside risk, virtually any strategic program is worth a try so the most appropriate strategy is to *exploit* any possible opportunity.

(4) those with low *cooperative potential* and low *competitive threat* were called ‘**hold**’ stakeholders – they can be of relatively little extra help or harm although they may currently be quite vital. If these groups are unlikely to move, it follows that existing strategic programs are sufficient hence the manager is likely to *hold current position*.

There are several propositions emanating from this typology as shown in Exhibit 3.2.

Exhibit 3.2: Freeman’s Propositions

Proposition 1	<i>The relative power of stakeholders, in terms of potential for changes in current actions, affects the success of particular strategic programs of a firm.</i>
Proposition 2	<i>If a set of stakeholders in a firm has relatively high cooperative potential and relatively low competitive threat, the firm should adopt an offensive strategy to try and bring about the cooperative potential of this set of stakeholders.</i>
Proposition 3	<i>If a set of stakeholders in a firm have relatively high competitive threat and relatively low cooperative potential, then the firm should adopt a defensive strategy to prevent competitive threat on the part of these stakeholders.</i>
Proposition 4	<i>If a set of stakeholders has relatively high cooperative potential and competitive threat, the firm should adopt a strategy which seeks to change or influence the rules of the game which govern firm-stakeholder interactions.</i>
Proposition 5	<i>If a set of stakeholders has relatively low cooperative potential and competitive threat, the firm should adopt a strategy which seeks to continue current strategic programs, and holds the current position of these stakeholders in place.</i>

(Source: Freeman 1984, pp. 143-44)

Savage, Nix, Whitehead and Blair’s (1991) diagnostic typology of organisational stakeholders is slightly different from Freeman’s model. Using a case study based on the 1989 strike at Eastern Airlines in the US, Savage et al (1991) provide an example on how strategies to assess and manage organisational stakeholders can be formulated based on the stakeholders’ potential to threaten or cooperate with the firm. Although different stakeholder terminologies and strategies are used as shown in Figure 3.7, there are marked similarities in the two typologies.

**Figure 3.7: Freeman & Savage et al's
Diagnostic Typology of Organisational Stakeholders**

		COMPETITIVE THREAT		POTENTIAL for THREAT	
CO- OPE- RA- TIVE	HI	Grid 1: SWING <i>STRATEGY:</i> <i>Change the rules</i>	Grid 3: OFFENSIVE <i>STRATEGY:</i> <i>Exploit</i>	PO- TEN- TIAL	HI
	LO	Grid 2: DEFENSIVE <i>STRATEGY:</i> <i>Defend</i>	Grid 4: HOLD <i>STRATEGY:</i> <i>Hold Current Position</i>	CO- OPE- RA- TION	LO
		HI	LO		
		Source: Freeman (1984, p. 143)		Source: Savage et al. (1991, p. 65)	

Grid 1 of both models identifies stakeholders with high cooperative potential and high competitive threat. While Freeman calls them *swing stakeholders* as opposed to Savage et al's *mixed blessing*, the managerial strategies are similar. *Change or influence the rules* strategy (Freeman 1983, 1984) necessitates either changing the kinds of decisions made by the firm or seeking to change rules that have been enacted into law. The obvious reason for such change is to enable strong *collaboration* with this type of stakeholders (as proposed by Savage et al). The question mark in Savage et al's grid 1 posits that if collaboration with mixed blessing stakeholders is not successful, they could easily turn to *non-supportive stakeholders* (grid 2 in their model). In contrast, successful collaboration could turn them into *supportive stakeholders*.

Grid 2 stakeholders are characterised by low cooperative potential and high competitive threat. Freeman calls them *defensive stakeholders* while Savage et al refer to them as *non-supportive stakeholders*. Despite the fact that both models propose the use of *defensive* strategy, the way the strategy is used, however, is different. Savage et al argue that the best way to handle non-supportive stakeholders such as employee unions, governments, competitors and even news media, is to try to reduce the dependence that forms the basis for the stakeholders' interest in the firm, for example voluntarily cutting back pollution to forestall government regulation. Freeman, in contrast, promotes that

the best ways to introduce defensive programmes are to: (1) reinforce current beliefs about the firm; (2) maintain existing programs while linking issues that stakeholder sees more favourably; and (3) let stakeholder drive the transaction process. An example is the attention given by the firm to requests from legislators. Lobbyists will respond quickly to these requests thereby letting the legislators drive the process.

Grid 3 represents the ideal type of *supportive stakeholders* in Savage et al's typology. By *involving* supportive stakeholders such as the firm's board of trustees, staff employees and suppliers, the management can encourage more cooperation from these groups. Savage et al suggest that the firm must ensure the relationships with supportive stakeholders are not overlooked by implementing, for example, decentralisation or participative management techniques. Freeman, on the other hand, refers to grid 3 stakeholders as *offensive stakeholders* and proposes that this group is best managed by using offensive strategic programmes, i.e. any opportunities for gain should be *exploited*. In contrast to Savage et al's *supportive stakeholders*, Freeman argues that the *offensive stakeholders* may have high cooperative potential but may currently have an adversarial relationship with the firm that is so bad that virtually any change will have a positive effect. Some of the techniques, Freeman suggests, could be used to *exploit* the relationship include: (1) changing the stakeholder's beliefs about the firm; (2) doing something (anything) different; (3) trying to change a stakeholder's objectives; (4) adopting the stakeholder's position; (5) linking issue to others that the stakeholder sees more favourably; and (6) changing the transaction process.

Finally, both Freeman and Savage et al seem to agree that managers need not put much effort to grid 4 stakeholders, i.e. those groups with both low cooperative potential and competitive threat. Savage et al refer to this group as *marginal stakeholders* (e.g. consumer interest groups or environmentalists) as they are generally not concerned much about issues pertaining to the firm. However, because certain issues like product safety or pollution could activate these groups to either increase its cooperation or threat potential, it is best for management to *monitor* their relationship with these groups. Freeman agrees with this notion. In explaining the proposed techniques under the *holding current position* programme, he states:

Even though some stakeholders have relatively little cooperative potential or competitive threat they may still be important ... Current programmes which are influencing stakeholder behaviour must be monitored, so that the major issue with holding programs is an issue of control rather

than program formulation. Holding programs must logically guard against ‘changes in the rules of the game’, and consequently when ‘change the rules’ programs are formulated they must be checked to see if they change the rules for more than one stakeholder group (1984, p. 150).

The literature reviewed so far looks mostly at various ways by which corporate management can effectively manage possibly incongruent and conflicting demands by various stakeholders. These studies are mostly taken from the point of view of the management. What is missing, however, is a model that could incorporate stakeholder influence strategies - a model providing an account of how stakeholders influence a firm to enable them to achieve their interests. This is what Frooman’s (1999) model introduces and is discussed next.

3.5.7 Stakeholder Influence Strategies and Resource Dependence

Noting the scarcity of literature addressing the question “how will the stakeholders try to get what they want from the firm?”, Frooman’s (1999) typology of resource relationships and influence strategies (see Figure 3.8) is formulated based on resource dependence theory. The basic notion central to resource dependence theory is that an entity’s need for resources provides opportunities for others to control the firm. Resource dependence theory, stemming from open systems theories, is proposed as a starting point for understanding stakeholder influences because, according to Frooman, power is a central theme in the argument. Frooman states:

Power is structurally determined in the sense that the nature of the relationship – that is, who is dependent on whom and how much – determines who has power (p. 196)...

Operationalised, resource dependence is said to exist when one actor is supplying another with a resource that is marked by (1) concentration (suppliers are few in number), (2) controllability, (3) nonmobility, (4) nonsubstitutability, or (5) essentiality. Essentiality of a resource is itself a function of two factors: (1) relative magnitude of exchange and (2) criticality (p. 195).

Frooman explains further that operationalising power under resource dependence theory is quite different. He quotes Pfeffer and Salancik (1978):

For the dependence between two organizations (sic) to provide one organization (sic) with power over the other, there must be asymmetry in the exchange relationship (p. 53).

In other words, to know whether A has power over B, one must know that both B is dependent on A and that A is not dependent on B. Frooman, explains:

Power, thus, is defined in relative terms, that is, A has power over B if B is more dependent on A relative to A’s dependence on B (p. 196).

Drawing from this power relationship, Frooman suggests two types of resource control¹²: (1) determining whether the firm gets the resources it needs and (2) determining whether the firm can use the resources in the way it wants. The first type is called *withholding strategies* which is defined as those where stakeholders discontinue providing a resource to a firm with the intention of making the firm change a certain behaviour. The second type is termed *usage strategies*, those in which the stakeholder continues to supply a resource, but with strings attached, i.e. some conditions must be met. Another source of power is one that comes from relationships with others who supply resources to a focal firm. While some stakeholder groups do not have the power to use either *withholding* or *usage strategies*, they could form an alliance with other stakeholder groups with whom the focal firm has a dependence relationship. Frooman introduces this concept as types of influence pathways which he divides into two: (1) *direct strategies* – those in which the stakeholder him/herself manipulates the flow of resources to the firm; and (2) *indirect strategies* – those that work in concordance with a principal despite not having formal relationships with the focal firm. Note that both types of influence pathways could use either *withholding* or *usage strategies*.

Frooman also introduces a typology of resource relationships based on the power-dependence relationship between the stakeholder and the firm as shown in Figure 3.8.

Figure 3.8: Typology of Resource Relationships and Influence Strategies

		IS THE STAKEHOLDER DEPENDENT ON THE FIRM?	
		NO	YES
Is the firm dependent on the stakeholder?	NO	(Low interdependence) <i>Indirect withholding</i> Starkist / EII Relationship	(Firm power) <i>Indirect usage</i>
	YES	(Stakeholder power) <i>Direct withholding</i> Starkist / Consumers Relationship	(High interdependence) <i>Direct usage</i> Starkist / Foreign Tuna Industry Relationship

Source: Frooman (1999, p. 200)

¹² Note that similar means of control were proposed by Pfeffer and Salancik (1978) and Pfeffer (1992) which they refer to as: (1) discretion over resource allocation; and (2) discretion over resource use.

Four types of relationships are observed: (1) *low interdependence* – when neither the firm nor the stakeholder are dependent on each other; (2) *high interdependence* – when both the firm and the stakeholder are dependent on each other; (3) *stakeholder power* – when the firm is dependent on the stakeholder; and (4) *firm power* – when the stakeholder is dependent upon the firm. The last two relationships show power asymmetry.

Using the case study of Starkist (a tuna company) and EII (an environmental organisation), Frooman illustrates how the typology of resource relationships and influence strategies can be used to understand how stakeholders themselves influence the firm’s decision making and ultimately manage firm behaviour. The details of the case are summarised in Exhibit 3.3.

Exhibit 3.3: Frooman’s (1999) Starkist / EII Case Study Analysis
<p><u>Case Summary:</u> The Starkist / EII conflict had been simmering throughout much of the 1980s in the US because the Foreign Tuna Industry from whom Starkist purchase much of its tuna, was using a very efficient method of netting tuna called “purse-seining.” This method was also trapping and killing over 100,000 dolphins yearly. This is the reason why the United States had banned this method of catching tuna so the domestic fleet was using other methods. In January 1988, EII announced its intention to end Starkist’s practice of canning purse-seined tuna. First, EII called upon consumers to boycott Starkist. EII produced an 11-minute video full of gruesome scenes of half-drowned dolphins being mangled in a ship’s net-hauling machinery and then being heaved overboard as shark bait. The video ended with the call for the boycott. In March 1988, the video was aired in parts or in its entirety on all the major networks. During the rest of 1988 and 1989, the environmental and general media began reporting on the story. By March 1990, 60% of the public was aware of the issues and the call for a boycott of Starkist tuna. As a result Starkist announced that it would purchase only tuna caught by methods other than purse-seining and would insist that Foreign Tuna Industry boats carry on-board impartial observers (from the Inter-American Tropical Tuna Commission) to monitor the methods the crews were using.</p>
<p><u>Analysis Stakeholder Relationships and Strategy Adopted:</u> <i>Starkist / EII Relationship:</i> The relationship is one of low interdependence because neither the firm (Starkist) nor the stakeholder (EII) are dependent on each other. Accordingly, Frooman’s typology would predict EII to try indirect withholding strategy and this is exactly what happened. EII sought out consumers as an ally and communicated to them (through media, video) its desire for a boycott. <i>Starkist / Consumers:</i> The relationship is one of stakeholder power since the firm (Starkist) is dependent on the stakeholder (consumers) to achieve its goal. Frooman’s typology would predict a direct withholding strategy by the consumers who, in large numbers, boycotted Starkist’s tuna products. <i>Starkist / Foreign Tuna Industry (FTI):</i> The relationship here is one of high interdependence because both the firm (FTI) and the stakeholder (Starkist) are dependent on each other to achieve their own respective goals. The model would predict a direct usage strategy which again is shown clearly in the case. Starkist, never once threatening to withhold its business, informed the FTI that it wanted tuna netted by methods other than purse-seining and that it wanted observers on the boats to verify the practices the boats were using. This is a direct usage approach – Starkist attached strings to its business with the FTI.</p>

It is worth noting from the stakeholder literature reviewed so far that despite the variety of models emanating from different aspects of firm-stakeholder relationships, the analysis could change depending on the perceived seriousness of the issue at hand. In the above case, the issue concerns dolphin survival. If the issue chosen has an economic nature, for instance, local tuna industry not being able to compete well with the foreign tuna industry, no doubt, the analysis of this case would take 180 degrees turn. Therefore, it is of great significance to have a glimpse on the issues management literature before a framework for this study is formed.

3.5.8 Issues Management and Stakeholder Analysis

Wartick and Mahon (1994) introduce three interconnected themes in defining a corporate issue: (1) the impact theme – an item must have a firm-specific impact to be an issue; (2) controversy – a conflict of interest; and (3) existence of expectation gaps. It is the change demanded by one or more powerful stakeholders (management included) that causes an issue to develop. An example of an issue could be the management's decision to adopt a new technology that will make a lot of jobs redundant and will increase toxic emissions to the air. As a result of job losses and pollution, local communities, environment groups and some local government officials express collective disapproval for this corporate action. This event, that has a firm-specific impact, causes controversy creating an issue to lead to the existence of expectation gaps – a gap in the expectations of various groups of corporate stakeholders that the firm should continue to provide jobs and to avoid unnecessary activities / technologies causing environmental degradation.

Most of the literature reviewed thus far argues that firm-stakeholder relationships analyses are issues specific. For example, Mitchell et al's (1997) attribute of *urgency* has much to do with the urgency of the issue at hand. Likewise, the stakeholder's *power* attribute contributes to the importance of an issue as Nasi et al. (1997) explain:

Different groups have different amount of power, depending on the corporation's dependency on the stakeholder group, the degree of access the groups has to political processes, and the access of the group to the mass media. The limited ability of managers to deal with issues results in attention being paid to the most powerful stakeholder groups first. Less powerful groups are dealt with when, and if, management has excess resources that can be directed away from more powerful stakeholders. *Issues* are therefore *sorted on the basis of the perceived importance* of the stakeholder group that is behind the issue. Any *issue without stakeholder group* is, therefore, really *no issue at all* (p. 303, italics added).

It is clear from the above quotation that management of stakeholder relations really entails issues management. This is in fact, taken as a given, though not explained in detail, in most of the stakeholder models discussed earlier (see for example, Freeman 1983, 1984; Frooman 1999; Mitchell et al 1997; Savage et al 1991).

Therefore, it is important to have an understanding of what issues management entails. Mitroff's (1994) definition of issues management relates it to the stakeholder's potential for threat or cooperation:

Issues management consists of the tracking of broad societal and industry trends; the assessment and determination of issues that pose a specific threat or opportunity, and the stakeholders that are associated with those issues; the assessment of the power of the opposition versus that of the company in shaping issues, and the impact of opposing stakeholders on the products, services, manufacturing processes, and reputation of the company (p. 103).

According to O'Donovan (2000), there are three distinct areas in which the issues management literature can be divided into: (1) ***issue and stakeholder identification*** - those dealing with issue identification and the important stakeholders concerned (Ansoff 1975; Dutton, Fahey & Narayanan 1983; Keisler & Sproull 1982); (2) ***issue analysis*** - those analysing the issue with respect to its likely impacts on the firm (Bartha 1982; Dutton & Ashford 1993); and (3) ***issue response development*** - those developing responses in relation to issues (Greening & Gray 1994; Post 1978; Sethi 1979). Exhibit 3.4 gives a more descriptive illustration and examples of the three phases of issues management provided in the literature:

Exhibit 3.4: Three Phases of Issues Management
<p><u>Phase 1: Identification of Issues and Important Stakeholders</u> The first phase in issues management process is to identify issues that may have some impact on the firm and its important stakeholders. This identification focuses on stakeholder expectations and perceptions of corporate behaviour and on trends in influential factors such as the changing perceptions on environmental degradation, product safety, job security and other social issues. Hence, it is clear that a corporate issue is inextricably linked with the corporate stakeholders.</p>
<p><u>Phase 2: Analysis of the Issue</u> The second phase includes ranking of issues in the order of importance since no one can address a myriad of issues all at once. One of the purposes of ranking is to enable management to devote its limited resources to those issues that have the greatest impact on its survival.</p>
<p><u>Phase 3: Developing responses to Issues</u> The third phase relates to response development. Some firms may choose to try and influence stakeholder expectations and perceptions of corporate behaviour through the use of various communication channels like annual report disclosures, etc. Others may choose to enter the public opinion and government policy arenas to influence legislations and still others may decide to change their operational activities in order to make corporate behaviour more in sync with stakeholder expectations.</p>

Hence, it is acknowledged in this study that in order to have a thorough understanding of a particular corporate act such as the decision to provide environmental disclosures in

the annual report as a tool to manage the conflicting interests of stakeholders, it is important to identify a significant environmental issue or event that has an impact for both the company and its salient stakeholders. The next chapter builds on the reviewed literature on stakeholder concept to introduce the framework for this study.

3.6 MAPPING STAKEHOLDER MANAGEMENT THEORIES: A SUMMARY

In this chapter, the extant literature on stakeholder concept is reviewed. Section 3.2 started by introducing the impetus for the stakeholder view which emanated from the changing business environment, i.e. from family-owned entities to large corporate entities which affect and are affected by numerous stakeholders with varied interests. Sections 3.3 and 3.4 of the chapter show that the stakeholder concept, although evolving from different bodies of literature such as the corporate planning, organisation and systems theory and corporate social responsibility literature, promotes a balancing of economic and social motives which in essence forms the normative core of the stakeholder concept. Section 3.5 reviews further developments of current stakeholder theory. The section starts by looking at the stakeholder *versus* the shareholder theory debate and this is followed by a brief review of stakeholder theory's linkage with other social and political theory studies including legitimacy theory. The third sub-section considers the various aspects of the theory which lead to the conclusion that stakeholder theory is a pragmatic concept and a 'research tradition' that has both managerial (descriptive and instrumental) and normative (ethical/moral) aspects. The last five sub-sections provide a detailed look at how stakeholder theory is developed and/or used in selected studies.

The purpose of this chapter is to examine the stakeholder theory literature in order to place the processes used to identify and manage stakeholder relationships to an appropriate theoretical model that will provide a practical way of understanding corporate management and stakeholder behaviour. The next step in this research is to develop a framework for this study based on the literature review. This is shown in Chapter 4.

CHAPTER 4

STAKEHOLDER FRAMEWORK AND HYPOTHESES DEVELOPMENT

4.1 INTRODUCTION

Chapter 1 introduces the objectives and justification for this study. Chapters 2 and 3, respectively, present a review of two distinct bodies of literature: a) the corporate social and environmental responsibility and reporting; and b) the stakeholder theory literature. The purpose of this chapter is to develop a framework that can be used to analyse the environmental disclosures prepared for and/or required by its stakeholders and the motivations behind such disclosures. The framework will form the basis for data collection and the analytical phases of this study. Conforming to the argument that different methodologies are “doomed to coexist within the same theory” (Donaldson 1999, p. 237), the framework allows for multiple research methodologies that employ both quantitative and qualitative techniques to be used in data analysis which will be discussed in detail in Chapter 5. This chapter also develops the hypotheses and propositions arising from the use of the model developed. The next section provides an overview of the framework used in this study.

4.2 LITERATURE MAPPING: STAKEHOLDER FRAMEWORK OVERVIEW

The corporate social and environmental responsibility and reporting (CSERR) literature reviewed shows clearly the increasing awareness on environmental concern both in the developed and developing countries. It is also clear that there is a marked increase in corporate environmental reporting over the past 25 years or so. At the same time the stakeholder literature reviewed hints that corporate managers will react to environmental issues in the order of their priority to the company’s survival. This leads to the conclusion that, given a company’s limited resources, the demands of its salient stakeholders will take precedence. With the evidence provided in the literature, it is not difficult to infer that companies with activities having an impact on the environment could face increased scrutiny and demands from its various stakeholders, which could then result in increased pressure to provide environmental disclosures. Whether this is,

in fact, true in the Malaysian context (the focus of this research) is one area in which this study aims to provide evidence.

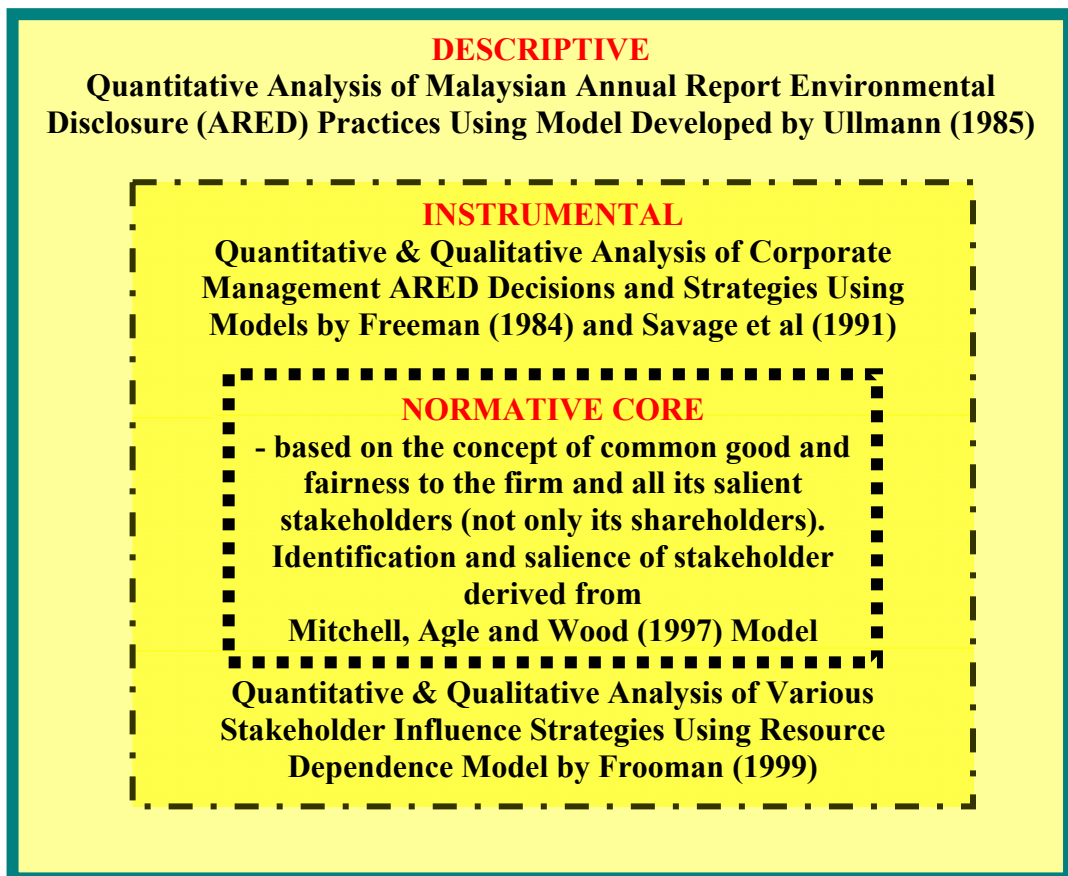
The literature has also established that whilst stakeholder theory is both managerial (descriptive and instrumental) and normative (ethical/moral), its normative aspect is inextricably linked and is dependent on the instrumentality built into the idea of stakeholder management (Freeman 1999, p. 234). Hence, in order to have a balanced view of managing firm-stakeholder relationships, it is of great importance to have an understanding of ‘what is’ happening out there, that is, an objective and descriptive account of corporate environmental reporting practices, before a meaningful analysis of corporate management and stakeholder behaviour can be deduced. Yet, a link to its normative core should also be established. Therefore, a well balanced research framework should show how both aspects of stakeholder analysis are accommodated in designing how to approach an investigation. Drawing from the various models introduced in the stakeholder literature, Figure 4.1 shows an overview of how the different aspects of stakeholder concept are accommodated in the framework developed for this study which will be discussed in the subsections that follow starting from the inner most to the outer core.

4.2.1 Normative Core of Stakeholder Theory

The normative core of the theory is used to interpret the firm’s function in society and how it affects management decisions. The normative core of this study is based on the established notion that companies have responsibilities that extend to a wider range of stakeholders - not just its shareholders. Based on the concept of common good (Argandona, 1998) and the doctrine of fairness (Freeman 1984; Phillips 1997, 2003), it is emphasised in the literature that corporate management will need to respond to stakeholder demands if it intends to operate successfully for the common good of everyone affecting or affected by the firm in society. It is also clear from previous discussions that given the firm’s limited resources and the conflicting interests of various stakeholders, an important part of stakeholder management will incorporate the identification and analysis of stakeholder salience, i.e. how important the stakeholder/s is/are to the company’s survival. This is where Mitchell et al’s (1997) stakeholder typology is envisaged to be useful. Although it can be argued that applying the stakeholder attributes of *power*, *legitimacy* and *urgency* to identify stakeholder salience

may already cross over to the instrumental and descriptive aspects of the theory (which is why a broken line is used to encapsulate the normative core indicating that the dividing line between the normative and the other aspects of the theory is not always clear), this is not a big concern in this study given that as mentioned in Chapter 3, the ‘separation thesis’ is not accommodated by the main proponents of the theory. What is important is to acknowledge the idea that corporate management must be able to identify its salient stakeholders and manage them accordingly. This is the normative core used to interpret the function of, and offer guidance for the operation and management of the firm.

Figure 4.1: Overview of the Different Aspects of Stakeholder Theory in the Framework Adopted for this Study Based from Existing Literature



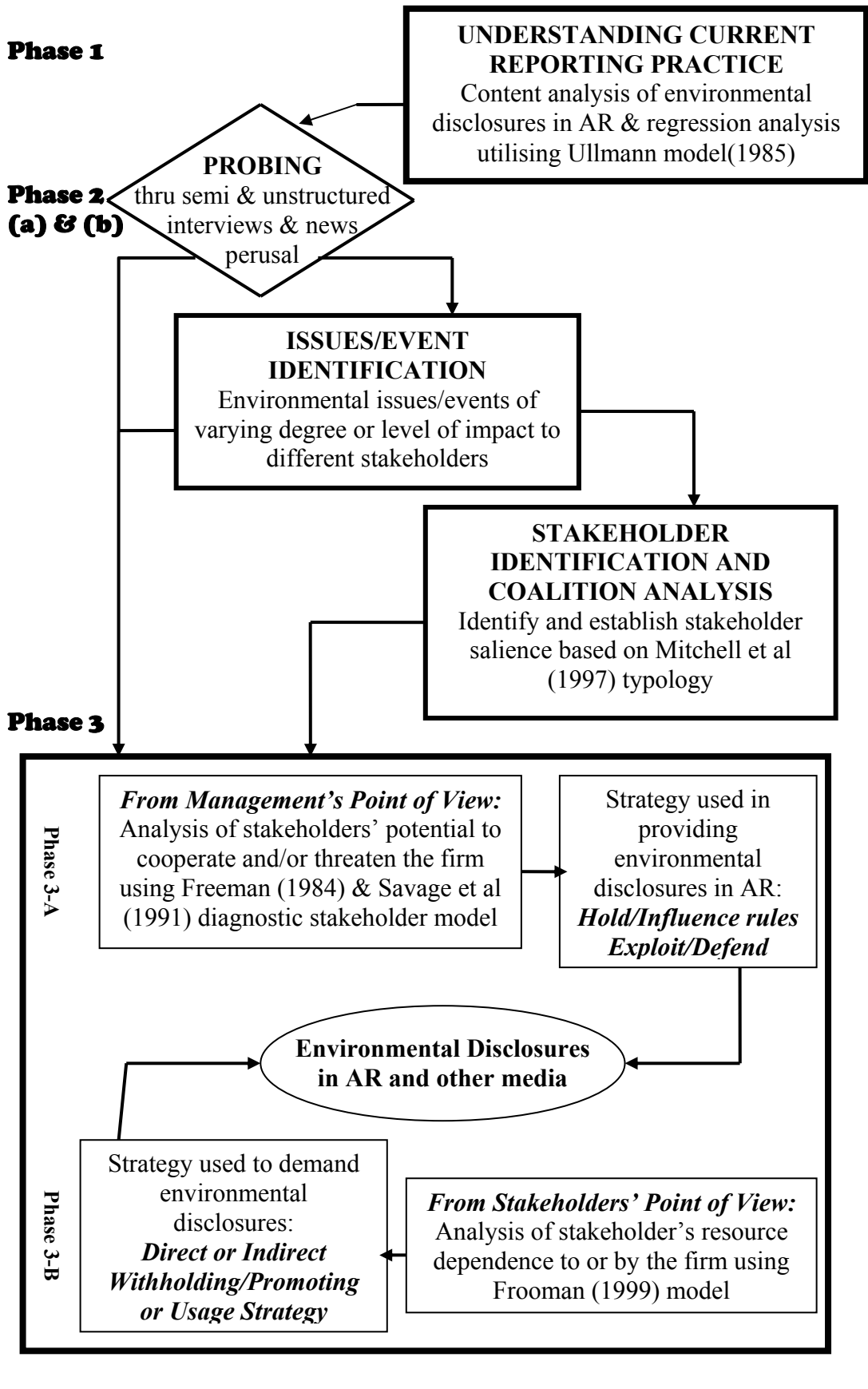
4.2.2 Instrumental and Descriptive Aspects of Stakeholder Theory

Much of the stakeholder theory literature (see for example, Deegan 2002; Freeman 1999; Jones & Wicks 1999; Wilmshurst 2004) combines the instrumental and descriptive aspects since both are considered part of the managerial aspect of the concept. In contrast with the normative aspect, the managerial aspect is concerned with

the need to manage incongruent stakeholder demands. Thus, in terms of management's decision to provide environmental disclosures, which is the focus in this study, the managerial thesis will state that managers ought to provide environmental disclosures if the salient stakeholders demand this information, while the normative thesis will dictate that managers ought to provide environmental disclosures because it is the right thing to do. Despite the common collapsing of the descriptive–instrumental dichotomy and without necessarily seeking to separate the managerial aspect of the theory, the fact remains that there are distinct differences between these two aspects. While the descriptive aspect “explains past, present and future states of affairs of corporations and their stakeholders ... and usually expands to generate explanatory and predictive propositions”, the instrumental aspect is used “to make a connection between stakeholder approaches and commonly desired objectives such as profitability” (Donaldson & Preston 1995, p. 71).

Given that this study is focused on understanding the corporate motives for providing voluntary environmental disclosures in the Annual Reports, it is useful to start the investigation by initially describing ‘what is’ the current corporate environmental reporting practice in Malaysia in order to explore and generate some possible explanatory and predictive propositions that should form the basis of an instrumental analysis in a later phase of the study. As shown in Figure 4.2, the descriptive aspect of the analysis is operationalised using Ullmann's (1995) model which forms the first phase of this study and one that is mainly quantitative in nature. The second phase of the study, which combines both semi-structured and unstructured interviews and relevant media publication perusal, is used to explain and explore further the relevant findings drawn from the first phase of the study. The findings in the second phase form the basis for the structured questionnaire developed for the third phase of the investigation that is leaning towards the instrumental aspect of the study. A number of models are combined in the final phase including Freeman's (1984) and Savage et al's (1991) models of stakeholder strategy formulation and Frooman's (1999) stakeholder influence strategies. Embedded in all the models used in the instrumental aspect of the study is the importance of issues management dictating that the choice of an important issue/event will determine the kind of strategy needed to successfully manage firm-stakeholder relationships.

Figure 4.2: Stakeholder Framework and the Three Phases of the Study



4.3 QUANTITATIVE ANALYSIS IN PHASE 1: OPERATIONALISING ULLMANN'S MODEL

Having established the framework for the study, the next step is to show how each phase of the study is operationalised. This section develops the hypotheses drawn from the three-dimensional model introduced by Ullmann (1985).

4.3.1 Stakeholder Power

Stakeholder power is the first dimension in Ullmann's model. The model suggests that if the firm believes that its stakeholders are concerned with social (and environmental) issues, the firm will be more motivated to provide such disclosures. Ullmann proposes that a stakeholder's power in relation to the firm is a factor influencing disclosure. The hypothesis arising from this dimension states that:

Hypothesis 1: The power of the firm's stakeholders is associated with the quantity and quality of a firm's environmental disclosure.

From this hypothesis, it is necessary to identify the stakeholders. In line with the definition of stakeholders being "any group or individual who can affect or is affected by the accomplishment of that organization's (sic) goals" (Freeman 1984, p. 46), it follows that nearly everyone is considered a stakeholder of the firm. As discussed in Chapter 3, using this broad definition will not provide a useful means of analysis as it is not possible to examine all the stakeholders in any single study. Hence, it is necessary to systematically narrow down the potential stakeholders in order to operationalise the model. From previous review of literature, it is established that stakeholders may be divided into two groups: (1) *primary stakeholders* are those characterised by high interdependence, i.e. the main providers of the firm's resources without whose support the firm can not survive such as the shareholders, creditors, government regulators, customers, suppliers and employees; and (2) *secondary or adversarial stakeholders* are those who are not directly engaged in transactions with the firm and are not essential for its survival but may have the capacity to mobilise public opinion in favour of or opposed to the firm such as environmental lobby groups, the media and other special interest groups (Clarkson 1995). Given the limitation inherent in quantitative analysis, it is decided to limit the number of stakeholders to those who can exercise the strongest power on the firm. Consistent with Roberts (1992), this study chooses representative stakeholders from the primary stakeholder group namely: (1) the shareholders, being a

substantial group of stakeholders which in most cases are the primary provider of capital; (2) the creditors, having the ability to provide economic power to the firm through debt provision; and (3) the government, having the ability to intervene via legislation and regulations. In line with the first dimension and consistent with Hypothesis 1, the following stakeholder-specific testable hypotheses are developed:

4.3.1.1 Shareholder Power (SP)

The power of the shareholders, being the main provider of the firm's scarce resource, may be measured by examining the degree of ownership concentration. Prior studies (Christopher & Hassan 1996; Craswell & Taylor 1992; Frost 1999) suggest that the less the influence of the top 20 shareholders, the greater the likelihood that firms disclose more information given that ownership is more dispersed. It is also suggested (e.g. Mckinnon & Dalimunthe 1993; Malone, Fries & Jones 1993) that there is a positive relationship between the number of shareholders and disclosure practices in the Annual Reports. This implies that wider dispersion of ownership is associated with more and/or better disclosures. Hence, H1a states that:

H1a: Firms with high level of shareholder concentration are less likely to provide more and better quality environmental disclosures than firms with low level of shareholder concentration.

4.3.1.2 Creditor Power (CP)

The creditor power (CP) depends upon the degree to which the firm relies on debt financing (Roberts, 1992). Numerous studies suggest that the market considers the firm's environmental performance in its assessment of the firm's unbooked environmental liabilities which investors, and most likely creditors, consider in their assessment of how risky the firm is (Barth & McNichols 1994; Cormier & Magnan 1997; Hughes 2000). These findings are confirmed by a more recently published study by Clarkson, Li and Richardson (2004) which estimates that the average unbooked liabilities in the pulp and paper industry amounts to \$560 million (or 16.6% of market capitalisation) for high polluting firms¹. This implies that the more the firm relies on debt financing, the more likely it will strive to incorporate a superior environmental performance strategy in its strategic planning decision in order to be seen as a company

¹ Clarkson et al's (2004) estimate of unbooked liabilities are comparable to Barth and McNichols' (1994) estimate of 28.8% and Hughes' (2000) estimate of 16.3% of market capitalisation for the industries they considered in their study.

with lower risk. One way of showing that the company has lower risk is to provide more disclosure. This suggests that:

H1b: Firms with high leverage (i.e. debt/equity ratio) are more likely to provide more and better quality environmental disclosures than less leveraged firms.

4.3.1.3 Government Power (GP)

The power of the government as a stakeholder is manifested in its enforcement mechanisms. Watts and Zimmerman (1978) argue that corporations use socially responsible activities to reduce the risk of governmental intrusions that may affect firm value. Hence, government can be viewed as a powerful stakeholder which the management needs to satisfy. It is conceivable that companies belonging to highly sensitive industries will face more stringent government regulation as these firms are the ones more likely to damage the environment through the use hazardous substances and/or discharge hazardous wastes and effluents. Prior studies (Chan & Kent 2003; Deegan & Gordon 1996; Jaffar, Iskandar & Muhamad 2002;) provide evidence that firms belonging to environmentally sensitive industries (ESI) provide more environmental disclosures thus suggesting positive relationship. As such, firms that belong to environmentally sensitive industries are predicted to provide more environmental disclosures in order to minimise government sanctions. The following hypothesis is therefore developed:

H1c: Firms that belong to environmentally sensitive industries are more likely to provide more and better quality environmental disclosures than those in non-sensitive industries.

4.3.2 Strategic Posture

Strategic posture, the second dimension in Ullmann's model, pertains to the way the entity responds to social demands. A firm adopting a passive strategic posture makes no attempt to monitor and manage its relationship with its stakeholders. On the other hand, an active strategic posture implies continuous monitoring and management of the company's relationship with key stakeholders. Consequently, firms displaying active strategic posture are expected to disclose more social and environmental information in their Annual Reports. Following this line of thought, Hypothesis 2 is developed.

Hypothesis 2: The strategic posture adopted by the firm is associated with the quantity and quality of environmental disclosures.

To generate testable hypotheses from this proposition, Chan and Kent (2003) use two proxies for strategic posture: (1) the recognition of social and environmental responsibility in the mission statement; and (2) the presence/absence of social and/or environmental committees. Roberts (1992) also uses two proxies: (1) average size of the company's public affairs staff; and (2) the presence/absence of corporate sponsored philanthropic foundation. In relation to Chan and Kent's (2003) proxies, it is argued that whilst some companies may disclose their mission or vision statement in their Annual Reports, some may not do so. Some companies may disclose the existence of an environmental committee while others may not. Hence, it is decided that a better measure for environmental concern would be either the recognition of social and environmental responsibility in the mission/vision statement or the presence of an environmental committee or both. Furthermore, the presence of concern and an environmental committee may not be sufficient to imply better strategic posture. For example, some firms may outsource environmentally responsive activities (thus not having an environmental committee of its own) while at the same time being environmentally conscious as to ensure compliance with environmental requirements. A common certification process that recognises environmental compliance is the ISO 14001: Environmental Management System. There is no mandatory requirement for firms to get this certification but some companies choose to go through the rigorous process of getting certified in order to be seen as environmentally compliant. In this regard, it is decided that the two proxies for strategic posture chosen for this study are either: (1) the presence/absence of environmental committees and/or inclusion/exclusion of environmental concern in the corporate vision/mission statement; or (2) the presence/absence of ISO 14001 certification. Using these proxies, the following hypotheses are stated:

4.3.2.1 Environmental Concern (EC)

H2a: Firms with environmental committees and/or environmental concern in their vision/mission statement are more likely to provide more and better quality environmental disclosures than those firms without such committees or concern.

4.3.2.2 ISO 14001 Certification (ISO)

H2b: Firms that are ISO 14001 certified are more likely to provide more and better quality environmental disclosures than firms that do not have such certification.

4.3.3 Economic Performance

The final dimension in Ullmann's model pertains to the economic performance of the firm. Although market-based measure of economic performance can be used, the accounting-based measure is used in this study as it has the advantage of being free from investors'/market perceptions on the future earnings ability of the firm (as opposed to past performance). A measure that has been commonly used in previous studies is the return on assets. Ullmann's third dimension is based on past and current economic performance of the firm, thus the Average Return on Assets (AROA) is used as a proxy for economic performance. Given the substantial costs involved in becoming environmentally responsible, the economic performance of the firm is an important factor to consider in determining whether environmental issues will be on the priority list. Arguably, in periods of low economic performance, the firm's economic objectives will be given more attention than environmental concerns. Therefore, it is predicted that the economic performance of the firm is directly related to environmental disclosures. Thus the third hypothesis is formed as follows:

Hypothesis 3: Firms with higher AROA are more likely to provide more and better quality environmental disclosure than firms with lower AROA.

4.4 QUALITATIVE ANALYSIS IN PHASES 2 & 3: INTEGRATING VARIOUS MODELS IN A STAKEHOLDER STRATEGY FORMULATION FRAMEWORK

The second and final phases of the study enable an in-depth examination into the core of stakeholder strategy formulation and how environmental disclosures in Annual Reports may be used to manage stakeholder demands.

4.4.1 Phase 2: Further Probing and Exploring Malaysian Setting

The stakeholder framework developed for this study allows further probing to seek explanations regarding the motives for environmental disclosures in the Annual Reports. This is where Phase 2 (a) plays a role. Phase 2 (b), on the other hand, aims to

move this investigation forward and to explore how the stakeholder strategy formulation theory can be used to understand environmental disclosure motives particularly in the Malaysian context. At the centre of the firm's decision whether or not to provide environmental disclosures to manage varying stakeholder demands is the Malaysian business psyche and the choice of appropriate environmental issues/events. Hence the significance of identifying suitable and realistic issues/events can not be understated. Given that little is known about how the Malaysian business psyche affects major business decisions, it is necessary to probe deeper into the various reasons why some Malaysian companies, albeit a minority, decide to provide environmental disclosures in the Annual Reports while the vast majority have not (see ERMM 2002). It is proposed that substantial insights into the Malaysian psyche are achieved through Malaysian news/website perusal and through discussions with relevant people utilising open-ended lines of questioning. The insights gathered are envisaged to help understand the Malaysian mentality affecting business decisions and to identify realistic and timely environmental issues and events.

Another important aspect of this investigation is the identification of the salient stakeholders. Mitchell et al's (1997) stakeholder salience typology characterised by the attributes of *power*, *legitimacy* and *urgency*, proposes that:

Stakeholder salience will be positively related to the cumulative number of stakeholder attributes – power, legitimacy, and urgency – perceived by managers to be present (p.873).

Although, it is not the purpose of this research to directly test the above proposition, Mitchell et al's typology is useful in identifying who are the salient stakeholders to be included in this study. This identification process is discussed further in Chapter 7.

4.4.2 Phase 3: Applying the Stakeholder Framework to Environmental Disclosures

The framework allows for a two-way analysis using the stakeholder strategy formulation from the point of view of the management and the stakeholders.

4.4.2.1 From Management's Point of View: Stakeholder Behaviour Analysis

The various propositions emanating from Freeman's (1984) model are shown in Chapter 3, Exhibit 3.2. In this study focused on environmental disclosures, the framework suggests five propositions as shown in Exhibit 4.1.

Exhibit 4.1: Management’s Point of View: Propositions for Stakeholder Analysis

Proposition 1	The manager’s perception of the more salient stakeholders will determine the Annual Report environmental disclosure (ARED) strategy used.
Proposition 2	If the salient stakeholder/s has/have relatively high potential for cooperation (PC) and low potential for threat (PT) , the manager is likely to provide disclosures to <i>exploit</i> the situation in an attempt to either maintain their support or, at the least, improve current adversarial relationship.
Proposition 3	If the salient stakeholder/s has/have relatively low potential for cooperation (PC) and high potential for threat (PT) , the manager is likely to provide disclosures that will <i>defend</i> their position in an attempt to gain the support of these stakeholders.
Proposition 4	If the salient stakeholder/s has/have relatively high potential for cooperation (PC) and high potential for threat (PT) , the manager is likely to provide disclosures that will seek to <i>influence the rules</i> of the game to enable collaboration with these stakeholders.
Proposition 5	If the salient stakeholder/s has/have relatively low potential for cooperation (PC) and low potential for threat (PT) , the manager is likely to <i>hold current position</i> and not provide any environmental disclosures.

It is important to note that embedded in the identification of stakeholder salience is the urgency of the issue/event to these stakeholders as well as whether or not these stakeholders perceive that the disclosure of these events in the Annual Report or in other media of communication is important, that is, whether or not there is a demand for such disclosures. The final part of the framework takes into account the stakeholders’ point of view.

4.4.2.2 From Stakeholder’s Point of View: Resource Dependence Analysis

Adding an analysis of stakeholder resource dependence to the framework reinforces the notion that it is not only management that has the prerogative to adopt a strategy to manage stakeholders. If the firm is dependent on the stakeholder for much needed resources, the stakeholder can then exercise its power to demand certain privileges such as the provision of environmental disclosures. Despite the stakeholder’s ability to control resources (direct) or form alliances with other stakeholders who can control the resources (indirect), the relevant stakeholder groups will only exercise their power either directly or indirectly through usage or withholding of resources (Frooman 1999) if and only if they see the event/issue at hand as important to them, i.e. the attribute of urgency must be present. Although Frooman’s typology is useful to analyse possible strategies which stakeholders may adopt to demand environmental disclosures from the firm, it is clear that the ‘withholding’ strategy assumes that the event or issue has a negative connotation. The typology, therefore, is not suitable if there is an event that has a positive environmental impact. Hence, in order for the model to accommodate an

event of a positive nature, the framework developed for this study slightly modifies the model by allowing an interchanging of ‘withholding’ with ‘promoting’ strategy when an event has positive impact. The rationale for this is such that those stakeholders who are more in favour of sustainable and environmentally friendly practices adopted by the firm are more likely to promote the firm’s initiative to other stakeholders either directly or indirectly. Exhibit 4.2 suggests 5 propositions emanating from this modified framework.

Exhibit 4.2: Stakeholders’ Point of View: Resource Dependence Propositions

Prop. 1	The stakeholder/management interdependence structure and their perception of how the environmental issue/event will affect their stake on the firm will determine whether or not they will demand environmental disclosure .
Prop. 2	If the stakeholder/s place high significance to the negative/positive environmental event and their relationship with the firm is that of ‘low interdependence’ , the stakeholder/s will adopt indirect withholding/promoting strategy .
Prop. 3	If the stakeholder/s place high significance to the negative/positive environmental event and their relationship with the firm is that of ‘stakeholder power’ , the stakeholder/s will adopt direct withholding/promoting strategy .
Prop. 4	If the stakeholder/s place high significance to the environmental issue/event and their relationship with the firm is that of ‘high interdependence’ , the stakeholder/s will adopt direct usage strategy .
Prop. 5	If the stakeholder/s place high significance to the environmental issue/event and their relationship with the firm is that of ‘firm power’ , the stakeholder/s will adopt indirect usage strategy .

Hence, the framework introduced in this chapter permits the integration of several stakeholder models in order to have a more thorough understanding of how managers and stakeholders alike may use environmental disclosures to efficiently manage firm-stakeholder relationships.

4.5 SUMMARY

The focus of this chapter is to develop the stakeholder framework adopted in this investigation. The chapter starts by mapping the literature in Chapter 3 to discuss how the framework is developed. Specifically, the three aspects of stakeholder theory (descriptive, instrumental and normative) are revisited and various stakeholder models are integrated to form a framework that can accommodate both quantitative and qualitative analysis to explain how corporate environmental disclosure decisions are used to manage firm-stakeholder relationships.

CHAPTER 5

RESEARCH METHODOLOGY AND METHODS

5.1 INTRODUCTION

Chapter 4 provides an overview of how the three phases of this study fit into the framework drawn from an extensive review of literature on stakeholder theory and corporate social and environmental responsibility and reporting. The purpose of this chapter is to describe research design issues by initially justifying the methodological assumptions adopted in this study as well as the methods used in light of these assumptions. In taking a balanced view that both quantitative and qualitative research can enhance our way of understanding a particular phenomenon, a discussion of the descriptive, exploratory and explanatory purpose of research is provided and linked to the three aims and three phases of this study. This is followed by a detailed discussion of how the quantitative phase of this investigation is conducted using a multiple regression technique. Given that a major objective of this research is to further develop the application of stakeholder theory, particularly in corporate environmental reporting, a discussion on theory development using qualitative techniques and the inductive nature of this research is provided together with an explanation on how research validity in qualitative analysis is achieved. To conclude the chapter, an explanation on how to address the ethical issue of confidentiality is provided.

5.2 METHODOLOGICAL ASSUMPTIONS

Behind any research study lies an assumption about the approach in which the entire investigation is conducted. The assumption behind the research paradigm adopted provides the basis for research methodology which in turn dictates the appropriate choice of research methods used in the study. Veal (2005) states that a paradigm:

... is a shared framework of assumptions... it reflects a basic set of philosophical beliefs about the nature of the world... it therefore provides guidelines and principles concerning the way research is conducted (p. 24).

There are a number of paradigmatic dichotomies that are used in the literature to explain competing or alternative philosophies of conducting research. Different authors provide different terms to describe the main research paradigms. Table 5.1 summarises a

number of common terms used by some authors to distinguish between the so called ‘hard’ and ‘soft’ research paradigm:

Table 5.1: Common Terms Used To Distinguish Paradigmatic Dichotomies

Authors	‘Hard’ Paradigm	‘Soft’ Paradigm
Veal (2005, pp. 24-29)	Positivist – research seeks <i>objectivity</i> and/or detachment; deductive, quantitative methods are commonly used	Critical/interpretive – research accepts <i>subjectivity</i> and engages with research subjects; inductive qualitative methods are commonly used
	Quantitative – involves numerical data and often involves large numbers of cases; seeks to generalise to whole population.	Qualitative – generally does not involve numerical data and involves small number of cases; findings are typically not generalisable.
	Deduction – begins with hypotheses and gathers data to test the hypotheses	Induction – interrogates data to discover meanings and/or theoretical propositions.
	Experimental – research conducted in an environment (e.g. laboratory) in which the researcher has control over a limited number of variables.	Non-experimental – research is often conducted in a ‘real world’ environment where the researcher has no control over variables.
Ryan et al (2002, pp. 34-36)	Scientific – starts from a well-formulated theory, usually from a review of previous academic literature and expressed in the form of a mathematical model used to formulate hypotheses which express relationships between sets of dependent and independent variables.	Naturalistic – more appropriate for studying everyday behaviour to study research subjects in their natural settings; based on realism, holism and analytical methods like case studies.
Hussey and Hussey (1997)	Positivist Quantitative Scientific Objectivist	Phenomenological / Interpretivist Qualitative Humanistic (similar to naturalistic) Subjectivist

The choice of research paradigm depends on the basic belief about how ‘reality’ in the world is perceived (ontological assumption) and what one accepts as valid knowledge (epistemological assumption). This paradigmatic choice is explicitly made by the researcher and is inherently reflected in the way research is designed. Ryan et al (2002) suggest that:

... the assumptions which the researcher holds regarding the nature of the phenomenon’s reality (ontology), will affect the way in which knowledge can be gained about the phenomenon (epistemology), and this in turn affects the process through which research can be conducted (methodology). Consequently, the selection of an appropriate methodology cannot be done in isolation of a consideration of the ontological and epistemological assumptions which underpin the research in question (p. 35).

To make an explicit choice on the ‘theory of being’ and what constitutes reality, Morgan and Smircich (1980) provide a continuum of core ontological assumptions ranging from a purely objective view of concrete reality to a subjective view of reality being merely a projection of one’s mind as shown in Figure 5.1.

constructed phenomenon such as the decision to provide environmental disclosures, the researcher can not be totally objective and independent. Hence the positivist notion that data should be value free and objective cannot be fully accepted. This is not to say that one view is considered superior than the other, rather it is claimed that each view offers a different way of discovering realities. Thus, the second and third phase of the study attempt to understand management and stakeholders actions through an in-depth investigation of their perceptions and preferences, an endeavour necessitating an interpretivist, subjective and qualitative view.

5.3 RESEARCH TYPE, PURPOSE AND DATA COLLECTION

Having established the research paradigm as well as the ontological, epistemological and methodological assumptions underpinning this research, it is acknowledged that appropriate methods for data collection and analysis must be chosen. Hussey and Hussey (1997) explain that:

...your choice of *paradigm* has implications for your choice of *methodology* (the overall approach to the research process) and to a lesser extent, your research *methods* (the way in which you collect data) (p. 51, italics original).

It is acknowledged that there is now considerable development of approaches attempting to bridge the two seemingly conflicting paradigms. Despite the blurring of boundaries to locate a somewhat middle ground, Hussey and Hussey (1997) suggest that the paradigm and methods adopted are determined partly by the nature of the research problem, i.e. the purpose of the research.

5.3.1 Research Types

Hussey and Hussey (1997, pp. 10-11) classify research into four categories according to its purpose: (1) exploratory; (2) descriptive; (3) analytical or explanatory; and (4) predictive research. ***Exploratory research*** is conducted when there are very few studies to which one can refer for information. The aim of this study is to look for patterns, ideas or propositions rather than to test or confirm hypotheses. ***Descriptive research*** describes the phenomena as they exist and the data collected is often quantitative using statistical techniques to summarise the information. ***Analytical or explanatory*** research goes beyond merely describing the characteristics to analysing and explaining why or how it is happening. ***Predictive research*** goes even further than explanatory research in that it forecasts the likelihood of a similar situation occurring elsewhere. Predictive

research aims to generalise from the analysis by predicting certain phenomena on the basis of hypothesised, generalised relationships.

5.3.2 Research Purposes and the Three Phases of the Study

The purposes of this study call for a mix of *descriptive, analytical/explanatory* and *exploratory* type of research necessitating an appropriate mix of both quantitative and qualitative methods. Chapter 1 explicitly states the three-fold purpose of this study: (1) to identify the determinants of AREDs of Malaysian publicly listed companies using the stakeholder model; (2) to understand the corporate motives for providing such disclosures; and (3) to apply and refine the stakeholder theory by developing a framework that can be used to analyse environmental disclosures prepared for and/or required by its stakeholders.

5.3.2.1 Phase 1 – *Quantitative: Descriptive*

For the first purpose, identifying the determinants of Malaysian companies' current environmental reporting practices necessitates the use of secondary data utilising publicly available information such as ARs, suitable websites and databases. The purpose of this is to provide a *descriptive* account of 'what is' the current reporting practice in Malaysia and how it may or may not be related to certain variables in Ullmann's stakeholder model. In this sense, the use of quantitative method employing multiple regression statistical technique is considered most appropriate. Thus, the first phase of the study uses content analysis to analyse the quality and quantity of AREDs of Malaysian companies. This is discussed further in section 5.4.

It is generally accepted that the results derived from statistical analysis may provide some possible explanations based on the hypotheses supported or rejected. One of the major strengths of this type of analysis is its generalisability given that it uses voluminous numerical data to establish significant relationships. However, this strength can also pose as a major limitation in that quantitative secondary data cannot provide a rich explanation as to why some companies provide disclosures while others do not. The second and third purposes of the study necessitate further theorising given that stakeholder theory has not been widely used in corporate environmental reporting arena. Hence, to probe deeper and to seek further explanations as to why companies provide

environmental disclosures and how stakeholder theory may be further developed to analyse motivations surrounding corporate disclosures, the second phase of the study is initiated.

5.3.2.2 Phase 2(a) and 2 (b) – Qualitative: Explanatory/Exploratory

Phase 2 is divided into two parts: 2(a) and 2(b). Phase 2 (a) aims to *explain* reporting practices directly from the perspective of the management of the reporting entities. Phase 2 (b), on the other hand, aims to *explore* ideas as to how stakeholder theory can be further refined and applied in the Malaysian context through an understanding of the Malaysian business environment.

5.3.2.3 Phase 3 – Qualitative and Quantitative: Exploratory/Explanatory

The third phase of the study, while seeking further *explanation* regarding environmental disclosure motivations, also intends to *explore* and further develop stakeholder theory particularly in its application to corporate environmental reporting practices. Hence, a major purpose of this study is to refine and extend the theoretical application of stakeholder theory particularly in the area of environmental reporting where it is not widely used. This is discussed further in section 5.5. Meanwhile, the succeeding section discusses in detail the quantitative phase of this investigation.

5.4 PHASE 1 - QUANTITATIVE METHOD: REGRESSION ANALYSIS

As discussed in Chapter 4, the application of stakeholder theory is operationalised using Ullmann's (1985) three-dimensional model consisting of: 1) stakeholder power; 2) strategic posture; and 3) economic performance. This section outlines the sample selection, content analysis and the operationalisation of Ullmann's framework using ordinary least squares (OLS) regression analysis.

5.4.1 Sample and Data Collection

In 2002, the Association of Chartered Certified Accountants (ACCA) engaged Environmental Resources Management Malaysia (ERMM) to conduct a study on the current status of environmental reporting in Malaysia. The study covering the period

1999 to 2001 surveyed all the companies listed in the Main Board¹ of the Kuala Lumpur Stock Exchange (KLSE). It was found that the number of Main Board listed companies providing AREDs increased, albeit modestly:

The number of reporting companies grew from 25 in 1999, to 35 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 (ERMM 2002, p. 8).

The ERMM Report serves as a starting point for the identification of corporate entities providing AREDs. Hence, in order to document current Malaysian voluntary environmental disclosure practice using the stakeholder model developed by Ullmann (1985), all the forty companies identified in the ERMM Report are used as the sample (see Appendix C for the list) for this study.

The Chief Executive Officers/Chief Financial Officers of companies were contacted by air mail in January 2003 to request copies of Annual Reports (ARs) for the periods 1999, 2000, 2001 and 2002 (if already available) and to solicit interests for a face-to-face interview. The letter was followed up by a fax message in early February 2003. Hard copies of ARs not directly received from the companies contacted were downloaded from the KLSE website. As nearly half of the companies' ARs in 1999 are not available from the KLSE website, the 1999 data are excluded as the number of zero quality and quantity of disclosure increased not necessarily because of the actual zero disclosure but because of the unavailability of the ARs. Therefore, the actual pooled data consists of 40 companies in the year 2000 but only 39 companies in 2001 as one company is delisted².

5.4.2 Content Analysis and the Dependent Variables

Content analysis is a technique used by observing and analysing the message of a written text or any documentary sources such as policy statements, contracts,

¹ The KLSE Main Board has about 498 listed companies in 2000 and 562 in 2002. Although there is a Second Board established in November 11, 1988 to enable smaller companies with strong growth potential to seek a listing on the exchange, only companies listed in the KLSE Main Board are considered as the population for this study as a further control for size (see the section on *Control Variables*). It is noted that the Second Board has much less membership compared to the Main Board. As of the end of 2002, there were only 294 Second Board listed companies.

² Although the ERMM Report (2002) indicated that there were forty disclosing companies in 2001, the report actually used some 2000 Annual Reports to represent 2001 since their cut-off date was the third quarter of 2001 (p. 18). Therefore, the ERMM study used 2000 Annual Report for Main Board listed companies operating on financial year ending December 31st.

advertisements, letters and company Annual Reports. Hair et al (2003) explain that this method is useful when:

... the researcher examines the frequency with which words and main themes occur and identifies information content and characteristics embedded in the text. The end result often is to quantify qualitative data (p. 126).

In order to quantitatively analyse how the stakeholder power, strategic posture and economic performance variables may be related to the environmental disclosure variable, two attributes of ARED need to be identified: (1) quality of environmental disclosure (QLENDIS); and (2) quantity of environmental disclosure (QTENDIS). Through a systematic analysis of the contents of the Annual Reports of disclosing entities, the two dependent variables of QLENDIS and QTENDIS are quantified. The subsequent sub-sections discuss how this is done.

5.4.2.1 Quality of Environmental Disclosure (QLENDIS)

ARED is analysed according to an environmental disclosure index (EDI) introduced by Wiseman (1982) and later adopted by Hughes et al (2001). Exhibit 5.1 shows the EDI used in content analysis. The EDI is divided into four categories of economic factors, litigation, pollution abatement and other environmentally-related information with nineteen items in total (including the additional 'catch-all' other environmentally friendly products/activities).

Prior studies (Al-Tuwaijri et al 2004; Hughes et al 2001) assign higher scores to specific quantitative disclosures hence suggesting better quality of ARED. This study conforms to this suggestion. To capture the differences provided in the disclosures, the content of the narrative is evaluated giving the greatest **score of 3** to ***quantitative specific disclosures*** related to each of the items in the EDI. The next highest **score of 2** is assigned to ***non-quantitative but specific information*** related to each EDI items. Finally, a **score of 1** is given to ***general qualitative or vague comments*** on each EDI items (in line with prior studies, see for example, Al-Tuwaijri et al 2004; Hughes et al 2001; Zeghal & Ahmed 1990). The scores for all the EDI items for each company are summed up to reach the final score for the quality of ARED for each firm.

Given the scoring system and the EDI items, the highest possible score is 57 (19 items multiplied by 3) for each environmental disclosure in each location in the Annual Reports. The sections in the Annual Reports are subdivided into three parts for content

analysis purposes, namely: (1) Financial Statements and Notes to Accounts (FS/N); (2) Chairman’s Statement (CSTAT); and (3) Operations Review and Others (OR/O). Consequently, the highest possible score (although very unlikely), if a company provides specific quantitative disclosure for all nineteen items in all three locations of Annual Reports will be 171 (57 multiplied by 3 locations). Appendix D shows company-specific scoring samples. It is acknowledged that this scoring system could be criticised for its subjectivity. In order to reduce the level of subjectivity, the researcher together with a research assistant initially did the coding independently. The results are then compared later. Any discrepancies between the EDI scores awarded are discussed, reanalysed and resolved before further data analysis is conducted.

Exhibit 5.1: Environmental Disclosure Index

ECONOMIC FACTORS
1.Past/current expenditures: environmental equipment, facilities and remediation
2.Past/current operating costs: environmental equipment, facilities and remediation
3.Future expenditures: environmental equipment, facilities and remediation
4.Future operating costs: environmental equipment, facilities and remediation
5.Accrued liabilities/ Deferred tax provision relating to environmental expenditures
6.Restructuring, shutdown and/or plant closing due to environmental concerns
LITIGATION
7.Present litigation
8.Potential litigation
9.Estimated cost / Contingent liability
POLLUTION ABATEMENT
10.Pollution abatement
11.Emission and discharge information
12.Compliance status of facilities
OTHER ENVIRONMENTALLY-RELATED INFORMATION
13.Discussion of regulations and requirements
14.Policies or concern for the environment
15.Conservation of natural resources
16.Awards for environmental protection
17.Recycling
18.Department/committee/offices for pollution control
19.Other environmentally friendly products and/or activities

5.4.2.2 Quantity of Environmental Disclosure (QTENDIS)

As to the quantity of disclosure, previous studies suggest varying use of the unit of measurement, e.g. number of pages, words or lines (Gray et al 1995b). Using number of pages as the unit of measure has the advantage of being able to include figures, charts or graphs into the analysis. However, noise is introduced when ambiguous pictures and different font, column or page sizes are used in the AR. On the other hand, the use of

number of words has the advantage of being more objective in the quantification of disclosure. However, this too introduces the problem of choosing which words are considered as environmental disclosure and which are not (Hackston & Milne 1996). Consequently, the use of number of sentences is chosen as the unit of measurement in this study. Sentences are easily identified allowing for a more refined examination of disclosure since sentences are natural units of narratives which are clearly separated by punctuation marks. Whilst the use of number of sentences has clear advantages (Hackston & Milne 1996; Ingram & Frazier 1980), it has the disadvantage of excluding figures, graphs or charts which could be as important as the narratives. In cases where tables or figures are provided, each figure and description is counted as one sentence. This way, the problem of using number of sentences is minimised.

5.4.3 Independent Variables

5.4.3.1 Shareholder Power

Hypothesis H1a pertains to the power of the shareholders as a category of stakeholders within the firm. Shareholder power (SP) is proxied by the level of ownership concentration as measured by the percentage of shareholders who own 5% or more of the total shareholding. This information is taken from the analysis of shareholding section of the Annual Reports. SP is predicted to be negatively related to the quality and quantity of AREDs.

5.4.3.2 Creditor Power

Hypothesis H1b predicts that creditor power (CP), i.e. the degree to which the firm relies on debt finance, is directly related to the quantity and quality of AREDs. CP is shown by the level of the firm's leverage and is measured as the average debt to equity (D/E) ratio, i.e. beginning plus ending D/E ratio divided by two. It is predicted that CP is positively related to the dependent variables.

5.4.3.3 Government Power

Hypothesis H1c implies that the regulators have an influence on the firm's decision to provide AREDs. As argued in Chapter 4, companies belonging to highly environmentally sensitive industries are more likely to face more stringent government

regulations. Hence, government power (GP) is operationalised as a dummy variable representing the sensitivity of the industry to which the firm belongs, i.e. 1 for firms that belong to environmentally sensitive industries and 0 for companies belonging to non-sensitive industries. The industries considered to be environmentally sensitive are those in the plantation, property development, construction, infrastructure and certain companies in the industrial products and consumer products and trading services (particularly those involved in steel/metal, heavy equipment, power generation, chemicals and paper and forest timber products). Previous studies (e.g. Clarkson, Li & Richardson 2004; Kent et al 1997; Hughes 2000; Patten 1992, 2002; Wiseman, 1982) identify these industries to be environmentally sensitive. All others are considered to be in non-environmentally sensitive industry. GP is predicted to be positively related to AREDs.

5.4.3.4 Strategic Posture

Environmental Concern - Hypothesis H2a predicts that the more the firm acknowledges their environmental concern (EC) through their vision/mission statement and/or through establishing environmental committees, the more likely they are to provide AREDs. Therefore, EC is operationalised using a dummy variable. 1 is given to companies that have an environmental committee/department and/or if the company includes environmental concern in their mission or vision statement, zero otherwise. EC is expected to be positively related to the quality and quantity of AREDs.

ISO 14001 Certification - Hypothesis H2b posits that companies that are awarded or are seeking ISO 14001 certification (ISO) are more likely to provide AREDs. ISO, therefore, is seen as an alternative measure to the firm's strategic posture. ISO is proxied by a dummy variable, that is, 1 for companies with ISO 14001 certification, 0 otherwise. ISO is predicted to be positively related with the dependent variables.

5.4.3.5 Economic Performance

The most common measure of economic performance is the company's profitability as measured by the return on assets. Given that Ullmann's model requires past and current economic performance measure, the average return on assets (AROA), which is simply

last year's ROA plus current year's ROA divided by 2, is used as a proxy. All of these data are taken from the ARs. AROA is predicted to be positively related to AREDs.

5.4.4 Control Variables

To control for the possible effects of other extraneous variables that could influence the result of the quantitative analysis, some control variables are introduced in the study.

5.4.4.1 Size (LSIZ)

The literature suggests that larger firms are more likely to be under public scrutiny. As such, larger firms are expected to provide more disclosure. As noted earlier, size is already controlled in the sample selection since only Main Board listed companies are included in the sample. However, given that there is a wide variation in size even for those entities in the KLSE Main Board, a further control for size (LSIZ) is introduced. LSIZ is the natural log value of the firm's average sales (current year plus previous year's revenues divided by two). This information is taken from the company's ARs.

5.4.4.2 Age (AGE)

Previous studies (Roberts 1992; Chan & Kent 2003) use the variable age (AGE) as a control for perceived stability and/or inherent risk of the firm. AGE is proxied by the number of years since the company's incorporation and is expected to be positively associated to the quality and quantity of AREDs. This information is taken from the KLSE website.

5.4.5 The Regression Model

Regression analysis is a statistical technique used to assess the relationship between one dependent variable and several independent variables. Multiple ordinary least squares (OLS) regressions are conducted for QLENDIS and QTENDIS against the six independent variables. The regression model used to test the hypotheses developed in Chapter 4 is shown in Exhibit 5.2. Note that alternative variables are separated by a slash.

Exhibit 5.2: Regression Model

$QLENDIS/QTENDIS =$	$B_0 + \beta_1 SP_i + \beta_2 CP_i + \beta_3 GP_i + \beta_4 EC_i + \beta_5 ISO_i + \beta_6 AROA_i + \beta_7 LSIZ_i + \beta_8 AGE_i + e_i$
<i>Where:</i>	
QLENDIS	total quality score of environmental disclosure for firm <i>i</i> at period <i>t</i> ;
QTENDIS	total quantity score of environmental disclosure for firm <i>i</i> at period <i>t</i>
β_0	Intercept
SP	percentage of ownership of firm <i>i</i> held by shareholders holding 5% or more of total shareholding for firm <i>i</i> at period <i>t</i> ;
CP	average debt to asset ratio of firm <i>i</i> at period <i>t</i> ;
GP	1 for firms in environmentally sensitive industry; 0 otherwise;
EC	1 for firms with environmental committee and/or includes environmental concern in Mission/Vision statement; 0 otherwise
ISO	1 for firms with ISO 14001 certification as of 2001; 0 otherwise
AROA	average return on assets of firm <i>i</i> at period <i>t</i> ;
LSIZ	natural log of average sales revenues of firm <i>i</i> at period <i>t</i> ;
AGE	age since incorporation of firm <i>i</i> at period <i>t</i> ; and
<i>e</i>	error term

5.5 PHASES 2 & 3 QUALITATIVE METHOD: QUALITATIVE INTERVIEWS

Given the explanatory and exploratory focus of the second and third phases of this research, it is considered best to use qualitative interviewing as the primary method for data collection. A detailed outline of how Phases 2 and 3 of this investigation is conducted is presented in this section followed by the justification for the use of qualitative interviewing method.

5.5.1 Phase 2: Further Probing and Exploring Malaysian Setting

Unlike the first phase which uses only secondary data, Phase 2 uses both secondary (news articles and website perusal) and primary data in the form of unstructured and semi-structured interviews using open-ended questions. The semi-structured interview (see Appendix A) in Phase 2 (a), is targeted directly at eliciting the views of the top management of the reporting entities examined in Phase 1.

The second part of Phase 2, i.e. Phase 2(b), starts with media/website perusal and unstructured interviews targeting other relevant parties familiar with the general Malaysian government and business environment. The aim here is to generate ideas as to how stakeholder theory can be further refined and applied in the Malaysian context through an understanding of the Malaysian psyche. This is considered crucial in this study. Likewise, Phase 2(b) data should provide relevant ideas on the suitable

environmental issues/events that will be encapsulated into three vignettes which will later form the main component in the structured interview questionnaire for the third phase of the study. Another important aspect of Phase 2(b) is the identification of the salient stakeholders. Mitchell et al's (1997) typology, characterised by the attributes of *power*, *legitimacy* and *urgency*, together with the background knowledge gained from both the primary (Phase 2 interviews) and secondary (news/website perusal) data sources will help in this identification process.

5.5.2 Phase 3 – Applying Stakeholder Framework to Environmental Disclosures

Phase 3 of the study intends to explore and further develop stakeholder theory particularly in its application to corporate environmental reporting practices. A structured interview questionnaire is designed to include both closed and open-ended questions (see Appendix B). Given that the questionnaire asks for the participants' opinions, behaviour and reactions regarding the chosen environmental issues/events, it is considered important not to select the participants randomly. Miles and Huberman (1994) and others (Kuzel 1992; Morse 1989) argue that "qualitative samples tend to be purposive rather than random" (p. 27). Eisenhardt (1989) adheres to the same idea while arguing for the use of case studies:

While the cases may be chosen randomly, random selection is neither necessary, nor even preferable... the goal of theoretical sampling is to choose cases which are likely to replicate or extend the emergent theory (p. 537).

It is envisaged that in order to extend the development of stakeholder theory, participants should be chosen on the basis of their current and/or previous exposure to Malaysian corporate business and legal environments. The participants are, therefore, chosen based on their current/previous senior positions in companies or based on their direct involvement in related fields, for example, media reporters, environmentalists and business academics/researchers. The participants are also chosen on the presumption that they represent a variety of company stakeholders ranging from shareholders to major/long-term creditors, relevant government agency officer, employees, customers, suppliers, media, environmentalists and competitors.

Freeman (1984, p. 133) suggests that in order to explain stakeholder behaviour, the manager should put him/herself in the stakeholder's position in order to feel and see the world from their perspective. Hence by role playing, the manager is able to synthesise

and fully understand the objectives and beliefs of particular stakeholders. Through a structured interview questionnaire, participants are asked to initially take the role of the senior manager in charge of AR preparation. After taking the management's view, the same participants are then asked to take the role of a stakeholder in each of the three fictitious companies involved with different environmental issues/events. It is envisaged that through role playing and the use of fictitious events, the respondents are more able to provide insights on their ARED decisions/preferences without the worry of giving away proprietary information.

The structured interview questionnaire is in two parts (see Appendix B). Part I asks the participants to provide general information like their current/previous position, their length of service to the company and the type of stakeholder to which they are most likely to be classified based on their past/current experience. Part I also asks the participants to rank the stakeholders identified in Phase 2(b) in the order of how significant they feel those stakeholders are to the company's survival. They are also asked to elaborate on their reasons for the ranking. The purpose here is to have a deeper understanding as to how each respondent perceives the stakeholder's cooperative/threat potential to the firm without directly asking the question. Indirect probing in this situation is considered appropriate given that the stakeholder's potential for cooperation (PC) or potential for threat (PT), while dependent on the enormity/seriousness of the event/issue, is also a matter of personal perception for which a numerical value provides limited meaning. Hence, a direct question which asks 'how much PC/PT do you believe each stakeholder has?' is argued to be inadequate, even inappropriate. This line of questioning is also envisaged to lead to a biased response as it is suggestive of a particular frame of reference. Saunders et al (2003) refer to this as a possible *interviewer bias* where a researcher may:

...attempt to impose [their] own beliefs and *frame of reference* through the questions that [they] ask (p. 252, italics added).

Part II of the questionnaire asks the participant to read each of the three vignettes (called Cases 1 to 3) developed to represent environmental issues/events of different levels of impact. The purpose in choosing representative events of varying degrees of impact is to understand better how corporate management's and stakeholders' ARED preferences may differ depending on the environmental issue/event presented. This is in accordance with the attribute of *urgency* in stakeholder salience identification (Mitchell et al 1997)

and issues management literature (Mitroff 1994; Nasi et al 1997; Wartick & Mahon 1994) described in Chapter 3. While all the three ‘cases’ involve large publicly listed companies, each case represents different industries. Details of these ‘cases’ are shown in the structured questionnaire in Appendix B.

5.5.2.1 Phase 3-A: From Management’s Point of View

Part II of the structured questionnaire is divided into two parts. In Part II - A, the participant is asked to assume the role of the senior officer responsible for the decision to provide or not provide ARED. Part II – A asks three main questions.

Question 1 asks each participant, on a scale of 1 (Extremely Significant) to 5 (Not Significant), to provide their opinion as to how significant each environmental issue/event, outlined in Cases 1 to 3, is to the various stakeholders identified in Phase 2(b). They are also asked to elaborate as to their reasons for providing such significance level for each stakeholder. The purpose here is to elicit the respondent’s perception on how *urgent* they believe each environmental issue/event is to the company’s stakeholders. As noted earlier, this reinforces the attribute of *urgency* in identifying stakeholder salience and managing the more pressing issues since it is conceivable that the management is likely to base their decision to provide AREDs in the order of their priority. The response here is also intended to be analysed in light of the responses provided in Part I of the questionnaire which asks for the ranking of stakeholder’s significance to company survival (without case-specific scenarios).

Question 2 of Part II – A asks the participants to rank four different types of ARED approaches given two scenarios: (1) when the issue/event has not been publicised by the media yet; and (2) when the issue/event has already been publicised by the media. These two scenarios are incorporated in the questionnaire design in order to explore how the media may or may not act as an important factor on management’s perception of how urgent the issue is at hand. The four types of ARED approaches are chosen in line with what the literature on stakeholder theory proposed, namely: (1) *do nothing* - hold current status, i.e. provide no disclosure; (2) *exploit* – make some disclosure but concentrate only on good aspects; (3) *defend* – disclose the issue/event but defend the reasons why it was done and/or what has been done to rectify the situation; (4) *influence the rules of the game* – provide some disclosure regarding the event in an

attempt to sway/change the beliefs of others regarding the event and the role of the firm. Once again, the respondents are asked to provide the reason/s for their choice of disclosure approach in order to have a deeper understanding.

Finally, in order to accommodate other disclosure media apart from the ARs, question 3 of Part II – A asks the respondents if they are likely to provide environmental disclosures regarding the event/issue in other ways of communication and the reason for their choice.

5.5.2.2 Phase 3-B: From Stakeholder's Point of View

Continuing Freeman's (1984) suggestion of role playing as noted earlier, Part II – B of the questionnaire asks the participants to assume the role of the stakeholder to which they are most likely to be identified with given their past/present experience.

There are four questions in this part. The first three questions are the same as in Part A except that question 2 has eliminated the scenario of 'not publicised' as it is envisaged that the event has already been known to its relevant stakeholders.

Question 4 asks the respondents to rank four/three possible strategies (for Cases 1 and 2/Case 3 respectively) in the order of 1 (most likely to take) to 4/3 (least likely to take).

For Cases 1 and 2, the first two choices, (a) and (b), promote continuing support to the firm with the former suggesting to ignore the issue while the latter suggesting to make explicit statement to inform the company of the stakeholder's view regarding the environmental issue. The last two choices, (c) and (d), suggest withholding support for the firm with the last choice going further as to make an attempt to influence other stakeholders to also withhold their support. The purpose here is to explore the possibility that if environmental disclosures are not provided, stakeholders may exercise their power either directly or indirectly through usage or withdrawal of support as suggested in Frooman's (1999) typology.

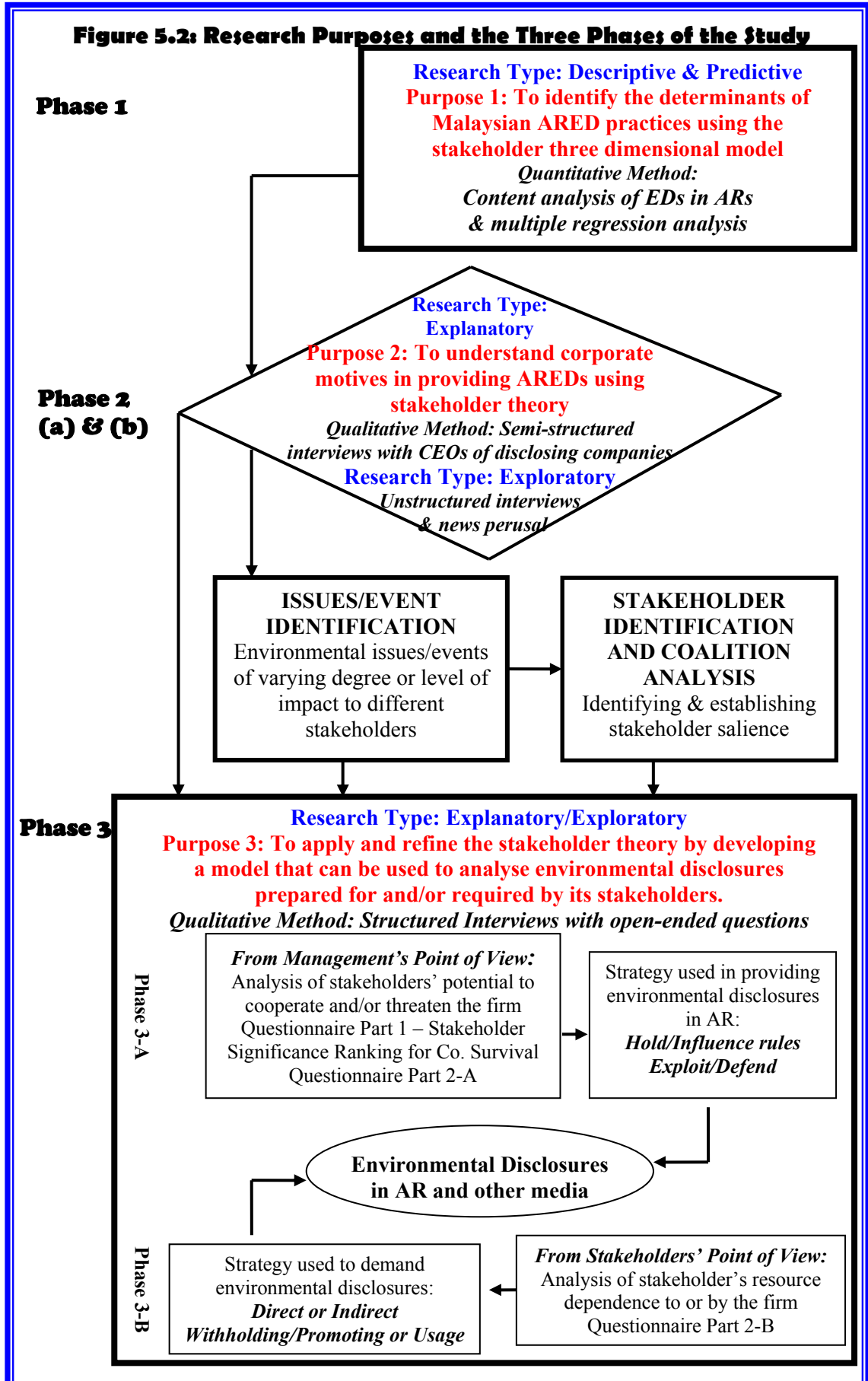
Case 3, on the other hand, is entirely different from Cases 1 and 2 as it involves an event that promotes environmentally-friendly practices. Hence, it is highly unlikely that the stakeholders will threaten to withhold its support to the firm given the positive impact of the event featured in Case 3. Because of this, the dichotomous typology of

usage/withholding strategy is not suitable without a slight modification since all three possible strategies provided suggest continuing support for the firm. Given that the three choices portray different levels of support with (a) being the lowest (i.e. ignore the event) and (c) being the highest level of support (i.e. continue supporting the firm and influence others), it is considered appropriate to change **withholding** and use **promoting** instead. The idea is such that those stakeholders who are pro-sustainable and pro-environmentally friendly practices are more likely to go beyond merely encouraging the firm's management to provide environmental disclosures (choice b) but will go to the extent of **promoting** this initiative to influence others (choice c).

Once again, it is deemed inappropriate to directly ask the question as to whether stakeholders are likely to employ direct or indirect and withholding/promoting or usage strategy. Instead, the participants are asked to elaborate on the reasons for their choice in order to induce meaningful analysis from the responses.

The diagram provided in Figure 4.2 (Chapter 4) showing clearly how the three phases of this study are organised within the stakeholder framework is reproduced in Figure 5.2 and is slightly modified to show how each phase correspond to the research purposes.

Figure 5.2: Research Purposes and the Three Phases of the Study



5.5.3 Justification for the Use of Qualitative Interviews

‘Research interview’ (Gillham 2000; Mishler 1986) is a term used to refer generally to a method of research pertaining to a “conversation that has a structure and a purpose” (Kvale 1996, p. 6). *Qualitative interview* is the preferred term used in this study to distinguish this method from the highly structured line of questioning normally used in survey research. According to Rubin and Rubin (2005, p. 4):

Qualitative interviews are conversations in which a researcher gently guides a conversational partner in an extended discussion. The researcher elicits depth and detail about the research topic by following up on answers given by the interviewee during the discussion. Unlike survey research, in which exactly the same questions are asked to each individual, in qualitative interviews each conversation is unique, as researchers match their questions to what each interviewee knows and is willing to share.

Rubin and Rubin add further that qualitative interviewing is useful to understand experiences, to reconstruct events, to describe social and political processes and to elicit reasons as to why particular actions are made. The exploratory nature of this research necessitates a research method that can provide depth and detail which can only be achieved through actual conversations with the intended participants.

It is clear that the decision to provide AREDs is a contemporary phenomenon involving managerial perceptions from which clear boundaries cannot be established. It is also evident that the most suitable way to understand this abstract concept is to use multiple sources of evidence such as news/media coverage and multiple methods of interviews including unstructured, semi-structured and structured methods. Multiple sourcing of evidence when collecting data is one form of *triangulation*. This triangulation process helps avoid misinterpretation of data especially when contradictory responses are received.

During the data collection and analysis stages, multiple sourcing of evidence is gained through document analysis, news/relevant website perusal and through the different interview types used. Unstructured and semi-structured interviews using open-ended questions that probe to explore answers in more depth are considered suitable in Phase 2 of this study given its explanatory and exploratory purpose. Easterby-Smith et al (1991) as cited in Hussey and Hussey (1997, p. 156) suggest that unstructured and semi-structured methods of interview are appropriate when:

- it is necessary to understand the construct that the interviewee uses as a basis for his or her opinions and beliefs about a particular matter or situation
- an aim of the interview is to develop an understanding of the respondent’s ‘world’

- the step-by-step logic of a situation is not clear;
- the subject is highly confidential or commercially sensitive;
- the interviewee may be reluctant to be truthful about this issue other than confidentially in a one-to-one situation.

The semi-structured interview is deemed appropriate in Phase 2 (a) as it is envisaged that the interviewee may be reluctant to provide confidential or commercially sensitive information regarding their disclosure motives. On the other hand, as the purpose of Phase 2(b) is mainly exploratory, the unstructured interview is considered more useful in line with Kvale's (1996) suggestion that:

An *exploratory* interview is open and has little structure... The interviewer follows up on the subject's answers and seeks new information about and new angles on the topic (p. 97, italics original).

Although Phase 3 of this study uses a structured interview questionnaire, a mixture of closed and open-ended questions enables direct questioning yet allows in-depth probing about the choices and perceptions expressed by the respondents. As it is conceivable that different companies are bound to face different environmental issues, a reconstruction of fictitious environmental issues/events based from real-life events affecting Malaysian companies is envisaged to be most appropriate. Furthermore, it is also conceivable that interviewing participants chosen on the presumption that they can represent a variety of company stakeholders based on their past/current experience will also provide multiple sources of evidence contributing to a rich understanding of this phenomenon. Rubin and Rubin (2005) suggest this method of selection of interviewees as they elaborate on making research credible through the proper choice of interviewees.

Your interviews gain credibility when your conversational partners are experienced and have first-hand knowledge about the research problem. To convince readers that your research does not have an unintended slant, you select interviewees whose views reflect different, even contending, perspectives. Once you have formulated your tentative theory, you choose interviewees who can help you flesh out the theory ... Interviewees should be *experienced* and *knowledgeable* in the area you are interviewing about. (p. 64, italics original).

A major purpose of this study is to refine and extend the theoretical application of stakeholder theory particularly in the area of environmental reporting where it is not widely used. Hence, this is discussed next.

5.5.4 Theory Development vs Theory Testing

The importance of theory development can not be underestimated. Gladwin (1993, p. 44) asserts that "without theory it is difficult to organizes (sic) existing findings, to

produce important generalizations (sic) accurately, to generate new ideas, to carefully shape and guide empirical inquiry”. It is evident from the literature review in Chapter 3 that although stakeholder theory still continues to be refined, it is already developed. However, it is also clear from the CSERR literature review in Chapter 2 that the application of stakeholder theory in the area of voluntary corporate environmental reporting, the focus of this research, is very limited. A well developed stakeholder theory will help explain why corporate management may choose to provide or not provide environmental disclosure and may even predict the type of disclosure in response to environmental events of varying levels of impact.

Theory development (Qualitative - Phases 2 and 3 of this study) differs from theory testing (Quantitative - Phase 1) in four ways: (1) generalisability; (2) sampling procedure; (3) inductive/deductive technique; and (4) research direction.

5.5.4.1 Generalisability

Generalisability is the extent to which research findings can be applied to other groups or subjects. Although Veal (2005) asserts that, strictly speaking, any research findings relate only to the subjects involved at the time and place when the research is conducted, the techniques commonly used in theory testing offer statistical generalisability where inferences about a population is made possible from a large sample of data used. In contrast, theory development seeks analytical generalisability where relationships or propositions developed can only be generalised within similar contexts. Yin (1994, p. 21) explains this clearly while discussing generalisability of case studies:

...case studies, like experiments, are generalizable (sic) to theoretical propositions and not to populations or universes. In this sense, the case study, like the experiment, does not represent the sample, and the investigator’s goal is to expand and generalize (sic) theories (analytic generalization (sic)) and not to enumerate frequencies (statistical generalizability (sic)).

5.5.4.2 Sampling Procedure

Another difference between theory testing and theory development revolves around the issue of sampling. Again as mentioned earlier, theoretical sampling aims to choose cases that are likely to replicate or extend emergent theory (Eisenhardt 1989) thus suggesting that the researcher must attempt to maximise diversity of sample relevant to theory building. This is why an attempt is made during data collection to ensure that

interview participants are chosen on the basis that they are a representative sample of a variety of company stakeholders. In theory testing, however, the aim is to collect data from representative samples or the entire population if possible.

5.5.4.3 Inductive vs Deductive Research

Deductive research is a study where particular instances are deduced from general inferences (i.e. moving from general to specific). Deductive techniques such as regression analysis and other statistical techniques are particularly useful when a theoretical structure is already well developed and hypotheses derived from theory are tested. Inductive research is used to develop theory from the observation of empirical reality, thus general inferences are induced from particular instances (i.e. moving from specific to general). An inductive technique like qualitative interviewing is generally favoured for this type of research. Eisenhardt (1989) suggests that theory building from qualitative research is most appropriate to offer a new perspective to an already established theory. This is one of the main reasons why qualitative interviewing is deemed suitable in the last two phases of this study, the aim of which is to further refine the application of stakeholder theory to environmental reporting.

5.5.4.4 Research Direction

Finally on the issue of research direction, theory development generally opens up new research opportunities given that possible relationships and propositions are established. In contrast, theory testing offers some closure to research agenda by providing evidence of relationships proposed by theories. This is not to suggest that no research need to be conducted once theory is tested. Rather, theory testing narrows down research opportunities while theory development widens the scope of the research topic by providing new perspectives.

5.5.5 Research Quality Criteria

Research validity and reliability are two important criteria useful in judging the quality of research. Research is said to be *reliable* if its findings would be the same when research is repeated and *valid* if the extent to which the research findings accurately represent what is really happening in the situation (Hussey & Hussey 1997; Veal 2005). Research validity has three types: (1) construct validity; (2) internal validity; and (3)

external validity. Good research must, therefore, pass four tests of quality: reliability plus the three validity types. Table 5.2 summarises the definitions of these four tests. Although this table is adopted from Yin’s case study tactics, it is envisaged that some of the techniques used in analysing case studies can also be used in this study given that many case studies use qualitative interviews in data gathering. Hence, Table 5.2 shows the qualitative research tactic used to address each research quality test. The table also shows the research phase from which the tactic is likely to occur and whether the particular tactic is used in this study.

Table 5.2 Research Quality Tests and Qualitative Study Tactics

Test Definitions	Qualitative Research Tactics	Phase of Research	Used in this Study?
Construct validity: establishing correct operational measures for the concepts being studied	Use multiple sources of evidence	Data collection	Yes
	Establish chain of evidence	Data collection	Yes
	Have key informants review draft case/interview reports	Data collection	Yes
Internal validity: (for explanatory or causal studies only, and not for descriptive or exploratory studies); establishing causal relationship, whereby certain conditions are shown to lead to other conditions, as distinguished from spurious relationships	Do pattern matching	Data analysis	Yes; to be addressed in subsequent chapters.
	Do explanation building	Data analysis	
	Do time series analysis	Data analysis	No
External validity: establishing the domain to which a study’s findings can be generalised (generalisability)	Use replication logic in multiple respondents	Research design	Yes
Reliability: demonstrating that the operations of the study – such as data collection procedures – can be repeated with the same results	Use a study protocol	Data collection	Yes
	Develop an interview database	Data collection	Yes
<i>Adapted from Yin (1994, pp. 41-42)</i>			

5.5.6 Qualitative Interviewing and Data Collection Decisions

It is clear from the table above that, with the exception of internal validity, research reliability and validity issues must be addressed long before the data analysis stage. As a matter of fact, validity measures, particularly external validity, must be dealt with from research design stage. Hence, research design as well as data collection and analysis stages are outlined next together with a discussion of how validity and reliability issues are addressed in this research.

5.5.6.1 Research Design Stage

Yin (1994) asserts that using ***multiple cases*** enables replication logic³ and increases external validity. As noted earlier, the aim of qualitative research is not statistical but analytical generalisability. In analytical generalisation, the researcher attempts to generalise a particular set of results to some broader theory although this generalisation does not come automatically. A theory must be tested through replication. As such the use of multiple cases can certainly strengthen the analytical generalisability of the research.

Although this study is not intended to adopt the ‘case study method’ as it is not designed within real-life context⁴, the use of replication logic is enabled by the use of ‘multiple fictitious events’ particularly in Phase 3 of the study. Starting from the research design stage, the choice of fictitious ‘cases’ representing three issues/events of varying degrees of environmental impact have been carefully made to contrive to the theoretical attribute of ‘***urgency***’. Likewise, the choice of sampling technique used (i.e. choosing participants on the basis of their past/current experience being representative of various stakeholders) is envisaged to enable literal and theoretical replications through the analysis of various stakeholders represented.

Another major issue in designing a qualitative study is defining what is the ***unit of analysis***? Multiple units of analysis can be used to provide rich data source. In Phase 2 the unit of analysis used is the individual respondents. In Phase 3, the unit of analysis are: (1) the three fictitious companies portraying different environmental issues/events in Phase 3-A; and (2) the different stakeholder groups in Phase 3-B.

5.5.6.2 Data Collection Stage

Maintaining the chain of evidence of data is considered significant. In this study, it includes original audio tapes of all twenty interviews, printed verbatim transcription of interviews, original copies of signed consent forms, original copies of all interview

³ Multiple cases can be used either to predict similar results or relationships (literal replication) or produce contrary results but as predicted by theory (theory replication).

⁴ A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used (Yin 1994, p. 23)

questions with hand-written notes including some comments on unrecorded conversation and a register of dates of interview and respondent profiles (i.e. whether transcripts were sent electronically and whether confirmation/feedback were received). Hence in this study construct validity is ensured through multiple sourcing of evidence (as discussed earlier), together with the decision to maintain an accurate chain of evidence and to send interview transcripts back to the respondents for review and comment.

Yin (1994) also suggests that reliability is enhanced during the data collection stage through the use of a *study protocol* and by developing a *database* for the study. The *study protocol* serves both as a plan and a historical document containing procedures and guidelines (Brownell 1995). In this study, a project overview is developed and continually refined throughout the data collection stages. Procedures adopted include keeping a log of details on the people contacted and interviewed, forming a check list of the stakeholders represented by the respondents and setting target dates by which transcribed interviews and feedback should be sent and received.

An *interview database* is also used as a tool for collecting and collating all the evidence obtained in the study. For this investigation, the database includes notes in the form of recorded interviews ranging from between thirty to forty-five minutes in Phase 2 to between one to one and a half hours in Phase 3. Tabular materials and narratives also form part of the database and in this study, these include the word-for-word transcription of interviews. All the interviews are transcribed by this researcher to ensure accuracy.

Table 5.2 shows that internal validity issues are commonly addressed in the analysis stage of the investigation, thus it is deemed appropriate to defer its discussion until the subsequent chapters. However before closing this chapter, it is necessary to discuss how the issue of privacy is addressed in this study.

5.6 PRIVACY ISSUE

The use of qualitative methods particularly in-depth interviews raises an ethical issue which arguably is more critical than other methods because of its intrusive nature. Patton (1992, p. 356) subscribes to this idea when he admits:

... because naturalistic inquiry takes the researcher into the real world where people live and work, and because in-depth interviewing opens up what is inside people – qualitative inquiry may be more intrusive and involve greater reactivity than surveys, tests and other quantitative approaches.

A major ethical concern raised, given the intrusive nature of the method adopted in this study, is the issue of *confidentiality*. Respondents are assured that their anonymity will be maintained throughout the conduct of this study thus the respondents' names will not be used in this thesis. Although it is considered necessary to mention the respondents' past/current position/experience to justify their stakeholder classification during the discussion of results, the report will be written in such a way as to protect the anonymity of the respondents and their institutional affiliation. Confidentiality conditions are explained to each interviewee in the prescribed consent form (see Appendix E) which conforms to the requirements of Swinburne University Human Research Ethics Committee. Each interviewee has signed the consent form and permission to record the interview has been sought before the interview took place.

Access to interview recordings and transcripts is limited only to this researcher and her supervisor. Proper physical security of audio tapes, disks and interview transcripts as well as consent forms are adhered to in accordance to Swinburne University Code of Research Practice.

5.7 SUMMARY

This chapter describes research design issues through the justification of methodological assumptions as well as the methods used in light of these assumptions. The descriptive, exploratory and explanatory purpose of this research is discussed in accordance to the aims and the three phases of this investigation. This chapter also describes how the quantitative and qualitative phases of this investigation are conducted. As this research aims to refine and further develop the use of stakeholder theory particularly in corporate environmental reporting, a discussion on theory development using qualitative interviewing is provided together with an explanation on how research validity and reliability in qualitative research is achieved. The chapter concludes with an explanation on how the privacy of the respondents is preserved.

CHAPTER 6

PHASES 1 & 2(a): ESTABLISHING RELATIONSHIPS BETWEEN DISCLOSURES AND STAKEHOLDER FACTORS

6.1 INTRODUCTION

Chapters 4 and 5 describe the stakeholder framework developed and the three phases of this study corresponding to the three aims of this investigation. Chapter 5 also outlines the quantitative method adopted in Phase 1 and the qualitative design of Phases 2 and 3 of this study. The purpose of this chapter is to discuss the results of Phase 1 – quantitative analysis and Phase 2(a) – the part that pertains to the analysis of semi-structured interviews conducted with Malaysian company executives from the Malaysian publicly listed companies included in Phase 1.

6.2 BACKGROUND TO THE FLOW OF INVESTIGATION

At the inception of this investigation, the original plan for this study was to have two phases. The first phase is quantitative using ordinary least squares (OLS) method to analyse the data from Main Board listed Malaysian companies' Annual Reports (ARs). The second phase is qualitative consisting of interviews with the Chief Executive/Financial Officers of Malaysian companies included in the Phase 1 quantitative analysis. The purpose is to explain the current environmental disclosure practices and to have an in-depth understanding on the extent to which stakeholder theory could predict corporate environmental disclosures in Malaysian setting.

6.2.1 Data Collection Timing – Phases 1 & 2

Data collection for Phases 1 and 2 started while this investigator was an academic staff member at the University of Queensland in early 2003. A letter (see Appendix F) requesting copies of Annual Reports was sent in January 2003 to the forty companies identified as disclosers by the Environmental Resources Management of Malaysia (ERMM 2002) Report (see Appendix C for the list of these forty companies). The letter was followed up by a fax message sent in February 2003. The letter also solicited the

targeted participants' willingness to be interviewed. Table 6.1 shows the timeline for Phases 1 and 2 data collection and analysis.

Table 6.1: Phases 1 & 2 Data Collection and Analysis Timeline

Date	Research Activity	Phase
Jan – Feb 2003	<ul style="list-style-type: none"> ■ Sent letters and fax to CEO/CFOs of 40 Main Board listed companies requesting for Annual Reports and interviews. 	1 & 2 (a) – collection
Mar – Aug 2003	<ul style="list-style-type: none"> ■ Annual Reports were received from 8 of the 40 companies contacted; only 2 CEOs consented for an interview ■ Obtained ethics approval - University of Queensland HREC ■ Downloading Annual Reports from the KLSE Website while conducting literature review on content analysis and stakeholder framework. 	1 & 2 (a) – collection
Sep 2003	<ul style="list-style-type: none"> ■ Interview with the Group CEO (representing 3 of the 40 Main Board listed companies) from West Malaysia - Kuala Lumpur (<i>Interviewee 1</i>) 	2 (a) – collection
Sep – Nov 2003	<ul style="list-style-type: none"> ■ Content analysis of 40 Annual Reports for 2000 and 39 Annual Reports for 2001 (1 company was delisted in 2001) and gathering data for other relevant variables, e.g. company age, size, leverage, share ownership, etc. ■ Doing the quantitative analysis of the Annual Report variables. 	Phase 1 – collection & analysis
Dec 2003	<ul style="list-style-type: none"> ■ Interview with the Managing Director (of a Main Board listed company) from East Malaysia – Sarawak (<i>Interviewee 2</i>) ■ Interview with an environmental government official in the state of Sarawak (<i>Interviewee 3</i>) 	2 (a) & 2 (b) – collection
Jan 2004	<ul style="list-style-type: none"> ■ Interview with a Manager/Owner of a small metal heating company in Johor Bahru (<i>Interviewee 4</i>) ■ Interview with an Accounting Academic from Kuala Lumpur involved in Malaysian environmental disclosure research (<i>Interviewee 5</i>) 	2 (b) – collection
Jan-Feb 2004	Writing up a paper to report the results of Phase 1 analysis.	1 – write up

It is clear from the above timeline that data collection for both Phases 1 and 2 overlaps with each other. Given the data constraint faced in the planned in-depth interviews which will be discussed next, it is decided to reorganise the second phase of the study into two parts and to consider a third phase in order to extend the application of stakeholder theory in the Malaysian context.

6.2.2 Data Constraint and Reorganisation of Phase 2

There is considerable reluctance on the part of the targeted top executives to participate in face-to-face in-depth interviews¹. As a result, only one Chief Executive Officer (CEO) from West Malaysia and one Managing Director (MD) from East Malaysia agree to be interviewed. Despite this limited number, it is considered vital to grasp the opportunity to get first-hand information directly from these top executives in support

¹ Some of the responses received range from: (1) it is their policy not to participate in such studies; (2) they are not heavily involved in environmental disclosures so they don't need to participate; to (3) just send us the questionnaire and we will decide whether we will participate (and never replied again).

for the view that relying on even a single informant who is likely to be the most knowledgeable person in the firm would be the most reliable source of information (Clulow, Gerstman & Barry 2003; Day & Nedungadi 1994). Others like Huber and Power (1985) claim that when several informants vary in their knowledge of issues, averaging the responses gives less accurate meaning than using the most knowledgeable informant. Hence, although it is a concern that top management interviews are limited in number, their extensive business knowledge is considered a vital source of relevant information as supported in the literature.

It has also become apparent that in order to move this research forward, there is a need to understand the Malaysian mentality in dealing with business and the effect of relevant government regulations. Hence, it is decided to extend Phase 2 by breaking it into two parts: 1) Phase 2(a) consisting of two semi-structured interviews with Malaysian executives as originally planned; and 2) Phase 2(b) consisting of three unstructured interviews with people who are able to provide relevant background information on Malaysian government and business psyche plus perusing relevant media and Malaysian websites. The purpose here is to explore how an understanding of the Malaysian psyche can be used to further extend the application of stakeholder theory in the corporate environmental disclosure arena. The findings in Phase 2(b) are discussed in detail in Chapter 7.

As the framework for this study is developed from the stakeholder literature as well as both during and between one data collection/analysis phase and the next, it is decided that the optimal way to present the findings in this study is through a chronological and logical order. Although the data collection for Phase 1 and most of Phase 2 occurs almost at the same time, the findings in Phase 2(a) partly explain Phase 1 findings while the findings in Part 2(b) provide the necessary link to Phase 3. Hence, it is considered best to report the findings in Phase 2(a) in this chapter after the discussion of Phase 1 findings. This order of presentation is deemed most logical since it is clear that the purpose of Phase 2(a) is more in line with gathering explanations directly from the top management of the companies included in Phase 1 (i.e. the disclosing entities identified in the ERMM study). The findings in Phase 1 together with its implications for the subsequent phases of this study are discussed next.

6.3 PHASE 1: RESULTS AND DISCUSSIONS

As explained earlier, the first phase of this investigation adopts Ullmann's (1985) stakeholder model using the data from forty Main Board listed Malaysian companies and analysed through the use of ordinary least squares (OLS) regression. The actual pooled data consists of 79 data sets (40 companies for the financial year 2000 and 39 companies in 2001 as one company was delisted). Content analysis, as discussed in 5.4.2, is used to analyse the dependent variables of quality and quantity of voluntary Annual Report Environmental Disclosures (AREDs).

6.3.1 Quality and Quantity of Environmental Disclosures

Table 6.2 contains the summary of the category of related disclosures made in 2000 and 2001 tabulated by the number of companies disclosing in different parts of the Annual Report. Only one company made a disclosure in the Financial Statement/Notes to the Accounts (FS/N). The Chairman's Statement (CSTAT) is where a considerable number of companies provide environmental disclosures. However, the most common place to find AREDs is in the Operations Review section and/or in other sections (OR/O) like the calendar of activities, vision/mission statement or as a separate section. Table 6.2 shows clearly that majority of the companies provide general qualitative disclosures (score of 1) with only 3 companies, at most, providing quantitative information (awarded a score of 3).

It is also noticeable that the category that is most commonly mentioned is the firm's policies or concern for the environment. None provides any information on *accrued liabilities/deferred tax provision relating to environmental expenditures* (category 5). However, it is curious that there is not a single company that provides any information on *present and potential litigation and estimated litigation cost / contingent liability* (categories 7, 8 & 9) despite the fact that the Listing Requirements (LR) is revised effective mid 2001. The ERMM Report (2002, p. 32) states that the "new LR came into effect on 15th February, 1st June and 1st July 2001, to allow more time for listed companies to understand the requirements fully". A specific section of the revised LR pertains to a mandatory disclosure of environment-related litigation/penalties as documented in this direct quote from the ERMM Report:

Table 6.2: Environmental Disclosure Ratings Summary According to Location of Disclosures in Annual Report for 2000-2001

Categories and Items of Information	NUMBER OF COMPANIES DISCLOSING WITH THE																	
	SCORE=3						SCORE=2						SCORE=1					
	FS/N		CSTAT		OR/O		FS/N		CSTAT		OR/O		FS/N		OR/O			
	'00	'01	'00	'01	'00	'01	'00	'01	'00	'01	'00	'01	'00	'01	'00	'01		
<i>ECONOMIC FACTORS</i>																		
1.Past/current expenditures: environmental equipment, facilities and remediation					1	2					4	1			4	3	5	8
2.Past/current operating costs: environmental equipment, facilities and remediation	1	1	1		1	2					2	2			4	2	5	9
3.Future expenditures: environmental equipment, facilities and remediation					2	1									2	3	3	6
4.Future operating costs: environmental equipment, facilities and remediation															2		5	2
5.Accrued liabilities/ Deferred tax provision relating to environmental expenditures																		
6.Restructuring, shutdown and/or plant closing due to environmental concerns																		1
<i>LITIGATION</i>																		
7.Present litigation																		
8.Potential litigation																		
9.Estimated cost / Contingent liability																		
<i>POLLUTION ABATEMENT</i>																		
10.Pollution abatement											5	5			4	2	6	9
11.Emission and discharge information					2	2			1			1				1	4	2
12.Compliance status of facilities					1	1					4	5			9	8	11	15
<i>OTHER ENVIRONMENTALLY-RELATED INFORMATION</i>																		
13.Discussion of regulations and requirements											2	2			2	1	2	3
14.Policies or concern for the environment									1	1	9	10	1		15	12	14	18
15.Conservation of natural resources					3	2			1		4	5			8	3	7	9
16.Awards for environmental protection																1	2	5
17.Recycling					2	1			1		3	3			1	1	5	13
18.Department/committee/offices for pollution control															2	2	5	6
19.Other environmentally friendly products and/or activities									1		4	4			2	2		3

FS/N = Financial Statements and Notes to Accounts
CSTAT = Chairman's Statement
OR/O = Operations Review and Others

Item (16) of Appendix 9C specifies the inclusion of ‘particulars of all sanctions and/or penalties imposed on the listed issuer and its subsidiaries, directors or management by the relevant regulatory bodies’. This requirement therefore makes it compulsory for any public listed company to disclose in their annual report environment-related litigation or penalties (ERMM 2002, p. 33).

As noted earlier, the Annual Reports analysed in this study cover the period 2000 and 2001. While it is possible that none of the companies included in Phase 1 have been fined or prosecuted for environmentally-related matters, it is also probable that many companies have not yet fully adopted the new LR. Although this is likely to change once the LR takes effect, this change is not likely to affect the findings in this study since the focus here is on *voluntary* AREDs as a way of managing relevant stakeholders.

The quantity of AREDs (see Table 6.3) range from 0 to 95 sentences with a mean (median) of 16.37 (9) sentences. The quality of AREDs, however, range from 0 to a maximum of 22 with a mean (median) of 6.58 (5). Overall, the quality of disclosure is low given that none of the companies provide disclosure on all 8 items in the Environmental Disclosure Index (EDI) in any part of the Annual Report. The maximum number a company could get for quality is 54 (or 57), i.e. 18 (or 19 including others) items multiplied by the maximum score of 3 if specific quantitative information is provided. Also, for companies providing AREDs in more than one part of the Annual Report, the possible maximum score could be tripled (see 5.4.2.1), although this is highly unlikely. Hence, overall it appears that the quality of AREDs in Malaysian companies has a lot of room for improvement.

6.3.2 Descriptive Statistics

Descriptive statistics are shown in Table 6.3. Panel A shows the dependent variables and the independent continuous variables whilst Panel B has the indicator variables. Shareholder power (SP) has a minimum of 14.87%, maximum of almost 87% and a mean (median) of 58.88% (59.16%) indicating that majority of the firms in the sample have high ownership concentration. The creditor power (CP) has a wide range from a low of 2.47% to a high of 1031%. The median of 72.43% is probably a better representation rather than the mean of 127.83% which is too high because of an outlier, i.e. a company in the financial sector with more than 1000% debt to equity ratio. Despite this, it is still clear that majority of the Malaysian companies are highly geared. The average return on assets (AROA) shows that half the companies in the sample have AROA of 5.72% and above

with a mean return of 6.22%. The age (AGE) of the firms range from a minimum of 3 to a maximum of 51 years.

Table 6.3: Descriptive Statistics

Panel A: Continuous Variables						
Variable	Variable Description	Minimum	Maximum	Mean	Median	Standard Deviation
QLENDIS	Quality of Environmental Disclosure: Total score for quality of environmental disclosure for firm <i>i</i> at period <i>t</i> ;	0.00	22.00	6.58	5.00	5.92
QTENDIS	Quantity of Environmental Disclosure: Total quantity of environmental disclosure (number of sentences) for firm <i>i</i> at period <i>t</i>	0.00	95.00	16.37	9.00	20.37
SP	Shareholder Power: Percentage of ownership of firm <i>i</i> held by shareholders holding 5% or more of firm <i>i</i> at period <i>t</i>	14.87	86.59	58.88	59.16	18.61
CP	Creditor Power: Average debt to equity ratio of firm <i>i</i> at period <i>t</i>	2.47	1031.24	127.83	72.43	191.13
AROA	Average Return on Assets of firm <i>i</i> at period <i>t</i>	-10.32	21.09	6.22	5.72	5.26
LSIZ	Log Size: Natural log of average sales revenues of firm <i>i</i> at period <i>t</i> ;	7.51	10.15	8.86	8.77	0.59
AGE	Age: Number of years since incorporation of firm <i>i</i> at period <i>t</i>	3.00	51.00	25.46	28.00	12.18
Panel B: Indicator Variables						
Variable	Variable Description	Number of Firms with 1	(%)	Number of Firms with 0	(%)	
GP	Government Power: 1 for firms in environmentally sensitive industry; 0 otherwise	63	79.75	16	20.25	
EC	Environmental Concern: 1 for firms with environmental committee and/or includes environmental concern in Mission/Vision statement; 0 otherwise	27	34.18	52	65.82	
ISO	ISO 14001 Certification: 1 for firms with ISO 14001 certification as of 2001; 0 otherwise	27	34.18	52	65.82	

Panel B shows that majority (about 80%) of the disclosing firms are in an environmentally sensitive industry (GP = 1), however, only about a third (34%) of these firms show environmental concern (EC) in their Vision/Mission Statement and/or have an environmental committee. The same percentage (34%) of firms have ISO 14001 certification. It is interesting to note, however, that not all ISO 14001 certified companies show environmental concern (EC).

6.3.3 Correlation Matrix and Bivariate Analysis

The Pearson product moment correlation matrix, shown in the bottom left side of Table 6.4, indicates that the quality and quantity of disclosures are highly correlated with a

correlation coefficient of 0.901 at a significance level of $p < 0.0001$. Hence it is reasonable to suggest that the quality and quantity of AREDs are closely associated.

There is no indication that an unacceptable level of multicollinearity is present between independent variables. Multicollinearity occurs when any single independent variable is highly correlated with another independent variable/s. When variables are multicollinear, redundant information could make the analysis misleading. A number of statistics experts (see for example, Farrar & Glauber 1967; Hair et al 1998; Tabachnik & Fidell 2001) agree that a harmful level of multicollinearity is not present until the correlation coefficient reaches around 0.8 or 0.9. The highest correlation coefficient is 0.381 for environmental concern (EC) and ISO 14001 (ISO) independent variables. Given that EC and ISO are alternative measures to strategic posture (i.e. only one is alternatively included in the multiple regression), it should not raise any concern for multicollinearity even if the correlation coefficient exceeds 0.8.

To check the robustness of Pearson's correlation, a non-parametric Spearman's correlation is shown in the top right side of Table 6.4. Overall, the significance levels shown in non-parametric measure appear to coincide with the parametric measure.

The correlation matrix in Table 6.4 also shows the bivariate results using ordinary least squares (OLS) regressions between the dependent variables QLENDIS and QTENDIS and the independent variables. Bivariate results show that EC is significant and positively associated with both QLENDIS and QTENDIS at $p < .001$. This is consistent with multivariate findings and is highly expected as those companies portraying a great concern for the environment as part of their strategy are the ones likely to provide environmental disclosures.

GP and ISO are strongly and positively related to QLENDIS at 1% and 5% significance level, respectively. GP and ISO are also positively related to QTENDIS but slightly weaker at 5% and 10% significance level, respectively. All the other variables are not significant except for AROA which is marginally negatively associated with QLENDIS at 10% significance level. Most of the independent variables have the expected sign with the exception of SP, AROA and LSIZ (for QLENDIS only).

Table 6.4: Correlation Matrix

		QLENDIS	QTENDIS	SP	CP	GP	EC	ISO	AROA	LSIZ	AGE
QLENDIS	Correlation	1	0.923**	0.036	0.029	0.302**	0.518**	0.171	-0.205	-0.005	0.016
	Sig. (2-tailed)	.	0.000	0.755	0.801	0.007	0.000	0.132	0.070	0.968	0.888
QTENDIS	Correlation	0.901**	1	0.032	0.057	0.277**	0.504**	0.130	-0.137	-0.013	0.040
	Sig. (2-tailed)	0.000	.	0.779	0.616	0.013	0.000	0.255	0.229	0.910	0.729
SP	Correlation	0.015	0.006	1	0.146	0.159	0.193	0.351**	-0.007	0.253	0.100
	Sig. (2-tailed)	0.893	0.955	.	0.199	0.162	0.088	0.002	0.950	0.025	0.379
CP	Correlation	0.042	0.115	-0.156	1	-0.005	-0.073	0.067	-0.267*	0.473	0.039
	Sig. (2-tailed)	0.713	0.315	0.169	.	0.966	0.522	0.559	0.017	0.000	0.732
GP	Correlation	0.291**	0.238*	0.145	-0.316**	1	0.297**	0.098	-0.108	-0.144	-0.225
	Sig. (2-tailed)	0.009	0.035	0.203	0.005	.	0.008	0.393	0.345	0.207	0.259
EC	Correlation	0.487**	0.440**	0.166	-0.065	0.297**	1	0.381*	-0.037	-0.074	-0.074
	Sig. (2-tailed)	0.000	0.000	0.145	0.567	0.008	.	0.001	0.747	0.518	0.518
ISO	Correlation	0.242*	0.210	0.316**	-0.050	0.098	0.381**	1	-0.070	0.268*	0.236*
	Sig. (2-tailed)	0.032	0.064	0.005	0.664	0.393	0.001	.	0.542	0.017	0.036
AROA	Correlation	-0.201	-0.117	0.030	-0.191	-0.165	-0.069	-0.014	1	0.038	-0.246*
	Sig. (2-tailed)	0.076	0.304	0.795	0.091	0.146	0.544	0.905	.	0.741	0.029
LSIZ	Correlation	-0.010	0.057	0.185	0.311**	-0.131	-0.090	0.254*	0.004	1	0.106
	Sig. (2-tailed)	0.928	0.616	0.102	0.005	0.249	0.430	0.024	0.974	.	0.355
AGE	Correlation	0.028	0.032	0.067	0.131	-0.231*	-0.102	0.246	-0.104	0.061	1
	Sig. (2-tailed)	0.808	0.781	0.560	0.250	0.041	0.371	0.029	0.361	0.595	.

** . Correlation is significant at the 0.01 level (2-tailed).
* . Correlation is significant at the 0.05 level (2-tailed).

Note: Pearson Product Moment Correlation is in the bottom left matrix while Spearman's Correlation is in the top right matrix.
For a complete description of the variables, see Table 6.3.

6.3.4 Multivariate Results and Discussion

The results for the multivariate analysis using multiple ordinary least squares (OLS) regressions are shown in Table 6.5. Two OLS regressions are performed: one for each of the dependent variables QLENDIS and QTENDIS.

Table 6.5: OLS Results for Quality and Quantity of Disclosure

<i>Panel A: Quality of Environmental Disclosure- Full sample: 2000-2001 (N=79)</i>									
$QLENDIS_{it} = \beta_0 + \beta_1 SP_{it} + \beta_2 CP_{it} + \beta_3 GP_{it} + \beta_4 EC_{it} / ISO_{it} + \beta_5 AROA_{it} + \beta_6 LSIZ_{it} + \beta_7 AGE_{it} + e_t$									
<i>Where: e is the error term and the rest of the variables are as described in Table 6.3.</i>									
Variable	B_0	SP	CP	GP	EC / ISO	AROA	LSIZ	AGE	
coefficient	-0.908	-0.029	0.0023	2.9973	5.6152	3.153	-0.122	0.4569	0.0503
<i>t</i> -statistic	-0.095	-0.845	0.643	1.781*	4.298***	2.094**	-1.03	0.418	0.997
Adj. R ²	0.237	F	4.465	Sig.	0.000				
<i>Panel B: Quantity of Environmental Disclosure- Full sample: 2000-2001 (N=79)</i>									
$QTENDIS_{it} = \beta_0 + \beta_1 SP_{it} + \beta_2 CP_{it} + \beta_3 GP_{it} + \beta_4 EC_{it} / ISO_{it} + \beta_5 AROA_{it} + \beta_6 LSIZ_{it} + \beta_7 AGE_{it} + e_t$									
<i>Where: e is the error term and the rest of the variables are as described in Table 6.3.</i>									
Variable	B_0	SP	CP	GP	EC / ISO	AROA	LSIZ	AGE	
coefficient	-24.998	-0.101	0.016	10.408	17.996	8.924	-0.0461	3.0198	0.1712
<i>t</i> -statistic	-0.738	-0.843	1.266	1.743*	3.882***	1.686*	-0.11	0.778	0.957
Adj. R ²	0.1884	F	3.5858	Sig.	0.0023				
***	Significant at the 1% level		**	Significant at the 5% level		*	Significant at the 10% level		

6.3.4.1 Overview of Multivariate Results

The first model with quality of environmental disclosures (QLENDIS) as the dependent variable explains about 24% of the variation in quality and is significant at $p < 0.0001$ whilst the second model with quantity of environmental disclosures (QTENDIS) as the dependent variable explains about 19% and is significant at $p = 0.002$.

Only *Hypothesis 1c*, *2a* and *2b* are supported for both models. Consistent with the bivariate results, both the **Government Power (GP)** and **Environmental Concern (EC)** are significant and positively associated with the quality and quantity of disclosures at $p < .10$ and $p < .01$ respectively. ISO is also significantly positively related with quality at $p < .05$ although the relationship is weaker at $p < .10$ for quantity. This suggests that EC is a better proxy for the firm's strategic posture.

6.3.4.2 Stakeholder Power

6.3.4.2.1 Not significant: Shareholder Power (SP) and Creditor Power (CP)

Of the three stakeholder groups represented, only one shows a weak significant association. Both shareholder power (SP) and creditor power (CP) show the expected signs but are not significant despite the fact that majority of the firms have high ownership concentration (with mean and median of almost 60%) and are highly levered. This finding is curious given that it appears that the shareholders and the creditors represent two of the most influential groups of stakeholders. A possible reason for this curious finding is that neither the shareholders nor the creditors demand AREDs from the companies concerned. However, this is merely speculating at this stage. Hence, it is envisaged that the best way to find some possible explanation for this finding is through direct communications with the companies included in the study.

6.3.4.2.2 Marginally Significant: Government Power (GP)

Government power (GP) has consistently shown significant association both in the bivariate and multivariate analysis. As noted earlier, there is still very limited mandatory Malaysian requirement to provide AREDs. However, it is conceivable that companies in the highly environmentally-sensitive industries are the ones most likely to face government sanctions and as such, they are the ones most likely to manage their relationship with the relevant government agencies through the provision of environmental disclosures. The significant result could imply that government sanctions can play a vital role in improving the level of disclosure.

6.3.4.2.3 Checking Sensitivity of Results: Companies in the Finance Sector Excluded

It is acknowledged that previous studies tend to exclude firms in the financial sector because they appear to have certain characteristics that stand out from other industries. For example, the financial sector is governed by a special set of rules and regulations and many financial institutions are expected to be highly levered given the nature of their operations. The latter is particularly true in this study. One company in the financial sector included in the sample has an outlier D/E% of more than 1000%. Therefore, to address this concern and to check the sensitivity of the results, OLS regressions are recalculated excluding the firms in the financial sector. The results (see Appendix G) are very similar to the multivariate results shown earlier except that GP has slightly increased its significance level to $p < .05$ but only for the quantity of

environmental disclosures (QTENDIS). This strongly implies that the original findings hold true with or without the firms in the financial sector.

6.3.4.3 Strategic Posture

6.3.4.3.1 Stronger Measure of Strategic Posture: Environmental Concern (EC)

Of the two measures of strategic posture, environmental concern (EC) consistently shows significant and positive relationship with the level of disclosure for both QLENDIS and QTENDIS at $p < .01$. This is highly expected and reinforces the significance of the top management's philosophy as manifested in their strategic posture. This is also consistent with the findings in Teoh and Thong's (1984) Malaysian survey, i.e. that the primary contributing factor leading to social awareness is the philosophy adopted by top management.

6.3.4.3.2 Alternative Measure of Strategic Posture: ISO 14001 Certification (ISO)

As ISO 14001 certification (ISO) is used as an alternate proxy for strategic posture, a separate regression is calculated for both QLENDIS and QTENDIS using all the variables specified earlier excluding EC which is replaced by ISO. Consistent with the bivariate results, the analysis shows that ISO is significantly correlated to both QLENDIS and QTENDIS at $p = .04$ and $p = .10$ respectively. These findings are expected given that previous studies has shown that the reasons cited for seeking ISO 14001 certification includes, among others, maintaining competitive advantage, meeting customer demand, improved corporate image and increased market opportunities (Darnall, Gallagher, Richard and Amaral 2000; Graff 1997). These incentives are in accordance with the prediction of the stakeholder framework. These reasons are also echoed in Sulaiman and Ahmad's (2002) survey of Malaysian ISO 14001 certified companies which reveal that the:

Respondents perceived enhanced corporate image as the strongest impact of certification followed by waste reduction. Further, the more important influences which drove companies to seek certification were compliance with environmental laws, increased market opportunities and complying with customer demands (p. 1).

It is, however, worth noting that when ISO is used as an alternate proxy (to EC) for strategic posture, the explanatory power of both models decrease quite dramatically, i.e. the adjusted R^2 for the QLENDIS regression is only about 10% and about 5% for the QTENDIS regression. This reinforces the comments made in the earlier sections confirming that EC is a much better proxy for strategic posture.

6.3.4.4 Economic Performance

All the coefficients of the independent variables have the expected sign except for the economic performance measure, the average return on assets (AROA), which shows a negative sign but is not significant. The result suggests that economic performance is not significantly associated with the level of ARED.

Although quite surprising, this finding is consistent with previous findings in other countries (e.g. Patten 1991; Hackston & Milne 1996). It is also quite possible that the negative coefficient sign is due to the fact that many Malaysian companies suffered dramatically from the Asian crisis in 1997 and is probably still in the process of recovering during the years 2000 and 2001.

6.3.4.5 Control Variables

Both the coefficients of the control variables have the expected signs but are not significant. Hence, suggestions that the age (AGE) and the size (LSIZ) may act as intervening variables on the level of environmental disclosures are not supported in the findings of this study.

6.3.5 Robustness Check

Roberts (1992, p. 599) argues that a time lag between measures of the explanatory factors and disclosure is necessary mainly because of:

...the dynamic nature of strategic planning, the focus of stakeholder theory on meeting the long-term interests of stakeholders...[and] the fact that social disclosures relate primarily to past social responsibility activities.

Hence, to ensure the robustness of the results, multiple OLS regressions are recalculated using lagged values for the continuous variables of debt to equity ratio (CP), return on assets (ROA), natural log of sales revenues (LSIZ) and the firm's age (AGE) at $t - 1$, i.e. for 2001 AREDs, 2000 independent variables are used. SP is not lagged because there is not much movement in the level of ownership for the firms included in the study and the ARs for 1999 are limited as discussed in Chapter 5. The OLS results using lagged continuous dependent variables shown in Table 6.6 for QLENDIS and QTENDIS are very similar to the original multivariate results shown in Table 6.5.

Table 6.6: OLS Results for Quality and Quantity of Disclosure Using Lagged Explanatory Variables

Panel A: Quality of Environmental Disclosure- Full sample: 2000-2001 (N=79)									
$QLENDIS_{it} = \beta_0 + \beta_1 SP_{it} + \beta_2 CP_{it-1} + \beta_3 GP_{it} + \beta_4 EC_{it} / ISO_{it} + \beta_5 ROA_{it-1} + \beta_6 LSIZ_{it-1} + \beta_7 AGE_{it-1} + e_t$									
<i>Where: CP is debt to equity ratio of firm i at t-1; ROA is return on assets of firm i at t-1; LSIZ is natural log of firm i's sales at t-1; AGE is firm i's age since incorporation at t-1; e is the error term and the rest of the variables are as described in Table 6.3.</i>									
Variable	B_0	SP	CP	GP	EC / ISO	ROA	LSIZ	AGE	
coefficient	-2.3	-0.029	0.0032	3.4422	5.6074	3.115	-0.016	0.4867	0.0544
<i>t</i> -statistic	-0.235	-0.864	0.948	2.036**	4.263***	2.062**	-0.168	0.435	1.082
Adj. R ²	0.2296	F	4.3215	Sig.	0.000				
Panel B: Quantity of Environmental Disclosure- Full sample: 2000-2001 (N=79)									
$QTENDIS_{it} = \beta_0 + \beta_1 SP_{it} + \beta_2 CP_{it-1} + \beta_3 GP_{it} + \beta_4 EC_{it} / ISO_{it} + \beta_5 ROA_{it-1} + \beta_6 LSIZ_{it-1} + \beta_7 AGE_{it-1} + e_t$									
<i>Where: CP is debt to equity ratio of firm i at t-1; ROA is return on assets of firm i at t-1; LSIZ is natural log of firm i's sales at t-1; AGE is firm i's age since incorporation at t-1; e is the error term and the rest of the variables are as described in Table 6.3.</i>									
Variable	B_0	SP	CP	GP	EC / ISO	ROA	LSIZ	AGE	
coefficient	-27.15	-0.101	0.0189	11.784	18.024	9.100	0.2164	2.9087	0.1726
<i>t</i> -statistic	-0.791	-0.85	1.61	1.985**	3.903***	1.73*	0.628	0.741	0.979
Adj. R ²	0.1978	F	3.747	Sig.	0.002				
*** Significant at the 1% level; **Significant at the 5% level; *Significant at the 10% level									

For both the QLENDIS and QTENDIS lagged results, GP and EC continue to show significant results with GP becoming more significant (at $p < .05$ compared to $p < .10$) while EC remains at the significance level of $p < 0.0000$. Consistent with the original findings, when ISO is used as an alternate proxy for strategic posture, it remains significant at $p < 0.05$ and $p < 0.10$ for QLENDIS and QTENDIS, respectively. The only minor change is the coefficient for ROA (only for QTENDIS) now shows the expected positive sign but is still insignificant. Despite these slight changes, it is clear that the findings in the original OLS model are robust whether or not lagged values are used.

6.3.6 Relevance of Phase 1 Findings

Phase 1 uses stakeholder theory by operationalising Ullmann's (1985) three-dimensional stakeholder model consisting of *stakeholder power*, *strategic posture* and *economic performance*. Although the quantitative phase of this investigation attempts to replicate similar quantitative studies conducted in developed countries like the US (see Roberts 1992) and Australia (see Chan & Kent 2003; Elijido-Ten 2005), this study is unique as it documents the ARED practices of a developing country particularly in the Malaysian context. To this investigator's knowledge, there has not been any similar

study conducted to date, using a stakeholder model developed in the context of a developed economy and applied in a third-world environment. This is relevant in that, it is both interesting and enlightening to get insights on the extent to which Western models can be applied to analyse a developing economy like Malaysia.

Furthermore, although the aim in this phase is to conduct hypotheses testing, the findings open up more research opportunities given that the results particularly in the *stakeholder power* dimension for shareholders and creditors showed insignificant relationships with the dependent variables of quality and quantity of AREDs. Therefore, the usefulness of the findings in Phase 1 is not only based on the established significant relationships but also on the challenge to probe deeper into the possible explanations behind the insignificant relationships between the independent and dependent variables. This is discussed further in the succeeding section on implications for subsequent data collection.

6.3.7 Limitations and Implications for Subsequent Data Collection

The findings in Phase 1 suggest that the most significant determinant for the provision of AREDs by Malaysian public companies is the level of concern about environmental issues (EC - a measure of *strategic posture*) portrayed by the top management either through the establishment of environmental committee or an explicit inclusion of environmental concern in the mission/vision statement or both. The government's power (GP) to sanction companies particularly in the environmentally-sensitive industry (one of the three measures of *stakeholder power*) is also found to have a significant relationship with both the quality and quantity of AREDs.

While quantitative analysis is useful in establishing relationships through the use of 'hard data', the results presented are subject to a number of limitations. Firstly, given the limited number of companies identified in the ERMM study as environmental disclosers in Malaysia, the total number of data sets is considered small for a regression analysis. This constraint can not be helped as it appears to be inherent in the Malaysian context given that, at the time covered in this study, only few companies have embraced the practice of providing AREDs. However, despite this limitation, the minimum sample size is achieved to ensure that statistical generalisability is not compromised. Hair et al (1998, p. 166) explain this clearly:

...sample size also affects the generalizability (sic) of the results by the ratio of observations to independent variables. A general rule is that the ratio should never fall below 5 to 1, meaning that there should be five observations for each independent variable in the variate.

Secondly, the possibility that the proxies used in the regression analysis may not be an accurate representation of what it purports to measure can not be fully ruled out. This constraint, however, is minimised by exercising great care in choosing the appropriate proxies for the dependent and independent variables based partly through consultation with the relevant literature and data availability.

Finally, given the difficulty of finding suitable and available data to represent proxies for other possible relevant stakeholders, the choice of stakeholders represented are limited to the shareholders, the creditors and the government. These limitations, however, are acknowledged to be inherent of positivistic empirical research, i.e. it is often difficult to capture the complex nature of the business environment, moreso the strategies used by management, through the use of proxies necessary to enable quantitative analysis to be made. Despite these limitations, the findings in this phase of the study provide a useful springboard for a more in-depth study.

As noted earlier, the insignificant relationships between the independent variables of shareholder power (SP) and creditor power (CP) (both measures of *stakeholder power*) against the dependent variables of quality (QLENDIS) and quantity (QTENDIS) of AREDs provide an impetus to ask further questions in order to understand the motives behind environmental reporting. For example, some of the questions raised as a result of the findings from Phase 1 include:

- ***Does top management consider the stakeholders (i.e. shareholders and creditors) included in the model in preparing the environmental disclosures in the Annual Report? From the management's point of view, are there other stakeholders interested in environmental matters and reporting?***

Even with the marginally significant relationship established for the government power (GP) variable proxied by industry sensitivity, a question that could be asked is:

- ***Does industry sensitivity really play a role on the firm's level of environmental awareness and environmental disclosure?***

Although the results suggest that the two alternative proxies to strategic posture (environmental concern (EC) and ISO 14001 certification (ISO)) are both significantly

related to environmental disclosures, it is clear from the results that ISO is weaker. The result also confirms that not all ISO 14001 certified companies show environmental concern (EC) in their Annual Reports. This is despite the fact that ISO 14001 certification requires companies to make their environmental policy available to the public. Thus, a question that begs to be asked is:

- ***Why don't all ISO-certified companies provide environmental policy disclosure in their Annual Reports? Is the Annual Report perceived by top management as an effective way of communicating their environmental concern/performance to their relevant stakeholders?***

Another curious finding from Phase 1 is the insignificant relationship between economic performance and environmental disclosures and the unexpected negative sign of its coefficient. Although it is hinted earlier that it is quite possible that the negative sign of the coefficient could be due to the aftermath of the Asian crisis, it is interesting to ask the top management the question:

- ***Whether or not they feel that providing environmental disclosures affect firm value?***

Phase 2(a), which is discussed next, aims to probe deeper in order to find some possible explanations to the questions raised from the findings in the quantitative analysis.

6.4 PHASE 2(A): RESULTS AND DISCUSSIONS

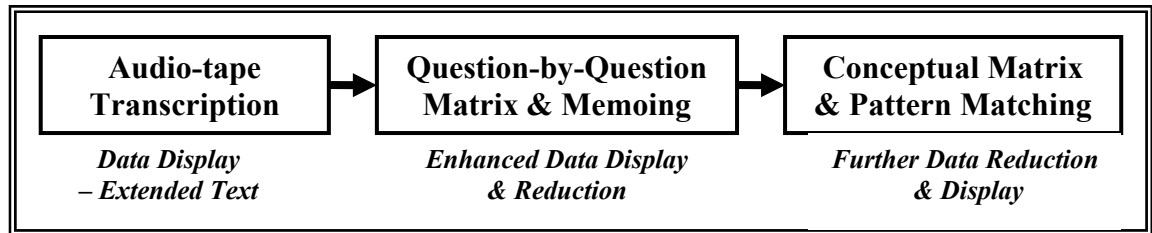
As noted in 6.2, two top executives, representing four² of the forty companies included in Phase 1, are interviewed. Not surprisingly, all these four companies include environmental concern in their mission/vision statement and three have environmental committees according to their AREDS. A semi-structured line of questioning, divided into three main sections (see Appendix A), is used. This section discusses the techniques used in analysing the qualitative interview data together with the major findings in this phase of this study.

6.4.1 Analysis Techniques

The process of analysing the semi-structured interviews in Phase 2(a) consists of three steps as illustrated in Figure 6.1.

² One of the two top executives interviewed is the Group CEO of a big plantation company in West Malaysia. He is also the Chairman of the Board of two other disclosing companies included in Phase 1.

Figure 6.1: Data Analysis Process for Semi-Structured Interviews



The analytical process starts with the transcription of the audio-taped conversation followed by a question-by-question matrix and memoing to enhance data display and analysis. Finally, a thematic conceptual matrix including pattern matching is developed to further enhance the analysis through a logical data reduction and display.

6.4.1.1 Audio-tape Transcription

The use of professional transcription service is considered inappropriate because it is easy to misunderstand the respondents' pronunciation. Hence, the interviews are transcribed by this investigator as she is more familiar with the Malaysian pronunciation. 'Word-for-word' transcription of dialogues is done but some minor editing for grammatical errors is useful, even essential. Certain parts of the interviews that identify the companies represented by the respondents are slightly edited to ensure that anonymity of the respondents is preserved. Notes are also taken for an 'off-the-record' comment provided by one of the respondents after the interview is over. The views offered are deemed useful for the latter part of the study.

Miles and Huberman (1994) note that, in the past, the most common form of *display* for qualitative data is the *extended text*. Word-for-word transcription of interviews as well as pages and pages of field notes are all examples of extended texts. Miles and Huberman (1994, p. 11) believe that apart from being terribly cumbersome, there is a grave danger in attempting to process extremely bulky and poorly structured texts. They argue that, because humans are not very powerful in processing huge amounts of information, a researcher might easily jump to partial and unfounded conclusions when faced with voluminous extended texts. Hence, a simple 'read and recall' technique is considered ineffective in analysing the transcribed data.

6.4.1.2 Question-by-Question Matrix and Memoing

To avoid falling into the trap of making hasty and unfounded conclusions, 'question-by-question matrices' and 'memoing' are used to enable efficient *data display* and *data*

reduction, respectively. Miles and Huberman (1994) define ‘*data display*’ as “an organized (sic), compressed assembly of information that permit conclusion drawing and action” (p. 11) and ‘*data reduction*’ as “the process of selecting, focusing, simplifying, abstracting, and transforming the data that appear in written-up field notes or transcriptions” (p. 10).

The two interviews may have ended up with different follow-up questions (depending on the responses provided) but the main sections of the semi-structured interview questions have been preserved. Each of the main sections of the questionnaire (see Appendix A) is placed in a *question-by-question matrix*. The construction of this matrix allows an efficient data display and comparison of responses from both interviews which are shown side-by-side plus a column provided for memoing (see Appendix H for an example of how the question-by-question matrix and memoing is done).

Memoing is a data reduction analytical technique that allows the researcher to write ‘memos’ to self summarising the responses provided. Memos also help the researcher to identify recurring themes and to “tie together different pieces of data into a recognizable (sic) cluster, often to show that those data are instances of a general concept” (Miles & Huberman 1994, p. 72). The direct quotations from the ‘question-by-question matrix’ and the ‘memos’ are jointly used to assist in isolating relevant concepts and themes that are consistent with the aims of the study.

6.4.1.3 Conceptual Matrix and Pattern Matching

Although the question-by-question matrix and memoing enhance data display and reduction, these analytical techniques do not present the recurring themes in a coherent format that allows the researcher to connect the concepts with the aim of the study. The main aim here is to investigate the factors or variables motivating environmental disclosures as well as the extent to which these factors are linked to stakeholder theory. A ‘conceptual matrix’ is useful in this regard given the explanatory and descriptive nature of this phase. Miles and Huberman (1994, p. 127) describe that a *conceptually clustered matrix* has:

its rows and columns arranged to bring together items that “belong together.” This outcome can happen in two ways: *conceptual* – the analyst may have some a priori ideas about items that derive from the same theory or relate to the same overarching themes; or *empirical* – during early analysis you may find that informants answering different questions are tying them together or are giving similar responses. The basic principle, however, is conceptual coherence.

Miles and Huberman note that conceptually ordered matrices may follow the format of a *thematic conceptual matrix* where “more general conceptual themes can be the ordering principle” (p. 131). Furthermore, in drawing conclusions from this type of conceptual matrix, the analyst is:

...blending inferences drawn directly from the displayed data (tactics: **seeing patterns, themes;** and **factoring** – that is, seeing a few general variables underlying many specifics), with illustrative comments ... (Miles & Huberman 1994, p. 131-133).

This analysis technique is similar to what Yin (1994) suggests as ‘pattern-matching’. The matrix set up for this phase of the analysis consists of four columns. The conceptual matrix used in the first part of Phase 2(a) analysis is shown in Exhibit 6.1. Column 1 shows the recurring themes (i.e. stakeholders identified by the respondents), linked to the aim of this study, that are identified from the question-by-question matrix. Columns 2 and 3 provide the researcher’s notes (in capital letters and in brackets) and the direct quotations (in italics) from the two interviewees supporting the Column 1 themes/concepts (stakeholders). Finally, Column 4 is used to allow the investigator to provide pattern-matching comments and/or researcher explanations. It is important to note that some of the direct quotations are used in more than one row where it is deemed that they relate to more than one identified theme.

6.4.2 Findings – Phase 2(a)

For ease of presentation, Phase 2(a) findings are discussed according to the four headings that correspond to the questions raised from Phase 1: 1) motivations behind environmental disclosures and stakeholder power; 2) environmental disclosures and strategic posture; 3) environmental disclosures and economic value; and 4) possible way forward and other concerns.

6.4.2.1 Motivations Behind Environmental Disclosures and Stakeholder Power

Although the primary aim in this section is to gain some insights on what motivates top management to provide Annual Report Environmental Disclosures (AREDs), a secondary aim is to identify the relevant stakeholders to whom the management feel compelled to provide these disclosures. Exhibit 6.1 (on page 148) contains the conceptual matrix showing clearly the motivations behind ARED provision by the two

respondents (in columns 2 and 3) and the relevant stakeholders identified by these respondents (in column 1).

Both respondents agree that the most common reason for providing AREDs is the general **increase in environmental concern** amongst the different stakeholders identified including the *customers, employees, media, non-government organisations (NGOs) particularly the environmentalists* ('greenies') and possibly by the *general public*³. Although there is no indication that this general increase in environmental concern is initiated or even shared by the *shareholders* and the *creditors* of the companies examined, it is clear that the top management's decision to provide AREDs is significantly influenced by their industry sensitivity⁴ as reflected in the following quotations:

What we feel is that [environmental issues] will continuously be a major concern... because [our company] is land-based and land is scarce... we are in tropical forest industry where the quality of the environment is involved... (Int. 1)

And for environmental things, you know that [our company] is a resource-based industry. So, we are very concerned about environmental issues... (Int. 2)

Despite the shareholders' and creditors' apparent absence of interest on environmental matters, it is obvious that both groups of stakeholders are considered important when preparing AREDs particularly in the Malaysian setting. This is especially true for shareholders given that the second most common reason cited by both respondents relates to the **issue of transparency**:

*I think the firm belief is the concept of transparency... Among the things that we adhere to is the concept of **people, planet and profit**. Of course, for **people, including our financiers**, we have to explain to them [shareholders] what we are doing. (Int. 1)*

*We like to be **transparent to all our shareholders**. We want them to understand us more... No point hiding something. We prefer that... they have better understanding so it's easier for the management. (Int. 2)*

The above findings offer some meaningful insights on the insignificant relationships between the **quality and quantity of ARED** and the **shareholders and creditors** established in Phase 1. There is nothing in the interview transcripts that shows any indication on the management's perception that shareholders and creditors increase their concern for the environment. Therefore, it can only be inferred that although the

³ There is a mixed feeling regarding the perceived increase on environmental awareness as echoed by Interviewee 2 who stated that it's hard to generalise the Malaysian public (see Exhibit 6.2).

⁴ This is very much in line with the significant association established (in Phase 1) between the **quality and quantity of ARED** and the **industry sensitivity** (i.e GP).

shareholders and creditors are considered to be powerful stakeholders, it seems that there is no direct pressure from them for companies to provide AREDs. Hence, the qualitative information provided by top management supports the quantitative findings.

Amongst the other reasons for providing AREDs cited by at least one of the respondents are: 1) demand from overseas customers; 2) enhanced employee confidence and commitment; 3) lower quality cost arising from enhanced customer confidence; 4) lower cost of debt arising from enhanced creditor confidence; and 5) calls to protect the environment both from the environmental groups and the media.

It is important to note that apart from uncovering the motivations behind the provision of AREDs, the stakeholders identified in the process provide an important link between this phase of the study and the next. The analysis confirms that the inclusion of other relevant stakeholders such as the *customers*, *employees*, *environmentalists* and the *media* should strengthen further analysis. Furthermore, although the analysis indicates that industry sensitivity plays an important role in the provision of AREDs, it is also noticeable that neither of the respondents relates this to government environmental rules and regulations. Hence, it is deemed appropriate to include the *relevant government agencies* as a separate stakeholder group. Likewise, given the established relevance of industry sensitivity to the company's decision to provide AREDs, it is decided to use this as a control variable in subsequent analysis.

6.4.2.2 Environmental Disclosures and Strategic Posture

As noted earlier, it is curious that although both measures of strategic posture show significant relationship with AREDs, ISO proves to be a weaker proxy for strategic posture. The main purpose in this section is to probe deeper into the reasons why Phase 1 findings show that not all ISO-certified companies provide an environmental policy in their Annual Reports despite the fact that the certification process requires companies to make this information publicly available. This begs the question whether publicly listed companies find the Annual Report as a useful way of communicating their environmental policies to their stakeholders and if they do, why don't all ISO-certified companies provide an environmental policy disclosure in their Annual Reports (ARs).

Exhibit 6.1: ‘Conceptual Matrix’ and ‘Pattern-Matching’ for Phase 2(a) – Motivations Behind Environmental Disclosures & Stakeholder Power			
THEMES: Stakeholders Identified	Why provide Environmental Disclosures in Annual Reports?		PATTERN MATCHING
	Interviewee 1	Interviewee 2	
Shareholders	KEY: <i>italics: direct quotations</i> ; CAPITALS: RESEARCHER MEMO, NOTES AND PATTERNS		
Shareholders	[TRANSPARENCY] I think the firm belief is the concept of transparency... Among the things that we adhere to is the concept of <i>people, planet and profit</i> . Of course, for <i>people, including our financiers</i> , we have to explain to them what we are doing. Planet is how we maintain a sustainable environment and how we deal with it. And, we have to make profit in order to continue to move forward. As we feel that these 3 are very important to the existence of our group, therefore we need to report that and to show what are the programs that we have done....	[TRANSPARENCY] I think this disclosure for a public company is very important. We like to be <i>transparent to all our shareholders</i> . We want them to understand us more. ... we feel that the management is running a public company - it's for the public and for the shareholders. No point we hide something. We prefer that the public know us better - they have better understanding so it's easier for the management.	BOTH AGREE SHAREHOLDERS CONSIDERED IMPORTANT BUT IT IS TOP MANAGEMENT DECIDING TO BE TRANSPARENT
Banks/ Creditors	[LOWER COST OF DEBT FROM ENHANCED CREDITOR CONFIDENCE] Does that mean the value of the firm will be enhanced? Yes and no but I think in the long-run, that is the plan! And <i>people may not realise</i> ... if we talk to the <i>bank to get a loan</i> and they know that we comply with the 3 p's (people, planet and profits), then it's likely that we will have lower interest rates. And that give some value to the firm.		ONE SUGGESTS THAT BANKS MIGHT CARE ABOUT ENV'T PERFORMANCE
Customers	[INDIRECT: LOWER QUALITY COST ARISING FROM ENHANCED CUSTOMER CONFIDENCE] ... if you produce your goods and because you have been very transparent, then there will be less ... effort by other <i>people [e.g. customers]</i> to continue to look at your quality... And that save a lot of cost in terms of the products that we are giving, in terms of the networking with the people that we are dealing with.	[DIRECT: DEMAND FROM OVERSEAS CUSTOMERS] Especially ... our <i>product users are [mostly from] Europe and Japan</i> . They want to know where the timber came from and how it came about. Are we chopping down all the trees to the extent that we might shut down the timber industry in the future. So we like to tell them what we are doing... This is why it is very essential to have this disclosure in the AR.	BOTH AGREE THAT CUSTOMERS HAVE POWER EITHER DIRECT OR INDIRECT
Employees	[ENHANCED EMPLOYEE CONFIDENCE & COMMITMENT] ...it gives the <i>staff of [our company]</i> the confidence that we are doing the right thing and therefore we will be able to deal with them in a very professional way. ... if you want to have a successful environmental process, your staff must understand it well. Without the <i>support of your staff</i> , you will not be able to do it. That means, not only the public but our staff and their families become part and parcel of it.		EMPLOYEES CONSIDERED BY ONE
Industry Sensitivity	[INCREASE IN ENVIRONMENTAL CONCERN] What we feel is that it will continuously be a major concern. I think this is a fact of life because <i>[our company] is land-based and land is scarce</i> ... As we need substantial land, we have to deal with neighbours... If there is expansion, it may reduce the certain types of flora and fauna. That becomes part of the concern. After all, we are in the <i>tropical forest industry</i> where the quality of the environment is [involved]...	[INCREASE IN ENVIRONMENTAL CONCERN] And for environmental things, you know that <i>[our company] is a resource-based industry</i> . So, we are very concerned about environmental issues especially now that worldwide, these greenies and many NGOs are talking about their environmental concerns... so as a responsible corporate [citizen], we have to look after this environmental issue.	BOTH AGREE INDUSTRY SENSITIVITY INCREASE EC BUT NOT RELATER TO GOV'T RULES
Role of Media	[INCREASE IN ENVIRONMENTAL CONCERN] ...we do think the public is getting much more advanced now than before because of, I think, the opening up of the information from the <i>communication system that we have – the television and the radio programs</i> internationally that is filled with the protection of the environment. That attracted a lot of Malaysians to also want this to happen in Malaysia.		AT LEAST ONE ACKNOWLEDGE ROLE OF MEDIA TO INCREASE EC
NGO - (Greenies)		[INCREASE IN ENVIRONMENTAL CONCERN] ...we are very concerned about this environmental issue especially now that worldwide, these <i>greenies and many NGOs</i> are talking about their environmental concerns to maintain the beauty of the nature, so as a responsible corporate [citizen], we have to look after this environmental issue.	AT LEAST ONE ACKNOWLEDGE ROLE OF GREENIES TO INCREASE EC
Malaysian General Public	[INCREASE IN ENVIRONMENTAL CONCERN] ...we do think the <i>public</i> is getting much more advanced now than before because of, I think, the opening up of the information from the <i>communication system</i> ... That attracted a lot of Malaysians to also want this to happen in Malaysia.	[Do you think the public's awareness on environmental issues have increased?] <i>Malaysian people</i> ... ah, I have no idea – it's hard to generalise. As I see it, we are still a developing country and we still have a lot of natural resources, so if we want to progress, we have to sacrifice something. But of course, we can not talk only about progress at the expense of destroying the whole environment.	MIXED FEELING ON PUBLIC'S AWARENESS TOO BROAD

It is important to note that at the time the interviews are conducted, three of the four companies represented in this study are ISO-certified (represented by Int.1) while the fourth company is in the process of getting certified (represented by Int.2). Both respondents believe that the Annual Report is an effective way of reaching stakeholders:

AR serves as general information because firstly, it is a requirement of the law. Second, it's a requirement to report to our shareholders...so rather than duplicating, we make sure that our AR encompass the other reporting that we want to do. [AR] is one effective way but we do have other reporting...since our stakeholders are also people who will introduce us to others, we might as well give them the information so as to enhance public relation... (Int. 1)

AR is one of the most common communication means... [It's] good for the management to tell the shareholders what we are doing... and where we are heading. That's why I think it's essential that these environmental issues should be reported in the AR... In our case, we communicate with the shareholders not only by AR which we only circulate once a year. (Int. 2)

Interviewee 2 goes on to clarify that because AR is only circulated once a year, they intend to use other communication media once they get their ISO certification. Thus, while it is clear that ARs are considered a common communication medium that is also used as a public relation tool, both respondents suggest that there are other ways of reporting. Hence, this could be one possible reason why not all ISO-certified companies disclose their environmental policies in the ARs. Both interviewees do not dismiss this as a possible explanation. Likewise, they believe that it will take time for Malaysian companies to embrace the practice of providing AREDs:

I think it takes a bit of time for companies to be willing to report everything they do (Int. 1).

I think this is quite new in the corporate area so maybe it is overlooked (Int. 2).

A major reason provided by both respondents is once again linked to industry sensitivity, that is, the extent to which the company's operation is involved with environmentally related activities.

... among the reasons why some companies have not fully reported their environmental policy is because ...maybe this is a small part of their business... because we are in plantation industry so we feel that environmental matters are an integral part of environmental reporting (Int. 1).

I believe for other companies, it is not considered a priority... but as you know that [our company] is in a resource-based industry...so we are very concerned about environmental issues ... (Int. 2).

These quotations seem to suggest that whilst environmental policy reporting in ARs is a fairly new phenomenon in corporate Malaysia, the pressure inherent on those firms involved in environmentally sensitive industries helps improve ARED proliferation.

6.4.2.3 Environmental Disclosures and Economic Value

The insignificant relationship between the economic performance (profitability measure) and ARED including the unexpected negative sign of its coefficient is another

curious finding from Phase 1, as mentioned earlier. Hence the purpose in this phase is to obtain some insights from the top management of disclosing firms whether or not they believe that providing AREDs may affect firm value. Interviewee 1 believes that there are a number of benefits emanating from voluntarily providing AREDs to boost the company's image as a caring firm:

Does that mean the value of the firm will be enhanced? Yes and no but I think in the long-run, that is the plan... [For example, first] if we talk to the bank [for] a loan and they thought that we comply with all the requirements, then it's likely that we will have lower interest rates... Second, if you produce your goods and because you have been very transparent, then there will be less effort from other people to continue to look at your quality... that saves cost in terms of the products that we are giving, in terms of the networking with the people that we are dealing with. And also less hassle in terms of how we deal with the public... (Int. 1)

Although this explanation carefully details numerous benefits, its emphasis is on the long-term focus – one that does not necessarily guarantee that the provision of AREDs did or does translate to past or current profitability. Interviewee 2 agrees that ARED provision can not be directly associated with the profitability of the firm. When asked whether he believes that providing AREDs is good for profitability, he replies:

We can not interpret it directly like that... if we are seen to be environmentally conscious, then we will be more acceptable to more people... we have a better position with the market. (Int. 2)

He further clarifies that although there may be times when sacrifices have to be made in the name of progress⁵, it should not be done at the expense of destroying the environment if the firm's desire is to continue into the future.

... we are still a developing country... so if we want to progress, we have to sacrifice something. But we can not talk only about progress at the expense of destroying the whole environment... we also have to care for the environment because without it, we have no future. (Int. 2)

Thus, the recurring themes from Phase 2(a) suggest that although there may be less direct benefits arising from providing AREDs, the indirect benefits and overall benefits can be substantial and essential for the long-term existence of the firm. These findings offer valuable insights which partly explain why a significant relationship between the company's economic performance and AREDs is not established from Phase 1 findings.

6.4.3 The Link Between Phase 1 and Phase 2(a) Findings: A Summary

The main purpose of Phase 2(a) is to probe deeper into the motivations behind environmental disclosures and to find some explanations to the questions raised from

⁵ Although the word 'progress' could mean different things depending on the context to which it is used, it is confirmed that Interviewee 2 is pertaining to 'economic progress' in general and 'company profitability' in particular.

Phase 1 findings. Exhibit 6.2 provides a summary of the key findings from this phase corresponding to Phase 1 questions.

Exhibit 6.2: Phase 2(a) Key Findings	
Questions from Phase 1 Findings	Phase 2(a) Questions & Key Findings
Stakeholder Power: ■ Are <i>shareholders</i> and <i>creditors</i> considered in the preparation of Annual Report environmental disclosures (AREDs)?	Providing ARED ■ YES. <i>Shareholders</i> and <i>creditors</i> are considered in preparing AREDs but no evidence of ARED demand from both stakeholders is evident.
■ Does industry sensitivity really play a role on the firm's level of environmental awareness and environmental disclosure?	■ YES. Both respondents mentioned that the increase on environmental concern is partly attributable to the sensitivity of their industry.
■ Are there <i>other stakeholders</i> interested with environmental matters and reporting?	■ YES. Among those mentioned are the <i>customers, employees, NGO/greenies, media.</i>
Strategic Posture: ■ Why don't all ISO-certified companies provide environmental policy disclosure in their Annual Reports?	ISO 14001 Policy and ARED: ■ It will take time before Malaysian companies embrace the idea of reporting but pressure on ESI-companies will improve AREDs.
■ Is AR perceived as an effective way of communicating environmental performance and concern to relevant stakeholders?	■ YES. AR is perceived as an effective way by both respondents but there are other ways of communication.
Economic Value: ■ Does the provision of AREDs enhance firm value?	■ Both respondents agree that AREDs can enhance firm value but more indirectly rather than directly and is necessary for long-term focus.

It is worth noting that the semi-structured interviews with the two top executives of the disclosing companies, albeit limited in number, provide valuable insights and the much needed explanations to the questions raised from Phase 1 findings. A discussion on the respondents' suggestions for possible way forward and other concerns is provided next.

6.4.4 Possible Ways Forward and Other Concerns

The aim in this section of the investigation is to solicit suggestions on what the respondents see as possible ways forward for Malaysian companies' reluctance to provide AREDs and to embrace environmental consciousness. In the process, the investigator discovers other concerns considered relevant for further analysis.

6.4.4.1 Suggestions on Possible Way Forward

To initiate discussion, the respondents are asked whether they see the provision of third party assurance (e.g. environmental audits) as a possible way forward for AREDs. Reluctance on the grounds of extra cost is hinted by Interviewee 2 as he explains that 'at the end of the day, we count dollars and cents'. Although he admits that independent party may help given their obligation to the public, he claims that even without third party audits, his company behave in a proper manner as shown in this quote:

...at the end of the day, we count dollars and cents... But without the third party auditing us, we behave ourselves. We know what we have to do. We do what we should do. (Int. 2)

Whether this is in fact a reality for majority of public companies remain to be seen. Int.1 seems to support this voluntary company initiative as he emphasise that the companies, themselves, must want to become part of a caring society and be willing to discuss the environmental concerns while considering the views of other parties. He promotes his company's initiative to join the Round Table in the following comment:

We wanted to become part and parcel of the total society, therefore we supported the Round Table for sustainable society... to bring together the business groups and... the environmental groups...to discuss how we want the world to be ... So the next thing forward is to make sure that we become part and parcel of this grouping so that it's not only you who will care for the environment so that you'll get some kind of benchmark for everybody. (Int. 1)

Both interviewees, however, believe that for Malaysian companies to actually show their concern for the environment, the demand must come from their powerful stakeholders. For example, despite the reluctance shown by Int. 2 in procuring costly environmental audits, his company shows no hesitation in engaging a London-based certification body to audit the system when environmentalists raise their concern to the firm's customers.

...these greenies in UK (who influenced our overseas customers) are talking about illegal logging... So we volunteer to ask a third party called Tropical Timber Trust to come to us and audit our logs supply system... in the end, they found out that all our logs came from legal sources... (Int. 2)

Likewise, although Int. 1 argues that the Malaysian firms must want to become part of the solution, he also believes that it is the demand from customers which drive some companies to get third party certification like ISO 14001.

Some of them would have done it [i.e. get ISO certification] ONLY because they really wanted to have the customer.... if the major customer of one product requires ISO 14001 certification, they'll just get certification for that product and say that they already comply... (Int. 1)

Hence, it is clear that, although it would be nice for the companies to take the initiative in promoting sustainability and environmentalism, the reality is that companies are only likely to take this matter seriously if there is a demand from their valued stakeholders. This is a confirmation that the stakeholder theory has much to offer in this area.

6.4.4.2 Other Concerns

A major issue raised by the respondents is their concern about inappropriate and unrealistic benchmarks. Both interviewees agree that overseas standards set by Western environmental groups may not be the best for the Malaysian context.

We are aware of the environmental issues which have now become global. However, these overseas greenies who are against our tropical timber are misinformed. They think once you chop the trees, the forest is gone... Because they are far away from us, they do not understand... Sarawak is totally different. I can say, we plant more trees than we cut down... (Int. 2)
... what frightens me is that... environmental people in Scandinavian [and] European countries... they don't understand our local situation...they wanted to set very high benchmark. For instance, [if they say], do not touch this land because it will kill the flora and fauna, [they] are, in fact, degrading the population here... by stopping people from using the land, it's as dangerous as not using the land properly. [We have to find] a reasonable balance. (Int. 1)

The above comments confirm the importance of conducting a country-specific study such as this one. As noted earlier, although there is a tremendous increase on studies of this kind in the Western and developed countries, studies from the perspective of a developing country like Malaysia are relatively scarce. Hence, this investigation is an attempt to address this scarcity in the literature and to add to our understanding of the unique nature of the Malaysian context. Furthermore, the comment on finding a 'reasonable balance', by Int. 1, reinforces the common proposition of stakeholder theory, i.e. that corporate managers will react to environmental issues in the order of their priority. Int. 1's further concern on the difficulty of balancing competing priorities is reflected in the following quotation when asked whether he feels that the company's environmental performance is well reflected in the AREDS:

Ah, we wish we were but there is a lot more work to be done. That's the reason why we are trying very hard to understand the need...to balance the 3Ps (people, planet, profit)... (Int. 1)

This represents a further reaffirmation of the suitability of using the stakeholder framework in this study and in subsequent analysis.

6.5 SUMMARY

In this chapter, the findings in Phase 1 and Phase 2(a) are discussed and evaluated. The quantitative findings in Phase 1 suggest that the most significant determinant for providing AREDS by Malaysian publicly listed companies is the level of concern about environmental issues (EC - a measure of *strategic posture*). The government's power (GP) to sanction companies particularly in the environmentally-sensitive industry (one of the three measures of *stakeholder power*) is also found to have a significant relationship with both the quality and quantity of AREDS. These findings raise some questions from which Phase 2(a) interviews are aimed to provide explanations. Phase 2(a) uncovers the motivations behind the provision of AREDS which are related to the central premise of stakeholder theory. Phase 2(b) findings are discussed in the next chapter.

CHAPTER 7

PHASE 2(b): EXPLORING THE EXTENSION OF THE STAKEHOLDER FRAMEWORK TO THE MALAYSIAN CONTEXT

7.1 INTRODUCTION

In Chapter 6, the findings from the publicly listed companies included in Phases 1 and 2(a) of this investigation are discussed. The findings presented lead to the conclusion that for Malaysian companies to actually show their concern for the environment and to provide environmental disclosures in their Annual Reports, the demand must come from their salient stakeholders. This reinforces the suitability of using stakeholder theory which posits that corporate managers will react to environmental issues in the order of their priority to the company's survival characterised by the demand of their powerful stakeholders. The purpose of this chapter is to discuss the results of Phase 2(b).

7.2 FLOW OF THE INVESTIGATION: FROM PHASE 1 TO PHASE 2

Whilst Phases 1 and 2(a) attempt to describe and understand the environmental reporting practices of Malaysian firms, the main aim in Phase 2(b) is to explore how stakeholder theory can be further refined and applied in the Malaysian context by obtaining a general understanding of the Malaysian business environment. Chapter 6 shows that the data collection for Phase 1 and the 'originally-proposed' Phase 2 occurred almost simultaneously from early 2003 (see Table 6.1). Table 7.1 shows the data collection and analysis timeline for Phase 2(b).

Table 7.1: Phase 2(b) Research Timeline

Date	Research Activity Presented in Chronological Order	Research Stage
Ongoing since 2002	<ul style="list-style-type: none"> ■ Perusing relevant media articles and world-wide websites ■ Reviewing relevant literature 	Data Collection
Dec 2003	<ul style="list-style-type: none"> ■ Interview with a government official in an environmental agency/department in the State of Sarawak (<i>Interviewee 3</i>) 	Data Collection
Jan 2004	<ul style="list-style-type: none"> ■ Interview with a Manager/Owner of a small metal heating company in Johor Bahru (<i>Interviewee 4</i>) ■ Visit to Ministry of Science Technology and Environment (MOSTE) & Department of Environment (DOE), Kuala Lumpur ■ Interview with an Accounting Academic involved in environmental research in Kuala Lumpur (<i>Interviewee 5</i>) 	Data Collection
Aug–Dec 2005	<ul style="list-style-type: none"> ■ Transcribing interview transcripts 	Data analysis
Jan – Jun 2006	<ul style="list-style-type: none"> ■ Qualitative analysis of Phase 2 interviews ■ Writing up the thesis and reporting the results 	Data analysis & write-up

7.3 EXPLORING THE MALAYSIAN SETTING: ANALYSIS TECHNIQUES

The review of the literature on CSERR in Chapter 2 (pp. 32-33), reveals that the current regulatory framework in Malaysia has very limited mandatory requirements to provide environmental disclosures in the Annual Reports or other public communication media. Phase 2(b), as noted earlier, aims to explore how stakeholder theory can be further applied in the Malaysian setting through a general understanding of the local business environment. This phase consists primarily of three unstructured interviews with three different people chosen on the basis that their current positions and institutional affiliations provide them with sufficient exposure to the way environmental concerns are handled in Malaysian government and business dealings. Hence, the views of a government officer (Interviewee 3) involved primarily in the approval of Environmental Impact Assessments (EIA) in the State of Sarawak are considered of utmost importance. Likewise, the views of a Manager/Owner (Interviewee 4) of a privately-owned metal heating company in Johor Bahru are deemed relevant given that Phase 2(a) interviews only consider the views of publicly listed firms. Finally, the comments of a Malaysian university Accounting Department Head (Interviewee 5) in Kuala Lumpur provide valuable insights given her experience in environmental research.

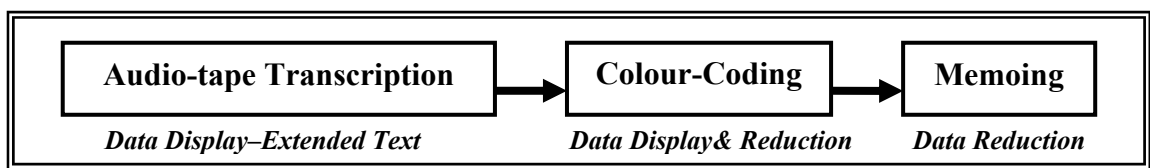
Each of the three unstructured interviews uses different but appropriate sets of questions aimed at getting the relevant information. Three interviews are considered sufficient given that the backgrounds of the three respondents cover a reasonably wide spectrum and further information is expected to be obtained by perusing relevant media reports and Malaysian websites. Furthermore, some of the views provided by Phase 2(a) interviewees also provide some general information on the Malaysian psyche from the perspective of large, publicly listed companies. This section provides a thorough discussion of the techniques used in analysing the qualitative interview data in this phase of this study. The primary technique used to analyse the data in this phase is a simple ‘read and recall’ analysis of the content of the relevant media and website articles and simple data display and reduction methods for the unstructured interviews.

7.3.1 Unstructured Interview Data Analysis

Unlike the analysis of the semi-structured interviews in Phase 2(a) (see Section 6.4.1), no attempt is made to do a conceptual matrix and pattern-matching in this phase. Given

the unstructured format of questions together with the exploratory nature of Phase 2(b) interviews, it is decided that rather than using complicated data display and reduction methods such as matrices and charts, simpler methods are more useful. Furthermore, pattern-matching is considered inappropriate given that each interview uses different lines of questioning. This is due to the fact that the respondents are chosen on the basis that they are able to provide relevant but varying information based on their different positions and experiences. As shown in Figure 7.1, colour-coding together with memoing techniques are used.

Figure 7.1: Data Analysis Process for the Unstructured Interviews



As in Phase 2(a), all three interviews in Phase 2(b) are transcribed ‘word-for-word’ while allowing some minor editing for grammatical errors and omitting certain parts that identify the specific institutional affiliations of the respondents to preserve anonymity. Colour-coding is done next to facilitate data analysis. From preliminary readings of the transcribed text, it is established that the issues raised by the respondents can be crudely categorised into four: (1) government-related issues; (2) business-related issues; (3) level of public environmental awareness; and (4) relevance of stakeholder demands. As in Phase 2(a), memoing is used as an aid to summarise the responses and to tie together different pieces of data into clusters of recognisable concepts.

7.3.2 Relevant Media and Website Articles Perusal

As mentioned earlier, simple ‘read and recall’ analysis of the content of the relevant media and website articles is considered sufficient for the purposes of verifying the findings from the interviews conducted from Phase 2(a) and 2(b) and to gain an understanding about the environmental issues or events that are considered important in the Malaysian context. Likewise, perusing relevant articles provides invaluable secondary data source that aids the triangulation¹ of earlier findings as well as justifies the limited number of interviews conducted in this phase of the investigation.

¹ Since data are collected from multiple sources (interviews, media reports and relevant websites), triangulation of the data occurs similar to the research conducted by Burgelman (in Eisenhardt 1989).

7.4 FINDINGS: PHASE 2(B) UNSTRUCTURED INTERVIEWS

Although the unit of analysis is the individual interviewee, it is decided that a better way of presenting the findings in this phase is according to the four issues raised by the respondents as identified in the colour-coding technique. This is because some respondents provide relevant comments that relate to more than one of the four issues.

7.4.1 Government-related Issues

The government-related issues identified include such things as environmental requirements and jurisdiction structures, enforcement mechanisms and confidentiality of information. The primary source of data relating to these issues are Interviewees 3, 4 and 5, as well as this investigator's visit to the Ministry of Science Technology and Environment (MOSTE) and Department of Environment (DOE) in KL. Table 7.2 (on page 159) contains the summary of the relevant quotes from the interviewees.

7.4.1.1 Environmental Requirements & Jurisdiction Structures

Interviewee 3 (Int. 3) is the Deputy Director of an environmental government agency established since 1994 and controlled by the Sarawak State government. Its function is to plan, coordinate and enforce environmental strategies statewide. Int. 3 states that before any development in Sarawak is approved, a major requirement is to conduct an Environmental Impact Assessment (EIA) study. Although not all business projects are required to have an EIA, certain types of development particularly those in the area of agriculture, logging, housing and infrastructure are required to carry out an EIA study to ensure that all aspects of the project – including social, cultural and physical effect on the environment – are taken into consideration (see quote 7.1 and 7.2 in Table 7.2).

Whilst the EIA requirement may seem straight forward, the issue of which relevant agency has jurisdiction over certain environmental matter appears to be confusing. Malaysia has a Federal (national) government-controlled department known as the Department of Environment (DOE) which is under the Ministry of Science Technology and Environment (MOSTE). It is clear that DOE has its presence in Sarawak. What is not clear is how the State-controlled environmental agency relates to Federal-controlled DOE. Int. 3 admits that the issue of jurisdiction is a 'grey area' under the Federal constitution (see quote 7.3) but the guideline states that any development affecting land

and water resources fall under the jurisdiction of the State government. DOE, on the other hand, is in charge of such things as air pollution and new factory establishment. It is obvious that in many cases, there are possible overlaps in the function of both the Federal and State-controlled agencies, but Int. 3 is quick to show this in a positive light by describing how both departments complement each other (see quote 7.4). This overlapping function/jurisdiction, as expected, extends to the issue of enforcement which is discussed next.

7.4.1.2 Enforcement Mechanisms

Int. 3 explains that the enforcement mechanism in place is another area where consolidation of the legal strength between the Federal and State-controlled government agencies is attempted (see quote 7.5). Whilst this seems to support his earlier promotion of the complementary function between the two agencies (in quote 7.4), the overlapping jurisdiction paves the way to a ‘relaxed enforcement perception’ expressed by Int. 4 (see quote 7.6). This perception is, in fact, confirmed by Int. 3 who admits that none of the offenders at the State level have been brought to Court as their agency believes in the so called ‘soft approach’ (see quote 7.6). Despite this comment, Int. 3 adds that the Federal-controlled government agency has already prosecuted a few companies involved with severe cases like ‘open burning’.

7.4.1.3 Confidentiality of Information

Another government-related issue is concerned with the practice of withholding firm-specific environmental performance information. As mentioned in Chapter 1, Malaysia does not have publicly available data similar to that of the National Pollutant Inventory (NPI) in Australia or the Toxic Release Inventory (TRI) in the US. These types of information are used in developed countries as a measure of the environmental performance (EP) of firms. It is envisaged that EP data could enhance the validity of this investigation particularly in explaining the findings from Phase 1. Hence the purpose of the visit to MOSTE and DOE in KL is to request interviews and to ask for EP data of Malaysian firms. None of the government officers at the Federal level agreed to be interviewed. According to informal conversations with various officers from MOSTE and DOE, some data on pollutant release is compiled by the department. Although it is not clear whether sufficient information is collected, what is obvious

from this visit and an interview with a Malaysian academic is that, such information is considered confidential and protected by Malaysian laws (see quote 7.8).

Table 7.2: Government-Related Issues Relevant Direct Quotes

Quote No. / Subject	Relevant Direct Quotes from Interviewees (<i>Int.</i>) 3, 4 and 5
7.1 EIA Requirement	<i>EIA is mainly a study...[containing] baseline information of the area - be it of the physical, chemical, biological, psychological, the social-cultural risk of the project...Big developments like palm oil plantations affect the local conditions. So we look at how this will affect the people in the area ... we look at the operational part...[e.g.], if the development affects the community's source of water, the [EIA] will recommend that a portion of this water catchment area will be kept intact so that the people can keep their regular source of fresh water. (Int. 3)</i>
7.2 Developments needing EIA	<i>The list of developments [that requires EIA] includes forestry and logging/timber activities, plantation, agriculture development which should also include the plantations, aquaculture, infrastructure [including] roads, telecommunications, housing developments... including any activities that have some effects on river floors like resorts, etc. (Int. 3)</i>
7.3 Jurisdiction issues	<i>Under the current Environmental Quality Act, environmental concern is one area that DOE looks into...but land is a 'state matter' – which means that the State of Sarawak, or any state in Malaysia, has jurisdiction or authority over natural resources including water and land resources... We have a few clear dividing line – the DOE looks after certain aspects... like setting up of factories, air emission, etc... We admit that there are overlap in our duties and responsibilities so in cases of grey area, we come and meet and reach a consensus (Int. 3).</i>
7.4 Complementary function	<i>But on how we work along with the DOE, we have a kind of "win-win" situation... DOE here in Sarawak does not have the capacity in terms of manpower to monitor and enforce environmental requirements in order to manage our environmental concern in the state. This is where [our agency] comes in – to assist them. But in the area of some technical matters, where [our agency] is not capable, DOE will come in. Of course there are some developments that fall under the ambit of the Environmental Quality Act where the EIA carried out will have to be evaluated by the DOE. We do it in a way that we complement each other (Int. 3).</i>
7.5 Enforcement Mechanism	<i>Ok, this is the area where we are trying to consolidate our legal strength. Where non-compliance is under our ordinance, then we will either give warning for the first offenders or compound for repeat offenders and in cases where it is very serious, then we will bring them to court. But in the area where we feel that the Federal government has a much stronger case against these offenders, then we will let the Federal government handle this. So... if the State feels that we do not have the capacity to prosecute them, then this is where the Federal government comes in. (Int. 3)</i>
7.6 Perceived relaxed enforcement	<i>...I'm using the Singaporean legal requirements in my Malaysian company operation... I do believe that Singapore laws should be as good if not better than Malaysian requirements. [In fact, I think] that enforcement is a lot less stringent in Malaysia. (Int. 4)</i>
7.7 'Soft-approach' enforcement	<i>...so far we have not brought offenders to court because we believe that being fellow Sarawakians themselves, they are involved in businesses which help the socio-economic development of our state... that's why we believe in so called 'soft approach' whereby we give them warning dialogues by encouraging them to do safe monitoring. (Int. 3)</i>
7.8 Incomplete and confidential information	<i>I think the two reasons why the MOSTE/DOE can't and won't disclose the environmental performance information are: (1) they feel that the data they have are incomplete so it's better not to make it available or it could be misleading; (2) the confidentiality issue. I still believe that even if they have the complete data, they still won't release that data... I think confidentiality issue is the main reason for not divulging this information... (Int. 5)</i>

Given this scenario, it is not difficult to infer that one very plausible reason for the insignificant Phase 1 findings between environmental disclosures and the shareholder power (SP) as well as creditor power (CP) is that both the shareholders and creditors

alike may not necessarily demand this type of disclosure as there is no way the public could check the accuracy of the environmental disclosures provided. This is not surprising given that the current regulatory framework in Malaysia has very limited mandatory disclosure requirement and the companies' environmental performance data is kept confidential by the Malaysian government agencies concerned. Hence, there is no pressure from top management to provide environmental disclosures to effectively manage their relationships with these groups of stakeholders.

7.4.2 Business-related Issues: Views from a Small Company

Phases 1 and 2(a) describe the current practices of large public companies. This section attempts to understand the environmental issues affecting small Malaysian companies. Table 7.3 contains the relevant quotes from Interviewee 4 (Int. 4), the Manager/Owner of a metal heating company in Johor Bahru. Int. 4 starts the interview by explaining how environmentally-related issues affect the firm's operation and highlighting the use of water-based chemicals in an attempt to maintain environmentally friendly practices. Given the unsolicited comment on being environmentally-friendly, a follow up question on how this affects company profitability is deemed appropriate. He explains that there is not much impact on overall profit given that environmentally friendly practices have been adhered to from the very start of the firm's operations (see quote 7.9).

Table 7.3: Business-Related Issues Relevant Direct Quotes

Quote No. / Subject	Relevant Direct Quotes from Interviewee (Int.) 4
7.9 - Cost impact of being environmentally friendly	<i>We are only using mostly water based chemicals... since we are trying to maintain an environmentally-friendly company... I guess the cost of adhering to environmentally-friendly practices may affect the profitability of other companies [but]... because our original costing was based on this, we don't see much impact on our profit. (Int. 4)</i>
7.10 - Customer demand for ISO 14000 compliance	<i>... one thing which is good is that a lot of big companies require their suppliers to comply with ISO 14000 requirements... As a result, smaller companies like us are being influenced by those big players to abide by ISO 14000 requirements. (Int. 4)</i>
7.11 - Environmental reporting and legal obligation	<i>Most small companies like us do not deal with the reporting side. We acquire the services of an accounting firm who also act as our company secretary... it's very unlikely that the company secretary will include operational/environmental disclosure in the company's financial reports. But if there is any legal requirement to do so, we will be happy to release this technical information... (Int. 4)</i>

Despite the clarity of this response, it is certainly an interesting comment. It begs the question as to whether the adoption of environmentally-friendly practice preserves the company's competitiveness. An indirect explanation to this question is obtained from Int. 4's comments regarding the push from the company's major customers to comply with ISO 14000 requirements (see quote 7.10). This suggests that given the demand

from the big customers, small companies adopting environmentally-friendly practices could remain competitive.

Another issue of interest pertains to small firms' practice of providing environmental disclosures (or lack thereof). Int. 4 (see quote 7.11) raises two important points: (1) many small companies outsource the preparation of their company reports to accounting firms which are not familiar with their technical operations; and (2) if there are legal requirements, some small companies may be willing to provide environmental disclosures.

7.4.3 Public Environmental Awareness & Economic Concern

The level of the general public's environmental awareness is one area where mixed feelings arise between the two respondents in Phase 2(a) (see 6.4.2.1). Phase 2(b) results, however, confirm that awareness is still very low in Malaysia. In fact, one of the reasons given by MOSTE/DOE representatives for not divulging company-specific environmental information is because they believe that the general public's awareness has not reached a certain level of sophistication to reasonably interpret such information. In some ways, Interviewee 5 agrees with this statement (see quote 7.12).

Table 7.4: Relevant Direct Quotes on Public Awareness & Economic Concern

Quote No. / Subject	Relevant Direct Quotes from Interviewees (Int.) 3 & 5
7.12 – Public is not ready for EP information	<i>I think there is some truth in [MOSTE]DOE representative's statement that's why they have this confidentiality law... because they foresee that the public is not ready for this kind of information... (Int. 5)</i>
7.13 - Awareness is low / economic concerns take precedence	<i>I think the awareness of the people is still a long way - not only in the private sector, even among the general public and so on. The awareness of the people, particularly on environmental activities, is still a long way to go to catch up because economic and profit concerns take precedence. (Int. 3)</i>
7.14 – Difficulty of knowing public readiness for EP data / economic concerns have higher priority	<i>This is very difficult! I mean, how can the government measure the public's level of awareness? I guess this is not very high in the government's priority list. Maybe, just like many developing countries, economic development still gets a higher priority. And that's understandable! I mean we still have a lot of people living in very poor condition so this definitely gets a higher priority. Of course, environmental awareness is also important but it's just not given first priority... It is very difficult for the government to know that the public awareness has increased and that they are ready for this kind of information. (Int. 5)</i>

Apart from offering the same view, Int. 3 adds that profit concern is one reason why both the private sector and the general public have a long way to catch up in terms of increasing environmental awareness (see quote 7.13). Int. 5 shares a similar view but from a slightly different context. When asked to comment on what she foresees as the signal to the government that the public is ready to receive environmental performance

data that are currently protected by the confidentiality clause in the Act, she exclaims that this would be difficult. She further argues that even from the point of view of the government, economic concerns are understandably put higher in terms of priority because many people in Malaysia are still living in very poor condition (see quote 7.14).

7.4.4 Relevance of Stakeholder Demands

Phase 2(a) analysis shows that companies are likely to take environmentalism seriously if there is a demand from their valued stakeholders. Hence, it seems best to tie up the issues raised with the relevance of stakeholder demands to the environmental initiatives. A number of stakeholders are identified, albeit indirectly, by the respondents. For example, when Int. 3 is asked whether he believes that the Malaysian public is concerned about the environment, his diffidence is apparent as he explains that because concern is not necessarily tantamount to action, an enforcement body is paramount (see quote 7.15 in Table 7.5). This response confirms the *government* as a salient stakeholder given its power to enforce the environmental requirements. Int. 3 also cites the power of the *media* to indirectly drive firms to environmental compliance because companies do not want to have negative publicity (see quote 7.16).

Table 7.5: Relevant Direct Quotes on Relevance of Stakeholder Demands

Quote No. / Subject	Relevant Direct Quotes from Interviewees (Int.) 3, 4 & 5
7.15 – Gov't is essential for enforcement	<i>... they can say they are concerned but how is it reflected in the actual implementation is another thing – we are still a long way. That's why we need the enforcement body... they are aware that there can also be some legal implications. (Int. 3)</i>
7.16 – Media can publicise offenders	<i>The companies understand that they need to adhere to the environmental requirements because they don't want adverse publicity... For example, they don't want to see their companies' name in the newspaper because of the negative publicity... (Int. 3)</i>
7.17 – Customer power is strong	<i>...companies like us are being influenced by the big players to abide by ISO 14000 requirements...our big customers are forcing this issue out into the open. . (Int. 4)</i>
7.18 – Environmental groups are weak	<i>Even I myself, who is actively researching in this area, have not been aware of the activities by the environmental groups. I mean, if the public is not aware of their activities, how can they increase their level of environmental awareness? (Int. 5)</i>
7.19 – Employee power is weak / management has the say	<i>...if management adopts the right philosophy, if they practice environmentally friendly activities, I guess their influence on the workers will be huge. As I said, our workers are not highly educated so whatever we tell them, they just do it. But if we have the right philosophy, they will move towards the right direction. (Int. 4)</i>

Another important stakeholder as noted earlier in 7.4.2 are the *major customers*. Int. 4 offers some evidence suggesting that some big customers demand their suppliers to be ISO 14000 compliant (see quote 7.17). This view from small companies seems to agree with the views from large publicly listed companies as discussed in Phase 2(a) results. On the other hand, despite the consensus from Phase 2(a) respondents that the

environmental groups are responsible for promoting environmental awareness, Int. 5 believes that Malaysian environmental groups need to advertise their activities more (see quote 7.18) indicating their weak influence as a stakeholder group.

Finally, Int. 4 points out another two groups of stakeholders – those of the *employees* and *management*. He says that his employees are not likely to fuss over environmental issues given their low level of education. He believes that the right philosophy and management commitment is what determines whether environmental concerns are given priority or not (see quote 7.19). This further supports the earlier findings in Phase 1.

On the main, the findings presented confirm that for firms to take the initiative to adopt environmentally friendly practices, there must be a demand – be it from the government, media, customers, environmental groups or from the management themselves. It is obvious from the respondents' comments that economic concerns get priority over environmental issues.

7.5 FINDINGS: RELEVANT MEDIA REPORTS AND WEBSITES PERUSAL

A major purpose in Phase 2(b) is to have an overall familiarity of the Malaysian business psyche as well as the relevant rules and regulations surrounding the companies' environmental obligations. Although the unstructured interviews provide the useful primary data source, perusing relevant media reports and websites is envisaged to play a major role in the triangulation of earlier findings from Phase 2 interviews and to gain an understanding on the environmental issues or events that are considered important in the Malaysian context.

As this project commenced in early 2002, relevant websites and media reports having to do with Malaysian environmental and social issues are regularly visited, read and compiled electronically. Examples of websites visited include, amongst others, the Asia Pacific Centre for Environmental Law (APCEL), Business & Human Rights Resource Centre, Envirolink, Global Reporting Initiative (GRI), Malaysian Environmental Non-Government Organisations (MENGO), Wetlands International, WWF Malaysia as well as United Nation websites (e.g. Earth Summit – Malaysia Profile and United Nations Development Programme in Malaysia). Newspaper articles and other media reports

have also been perused using the Factiva² database supplemented by a regular search on related topics using Yahoo and Google search engines. The findings are presented in two sections: (1) triangulation of earlier findings from Phase 2 interviews; and (2) identifying the environmental issues considered important in the Malaysian context.

7.5.1 Triangulation of the Findings from Phase 2 Interviews

Many of the comments from Phase 2 interviewees have been confirmed by media reports and website perusal conducted as shown in Table 7.6 below.

Table 7.6: Media Reports & Website Articles Supporting Phase 2 Interviews

Topics from Phase 2 Interviewees	Support from Media Reports/Website Articles (Legend: NST -New Straits Times; TS - The Star)
Phase 2(a) comments and Media/Website Articles Support	
<ul style="list-style-type: none"> ■ Increase in environmental awareness through the Media and Environmentalist Groups 	<ul style="list-style-type: none"> ■ ‘Damned if you do,’ Murray Hiebert, 8 Apr, 1999, Far Eastern Econ. Review ■ ‘CER the key to better development,’ Sulaiman & Ahmad, 26 Nov 2002, NST ■ ‘Kenyir logging draws environmentalists’ ire,’ Koh, LC, 19 Apr 2003, NST ■ ‘Concern over environmental issues,’ 12 Oct 2004, NST ■ ‘We need to act right away,’ Datuk Dr Salleh Mohd Nor, 15 Aug 2005, NST ■ ‘Time for action on environments,’ 26 Jan 2005, TS ■ MENGO Website (cited 14 Jul 2005) http://mengo.org ■ ‘Malaysia Eyes Green Bonds to Grow Forests,’ PlanetArk Website (cited 27 Jan 2006), http://www.planetark.org/avantgo/dailynewsstory.cfm?newsid=34682
<ul style="list-style-type: none"> ■ ISO 14001 issues 	<ul style="list-style-type: none"> ■ ‘Think out of the box for ISO14001,’ Maclean, R, 16 March 2004, NST
<ul style="list-style-type: none"> ■ Difficulty of balancing economic and environmental 	<ul style="list-style-type: none"> ■ ‘Turning dream to reality,’ Salleh Buang, 28 Sep 2002, NST ■ ‘Poverty and its impact on the environment,’ 13 Jul 2004, NST ■ ‘Find a balance, says Abdullah,’ 26 Jan 2005, TS
Phase 2(b) comments and Media/Website Articles Support	
<ul style="list-style-type: none"> ■ Environmental requirement and jurisdiction structures 	<ul style="list-style-type: none"> ■ Asia Pacific Centre for Environmental Law (APCEL) Website (cited on 7 Jan 2003) http://law.nus.edu.sg/apcel/dbase/malaysia/reportma.html ■ ‘Act to be amended to tackle overlapping jurisdictions over environmental issues,’ Aida Ahmad; Quah Chin Chin, 25 Feb 2003, NST ■ ‘States, not DOE, to blame for deforestation,’ Chow KH, 2 May 2005, NST ■ ‘Tackling illegal rubbish dumps top priority,’ 11 Mar 2006, NST
<ul style="list-style-type: none"> ■ Enforcement mechanisms 	<ul style="list-style-type: none"> ■ ‘Legal bite will boost ‘green’ reporting,’ 8 Oct 2002, NST ■ ‘Justice for Mother Nature,’ Salleh Buang, 29 Jan 2005, NST ■ ‘Dumping at sea may incur mandatory jail,’ 2 July 2005, NST ■ ‘Ban on open burning,’ Annie Freeda Cruz, 9 Aug 2005 NST ■ ‘Mandatory jail term planned,’ Annie Freeda Cruz, 19 Jan 2006, NST
<ul style="list-style-type: none"> ■ Confidentiality issues 	<ul style="list-style-type: none"> ■ ‘Inside this machine lies vital information,’ Teoh, S, 30 August 2004, NST ■ ‘Concern over environmental issues,’ 12 Oct 2004, NST ■ ‘DOE website lists offenders,’ 9 Aug 2005, NST ■ DOE Malaysia Website (cited 3 Dec, 2005) http://www.doe.gov.my/ ■ ‘Publish API data,’ Veeraiah, LS, 17 Mar 2006, NST ■ Business & Human Rights Resource Centre Website (cited 4 Apr, 2006) http://www.state.gov/g/drl/rls/hrrpt/2004/41649.htm
<ul style="list-style-type: none"> ■ Benefits of ‘green’ practices and reporting and the effect of Stakeholder Demands 	<ul style="list-style-type: none"> ■ ‘Corporate environmental reporting the key to better development,’ Maliah Sulaiman; Nik Nazli Nik Ahmad, 26 Nov 2002, NST ■ ‘Much to gain from triple bottomline reporting,’ 23 Sep 2003, NST ■ ‘Going green makes sen(se),’ 9 Mar 2004, NST ■ ‘Credible & complete environmental reporting lauded,’ 30 Mar 2004, NST ■ ‘It pays to go green,’ Lim Lay Ying, 26 Feb 2005, NST

² Factiva provides full text news including articles from major newspapers around the world. Its content is provided by Dow Jones and Reuters. This database is available through Swinburne University Library.

7.5.1.1 Increased Awareness Through Media and Environmentalist Groups

Despite the reported mixed views by Phase 2 interviewees regarding the public's level of environmental awareness, it is clear, from media reports and relevant websites perusal, that the *level of environmental concern has increased*, attributed partly through the efforts of the media and environmentalist groups. For example, even before the turn of the millennium, a feature report on the proposed dam construction across the Selangor River in *Far Eastern Economic Review* quotes two Malaysian environmental NGO representatives as saying:

The heightened awareness about environmental issues began in the early 1990s ... people now know that the environment directly affects their lives. (Sabri Zain, World Wide Fund for Nature)

There's a heightened consciousness... what's interesting is that there's an amalgam of people and issues coming together – Orang Asli, environmentalists and people who use the recreational facilities. (Meenakshi Raman, Legal Adviser, Consumer Association of Penang)

Although numerous news articles and websites, as shown in Table 7.6, attempt to highlight increased awareness, another feature article in NST admits that the state of affairs in most developing countries, including Malaysia, has much to be desired given that the public still has “a long way to go in terms of public awareness on the damaging effects of businesses on the environment” (**CER the key to better development**, 26 Nov 2002, NST). These articles support the claims made by Phase 2 respondents.

7.5.1.2 ISO 14000 Certification Issues

On the *issue of ISO 14000 certification*, both Int. 1 and 2 agree that the nature of the business operation would most likely determine whether ISO certification is needed. Whilst Phase 1 result shows that ISO is a weaker proxy for strategic posture, the quote from the NST article below confirms that, despite some spectacular stories on ISO 14000 success, the certification standards do not require companies to have a strategic environmental direction so long as procedures are in place.

The mania for procedures can backfire... Proceduralising any business activity tends to minimise strategic thinking... [the] serious challenges deriving from ISO 14001's emphasis on procedure [is that] it may create the illusion to management that all is well because the process is in place... ('Think out of the box for ISO14001,' 16 March 2004, NST)

7.5.1.3 Difficulty of Finding the Right Balance

Media reports also confirm how others see the challenges of *finding the right balance between environmental and economic concerns* as raised by the interviewees both in Phase 2(a) and 2(b). Professor Salleh Buang, a senior advisor to a company specialising

in competitive intelligence, believes that “with the right course of action, we can have economic growth, and at the same time, protect our environment” (*‘Turning dream to reality,’* 28 Sep 2002, NST). The Malaysian Prime Minister, Datuk Seri Abdullah Ahmad Badawi, concurs with this view and insists that new approaches must be adopted “to balance development with environmental protection ... before irreparable damage is done” (*‘Find a balance, says Abdullah,’* 26 Jan 2005, TS).

7.5.1.4 Environmental Requirements and Jurisdictions Structure Issues

The explanations made by Int. 3 earlier on *environmental requirements and jurisdiction issues* are confirmed in the APCEL website which states that although “jurisdiction over land use and natural resource management rests primarily with the respective state authorities exercising competence through state legislation, environmental management is conducted at the federal level by the Department of Environment of the Ministry of Science, Technology and Environment” (APCEL Report: Malaysia). Although APCEL elaborates that the DOE principally deals with industrial pollution and environmental quality in general (i.e. matters involving air and water quality, industrial wastes, noise levels and environmental impact assessments), it is easy to detect the overlapping functions between the State and Federal departments.

Media reports confirm that apart from the confusion on jurisdictional issues (see NST article *‘States, not DOE, to blame for deforestation’* 2 May 2005), there is a further overlap on responsibilities among different ministries as Datuk Zainal Dahalan (MOSTE Deputy Minister) suggests that “the Environmental Quality Act 1974 may be amended to resolve overlapping jurisdictions and responsibilities of different ministries ... many environmental concerns involved the Ministries of Health, and Housing and Local Government” (*‘Act to be amended to tackle overlapping jurisdictions over environmental issues’* 25 Feb 2003, NST). He claims that if amendments are made, the authorities would be more responsible in handling matters concerning the environment. Although it is not clear whether the Act has been amended as suggested, it can be deduced from a more recent report that quotes Datuk Rosnani Ibrahim (DOE director-general) that the grey area on jurisdictional issues remain.

The environment is a cross-cutting issue involving the federal, state and local authorities. For example, rubbish disposal is under the local authority, but when there is open burning of rubbish, it becomes the DOE's problem. (‘Tackling illegal rubbish dumps top priority,’ 11 Mar 2006, NST)

7.5.1.5 Enforcement Issues

Numerous news reports are shown in Table 7.6 on the *issue of enforcement*. While there may be some truth in Int. 4's view that enforcement in Malaysia may be less stringent than in Singapore, it appears that of late, the Malaysian government intends to get tougher on offenders as threats to impose mandatory jail sentence have been considered after numerous illegal dumping of toxic wastes are discovered. Datuk S. Sothinathan (Deputy Minister of Natural Resources and Environment) states that "although the law allows for a five-year jail sentence, the courts have never imposed a custodial sentence" and he now wants to see a mandatory jail sentence to act as a deterrent for would-be offenders (*'Mandatory jail term planned,'* 19 January 2006, NST). He mentions further that the ministry is amending the existing Act and looking into tightening loopholes and increasing penalties. Although promising, it is not clear when this will happen. An earlier report (see NST article *'Dumping at sea may incur mandatory jail,'* 2 July 2005) emphasises similar concern. In a somewhat parallel issue, the possibility of mandatory environmental reporting for listed companies has been hinted in the following quote about four years ago but has not come into fruition:

At the recent launch of the Association of Chartered Certified Accountants Malaysia's Environmental Reporting Award (ACCA MERA), the Ministry of Science, Technology and Environment hinted that environmental reporting might eventually be made compulsory for listed companies. (see NST article 'Legal bite will boost green reporting,' 8 Oct 2002)

7.5.1.6 Confidentiality Issues and Public Demand for Information

Confidentiality is the reason given by MOSTE and DOE officials for refusing access to the requested EP data on Malaysian companies. Although this exact issue is not highlighted in the press, a similar issue on the government's effort to keep the Air Pollution Index (API) away from public access has been exposed by the media. In the past, DOE has been publishing only qualitative descriptions – good, moderate, unhealthy, very unhealthy, and hazardous. Specific numerical readings are kept confidential and the official reason provided is that "the numbers would cause undue panic and hurt tourism" (*'Inside this machine lies vital information,'* 30 Aug 2004, NST). In a later press report, increasing public pressure to make API numerical data publicly available has been raised. In response to this concern, the Parliamentary Secretary in the Natural Resources and Environment Ministry says:

...the air index was divided into healthy, less healthy and unhealthy levels. This is enough for now as I think not many people would understand if we go into greater detail. But we will

review this if there is a need to provide more detailed information. ('Concern over environmental issues,' 12 Oct 2004, NST)

The above quote is in line with Int. 5's opinion (see 7.4.3) which incidentally confirms the DOE representative's view that the general public is not ready for such information given their current level of awareness. It is interesting to note, however, that despite this alleged lack of public awareness, DOE eventually succumbs to public pressure. Since August 2005, detailed numerical information on API has been made publicly available on a daily basis through the DOE website. DOE has also started providing the list of vehicle owners compounded for excessive emissions in an effort to adopt the 'name and shame approach' (see NST article '**DOE website lists offenders,**' 9 Aug 2005). Recent visits to DOE website also show that the names of companies prosecuted for environmentally-related offences are now available on the website. This is certainly a move towards transparency which shows to prove that disclosure is made when there is sufficient demand for it.

7.5.1.7 Benefits of 'Green' Practices/Reporting and Effects of Stakeholder Demands

It appears that the Malaysian press concurs with the benefits of adopting 'green' practices mentioned by Phase 2 respondents. For example, press reports highlight both the tangible benefits such as cost savings and the intangible benefits such as competitive advantage and improved employee productivity as shown in the following quotes:

Analysis of significant cost drivers such as fuel cost, oil loss cost and packing material cost indicated Golden Hope could reap potential cost savings of up to RM1.4 million per annum by replacing fuel oil with natural gas....These forward-looking companies will also enjoy a competitive advantage in developed markets which demand environmentally-friendly products and services, such as in Europe and Japan. ('Going green makes sen(se)', 9 Mar 2004, NST)

*As recent surveys have repeatedly confirmed, going green saves money over the long-term because it reduces energy costs... Studies by **environmental** psychologists ... reveal that workers in office buildings with more natural daylight experience greater job satisfaction, less stress and better health, leading to enhanced productivity levels...('It pays to go green' 26Feb 2005, NST).*

Furthermore, various features in the local press have not only promoted the benefits of adopting 'green practices' but also the benefits of 'green reporting'. Note that three of the five articles shown in Table 7.6 emphasise the benefits of environmental reporting like the one in this quote:

*Companies practising triple bottom line reporting³ are not purely altruistic. Generally, they have much to gain, and little to lose, by communicating their performance on three bases - **people, profits and planet**. Specifically, these forward-looking companies can actually improve*

³ Triple bottomline reporting refers to corporate reporting on 3 areas of operations: social, economic & environmental performance.

*their own performance, while attracting stringent socially responsible investment (SRI) funds with billions in assets. (**'Much to gain from triple bottomline reporting,'** 23 Sep 2003, NST)*

This supports Interviewee 1's claim that providing environmental reports can enhance access to capital at possibly lower costs. Incidentally, the 3Ps (people, profit and planet), mentioned above, forms the basis of the top management philosophy adopted by the three publicly listed companies represented by Interviewee 1. Likewise, media reports note that forward-looking firms take the initiative to adopt 'green' practices and reporting because of the stakeholders' demand for it. This is the message from Toshiyuki Kikuchi, the Managing Director of Sony Technology⁴:

*"We produce **environmental** reports in response to growing interest and concern in corporate social responsibility among stakeholders, especially customers, government and non-governmental organisations. (**'Credible & complete environmental reporting lauded,'** 30 Mar 2004, NST)*

Hence, the media reports and website perusal once again confirm the importance of stakeholder demands as shown in the analysis of Phase 2 interviews.

7.5.2 Identification of Relevant Environmental Issues/Events

The qualitative interviews and the perusal of relevant media/website reports point to a number of significant environmental issues that are specific in the Malaysian setting. These issues, together with the relevant sources, are summarised in Table 7.7.

Table 7.7: Relevant Environmental Issues Identified

Summary of Issues	Sources
<ul style="list-style-type: none"> ■ Toxic wastes and chemicals used by companies are destroying the ecological balance 	<ul style="list-style-type: none"> ■ 'Enforce pollution law to protect firefly population,' S.M. Mohd Idris, 24 Aug 04, NST ■ Interviewee 2: off-the-record comment on the downside of ban on open burning, that is, their company has no choice but to use chemicals to control pests.
<ul style="list-style-type: none"> ■ Health risks due to rampant air pollution arising from toxic wastes and forest fires hence the ban on open burning 	<ul style="list-style-type: none"> ■ 'Air pollution in PD poses health risks,' J Fernandez, 31 Jul 2003, NST ■ 'Hazy and unhealthy,' Abas & Mohamed, 26 Feb 2005, NST ■ 'Ban on open burning,' AF Cruetz, 9 Aug 2005, NST ■ 'Forest fires in six States,' AF Cruetz, 19 Sep 2005, NST
<ul style="list-style-type: none"> ■ Push for companies to adopt environmentally-friendly technology and practices 	<ul style="list-style-type: none"> ■ 'Call to use clean technology,' D Loh, 12 Sep 2002, NST ■ 'Going green makes sen(se),' 9 Mar 2004, NST ■ 'It pays to go green,' Lim Lay Ying, 26 Feb 2005, NST

Having identified the environmental issues affecting Malaysian businesses and the general public, the next step is to formulate fictitious vignettes containing three events of varying levels of impact on human life and the environment. Given that the large publicly listed companies are the ones currently providing voluntary environmental

⁴ Sony Technology is the winner of the 2003 Malaysia Environmental Reporting Award (MERA) sponsored by the Association of Chartered Certified Accountants (ACCA)

disclosures in their Annual Reports, all the three vignettes, referred to as ‘cases’, involve fictitious large publicly listed companies. Each ‘case’ represents different industries with different levels of sensitivity to the environment. The first two events replicate two environmentally sensitive industries which have negative environmental impact, while the third event promotes environmentally sustainable practices. *Case 1* pertains to a company in the plantation and logging industry. The environmental event is the use of a new chemical to control pest infestation. Although the event poses no immediate threat to human health, it threatens the ecological balance and the possibility of long-term effect to human health can not be ruled out. *Case 2* involves an event that poses an immediate threat to human life when an oil refinery’s faulty equipment accidentally emits toxic fume. *Case 3*, on the other hand, involves a firm in the banking industry which promotes sustainable development and socially responsible initiatives. The event is the investment on a state of the art technology that enables recycling, reduction of waste and energy consumption. Details of the cases are shown in the questionnaire in Appendix B.

7.6 STAKEHOLDER IDENTIFICATION AND COALITION ANALYSIS

Another important aspect of Phase 2(b) is the identification of the salient stakeholders. The stakeholder groups are chosen after conducting a coalition analysis based on the stakeholder literature reviewed in Chapter 3 and the secondary and primary data sources presented earlier. Utilising Mitchell et al’s (1997) typology characterised by the attributes of *power*, *legitimacy* and *urgency*, Table 7.8 shows the list of the stakeholder groups chosen in the study. An indication of what attribute each stakeholder group possess based on the stakeholder literature is also included. The groups identified consist of both primary (shareholders⁵, creditors, employees, customers, suppliers and relevant government agency) and secondary or adversarial stakeholders (media, environmentalists and competitors⁶). The literature hints that depending on the urgency of the event/issue at hand, both primary and secondary stakeholders could exercise their power either directly or indirectly through usage or withholding of resources (Frooman 1999) regardless of whether or not they have legitimate claims (Mitchell et al 1997).

⁵ It is decided to split the shareholder stakeholder group into two groups (major and minor shareholders) because it is conceivable that the two groups may exert their power on the firm in different manners.

⁶ Although none of the Phase 2 interviewees mention their competitors as a possible relevant stakeholder, the stakeholder literature suggests otherwise. Hence it is decided to include competitors as part of the secondary/adversarial group.

Table 7.8: Analysis of Stakeholder Groups and Possible Attributes

Stakeholder Type	Possess Power?	Legitimate Claim?	Urgency?
Major shareholders => Owns >5% of shareholding / Top 20	Yes	Yes	Depends on issue/event
Minor shareholders => Owns <5% shareholding/nonTop20	Yes – but not individually	Yes	Depends on issue/event
Major / Long-term Creditors	Yes	Yes	Depends on issue/event
Relevant government agency	Yes – but may not exercise it if issue/event is not urgent	Yes	Depends on issue/event
Employees	Yes – but not individually	Yes	Depends on issue/event
Customers	Yes – but not individually	Yes	Depends on issue/event
Suppliers	Yes depending on how much reliance is present	Yes	Depends on issue/event
Media	Not directly but could influence others	No	Depends on issue/event
SIG – Environmentalist	Not directly but could influence others	No	Depends on issue/event
Competitors	Not directly	No	Depends on issue/event

Since it is clear from Table 7.8 that the attribute of *urgency* depends on how particular stakeholder groups perceive the urgency of the event/issue at hand, the only way to assess this attribute is to ask the people concerned how significant they believe the environmental issues/events are to the respective stakeholder groups. This is addressed in Phase 3 of the study.

7.7 SUMMARY

The findings in Phase 2(b) are discussed in this chapter. Phase 2 has a dual purpose: (a) to understand the motives behind environmental disclosures through direct interviews with the top management of the companies included in Phase 1; and (b) to explore how stakeholder theory can be further refined and applied in the Malaysian context. The second aim is achieved through various means including qualitative interviews and relevant media/website perusal which lead to the identification of relevant environmental issues/events and salient stakeholders used in the design of structured interviews for Phase 3 as discussed in Chapter 5. The findings from Phase 2 confirm that the top management’s philosophy and conviction to adopt and disclose environmentally-friendly practices is very much related to the increasing demand from various stakeholders. It is also clear from the analysis that although the general public’s environmental awareness is increasing, economic concerns are still given higher priority particularly in a developing country like Malaysia.

CHAPTER 8

PHASE 3: EXTENDING THE APPLICATION OF THE STAKEHOLDER FRAMEWORK TO ENVIRONMENTAL DISCLOSURES

8.1 INTRODUCTION

In Chapters 6 and 7, the findings from Phases 1 and 2 of this investigation are discussed. The results confirm that management decisions to adopt and disclose environmentally-friendly practices is triggered by the increasing demand from various stakeholders despite the fact that in a developing country like Malaysia, economic concerns are still given higher priority than environmental concerns. Through the analysis of qualitative interviews and the perusal of relevant media/website articles, the relevant environmental issues/events and the salient stakeholders necessary to extend the application of stakeholder theory are identified in Chapter 7. The purpose of this chapter is to discuss the findings from Phase 3 of this study.

8.2 FLOW OF THE INVESTIGATION: THE THREE PHASES OF THIS STUDY

Previous chapters show that the first two phases of this study attempt to describe and understand the ‘real-world’ environmental reporting and business practices of Malaysian firms. In contrast, Phase 3 uses fictitious vignettes based on real-life Malaysian corporate scenarios to elicit comments from various representatives of stakeholder groups. Table 8.1 shows the data collection and analysis timeline for Phase 3 of this study.

Table 8.1: Phase 3 Research Timeline

Date	Research Activity Presented in Chronological Order	Research Stage
Jan – Mar 2005	<ul style="list-style-type: none"> ■ Designing Phase 3 structured questionnaire (with some open-ended questions) ■ Preparation of documents for ethics application 	Research Design
Apr – Sep 2005	<ul style="list-style-type: none"> ■ Obtained ethics approval from Swinburne University HREC ■ Conducting interviews with representatives of various stakeholder groups (<i>Interviewees 6 to 20</i>). 	Data collection
Aug – Dec 2005	<ul style="list-style-type: none"> ■ Transcribing interview transcripts ■ Sending interview transcripts to interviewees for comments 	Data Analysis
Jan – Jun 2006	<ul style="list-style-type: none"> ■ Final qualitative and quantitative analysis of Phase 3 ■ Writing up the thesis and reporting the results of Phase 3 analysis (plus consolidating Phases 1 and 2 analysis and results) 	Data Analysis & Write-up

8.3 EXTENDING THE APPLICATION OF THE STAKEHOLDER FRAMEWORK

The main aim in Phase 3 is to extend the application of the stakeholder framework to analyse the decisions surrounding the provision of environmental disclosures in the Malaysian setting. In order to do so, a structured questionnaire is designed to accommodate a two-way analysis both from the point of view of the management and the stakeholders. Chapter 4 shows the propositions emanating from each view and the design and purpose of each of the components of the structured questionnaire are discussed in Chapter 5.

A total of fifteen interviews¹ are conducted in Phase 3. Kvale (1996) notes that, in designing an interview study, it is important to “interview as many subjects as necessary to find out what you need to know” (p. 101). As a guide, he explains that:

In current interview studies, the number of interviews tend to be around 15+/- 10. This number may be due to a combination of the time and resources available for the investigation and of the law of diminishing returns (Kvale 1996, p. 101.)

Given the time and resource constraints², fifteen interviews are considered sufficient since all the stakeholder groups are represented except for the competitors as shown in Table 8.2.

Table 8.2: Number of Phase 3 Interviews for Each Stakeholder Type

Stakeholder Type	Number Interviewed	Stakeholder Type	Number Interviewed
Major shareholder	1	Customer	2
Minor shareholder	1	Supplier	2
Major long-term creditor	2	Media	2
Relevant government officer	1	Environmentalism	2
Employee	2	Competitor	0

None of the participants choose to take the role of a competitor. It is considered unnecessary in the data collection stage to continue seeking for a competitor representative since, strictly speaking, any of the respondents could have been a competitor and, in fact, all the participants provide their view on how a competitor is likely to react in each of the scenarios represented.

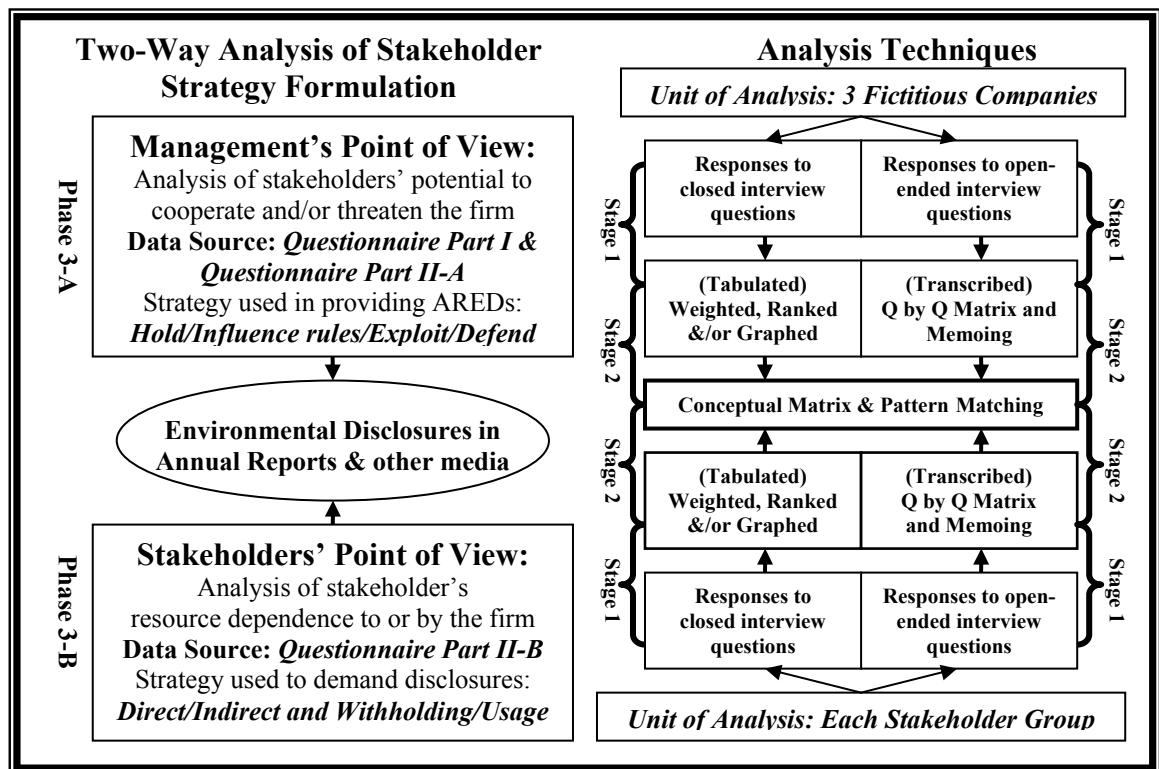
¹ Ten of the fifteen interviews are conducted face-to-face in Malaysia. Of the remaining five interviews, three are conducted face-to-face with Malaysian interviewees visiting/currently residing in Melbourne and the other two are conducted over the phone. All the interviews are audio-taped.

² As majority of the interviews have to be conducted in Malaysia, time/resource constraints are a limiting factor since this investigator is working full time as an academic at Swinburne University in Melbourne.

8.3.1 Analysis Techniques

Analysis for the structured interview data is done in two distinct stages. In the first stage, the responses to the closed and open-ended interview questions are separately analysed using different techniques. For the responses from the closed interview questions, once the responses are tabulated, a quantitative technique such as weighting and/or ranking is used and the information is displayed either in tables or in graphs whichever is more appropriate. On the other hand, upon transcribing³ the responses to the open-ended interview questions, the qualitative techniques of ‘question-by-question matrix’ and ‘memoing’⁴ are used. In the second stage, both the quantitative and qualitative analysis are linked using ‘conceptual matrix’ and ‘pattern matching’⁵ techniques. Figure 8.1 shows the two-stage analytical process described above.

Figure 8.1: Data Analysis Process for the Structured Interviews



Phase 3 involves a two-way analysis of the stakeholder strategy formulation theory both from the point of view of the management (Phase 3-A) and of the stakeholders (Phase 3-B). The same two-stage analysis process is employed in Phase 3-A and 3-B except that the units of analysis are different. From the management's point of view, the unit

³ Word-for-word transcription of all Phase 3 interviews is done by this investigator to ensure accuracy.

⁴ Refer to Section 6.4.1.2 for the explanation of ‘question-by-question matrix’ and ‘memoing’.

⁵ Refer to Section 6.4.1.3 for the explanation of ‘conceptual matrix’ and ‘pattern-matching’.

of analysis is each of the three fictitious companies described in the three vignettes. On the other hand, from the stakeholder's point of view, the unit of analysis is each of the stakeholder groups identified in this study (see Section 5.5.6.1).

8.3.2 Phase 3 Respondents' Profiles

In order to understand stakeholder behaviour, the literature hints that the manager should put him/herself in the stakeholder's position in order to feel and see the world from their perspective. Freeman (1984, p. 133) suggests that this could be done by role playing through which the manager is able to synthesise and fully understand the objectives and beliefs of particular stakeholders. Role playing, however, can only be effective if the participants have some first-hand knowledge of the role they are playing from their own experience. Therefore, it is crucial for this research that participants are chosen on the basis of their exposure to the Malaysian business and legal environment and on the presumption that their current or previous position would enable them to represent at least one of the stakeholder groups identified. Given this, it is considered important to report the relevant profiles of the interviewees without divulging their names and company affiliation to preserve confidentiality. Part I of the structured interview questionnaire (see Appendix B) asks the participants to provide general information like their current/previous position, their length of service to the company and the type of stakeholder to which they are most likely to be classified based on their past or current experience. Table 8.3 lists the interviewees' relevant position and stakeholder represented.

Table 8.3: Phase 3 Respondents' Profiles

No.	Relevant Position KEY: #Current; *Previous	Nature of Company	Stakeholder Represented
<i>Int. 6</i>	#Director	Environmental NGO–Malaysia branch (KL)	Environmentalist
<i>Int. 7</i>	#Agency Manager	Insurance company	Supplier
<i>Int. 8</i>	#Finance Director	Higher education institution	Employee
<i>Int. 9</i>	#Marketing Lecturer	Higher education institution	Employee
<i>Int. 10</i>	*Bank Officer	International banking corporation	Major/L-T Creditor
<i>Int. 11</i>	#Branch Manager	Malaysian local bank	Major/L-T Creditor
<i>Int. 12</i>	*Business Editor	State-run magazine company in Kuching	Media
<i>Int. 13</i>	*Senior Partner / CEO #CEO/Co-Owner	'Big 8' Acctg. firm/Big diversified company Fund management / Capital services Firm	Major Shareholder
<i>Int. 14</i>	#Finance Manager	Distributor of fast moving consumer products	Supplier
<i>Int. 15</i>	*Local News Editor	Local daily newspaper in Sarawak	Media
<i>Int. 16</i>	#Deputy Controller	State-run gov't environmental dep't in Sarawak	Gov't. Officer
<i>Int. 17</i>	#Environmental Officer	Environmental NGO-WWF Malaysia (KL)	Environmentalist
<i>Int. 18</i>	*CFO/#holds shares in co.	Large co. in Brunei with Malaysian subsidiaries	Minor shareholder
<i>Int. 19</i>	*Financial Controller	Diversified Penang co. related to Amcor Australia	Major Customer
<i>Int. 20</i>	*Asst. Manager	State-run infrastructure dev't department in Penang	Major Customer

8.4 PHASE 3-A: FINDINGS FROM THE MANAGEMENT'S POINT OF VIEW

The stakeholder strategy formulation framework from the management's point of view utilises the typology introduced by Freeman (1983, 1984) and Savage et al (1991) which suggests that the stakeholders' potential to cooperate and/or threaten the firm will influence their decision. This research applies this typology to analyse management's decision to provide Annual Report Environmental Disclosures (AREDs).

8.4.1 Assessing Stakeholders' Cooperative/Threat Potential to the Firm

To assess the stakeholder's **potential for cooperation** (PC) and **potential for threat** (PT), Part I of the structured questionnaire also asks the participants to rank the ten stakeholders (as shown in Table 8.2) in the order of their perceived significance to the company's survival with 1 being the most significant and 10 being the least significant. The purpose here is to make an assessment, albeit indirectly,⁶ on the respondent's *general* perceptions of the stakeholders' potential to cooperate/threaten the company's survival *without any 'case-specific' information*⁷. Although the closed question requires some numerical data, the open-ended question asking for the reasons for ranking is envisaged to provide more insights as to why some stakeholders are viewed to be more significant than the others for company's survival in *general*.

Whilst the quantitative and qualitative analyses in *Stage 1* are done separately, *Stage 2* combines the qualitative/quantitative analysis (see Figure 8.1). It is decided that the best presentation style to adopt in reporting the findings is to follow the sequence of the questions asked in the structured questionnaire. Exhibit 8.1 summarises the findings in *Stage 2 Analysis*. The exhibit shows in the quantitative columns, the overall ranking and mean average of the ten stakeholder groups as well as a brief examination of the respondents' ranking distribution. The qualitative column, on the other hand, provides

⁶ As explained in chapter 5, indirect probing is deemed appropriate given that the stakeholders' potential to cooperate/threaten, while dependent on the enormity of the event/issue, is also a matter of personal perception for which a numerical value provides limited meaning. Hence a direct question asking 'how much cooperative/threat potential do you believe each stakeholder has?' is envisaged to be inadequate, even inappropriate.

⁷ The three 'cases' (in the form of vignettes) containing fictitious companies and environmental events are only introduced in Part II of the structured questionnaire. This question on stakeholder significance to company survival is intentionally included in Part I to solicit views about the *general* perception on the stakeholders' significance to company's survival without company/event-specific information.

an analysis of the threat and cooperation potential of each of the stakeholders based on the analysis of responses to the open-ended question.

Exhibit 8.1: Summary of Stage 2 Analytical Process Results

Stakeholders	Quantitative Findings Summary		Qualitative Findings Summary
	Overall Rank (Mean)	Quantitative Data <i>Shown in brackets [] are interviewee numbers</i>	Analysis of Threat/Cooperation Potential <i>Shown in brackets [] are interviewee numbers</i> LEGEND: LO –Low; ME-Medium; HI-High
MJS	1 (2.41)	COHERENT VIEW ON MJS SIGNIFICANCE=> RANKING RANGE FROM 1 TO 6 (ONLY 1 RANKED 6 [19]; 2 RANKED 5 [14, 18] AND THE REST BETWEEN 1 TO 3)	POTENTIAL FOR THREAT (PT) => HI POSSESS CONTROL & POWER TO MAKE DECISIONS [6, 8, 11, 13, 16, 17, 20] POTENTIAL FOR COOPERATION (PC) => HI BECAUSE OF CAPITAL INVESTMENT [15, 20]
CUS	2 (3.62)	MIXED VIEW ON CUS SIGNIFICANCE => RANKING RANGE FROM 1 TO 9 (ONLY 1 RANKED 9 [6] WHILE MAJORITY RANKED BETWEEN 1 TO 3).	POTENTIAL FOR THREAT (PT) => HI WITHOUT CUSTOMERS' SUPPORT, THE COMPANY CAN'T SURVIVE [10,14,16,18,19] POTENTIAL FOR COOPERATION (PC) => LO LEVEL OF COOPERATION IS DEPENDENT ON HOW MUCH THE CUSTOMER RELY ON THE FIRM FOR MUCH NEEDED RESOURCES BUT GENERALLY LOW, [10,14, 19]
EMP	3 (4.43)	WIDE VARIATION ON EMP SIGNIFICANCE => RANKING RANGE FROM 1 – 10 (ONLY 1 EACH RANKED 10 [6] AND RANKED 9 [15] AND THE REST BETWEEN 1 TO 6).	POTENTIAL FOR THREAT (PT) => LO TO HI HI=>Employee skills/services are vital [12],[16], ME => Employee skills/dedication is needed [19] LO=> employees generally have not much say... [18] POTENTIAL FOR COOPERATION (PC) => HI COMPANY'S [FINANCIAL] SUCCESS IS CRUCIAL TO EMPLOYEES' JOB SECURITY [8, 14, 18]
LTC	4 (5.07)	MIXED VIEW ON LTC SIGNIFICANCE =>RANKING RANGE FROM 1 – 10 (ONLY 1 RANKED 1 [15])	POTENTIAL FOR THREAT (PT) => LO TO HI NOT ALL DEPEND ON THEM BUT MANY DEPEND ON BANKS FOR FUNDING; POSSESS POWER TO RETRACT FUNDING [11, 18] POTENTIAL FOR COOPERATION (PC) => LO TO HI COMPETITIVE INVESTMENT & L-TERM RELATIONSHIP [11,15]
RGA	5 (5.27)	MIDDLE RANGE VIEW ON RGA SIGNIFICANCE => RANKING RANGE FROM 2 – 8	POTENTIAL FOR THREAT (PT) => LO TO HI DEPENDING ON THE INDUSTRY [8:). POSSESS PUNITIVE & OTHER POWERS; COULD STOP OPERATION IF NECESSARY [13, 16, 18, 20] POTENTIAL FOR COOPERATION (PC) => LO TO HI POLICIES CAN PROVIDE CONDUCIVE INVESTMENT CLIMATE TO ASSIST THE COMPANY [16, 18, 20]
SUP	6 (5.64)	WIDE VARIATION ON SUP SIGNIFICANCE => RANKING RANGE FROM 1 – 10 (ONLY 1 RANKED SUP AS 1 [14] WHILE MAJORITY RANKED BETWEEN 5-10).	POTENTIAL FOR THREAT (PT) => LO TO HI BECAUSE OF BUSINESS OPPORTUNITY & COMPETITION, [14,15,18,19] POTENTIAL FOR COOPERATION (PC) => HI MUTUAL BUSINESS RELATIONSHIP NECESSITATES SUPPLIER COOPERATION [17, 18, 20]
MIS	7 (5.88)	WIDE VARIATION ON MIS SIGNIFICANCE => RANKING RANGE FROM 1 - 10.	POTENTIAL FOR THREAT (PT) => LO POSSESS NO POWER INDIVIDUALLY; CAN'T MAKE DECISION [8, 16, 20] POTENTIAL FOR COOPERATION (PC) => LO CAPITAL INVESTMENT CAN BE EASILY LIQUIDATED [8, 9]
COM	8 (7.08)	QUANTITATIVE RANKING RANGE FROM 3 – 10 (ONLY 1 RANKED 3 [14] WHILE MAJORITY RANKED BETWEEN 6 TO 10.	POTENTIAL FOR THREAT (PT) => LO TO HI GENERALLY LOW [8] BUT MAY BECOME HIGH IF THERE ARE URGENT EVENTS [14, 16] POTENTIAL FOR COOPERATION (PC) => LO EXCEPT WHEN THERE'S AN INDUSTRY-WIDE THREAT [16]
MED	9 (7.17)	QUANTITATIVE RANKING RANGE FROM 2 – 10 (ONLY 1 EACH RANKED 2 [17] AND 3 [6] WHILE THE REST RANKED BETWEEN 5 TO 10)	POTENTIAL FOR THREAT (PT) => LO TO HI MEDIA COULD PLAY A ROLE BUT NOT SO POWERFUL BECAUSE ITS GOVERNMENT-CONTROLLED [13] [15] [18] [19] [20] POTENTIAL FOR COOPERATION (PC) => LO TO HI => DEPENDING ON POLITICAL CONNECTIONS [18] [15] [19]
ENV	10 (8.42)	QUANTITATIVE RANKING RANGE FROM 4 – 10 (WITH MOST RESPONDENTS RANKING BETWEEN 8 TO 10)	POTENTIAL FOR THREAT (PT) => LO TO HI => could create a lot of trouble for the company if there is a need. [20] POTENTIAL FOR COOPERATION (PC) => LO TO HI => DEPENDING ON WHETHER THE COMPANY ADOPTS ENVIRONMENTALLY FRIENDLY PRACTICE OR NOT [11, 15, 16, 18, 19, 20]

MJS – major shareholders; CUS – customers; EMP – employees; LTC – long-term/major creditors; RGA – relevant government agency; SUP – suppliers; MIS – minor shareholders; COM – competitors; MED – media; ENV –environmentalist

Although not intended to be ‘case-specific’ (as noted earlier), *four of the fifteen* respondents insist that their stakeholder ranking will be different for each of the three fictitious companies given the different industries they represent. Thus, to ensure that each response carries the same weight, the ranking data provided by each of the other

eleven respondents are multiplied by three (one for each fictitious ‘case’). This gives a total number of forty five data sets (fifteen interviewees multiplied by three ‘cases’). The mean, therefore, is simply the weighted total figure divided by forty five.

8.4.1.1 Overall Picture: Primary Vs Secondary Stakeholders

Exhibit 8.1 shows clearly that the **top three** most significant stakeholder groups for company survival are: the major shareholders, followed by the customers, then the employees with mean ranking of 2.41, 3.62 and 4.43, respectively. Note that these are all primary stakeholders, which according to the stakeholder literature possess the stakeholder attributes of *power* and *legitimacy* (see Section 7.6 and Table 7.8 in Chapter 7).

The other four primary stakeholders, namely, the long-term creditors, relevant government agency, suppliers and minor shareholders all have very close weighted mean of 5+ while the three secondary stakeholders, i.e. the competitors, media and environmentalists are lagging quite far behind with weighted mean of 7.08, 7.18 and 8.42, respectively. Given the absence of the *urgency* attribute, i.e. without company/event-specific information provided, the findings above seem to confirm Mitchell et al’s (1997) stakeholder salience proposition which states that *stakeholder salience will be positively related to the cumulative number of stakeholder attributes – power, legitimacy and urgency – perceived to be present.*

The stakeholder literature suggests that secondary stakeholders such as the competitors, media and environmentalists have neither power nor any legitimate claim against the company. Furthermore, in the absence of any urgent issue or event, it is reasonable to conclude that since none of the stakeholder attributes are present, their potential to either cooperate or threaten the company’s survival is minimal.

8.4.1.2 Major Shareholders: The Top Ranking Stakeholder

A majority of the respondents ranked the major shareholders in the top 3, indicating a coherent view regarding their significance to company survival. The common reason provided for this high ranking is the perception that major shareholders are likely to have the power to make decisions regarding the direction of the firm as indicated in the following quotations. Note that interviewee numbers are shown in brackets [].

Major shareholders ... are likely to have control over the management. [6]

Major shareholders will be the major decision maker... [8]

Major shareholders are most significant especially if one or few control the company... [11]

The major shareholders are the one who will determine the direction of the company's competitiveness in the global market. [16]

The major shareholders ... have the power to make decisions for this company. [17]

At the same time, the respondents also highlight the risks that major shareholders face which compel them to cooperate with the management to ensure the firm's survival:

If anything happens to this company... [the major creditors and major shareholders] will lose out the most as they take the most risk... [15]

Because of the stake that they have in terms of equity, they will most certainly cooperate with or be the decision makers... [20]

Hence, given their ability to control and the perceived risk of losing their capital investment, the analysis suggests that the major shareholders' potential for cooperation (PC) and potential for threat (PT) to the company's survival are equally high.

8.4.1.3 Customers and Employees: Second & Third

Similar analysis is conducted for the rest of the stakeholder groups represented. Although there is quite a mixed view on the customers' significance to firm survival (ranging from 1 to 9), this group gets the second spot in the overall significance ranking.

The following quotes indicate the customers' potential to threaten/cooperate:

Customers come first because the company cannot survive without them and most of the time, we need them more than they need us because of strict competition. [10]

... we need the customers because without their support, the company will be gone / cannot survive. [14, 16, 18]

If the company shuts down, it will affect the customers as they can't proceed with their own production, so there'll be a chain effect. [19]

Analysis of the qualitative responses suggests that although the customers' PT is high as indicated by Interviewees 10, 14, 16 and 18 above, their PC is generally low because of intense competition (Int. 10). However, in rare circumstances, PC may be higher depending on how much the customer relies on the firm (see Int. 19).

The employees, on the other hand, have an even wider variation on significance ranking ranging from 1 to 10. Likewise, the qualitative analysis shows that perceptions on the employees' PT vary widely as indicated in the following comments:

Employees should be first because it's them who provide the main support to the company [12]

Employees should be first because their relevant skills and productivity are very important for the survival of this firm –The company must have the right quality of employees [16]

Although, I don't think employees are as important as customers and suppliers...It's true to say that without the dedication of the employees, the company will not go forward.[19]

... in Malaysia, the employees generally have not much say in the way companies are run. [18]

Although it is clear from the above responses that the employees' commitment and relevant skills are vital to company survival, the comment by Int. 18 stating that the employees in Malaysia generally have not much say seems to suggest that the employees' PT is more likely to be low than high. Despite the conflicting views on PT, the respondents seem to agree that employees PC is high because of the perceived congruence between job security and company success as expressed in these quotes:

I think, the bottom line for the employees is job security, at the end of the day. [8].

The employees will have to support the company because if ... the company is successful, they will also be successful... [14]

I think survival of the company is very important to the employees... a better performance, a better bottom-line could mean bigger bonus or bigger pay rise. [18]

8.4.1.4 Long-Term Creditors & Relevant Government Agency: Fourth and Fifth

Whilst there is a wide dispersion on the long-term creditors' perceived significance to firm survival ranging from 1 to 10, the relevant government agency has a mid-range view between 2 to 8. This means that although some of the respondents believe that the creditors may be the most/least significant stakeholder, none perceives the government as either the most or the least significant stakeholder. In the same manner that both the creditors and the government have very close mean rankings (5.07 and 5.27, respectively), the qualitative analysis suggests that both have low to high PT and low to high PC, albeit for different reasons. The creditors have low to high PT because while other firms may not depend much on lending institutions, many publicly listed companies raise additional funds from banks⁸. Hence, the long-term creditors can exercise their discretion as explained by Int. 11:

Many companies depend on the long-term creditors for source of finance hence if they retract their funds, it will affect company's survival. [11]

However, mutual business opportunity in terms of competitive lending market and long-term profitable relationships balance up the high PT with a high PC as detailed by the same respondent:

If you're talking about the oil business, a lot of the creditors are interested in this type of business. So it becomes very competitive, e.g. if the bank will increase the rate, the company might switch to another competitor bank. [Also]...if we've been dealing with this company for, say 20 to 30 years, we would feel very comfortable with this relationship...So it all depends on the relationship... [11]

⁸ This is particularly true as shown in Phase 1 where majority of publicly listed companies examined are highly levered and backed up by Interviewee 18's comment: "...if the company needs additional funds, they are likely to go to the banks first rather than raising additional funds from the major shareholders or having additional share issues". [18]

Despite the comments above, PC could vary between low to high since competitiveness must be tempered by the risk level as hinted in this statement:

If anything happens to this company, the long-term creditors will be the biggest loser – they will lose out the most as they take the most risk. [15]

In the same manner, the analysis suggests that the government's PT and PC may vary from low to high. A number of respondents explain that certain industries such as timber and logging [8 and 18]⁹, oil [13 and 16] and banking [13] are highly controlled by the government. As such, the government's PT can be perceived as high since the government has power to set legal requirements and impose punitive measures. The downside to this, however, is that the relevant government agency may not exercise these powers for fear of having lower economic returns from these highly controlled industries, hence low PT. In the same manner, the government's PC may vary from low to high given the government's desire to achieve economic progress which can not happen if big companies are always penalised or punished heavily. Thus, the respondent representing the relevant government agency explains:

The government policies sometimes provide conducive investment climate ... So because of this conducive investment policy, it will help the company in establishing themselves... RGA is important in facilitating the business, in terms of the procedures they have to meet and requirements they have to fulfil... [16]

8.4.1.5 Suppliers and Minor Shareholders: Sixth and Seventh

Suppliers and minor shareholders have a wide dispersion on ranking ranging from 1 to 10 (though the majority is within the last half of ranking between 6 to 10). The analysis reveals that the suppliers' PC is high because mutual business opportunities exist between them and the firm [17, 18 and 20]. The suppliers' PT, on the other hand, could be somewhere between low to high because of mixed perceptions. Whilst some believe that their firm can not exist without the suppliers [14 and 19], others feel that the suppliers' threat level is low because of the pressure to 'close the deal' particularly in the presence of strict competition [15 and 18].

Not surprisingly, the analysis shows that minor shareholders, being the lowest ranking primary stakeholder, is perceived to have low PT and low PC. The minor shareholders' ability to threaten company survival is hindered by their inability to make decisions, individually, for the firm [8, 16 and 20]. Likewise, despite their innate desire to protect

⁹ In the interest of brevity, interviewees' direct quotes/comments mentioned (but not shown) during this section's discussion can be viewed in Appendix J.

their investment, their potential to cooperate is tempered by their ability to dispose their shares if they are unhappy with the way the company is managed [8, 9 & 18].

8.4.1.6 Competitors, Media and Environmentalists: The Lowest Three

All three secondary stakeholders are lagging quite far behind in terms of ranking which, as earlier noted, is expected given the absence of urgent events. Exhibit 8.1 shows that majority of the respondents rank the competitors quite low, between 6-10, the media mostly between 5-10, and the environmentalists even lower, from 8 to 10. The analysis suggests that the competitors' PT is low to high. Generally, PT is perceived to be low in the absence of any extenuating event which the competitors could use to win over the firm's customers. If, however, events of this sort are present, the competitors could pose a high threat through active means by taking advantage of the situation to harm the firm's reputation which, at worst, could force the firm into bankruptcy [7, 8, 15 and 19]. Another threat which the competitors possess, albeit through passive means, is their ability to offer better services/products. Thus, Interviewee 14 warns:

... we need to know what the competitors are offering so that we can match it or do better. [14]

While the competitors' PT could vary widely, it is expected that their PC is low given the nature of their relationship with the firm. This being the case, there are rare circumstances (e.g. Exxon Valdez oil spill) where the competitors in the same industry may be compelled to raise their cooperation to combat an industry-wide crisis as pointed out in this quote:

To the competitors... this may affect the industry as a whole ...not mainly to their advantage now – but any incident like this could affect their competitiveness... it will possibly affect the image of the industry as a whole – so people will perceive the oil industry in a negative sense. [16]

The media's PT and PC analysis points strongly to the reality of a government-controlled media¹⁰ in Malaysia to which numerous respondents bear witness [13, 15, 18, 19 and 20]. Thus, the media's PT is considered low as articulated in this comment:

If we're talking about the importance to company's survival, the media could play an important role. But the media over here is just a puppet of the government. Let's be honest about that. I work very closely with the government. I sit in the cabinet advisory committee on a lot of matters, and the media is just a joke, it's a waste of time. Everybody knows that here. [13]

¹⁰ The recent report released by the Bureau of Democracy, Human Rights and Labour on February 28, 2005 concurs that the media in Malaysia is strictly controlled by the government. The report states that 'the Printing Presses and Publications Act (PPPA) limits press freedom. Under the act, domestic and foreign publications must apply annually to the Government for a permit. The act was amended ... to expand the Government's power to ban or restrict publications, and to prohibit court challenges to suspension or revocation of publication permits'. (Business & Human Rights Resource Centre 2005)

Undoubtedly, the media's ability to mobilise public opinion is an important role, hence despite the common perception of a government-controlled media in Malaysia, it is argued that its PT could still be between low to high especially when an urgent issue arises. Likewise, the media's PC is perceived to vary from low to high. This, however, is dependent on the company's political connections, i.e. firms that are well-connected can expect high media cooperation [15, 18 and 19].

Finally, the analysis suggests that the environmentalists' PC may vary between low to high depending on whether the firm adopts environmentally friendly practices or not [11, 15, 16, 18, 19 and 20]. The environmentalists' PT is generally low as previous findings from Phase 2 confirm that environmental awareness is still generally low in Malaysia. However, it is conceivable that if an environmental event of a huge magnitude is well publicised, the environmentalists have the potential to change public perception and create trouble for the firm as one interviewee claims:

Some environmental groups in Malaysia are very active ... the environmentalist groups ... could make a lot of trouble for the company...[20]

8.4.2 Management's Case-Specific Perceived Significance - Urgency Element

In Part II of the questionnaire, three fictitious events of varying levels of impact to the environment and/or human life are introduced. The participants are asked, in Part II – A, to assume the role of the senior officer responsible for the decision to include/not include environmental disclosure in the company's Annual Report. Question 1 asks each participant, on a scale of 1 (*Extremely Significant*) to 5 (*Not Significant*), to provide their opinion as to how significant each environmental event outlined in 'Cases' 1 to 3 is to the various stakeholders identified. They are also asked to elaborate their reasons for providing such significance level for each stakeholder. The purpose here is to elicit the respondent's perceptions on how *urgent* they believe each environmental event is to the company's stakeholders. As discussed previously, this introduces the attribute of *urgency* into the analysis since it is conceivable that the management will base its decision to provide/not provide environmental disclosures in accordance with their perceived priority. The responses here are intended to be analysed in light of the responses provided in Part I, which asks for the ranking of stakeholder's significance to company survival (without case-specific scenarios). Table 8.4 shows each stakeholder's mean rank and significance for each of the three 'cases'.

Table 8.4: Quantitative Results on the Significance of Events to Stakeholders From the Management's Point of View								
SIGNIFICANCE LEVEL:								
(1) Extremely Significant; (2) Very Significant; (3) Significant; (4) Moderately Significant; (5) Not significant								
CASE 1: Malaysian Holdings Berhad Event: Use of new chemical that destroys ecological balance to boost profits; pose no immediate threat to human health but long-term effect is uncertain			CASE 2: Shexxon Refinery Berhad Event: Faulty equipment caused toxic air emission resulting to hospitalisation of more than 20 primary school students.			CASE 3: Keluarga Banking Berhad Event: RMs\$20M expenditure on new technology enabling energy savings & environmentally friendly practices		
Stakeholder	Mean Rank	Significance Mean	Stakeholder	Mean Rank	Significance Mean	Stakeholder	Mean Rank	Significance Mean
ENV	1	1.25	ENV	1	1.20	ENV	1	2.07
RGA	2	2.00	RGA	2	1.33	MJS	2	2.70
COM	3	2.27	MED	3	1.40	RGA	3	3.10
MJS	4	2.37	MJS	4	1.73	MED	4	3.20
MED	5	2.47	EMP	5	2.03	MIS	5	3.43
EMP	6	2.70	COM	6	2.43	SUP	=6.5	3.53
LTC	7	2.97	MIS	7	2.67	COM	=6.5	3.53
CUS	8	3.40	LTC	8	2.70	EMP	8	3.57
MIS	9	3.53	CUS	9	3.07	CUS	9	3.70
SUP	10	4.07	SUP	10	3.83	LTC	10	4.00
TOTAL		27.02	TOTAL		22.40	TOTAL		32.83
MEAN TOTAL		2.70	MEAN TOTAL		2.24	MEAN TOTAL		3.28
LEGEND: ENV –environmentalist; RGA – relevant government agency; COM – competitors; MJS – major shareholders; MED – media; EMP – employees; LTC – long-term/major creditors; CUS – customers; MIS – minor shareholders; SUP – suppliers								

From Table 8.4, it appears that ‘Case 2’ is perceived by the respondents to be the most significant event to stakeholders with mean total of 2.24. ‘Case 1’ follows closely with mean total of 2.70 while ‘Case 3’ lags far behind with 3.28. The mean totals for both Cases 2 and 1 indicate that, on average, the respondents find these events somewhere between *Significant (3)* to *Very Significant (2)* while the event in Case 3 is only between *Moderately Significant (4)* to *Significant (3)*. This is not surprising given that both Cases 2 and 1 have negative impact on the environment and human life. Case 2, however, is perceived to be slightly more intense because its effect to human life is current and certain while in Case 1, notwithstanding its adverse effect on ecological balance and uncertain long-term effect to human health, the event poses no immediate threat to human life. Although the majority of the respondents feel this way, there are a few who believe that Case 1 carries more significance in the long-term:

...[Case 2] is not as significant as Case 1 where there is uncertainty as to what will happen in the future whereas Case 2 could just be a one-off event, so for as long as this event has already been addressed, this will not be as significant. [11]
I was thinking that Case 2 may be less serious than Case 1 because of the possible long-term effect of the Case 1 event. [20]

Case 3, on the other hand, is not perceived to be as important given that it portrays a positive environmental initiative which is generally not given high priority as indicated in the following comments:

...here in Malaysia, it's quite common that when you're doing well, you won't get much attention. If you're doing pretty badly, as in Cases 1 & 2, then you get the attention... [7]
In Malaysia, it's very much profit-oriented especially in publicly-listed financial institution. It doesn't work...unless there is an Act passed [requiring] all banking institutions to look into this matter then they'll adhere to it, other than that they will never do it. [8]
I think in our environment here, this [environmental] event is not significant. They don't care. What they care is just making profit - the bottom-line. [9]

The above sentiments are shared by the majority of the respondents like Interviewees 12, 14, 15, 16, 18 and 19 who expressed their belief that because Malaysian environmental awareness is generally low, the local customers¹¹ are not likely to find Case 3, and in fact all three fictitious events, very high¹² in their priority list. It is, however, not surprising to find that in all three 'cases', the environmentalists top the ranking chart with mean significance of 1.20, 1.25 and 2.07 for Cases 2, 1 and 3 respectively. Although this appears to be an extreme contrast to the ranking on stakeholders' significance to company survival where the environmentalists get the lowest rank (10th), this is expected given the nature of the events featured in the three 'cases' and the perceived role of environmentalists as portrayed in these direct quotes:

... that is the reason why they [environmentalists] exist ... [13]
... this is the kind of event that they [environmentalists] are looking for. [14]
... because this is their [environmentalists] role - to be a watchdog for environmentalism... [16]
... because this is part of their [environmentalists] role. [18]
... for the environmentalists... this is their 'rice bowl'... an opportunity to prove their point. [19]

The same can be expected of the government's role, hence, it is not surprising to find that the mean significance of the relevant government agency is next only to the environmentalists for Cases 1 and 2 and third in Case 3 (see Table 8.4).

It is prudent, at this point, to delay further case-specific discussions until such time as the findings on the preferred type of Annual Report Environmental Disclosure (ARED) approach and environmental disclosures in other media have been discussed. Hence, ARED preference is discussed next.

¹¹ Local customers are the closest representative of the Malaysian public in the ten stakeholders included in the analysis.

¹² Notice (from Table 8.4) how low the customers' mean ranking is in all three 'cases' - second to last for Cases 2 & 3 and third to last for Case 1. The slightly higher ranking for the customers in Case 1 is due to the fact that the respondents believe that the logging and timber industry have a lot of overseas customers who put higher concern for the environment.

8.4.3 Annual Report Environmental Disclosure (ARED) Approach Preferred

Question 2 of Part II – A asks the participants to rank four types of ARED approach with 1 (most preferred) to 4 (least preferred) given two scenarios: (1) when the issue/event has not been published by the media yet; and (2) when the issue/event has already been published by the media. These two scenarios are incorporated in order to observe how the media may or may not act as an intervening factor on the management’s perception of how urgent the issue is at hand. The four types of disclosure approach are chosen in line with what the literature on stakeholder theory proposed, namely: (1) *do nothing* - hold current status, i.e. provide no disclosure; (2) *exploit* – make some disclosure but concentrate only on good aspects; (3) *defend* – disclose the issue/event but defend the reasons why it was done and/or what has been done to rectify the situation; (4) *influence the ‘rules of the game’* – provide some disclosure regarding the event in an attempt to sway/change the beliefs of others regarding the event and the role of the firm. Once again, the respondents are asked to provide the reason/s for their choice of disclosure approach in order to have a deeper understanding. Table 8.5 shows the mean ranking and the overall ranking for each ‘case’ under the ‘not published’ and ‘published’ scenarios.

Table 8.5: Mean Rank of Preferred Type of ARED Approach

PREFERRED ARED APPROACH	CASE 1				CASE 2				CASE 3			
	Not Published		Published		Not Published		Published		Not Published		Published	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Do nothing	1.80	1	3.36	4	3.50	4	3.71	4	3.50	4	3.43	4
Exploit	2.20	2	2.20	2	2.13	2	2.40	2	1.47	1	1.73	1
Defend	3.15	4	2.14	1	1.47	1	1.13	1	2.73	3	2.50	3
Influence the 'rules of the game'	2.69	3	2.21	3	2.87	3	2.73	3	2.27	2	2.20	2

8.4.3.1 Case 1: Discussion of Preferred ARED Approach

Table 8.5 shows clearly that of the three fictitious ‘cases’, Case 1 is the only one that has a dramatic change in disclosure approach ranking under the ‘not published’ and ‘published’ scenario. The most preferred ARED approach in the ‘not published’ scenario is to *do nothing* (i.e. not to provide ARED) with the mean of 1.8. The overall feeling among the respondents is well summarised in this comment by Interviewee 11:

If it's not published, I'd do nothing. This is what is happening in the industry...It's just something like "hit-and-run", take your chance. If nothing happens, I'll keep quiet. If something happens, then I'll wait for it and we'll deal with it later. [11]

The least favourite ARED approach in the ‘not published’ scenario is to **defend** which can be expected as one interviewee puts it plainly:

... because it's not publicised yet, there is nothing to defend. [7]

Not surprisingly, the least preferred ARED approach in the ‘not published’ scenario becomes the most preferred in the ‘published’ scenario, albeit with a higher mean of 2.14¹³. It is noticeable that the second (**exploit**) and third (**influence the ‘rules of the game’**) preferred ARED approach have very close mean of 2.20 and 2.21, respectively, indicating that the respondents’ choices on ARED approach seems to be divided. The results, however, show clearly that once this event has been highlighted by the media, **do nothing** becomes the least popular approach since explanation is now needed as shown in the following comments:

...and do nothing is last because this time, I can't actually hide it. [9]

Doing nothing will be last if it's already published because then we'll need to give some explanation as to why we're using this new chemical. [10]

... it's very unlikely that I'll do nothing because now, I have some explaining to do. [14]

8.4.3.2 Case 2: Discussion of Preferred ARED Approach

In Case 2, the majority of the respondents (11 out of 15 or 73.3%) give the same ARED preference under the ‘not published’ and ‘published’ scenario. Respondents attribute this mainly to their belief that it is very unlikely that an event of this nature will not be well publicised. Hence, Table 8.5 shows the same ARED ranking for both the ‘not published’ and ‘published’ scenarios with **defend** landing in the top spot with mean rank of 1.47 and 1.13, respectively. Notice that the mean rank in the ‘published’ scenario is much lower than the ‘not published’ scenario indicating that more respondents favour to **defend** once Case 2 event is published. Interestingly, although the ranking for Case 2 and Case 1 (‘published’ scenario) are the same, the mean rank for the most preferred ARED approach vary dramatically from 1.13 (Case 2 – ‘published’ scenario) to 2.14 (Case 1 – ‘published’ scenario) which seems to suggest more homogeneity among the respondents’ choice to favour the **defend** approach in Case 2. This is not surprising given the magnitude of the event as shown in this quotes:

[Since] 20 students were... hospitalised, the public will know about it. So whether it's published or not, it doesn't make any difference ...for company survival, defending is strongly needed. [7]

Whether it's published or not, it will be the same because you can't hide this incident given that people have been hospitalised. So I will defend first...[8]

¹³ Compared to the most preferred ARED approach in the NP scenario (**do nothing**) which had a lower mean rank of 1.8, the mean rank of 2.14 suggests less preference despite the fact that it tops the ranking.

Whether NP or P, my first choice is to defend because now we can't just keep quiet, the news would have gotten out by then so we just have to protect the company at this stage. [11]
I'd say whether it will be NP or P it will be the same ... because this event can not be kept a secret, I definitely have to defend, I'll have to do something about it. [14]
...even if this event is not publicised yet... people would know... there is a need to defend... we need to disclose that precautionary measures have been done. [15]
I feel we are duty-bound to come up with some kind of remedial action. So whether its NP or P, my ranking will be the same. My first choice will be (c), we will need to defend. [16]
... it's very unlikely that this will not be publicised. I would defend first...I would not even consider doing nothing... because damage has already been done so I have to say that we took the necessary steps, investigated what was or went wrong and rectified the situation. [17]

The above comments overwhelmingly emphasise the need to defend and to inform the public that remedial action had been taken and to give assurance that precautionary measures are put in place. This, as Interviewees 11 and 7 point out above, is necessary to protect the company and to ensure its survival.

8.4.3.3 Case 3: Discussion of Preferred ARED Approach

Among the three fictitious events, Case 3 is the only one that features a company's proactive initiative to preserve the environment. As in Case 2, Case 3's ranking under the 'not published' and 'published' scenarios are the same but for a totally different reason. In Case 2, the seriousness of the event is what prompts most respondents to feel that events of this magnitude cannot be hidden from public eye. The respondents in Case 3, on the other hand, feel that it is in the company's best interest to disclose this event because it is good for company image [7, 10, 11, 12, 14, 15, 16 and 19]. Compared to Case 2, however, the respondents are less homogenous for Case 3 with only 8 out of 15 (53%) providing the same ranking for the 'not published' and 'published' scenario.

Not surprisingly, Table 8.5 shows that the most preferred ARED approach is to **exploit** under the 'not published' and 'published' scenario with mean rank of 1.47 and 1.73, respectively. Incidentally, this time the 'not published' scenario has a lower mean rank which seems to suggest that the management's desire to disclose this event in their Annual Report is stronger if the media have not picked this up, "thereby garnering support in this fashion", as Interviewee 6 puts it. **Influence the 'rules of the game'** is the second most preferred ARED approach followed closely by **defend**. As expected, the **do nothing** choice is the least preferred given that it is in the company's best interest to publicise this event.

8.4.4 Environmental Disclosures in Other Means of Communication

Finally, in order to accommodate other disclosure media apart from Annual Reports, question 3 of Part II – A asks the respondents if they are likely to provide environmental disclosures regarding the event in other ways of communication and the reason for their choice. The response to this question is summarised in Table 8.6 below.

Table 8.6: Environmental Disclosures in Other Means of Communication

	CASE 1		CASE 2		CASE 3	
	No	Yes	No	Yes	No	Yes
Likely to provide environmental disclosures in other ways of communication apart from Annual Reports?						
=> It doesn't matter whether the event is NP or P	3	6		13	1	14
=> Only if the event is P		6		2		
=> If the event is NP	6		2			
Other Means of Communication	CASE 1		CASE 2		CASE 3	
Press conference / press release	10		15		12	
Newsletters/bulletins/communiqué/meetings	6		10		8	
Brochures/banners/ other promotional materials					4	
Company website / internet / email			1		4	
Awareness programs/local associations/exhibits	2				2	
Set up fund /sponsor events/help people affected			3			
Communicate directly to school affected			2			
Government communication/letter			1			
Memo to shareholders			1			
Memo to suppliers					2	

8.4.4.1 Case 1: Disclosures in Other Means of Communication

Table 8.6 shows that of the 15 respondents, only 6 say *yes* and 3 say *no* to making environmental disclosures in other means of communication apart from the Annual Reports regardless of whether the event is 'not published' or 'published'. The remaining 6 respondents believe that they will provide disclosures in other media if and only if the event is published. Hence, a total of 12 respondents intend to make disclosures in other communication media in the 'published' scenario. The two most common ways of communication chosen by the respondents is through press conference/release (10) and newsletters as well as other internal communications like bulletins/communiqués and meetings (6). Other means mentioned are through local associations and conducting awareness programs (2). The main reason provided by the respondents is well summarised in these comments by Interviewees 10 and 12:

If it has been publicised... then the company could use press release to defend its position – why they adopted this new chemical and what is the likely effect to the environment and / or health hazard arising from the use of this new chemical. [10]

Yes I am most likely to use other ways of communication... because, one way or the other, the public will know about our use of new chemical so I might as well clear the air. [12]

8.4.4.2 Case 2: Disclosures in Other Means of Communication

Once again, the magnitude of the event in Case 2 is manifested in the result shown in Table 8.6 with potentially all respondents intending to provide environmental disclosures in other means of communication. Only 2 of the 15 respondents say that they will not provide disclosures in the 'not published' scenario but if the event is already published, then they will have to disclose in other media. All of the 15 respondents favour press release/conference as their preferred way of communication because of the timing of Annual Report which may be too late:

... it's very likely the company will have immediate press release because the Annual Report will be too late. [10]

... Because the thing with Annual Reports is that if the event happened, say at the middle of the year, it will take probably 9 months before the Annual Report is issued ...[11]

Yes, I will definitely use other ways of communication since it's probably a long wait before the Annual Reports are published. [13]

The next most popular communication medium is through newsletters and internal communiqués (10) because of the perceived need to properly inform the employees of what has transpired and to assure them that action has already been taken to rectify the situation [11 & 20]. Other cited means of communication are: sponsoring events/setting up a fund to help the people affected (3); communicating directly with the school affected (2); government letter (1); memo to shareholders (1); and company website (1).

8.4.4.3 Case 3: Disclosures in Other Means of Communication

Given that Case 3 involves an event that could potentially improve the public image of the company, it is not surprising that all but one respondent feel that other communication media should be used. Table 8.6 shows clearly that, as in the first two cases, press conference/release (12) and newsletters (8) are the most preferred means of communication followed by company website (4) and brochures/banners/posters (4). Other means cited include memos to suppliers (2) and sponsoring awareness programs and exhibits (2). It is interesting to note that one respondent does not feel the need to use other communication media. When asked to explain why, she replies:

Well for corporate image, they don't have to do anything...For the past 3 years that I've been the adjudicator,...one of my roles is to assess environmental reporting in Annual Reports. [Public companies] don't do very well in this category...Firstly, because ... nobody reads it. Secondly, they do it because they want to win the award... Without government regulations, a lot of Malaysian companies will not do it on their own accord. [8]

Despite the unorthodox belief echoed by Interviewee 8 that companies need not do anything to improve their image, the last point raised regarding the necessity for

government regulations enforcing mandatory environmental reporting strikes a cord with other respondents sharing the same view, albeit talking about Cases 1 and 2:

*If it's not required by government regulations, why should I disclose in the Annual Report? [16]
 You see the problem is, there is no statutory requirement to provide this type of disclosure... I reckon, as long as the government will not make a legal requirement to do so, I don't think many companies will bother to provide voluntary disclosure. [18]
 I think at the end of the day, one depends on the government to drive the environmental issues. In the Malaysian context, a lot depends on the government to take that leadership role. [19]*

The above comments clearly have further implications in examining the relationship between ARED strategy and case-specific reassessment of stakeholder potential for cooperation (PC) and potential for threat (PT) which is discussed next.

8.4.5 Case-Specific Reassessment of Stakeholder Cooperation/Threat Potential and Preferred ARED Strategy

Phase 3-A attempts to extend the application of stakeholder theory from the management's point of view by utilising the typology introduced by Freeman (1983, 1984) and Savage et al (1991). The main proposition (**Proposition 1**) emanating from this typology suggests that the manager's perception of the stakeholder's potential for cooperation (PC) and potential for threat (PT) determines the Annual Report environmental disclosure (ARED) strategy used. Exhibit 4.1 (reproduced below) shows the propositions for stakeholder analysis from the management's point of view.

Exhibit 4.1: Management's Point of View: Propositions for Stakeholder Analysis

Prop. 1	The manager's perception of the salient stakeholders' potential for cooperation (PC) and potential for threat (PT) will determine the ARED strategy used.
Prop. 2	If the salient stakeholder/s has/have relatively high PC and low PT, the manager is likely to provide disclosures to exploit the situation in an attempt to either maintain their support or, at the least, improve current adversarial relationship.
Prop. 3	If the salient stakeholder/s has/have relatively low PC and high PT, the manager is likely to provide disclosures that will defend their position in an attempt to gain the support of these stakeholders.
Prop. 4	If the salient stakeholder/s has/have relatively high PC and high PT, the manager is likely to provide disclosures that will seek to influence the rules of the game to enable collaboration with these stakeholders.
Prop. 5	If the salient stakeholder/s has/have relatively low PC and low PT, the manager is likely to hold current position and not provide any environmental disclosures.

To explore its applicability as suggested in **Propositions 2 to 5**, it is important to reassess the stakeholders' PC/PT, this time, together with the perceived urgency of events in each fictitious 'case' in conjunction with the findings in preferred ARED.

8.4.5.1 Case-Specific Discussion: Case 1 – Malaysian Holdings Berhad (MHB)

Recall from Table 8.4 (quantitative significance of events) that only the environmentalists (1.25) would find the Case 1 event significant at a level between **Very**

Significant (2) to *Extremely Significant (1)*. The relevant government agency (2.0), the second from the top, is perceived to give this event a significance level of *(2) Very Significant* while the competitors, major shareholders, media, employees and creditors (ranked 3rd to 7th, respectively) have significance mean of 2+ indicating a range between *Significant (3)* to *Very Significant (2)*. The customers and minor shareholders (8th and 9th) have significance means of 3+ denoting significance level between *Moderately Significant (4)* to *Significant (3)*. Finally, the overall consensus is that the suppliers would find this event *Moderately Significant (4)*, at most. Exhibit 8.2 shows Case 1 analysis. The four quadrants show the stakeholders analysed in accordance to **Propositions 2 to 5** in the ‘not published’ (NP -**bold**) and ‘published’ (P-**bold & italics**) scenarios.

Exhibit 8.2: Case 1 Analysis of Stakeholder PC/PT & ARED Strategy

<p>Prop. 2: Exploit If stakeholders have Hi PC and Lo PT</p>	<p>Prop. 3: Defend If stakeholders have Lo PC / Hi PT</p>
<p>*NP: RGA,EMP & SUP **P: RGA, EMP & SUP</p>	<p>*NP: **P: CUS, MED, ENV, COM</p>
<p>Prop. 4: Influence If stakeholders have Hi PC / Hi PT</p>	<p>Prop. 5: Do Nothing If stakeholders have Lo PC / Lo PT</p>
<p>*NP: MJS **P: MJS & LTC</p>	<p>*NP: CUS,LTC,MIS,COM,MED&ENV **P: MIS</p>
<p>*NP => ‘not published’; **P => ‘published’; STAKEHOLDER LEGEND: ENV –environmentalist; RGA – relevant government agency; COM – competitors; MJS – major shareholders; MED – media; EMP – employees; LTC – long-term/major creditors; CUS – customers; MIS – minor shareholders; SUP – suppliers</p>	

In Case 1-‘not published’ scenario, the major shareholder group is the only stakeholder group considered to have high PC and PT as shown in Exhibit 8.2 - **Prop.4** quadrant. Although the analysis shows that the major shareholders, long-term creditors, suppliers and minor shareholders are perceived by the majority of respondents to be more profit-oriented rather than environmentally conscious, it is very likely that the only stakeholder groups that have knowledge of this event are the major shareholders and the chemical supplier. Despite the perceived high PC and PT of the major shareholders, their profit motive is likely to supersede, thus, it is highly unlikely that they would want the management to provide any ARED. Since the remaining stakeholders are not likely to know this event, there will be no demand for ARED, even from the adversarial stakeholder groups. Thus, the prediction of **Proposition 5, do nothing** (i.e. to hold current position and not provide ARED) is likely to happen in the ‘not published’ scenario. If ever MHB is to provide any ARED, it is conceivable that it will choose to

exploit in order to gain/strengthen the confidence of other stakeholders that have high PC and low PT such as the relevant government agency, employees and suppliers. This may well be the reason why *exploit* is ranked second. Furthermore, it's very unlikely for MHB to choose the *defend* strategy as there is no stakeholder group classified in **Prop.3** quadrant. The results shown in section 8.4.3.1 confirm these predictions in the 'not published' scenario with *do nothing* and *defend* being the most and least preferred ARED approach, respectively.

In the 'published' scenario, Exhibit 8.2, **Prop.4** quadrant now consists of the major shareholder and long-term creditor groups. Since both are after the economic stability of the firm and the new chemical use increases profitability, they are likely to support the management denoting high PC. However, given their equally high PT, these groups, are likely to expect some ARED that could positively *influence* how the public views their company's operations.

Although some may suspect that the government would have equally high PC and PT in Case 1-'published' scenario, the analysis shows otherwise. Whilst the government's PC is perceived to be high because the timber and logging industry is government-controlled, its PT is considered low. Given that there are no mandatory requirements to provide ARED and provided that MHB is not in breach of any government regulations, many of the respondents [14, 16, 17, 18 & 19] believe that the most the government will do is to 'keep an eye' on this company. Thus, the relevant government agency remains in the **Prop.2** quadrant. For reasons discussed in 8.4.1, the suppliers and employees remain in the **Prop.2** quadrant. However, it is conceivable that the publication of this event would make the employees more worried about their long-term health and expects some disclosure from the management. Given the salience of these stakeholder groups, the management is likely to provide ARED using an *exploit* strategy.

The biggest change in stakeholder grouping in the 'published' scenario appear in **Prop.3** and **Prop.5** quadrants with the customers, competitors, environmentalists and the media now having high PT/low PC and moving to **Prop.3** quadrant. A majority of the respondents share the view of Interviewee 15 who believes that although the local customers might not bother much about this event (as discussed in 8.4.2), overseas customers are likely to care enough to do something about it.

The local customers might not care much because over here, environmental awareness is not as much compared to overseas. So for local customers, I think it will just be a (4) but overseas customers would probably boycott this company which means it would be a (1) to them. [15]

Recall that Phase 2(a) interviews also confirm the above comment. Hence, since it is highly unlikely that a huge industry such as timber and logging can rely solely on local customers, it is reasonable to assume that overseas customers' high PT will be taken seriously. Furthermore, majority of the respondents feel that all three adversarial stakeholders now have low PC and high PT. This is evident from Table 8.4 which shows that for Case 1, the environmentalists, competitors and media are highly ranked (1st, 4th & 5th, respectively) because an urgent issue has now come to their attention that relates directly to their very own existence. To the environmentalists, 'ecological balance will be in their priority list' (see 8.4.2). The environmentalists' role, together with the media, is to highlight events such as the type featured in Case 1. Whilst the respondents feel that the media is highly controlled by the Malaysian government, the increasing pressure from the environmentalists could push the media to publicise this kind of event. The competitors, on the other hand, are likely to use this publicised event to their advantage: either to destroy the firm's reputation or to follow suit, i.e. to also use the new chemical given that it decreases operating costs [7, 8, 9, 10, 11, 12, 13, 14, 15, 17, 18, 19 & 20]. Therefore, the change to the 'published' scenario creates the perception of increased PT among overseas customers and the adversarial stakeholders. As such, the prediction in **Proposition 3, defend** is likely to happen in the 'published' scenario. Again, the result shown in 8.4.3.1 confirms that the most preferred ARED strategy is **defend** and is followed closely by **exploit** and **influence** (with an most equal mean rank of 2.2 and 2.21, respectively) with **do nothing** being the least preferred.

8.4.5.2 Case-Specific Discussion: Case 2 – Shexxon Refinery Berhad (SRB)

The magnitude of Case 2 event is reflected by the mean significance assigned by the respondents shown in Table 8.4. Unlike Case 1 where only the environmentalist group has mean significance of 1+, Case 2 event is perceived by the top four stakeholder groups, the environmentalists, relevant government agency, media and major shareholders (ranked 1st to 4th, respectively) to be at significance level between **Extremely Significant (1)** and **Very Significant (2)**. The employees, competitors, minor shareholders and long-term creditors (ranked 5th to 8th respectively), have significance mean of 2+ indicating a range from **Very Significant (2)** to **Significant (3)**.

Even the two lowest ranked stakeholder groups, the customers and suppliers (9th and 10th) have significance mean of 3+ denoting a significance level between *Significant (3)* to *Moderately Significant (4)*. Exhibit 8.3 shows Case 2 analysis in accordance with the propositions for stakeholder analysis.

Exhibit 8.3: Case 2 Analysis of Stakeholder PC/PT & ARED Strategy

<p>Prop. 2: Exploit <u>If stakeholders have Hi PC and Lo PT</u> MJS, LTC & SUP</p>	<p>Prop. 3: Defend <u>If stakeholders have Lo PC / Hi PT</u> CUS, EMP, MED & ENV</p>
<p>Prop. 4: Influence <u>If stakeholders have Hi PC / Hi PT</u> RGA</p>	<p>Prop. 5: Do Nothing <u>If stakeholders have Lo PC / Lo PT</u> MIS & COM</p>
<p>STAKEHOLDER LEGEND: ENV –environmentalist; RGA – relevant government agency; COM – competitors; MJS – major shareholders; MED – media; EMP – employees; LTC – long-term/major creditors; CUS – customers; MIS – minor shareholders; SUP – suppliers</p>	

Given that majority (11 of 15) of the respondents believe that the event in Case 2 can not be kept from the public, it is reasonable to assume that each stakeholder groups' PC/PT should be the same under both the 'not published' and 'published' scenarios. As shown in Exhibit 8.3-**Prop. 4** quadrant, the relevant government agency is the only stakeholder considered to have high PT and PC. The respondent representing the government highlights the government's potential threat in the following comment:

...RGA will be the one who will take action against companies that significantly degrades the environment - and especially in such incidents where it affects human beings. They are supposed to take immediate action enforcing the regulations that are in place. [16]

Although a majority of the respondents share this view, the government's PC is expected to be high for fear of possible economic downturn as indicated in this quote:

RGA will put 'lip-service' to this event. They might make some noise but I don't think there is any meaning ... because these are the "big guys" they are dealing with! The government could make the company's life difficult but they won't really do much because they really wouldn't want these companies to disappear. The government need them. [13]

Notwithstanding the above comment, in a hypothetical scenario whereby the only stakeholder present is the government with high PC and PT, it is highly likely that the management of the company will adopt a disclosure strategy to *influence* the 'rules of the game' to enable collaboration with the government as predicted in *Proposition 4*.

Prop. 2 quadrant shows that the major shareholders, long-term creditors and suppliers are considered to have high PC and low PT. Despite the low overall supplier ranking for Case 2 (see Table 8.4), some respondents believe that the main supplier (i.e. the

supplier of the oil to be refined) of an oil refinery such as SRB is likely to be related to this firm. Hence, given the severity of Case 2 event, it is even more likely that the suppliers, together with the major shareholders and long-term creditors (who, as noted earlier, are more profit-oriented rather than environmentally conscious), are expected to cooperate more than threaten the firm's survival because of their high stake in the company. As such, these stakeholder groups are likely to expect an ARED strategy that could improve their image in the midst of this scandal. This is in accordance with the prediction in **Proposition 2**, i.e. in the presence of salient stakeholders with high PC and low PT, the management is likely to adopt the ARED strategy that will *exploit* the situation to maintain their support.

As shown in **Prop. 3** quadrant, a majority of the respondents feel that at least two of the adversarial stakeholders (the media and environmentalists) should be in the low PC/high PT category because of the seriousness and urgency of the Case 2 event. This is evident in the overall high ranking of the environmentalists and the media (1st and 3rd, respectively) for Case 2 as reflected in Table 8.4. As in Case 1, the customer group is expected to be in **Prop. 3** quadrant since an international oil company such SRB is expected to have both local, as well as overseas major customers. It is also conceivable that the employees will be very concerned about their own safety given the immediate threat to their own life, hence, the move to **Prop. 3** quadrant. Given the high salience of the customers and employees (evident in their high ranking in terms of company survival as per Exhibit 8.1) magnified by the added pressure from both the environmentalists and the media, it is highly probable that the prediction in **Proposition 3**, that is, to adopt the ARED strategy of *defending* their position, is likely to happen.

Whilst **Proposition 5** predicts the strategy of *do nothing*, it is argued that the stakeholders classified in the **Prop. 5** quadrant, i.e. the minor shareholders and the competitors, have low salience given their very low significance to company's survival ranking (see Exhibit 8.1). Hence it is highly unlikely that SRB will hold its current position and not provide ARED. Again, the results shown in 8.4.3.2 confirm the predictions above with the most preferred ARED strategy being *defend*, followed by *exploit*, then *influence* while the least favoured is *do nothing* under both the 'not published' and 'published' scenario.

8.4.5.3 Case-Specific Discussion: Case 3 – Keluarga Banking Berhad (KBB)

Looking at the significance mean shown in Table 8.4, it is clear that Case 3 has a much lower impact (as discussed in 8.4.2) since none of the stakeholders has significance level of 1+. The environmentalists and major shareholders (ranked 1st and 2nd, respectively) have significance mean of 2+ indicating a range between *Very Significant (2)* to *Significant (3)*. The relevant government agency, media, minor shareholders, suppliers, competitors, employees and customers (ranked 3rd to 9th, respectively) have significance mean of 3+ denoting significance level between *Significant (3)* to *Moderately Significant (4)* while the long-term creditors, the lowest ranked, have mean significance mean of 4.0. Exhibit 8.4 shows Case 3 analysis in accordance with the propositions for stakeholder analysis. The analysis shows that majority of the respondents feel that it is very unlikely for the management to keep the Case 3 event away from the stakeholders’ knowledge because it is good for the firm’s image. Hence as in Case 2, it is assumed that whether the event has been published or not, the stakeholder analysis are the same.

Exhibit 8.4: Case 3 Analysis of Stakeholder PC/PT & ARED Strategy

<p align="center"><u>Prop. 2: Exploit</u> <u>If stakeholders have Hi PC and Lo PT</u> ENV, MJS, RGA, EMP, SUP, CUS & LTC</p>	<p align="center"><u>Prop. 3: Defend</u> <u>If stakeholders have Lo PC / Hi PT</u> MJS & LTC</p>
<p align="center"><u>Prop. 4: Influence</u> <u>If stakeholders have Hi PC / Hi PT</u> MED</p>	<p align="center"><u>Prop. 5: Do Nothing</u> <u>If stakeholders have Lo PC / Lo PT</u> MIS & COM</p>
<p>STAKEHOLDER LEGEND: ENV –environmentalist; RGA – relevant government agency; COM – competitors; MJS – major shareholders; MED – media; EMP – employees; LTC – long-term/major creditors; CUS – customers; MIS – minor shareholders; SUP – suppliers</p>	

Despite Case 3’s perceived low significance level, it is not surprising, as shown in Exhibit 8.4-**Prop. 2** quadrant, that most of the stakeholders (ENV, MJS, RGA, EMP, SUP, CUS and LTC) are grouped in the high PC/low PT category. The relevant government agency and environmentalists are perceived by the majority of the respondents to have high PC and low PT since they are likely to make this company as an example for other companies to follow. Likewise, given that Case 3 event has the potential to enhance KBB’s image, the major shareholders, employees, suppliers, customers and long-term creditors, who in one way or another, are interested in the bank’s stability are most likely to support the company’s initiative to be

environmentally friendly. Of course, this is on the assumption that the expenditure of RM\$20million will not have a substantial negative effect on the company's profitability. Therefore, since the majority of stakeholders have high PC and low PT, the prediction in **Prop. 2** is likely to happen, i.e. the manager is likely to provide ARED strategy that will *exploit* the situation. Once again, the results shown in 8.4.3.3 confirm this prediction with the most preferred ARED strategy being *exploit* under both the 'not published' and 'published' scenario.

Not surprisingly, the second most preferred ARED strategy is *influence* the 'rules of the game' since as noted repeatedly in earlier discussions, Malaysian environmental awareness is still considerably low. Hence, the respondents feel the need to influence and improve awareness by adopting this ARED strategy. In this regard, the media is perceived by most respondents to have the biggest role. This is why **Prop.4** quadrant shows that the media group has high PT and high PC, as one interviewee puts it:

They have the power to make or break the company. [20]

Furthermore, because both the minor shareholder and competitors have no urgent claim against KBB given the positive impact of Case 3 event, their concern is almost negligible as they are not considered salient stakeholders. It is, however, worth discussing why the major shareholders and long-term creditors also appear in the **Prop.3** quadrant (low PC/high PT). Two respondents raise a very valid point stressing the fact that if the major shareholders and long-term creditors do not support the management's socially responsible policy, then there is a need to *defend* the firm's position. The following direct quotes summarise their arguments:

The reason why I ask whether I could assume that the major shareholders are environmentally conscious is because if they are not, they might actually question this expenditure. [17]
As a long-term creditor, I'd like to know whether you'll pay me first. Why should I lend [to] you if you'd only use the money for something not directly related to your business. I'm more interested with whether the \$20 million expenditure is well compensated by the savings and not so much with whether the company is socially responsible. [11]

Hence, if the situation described above is true, there is a perceived need to *defend* the management's decision to incur the \$20 million expenditure on environmentally friendly technology.

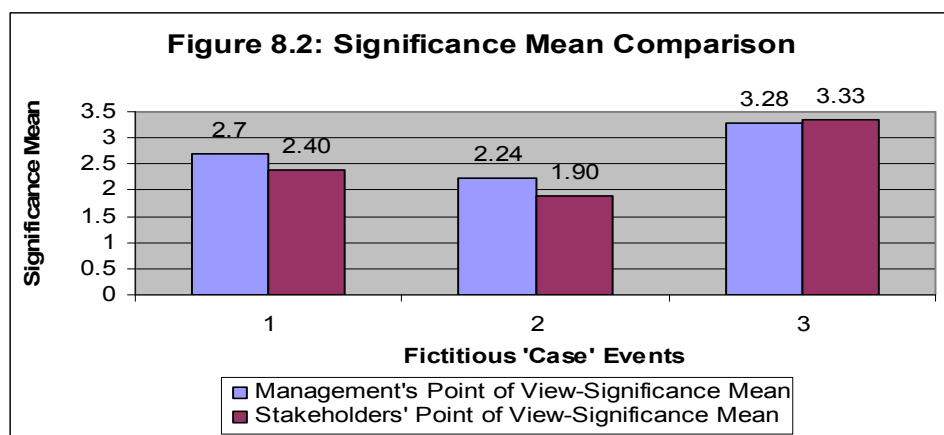
Given the findings discussed so far, the stakeholder framework developed to predict ARED strategy from the management's point of view appears to be useful and suitable. The next section discusses the results from the stakeholders' point of view.

8.5 PHASE 3-B: FINDINGS FROM THE STAKEHOLDERS' POINT OF VIEW

Part II – B of the questionnaire asks the participants to assume the role of the stakeholder with which they are most likely to be identified, given their past or present experience. The first three questions are the same as in Part A (except that question 2 omits the ‘not published’ scenario), the purpose of which is to compare stakeholder responses in Part A and to probe further whenever inconsistencies exist. Question 4, however is the main source of data, where the participants are asked to rank four/three ‘possible strategies to be taken’ for Cases 1 and 2/Case3, respectively in the order of 1 – ‘most likely to take’ to 4/3 – ‘least likely to take’ (see Appendix B for the structured questionnaire). The purpose here is to explore the possibility that if environmental disclosures are not provided, stakeholders may exercise their power possibly either *directly* or *indirectly* through *usage* or *withdrawal/promoting* as suggested in Frooman’s (1999) slightly modified typology. Once again, it is deemed inappropriate to directly ask the question as to whether stakeholders are likely to employ a direct/indirect strategy. Instead, the participants are asked to elaborate the reasons for their choice in order to induce meaningful responses for analysis. The results are discussed according to the question numbers (as per questionnaire) and in comparison with Part A findings.

8.5.1 Q1-Comparison of Case-Specific Perceived Significance from the Management and Stakeholders' Point of View

Figure 8.2 below compares the significance mean from the point of view of the management and the stakeholders.

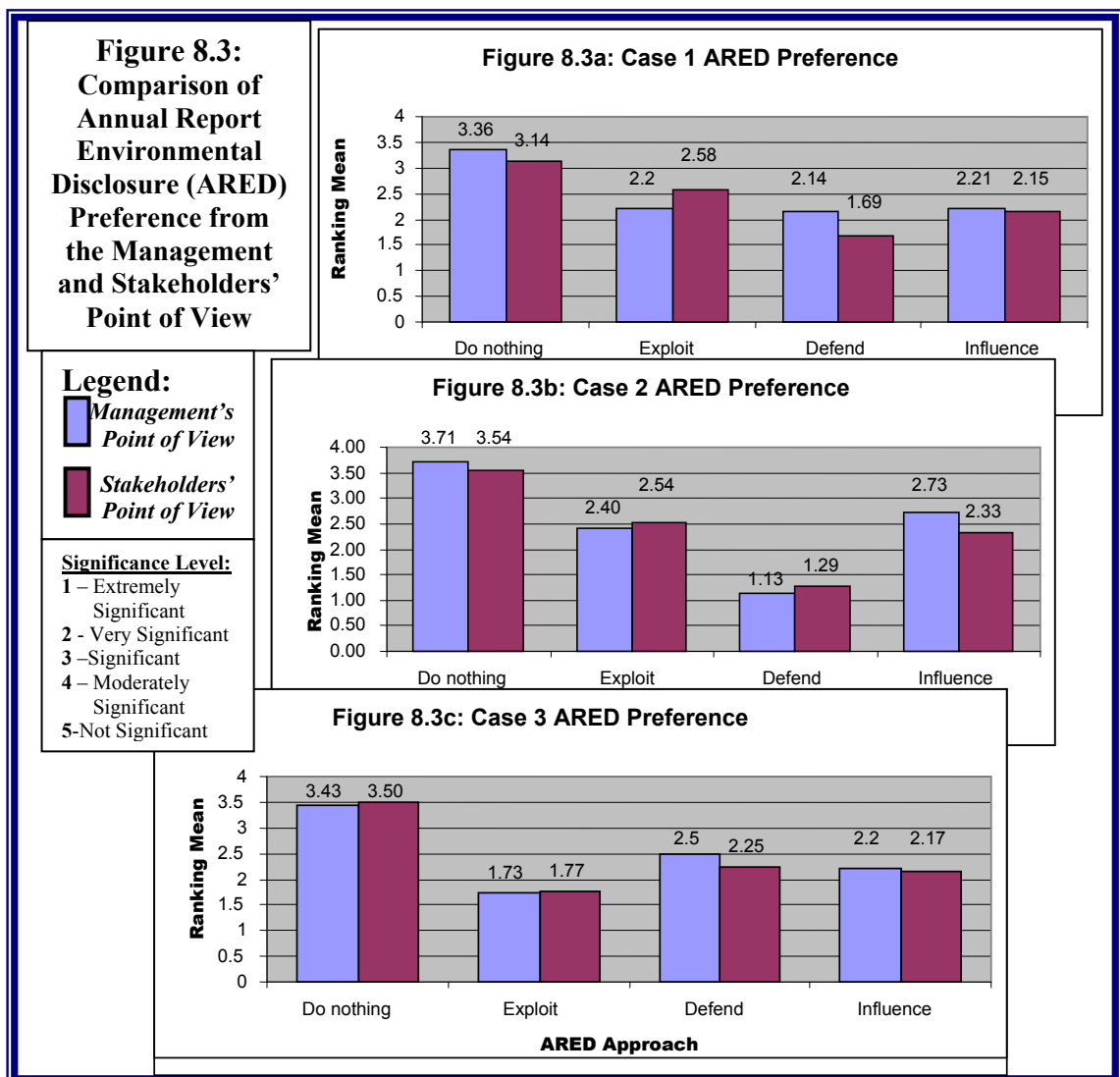


Looking at the graph, it appears that the management has slightly underestimated the significance level for Cases 2 and 1 and slightly overestimated Case 3. This means that

on average, when the same respondent takes the role of a stakeholder, he/she is likely to put a higher significance level on the event in Cases 2 and 1 and lower significance level on the event in Case 3. Despite this slight difference, the comparison confirms that both the management and stakeholders view Case 2 event as the most significant, followed by Case 1 and Case 3 as the least significant. Furthermore, examination of the reasons provided for assigning significance levels in Question 1 - Part A (management's point of view) and Part B (stakeholders' point of view) detects no major inconsistencies.

8.5.2 Q2-Comparison of Preferred ARED Strategy from the Management and Stakeholders' Point of View

Figure 8.3 compares the preferred ARED approach from the point of view of the management and the stakeholders for each of the three fictitious 'cases'.



Of the three cases, Case 3 (Figure 8.3c) appears to have the most similar ARED preferences from the management and stakeholders' point of view. Note that three of

the four ARED approaches (*exploit*, *influence* and *do nothing*) have ranking mean difference of less than 0.1 indicating very similar ranking mean from both the management and stakeholders' point of view. However, for Cases 1 and 2 (see Figure 8.3a and b), the differences in ranking mean are more pronounced. There are also slight differences in the overall ranking of preferred ARED for the first two cases.

Recall that from the management's point of view-'published' scenario (shown in Table 8.5 and reproduced in Table 8.7), the ARED ranking for Cases 1 and 2 are the same with *defend* (ranked 1st), *exploit* (2nd), *influence* (3rd) and *do nothing* (4th). Similarly, from the stakeholders' point of view, the most and least preferred ARED approach for both Cases 1 and 2 are the same with *defend* (ranked 1st) and *do nothing* (ranked 4th). The only difference is that from the stakeholders' point of view, *influence* is the second most preferred and *exploit* is third. This slight difference in preference is highly expected given that the stakeholders are most likely to favour getting relevant information (*influence*) about the particular event described in Cases 1 and 2 rather than read about the firm's environmental achievements (*exploit*) which, as expected, is more favourable from the management's point of view. Finally, both Figure 8.3c and Table 8.7 show clearly that in Case 3, the ARED preference from both the management and stakeholder point of view are the same with *exploit* as the most preferred, *influence* as second, followed by *defend* and, as expected, *do nothing* as last. Hence once again, there are no major discrepancies in the findings between Part A and B.

Table 8.7: Comparison of Overall Annual Report Environmental Disclosure (ARED) Ranking

PREFERRED DISCLOSURE APPROACH	CASE 1				CASE 2				CASE 3			
	MGT POV		STH POV		MGT POV		STH POV		MGT POV		STH POV	
	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank	Mean	Rank
Do nothing	3.36	4	3.14	4	3.71	4	3.54	4	3.43	4	3.50	4
Exploit	2.20	2	2.58	3	2.40	2	2.54	3	1.73	1	1.77	1
Defend	2.14	1	1.69	1	1.13	1	1.29	1	2.50	3	2.25	3
Influence	2.21	3	2.15	2	2.73	3	2.33	2	2.20	2	2.17	2

Legend: *MGT POV* – Management's Point of View; *STH POV* – Stakeholders' Point of View

8.5.3 Q3-Comparison of Preferred Environmental Disclosures in Other Means of Communication from the Management and Stakeholders' Point of View

Table 8.8 shows the comparison of the management and stakeholders' responses to Question 3 – environmental disclosure preference in other means of communication.

8.5.3.1 Case 1: Disclosures in Other Means of Communication

As in Part A, there are 3 respondents who do not expect the firm to provide them with environmental disclosures from other communication means. These 3 respondents represent the major shareholder [13], customer [19] and supplier [14]¹⁴. The remaining 12 expect disclosures from other media. The three most common means chosen by the respondents are via press conference/press release (10), newsletters and/or other internal communications like bulletins and meetings (4) and company website (4). Other means mentioned are through direct communications with government representatives (1) and engaging local associations to conduct awareness programs (1).

Table 8.8: Comparison of Management & Stakeholder Responses to Environmental Disclosures in Other Means of Communication

<i>Likely to provide disclosures in other ways of communication apart from Annual Reports? N = no; Y = yes</i>	CASE 1				CASE 2				CASE 3			
	MGT POV		STH POV		MGT POV		STH POV		MGT POV		STH POV	
	N	Y	N	Y	N	Y	N	Y	N	Y	N	Y
=> It doesn't matter whether the event is NP or P	3	6	3	12		13	0	15	1	14	3	12
=> Only if the event is P		6				2						
=> If the event is NP	6				2							
<i>Other Means of Communication</i>	CASE 1				CASE 2				CASE 3			
	MGT POV		STH POV		MGT POV		STH POV		MGT POV		STH POV	
Press conference / press release	10		10		15		15		12		10	
Newsletters/bulletins/communiqué/meetings	6		4		10		9		8		6	
Brochures/banners/ other promotional materials									4		3	
Company website / internet / email			4		1		3		4		4	
Awareness programs/local associations/exhibits	2		1						2			
Set up fund /sponsor events/help people affected							3		2			
Communicate directly to school affected							2		2			
Government communication/letter					1		1		1			
Memo to shareholders							1		1			
Memo to suppliers									2		1	

Legend: *MGT POV* – Management's Point of View; *STH POV* – Stakeholders' Point of View

8.5.3.2 Case 2: Disclosures in Other Means of Communication

Despite some reluctance to provide disclosures in the 'not published' scenario from the management's point of view, this reluctance disappears when the respondents take the stakeholders' point of view. All the 15 respondents expect disclosures from other means of communication. As in Part A, all the 15 participants favour press release/conference as other communication media, followed by newsletters and internal communiqués (9) and company website and email (3). Other cited means of

¹⁴ None of the 3 respondents cared to directly elaborate why they do not expect the firm to provide them with disclosures through other methods. A close examination of interview transcripts, however, reveals that the customer [19] and supplier [14] representatives are not particularly interested given that the event does not affect them directly. On the other hand, the major shareholder [13] assumes that he already know enough about this event (he believes he must have approved the use of the new chemical to improve the firm's profitability) hence, there is no need for further disclosure.

communication are: sponsoring events and setting up a fund to help the people affected (2); direct communication with the school (2); government letter (1); and memo to shareholders (1).

8.5.3.3 Case 3: Disclosures in Other Means of Communication

The comparison of the management's and stakeholders' responses to Case 3, although not extremely different, is a little puzzling. The lone respondent [8] who prefers not to provide disclosures from other means when taking the role of the management expects to receive disclosures when she shifts her role to act on behalf of the employee representative. The reason cited is that she likes to be informed. Of the 3 respondents who expect not to receive disclosures from other means, one represents the customer [19],¹⁵ while the other two include a representative from the media [15] and the environmentalist [17]. When asked to explain why they would not expect the firm to provide disclosures through other means, their comments are:

It's already good, there's no need to promote. It's just like having a good programme, it will sell by itself. [15]

Honestly, I really wouldn't bother whether the company do it or not [i.e. provide 'other' disclosures], I will still support this company. [17]

Although it is quite surprising to find that the media and environmentalist representatives do not expect disclosures from other means, the above statements offer some clarification to this curious finding, i.e. not demanding is not tantamount to neither caring nor appreciating the company's environmental sustainability efforts. As in Case 2, press conference/release (10), newsletters (6) and company website (4) are the three most preferred means of communication followed by and brochures/banners/posters (3) and memos to suppliers (1).

8.5.4 Q4-Analysis of Preferred Stakeholder Strategy if No Environmental Disclosures are Provided

As noted earlier, Question 4 (Q4) is introduced to explore the possibility that if environmental disclosures are not provided, stakeholders may possibly exercise their power either directly or indirectly through usage or withdrawal of support/promoting the issue/event. The summary of the stakeholders' preferred strategy if no environmental disclosure is provided is shown in Table 8.9. Given the positive

¹⁵ It is not surprising for the customer representative [19] not to expect environmental disclosures through other means given that the same respondent takes the view of not being a good corporate citizen (see later quote on p. 210).

environmental impact of the event featured in Case 3, it is not surprising to find strategy (b), *say something & support*, as the most preferred and (a), *ignore & support*, as the least favourite. On the other hand, since Cases 1 and 2 both have adverse effects on the environment and/or human life, the overall mean ranking for both cases show the same strategy preference with (c), *say something & stop support*, being the most preferred, followed by (b), *say something & support*, then (d), *stop support & influence others*, and finally (a), *ignore & support*, as the last in preference ranking.

Table 8.9: Stakeholders’ Preferred Strategy if No Disclosure is Provided

CASES 1 & 2 Preferred Strategy	CASE 1			CASE 2			CASE 3 Preferred Strategy	CASE 3		
	Times	MEAN	RANK	Times	MEAN	RANK		Times	MEAN	RANK
	Chosen			Chosen				Chosen		
a) Ignore & support	13	2.54	4	10	3.00	4	a) Ignore & support	12	2.33	3
b) Say something & support	14	1.71	2	15	1.80	2	b) Encourage & support	13	1.54	1
c) Say something & stop support	7	1.57	1	13	1.69	1	c) Support & influence other	13	1.77	2
d) Stop support & influence others	6	2.50	3	9	2.33	3				

Despite the seemingly similar strategy preference for Cases 1 and 2, the column showing ‘times chosen’ in Table 8.9 could probably shed more light on stakeholder strategy preference better than mean ranking averages. This is because, although the participants are asked to rank the 4 strategies, some rank only 1 or 2 stating that they are not likely to consider the other strategies at all. Table 8.10 shows the interviewee-specific responses to Q4.

Table 8.10: Interviewee-Specific Response to Q4 – Preferred Strategy

INTERVIEW NUMBERS	13	18	10	11	16	8	9	19	20	7	14	12	15	6	17
STAKEHOLDER GROUPS	MJS	MIS	LTC	LTC	RGA	EMP	EMP	CUS	CUS	SUP	SUP	MED	MED	ENV	ENV
Preferred Strategy-Case1															
a) Ignore & support	1	1	2	1	4	n	2	1	4	3	2	4	4	4	n
b) Say something & support	n	2	1	2	2	1	1	2	3	1	1	1	3	3	1
c) Say something & stop support	n	n	n	n	1	n	n	n	1	2	n	2	2	1	2
d) Stop support & influence others	n	n	n	n	3	n	n	n	2	4	n	3	1	2	n
Preferred Strategy-Case2															
a) Ignore & support	2	1	n	2	4	n	n	1	4	4	n	4	4	4	n
b) Say something & support	1	2	1	1	2	1	1	2	3	2	1	3	3	3	1
c) Say something & stop support	n	n	2	1	1	2	2	3	1	1	2	1	2	2	2
d) Stop support & influence others	n	n	n	2	3	n	3	4	2	3	n	2	1	1	n
Preferred Strategy-Case3															
a) Ignore & support	n	1	2	n	3	2	1	1	3	3	3	3	3	3	n
b) Encourage & support	1	n	1	1	2	1	n	2	2	1	1	2	2	1	2
c) Support & influence other	n	2	3	2	1	3	n	3	1	2	2	1	1	2	1

Notice from Table 8.9 and Table 8.10 that only 6 of 15 interviewees [16, 20, 7, 12, 15 & 6] ranked all strategies in all three cases. Interviewee 13, for example, provides only one choice of strategy for Case 1, two choices for Case 2 and one for Case 3. The

strategies which are not considered are given a non-numerical value ‘n’ and are, therefore, excluded in the calculation of the mean ranking. The implication, therefore is such that, for example in Case 1, although strategy (c), *say something & stop support*, is ranked 1st as shown in Table 8.9, this is only chosen 7 times out of a possible 15 (i.e. 15 interviewees). In Case 2, however, the same strategy is more popular having been chosen 13 times. Strategy (d), *stop support & influence others*, although ranked third in both Cases 1 and 2, appears to be even less popular than (a), *ignore & support*, since Table 8.9 shows that only 6 (in Case 1) and 9 (in Case 2) would even consider this strategy.

On the main, the comparisons of responses to the first three questions in Phase 3-A and 3-B show that despite some mild differences from the management and stakeholders’ point of view, there are no major inconsistencies in the findings. The next section discusses the level of interdependence between the firm’s management and stakeholders to facilitate further analysis using the resource dependence propositions.

8.5.5 General Analysis of Stakeholder/Firm Interdependence

Phase 3-B attempts to extend the application of stakeholder theory from the stakeholder’s point of view by utilising Frooman’s (1999) typology of resource relationships to understand the nature of interdependence that exist between the firm’s management and the various stakeholder groups represented. Exhibit 8.5 below shows management/stakeholder interdependence analysis without any case-specific scenario.

Exhibit 8.5: General Analysis of Management/Stakeholder Interdependence

		IS THE STAKEHOLDER DEPENDENT ON THE FIRM?	
		NO	YES
Is the firm dependent on the stakeholder?	NO	Low Interdependence MGT / COM, MED, ENV	Firm (MGT) Power MGT / EMP, SUP, MIS
	YES	Stakeholder Power MGT / CUS, RGA	High Interdependence MGT / MJS, LTC

LEGEND: MGT – management; ENV –environmentalist; RGA – relevant government agency; COM – competitors; MJS – major shareholders; MED – media; EMP – employees; LTC – long-term/major creditors; CUS – customers; MIS – minor shareholders; SUP – suppliers

Earlier discussions reveal that, in the absence of any urgent event, adversary stakeholders like the competitors, media and environmentalists virtually have neither

power nor legitimate claim against the firm and the firm does not depend on them for any resource, hence the stakeholder/management relationship is expected to be one of **low interdependence**. While the customers and relevant government agency, to a certain extent, may depend on the firm for various reasons such as the supply of goods/service (for customers) and socio-economic progress (for the government), previous discussions show that the firm is dependent on these groups more than they are to the firm, i.e. **stakeholder power**. This is because of their ability to threaten the firm's existence in terms of lost business as well as penalties, sanction or even closure. The major shareholders and long-term creditors, by virtue of their substantial investment, are dependent on the firm for their capital growth while the firm is equally dependent on them for funding, hence the relationship is that of **high interdependence**. Finally, the employees, suppliers and minor shareholders are grouped together in the **management power** quadrant since they are more likely to depend on the firm for their survival than the firm depending on them. Generally in a highly competitive market, the suppliers need the firm (customer) more because it is easy to find another supplier. More particularly, in the Malaysian setting, the employees and minor shareholders, rarely exercise their prerogative to question management decisions. Thus, the power lies mainly with the management. Although the above discussion may appeal to intuition, once again, without a particular event that could change the power/interdependence relationships, the analysis will be incomplete. Thus, the next sub-sections focus on case-specific discussion.

8.5.6 Case-Specific Analysis of Stakeholder/Firm Interdependence

Exhibit 4.2 (reproduced below) provides the propositions emanating from resource dependence theory.

Exhibit 4.2: Stakeholders' Point of View: Resource Dependence Propositions

Prop. 1	The stakeholder/management interdependence structure and their perception of how the environmental issue/event will affect their stake on the firm will determine whether or not they will demand environmental disclosure .
Prop. 2	If the stakeholder/s place high significance to the negative/positive environmental event and their relationship with the firm is that of ' <i>low interdependence</i> ', the stakeholder/s will adopt indirect withholding/promoting strategy .
Prop. 3	If the stakeholder/s place high significance to the negative/positive environmental event and their relationship with the firm is that of ' <i>stakeholder power</i> ', the stakeholder/s will adopt direct withholding/promoting strategy .
Prop. 4	If the stakeholder/s place high significance to the environmental issue/event and their relationship with the firm is that of ' <i>high interdependence</i> ', the stakeholder/s will adopt direct usage strategy .
Prop. 5	If the stakeholder/s place high significance to the environmental issue/event and their relationship with the firm is that of ' <i>firm power</i> ', the stakeholder/s will adopt indirect usage strategy .

The main proposition, *Proposition 1* states that the management/stakeholder interdependence level and their perception of how the environmental event will affect their stake will determine whether or not they will demand environmental disclosures. To explore its applicability as suggested in *Propositions 2* to *5*, the subsequent sections discuss each stakeholder group's interdependence level for each of the three cases. Exhibits 8.6a, 8.6b and 8.7 show the analysis of interdependence and strategy used corresponding to Cases 1, 2 and 3 respectively.

Exhibit 8.6: Case-Specific Analysis of Stakeholder/Firm Interdependence & Strategy

		IS THE STAKEHOLDER DEPENDENT ON THE FIRM?	
		NO	YES
Is the firm dependent on the stakeholder?	NO	Prop. 2=>Low Interdependence <i>Indirect withholding strategy</i> MGT / COM, MED, ENV MED[12&15], ENV[6&17], COM	Prop. 5 => Firm (MGT) Power <i>Indirect usage strategy</i> MGT / EMP, SUP, MIS EMP[8&9], SUP[7], MIS[18]
	YES	Prop. 3=>Stakeholder Power <i>Direct withholding strategy</i> MGT / CUS, RGA RGA [16], CUS [19&20]	Prop. 4 => High Interdependence <i>Direct usage strategy</i> MGT / MJS, LTC MJS [13],LTC [10&11],SUP[14]

		IS THE STAKEHOLDER DEPENDENT ON THE FIRM?	
		NO	YES
Is the firm dependent on the stakeholder?	NO	Prop. 2=>Low Interdependence <i>Indirect withholding strategy</i> MGT / COM, MED, ENV MED[12&15], ENV[6&17], COM	Prop. 5 => Firm (MGT) Power <i>Indirect usage strategy</i> MGT / EMP, SUP, MIS EMP[8&9], SUP[7], MIS[18]
	YES	Prop. 3=>Stakeholder Power <i>Direct withholding strategy</i> MGT / CUS, RGA RGA [16], CUS [19&20]	Prop. 4 => High Interdependence <i>Direct usage strategy</i> MGT / MJS, LTC MJS [13],LTC [10&11],SUP[14]

LEGEND: MGT – management; ENV –environmentalist; RGA – relevant government agency; COM – competitors; MJS – major shareholders; MED – media; EMP – employees; LTC – long-term/major creditors; CUS – customers; MIS – minor shareholders; SUP – suppliers
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Each of the four quadrants in Exhibits 8.6a, 8.6b and 8.7 show the following information: (1) proposition number and interdependence/power relationship (in **bold**); (2) the influence strategy predicted (in **bold italics**); (3) the management/stakeholder general relationship shown in Exhibit 8.5 and discussed in 8.5.5 (in **BOLD CAP**); and (4) the stakeholder represented by the respondents and interviewee number in bracket []

classified according to management/stakeholder relationship given the case-specific event (in ***BOLD-ITALICS CAP***). The management/stakeholder general relationship is included to facilitate comparison and discussion on the effect of case-specific events.

8.5.6.1 Case-Specific Discussion: Case 1 – Malaysian Holdings Berhad (MHB)

In examining the management/stakeholder resource relationship for Case 1, Exhibit 8.6a shows that only the chemical supplier (represented by Interviewee 14) moves from the **management power** to **high interdependence** quadrant. This change is attributable to the specific event described in Case 1 as explained in the following sub-sections.

8.5.6.1.1 Prop. 4 - High Interdependence Quadrant

As shown in Exhibit 8.6a, the relationship between the firm management and that of the major shareholder [Interviewee 13], long-term creditors [Interviewees 10 & 11] and the chemical supplier [Interviewee 14] is one of **high interdependence** given that these parties are dependent on each other to achieve their own respective goals, i.e. company profitability and stability for the major shareholder and creditors and increased sales for the chemical supplier. **Proposition 4** predicts a **direct usage strategy**. The interviewee-specific responses shown in Table 8.10 (on p. 204) seem to confirm this prediction. Notice that none of the respondents representing the major shareholder [13], creditors [10 & 11] and the chemical SUP [14] would even consider strategy (c), ***say something & stop support***, and (d), ***stop support & influence others***, indicating that none of these stakeholders intend to withhold their support to the firm because it is in their best interest to protect the reputation of the company. Inherent with the **direct usage strategy** is the ability to ‘attach strings’ for the relationship to continue. This is evident in the comments offered by the respondents as follows:

[As] MJS, I'd choose (a) and that's it. If I'm not happy, I'll just fire the CEO so I won't even have to choose a second option because the company has no choice but to listen to me. [13]

...when we do the credit paper for the loan, there are a lot that we require. For example, there must be sufficient evidence and everything must be substantiated in black and white. [11]

As the major supplier of the chemical ... I would have done my homework.... I will be helping this company to deal with this environmental issue but I'm not going to withhold my support given that it's beneficial for both parties. [14]

8.5.6.1.2 Prop. 2 – Low Interdependence Quadrant

Since neither the firm (MHB) nor the secondary stakeholder groups (media, environmentalists and competitors) are dependent on each other, the relationship is that of **low interdependence** (see Exhibit 8.6a). As such, **Proposition 2** predicts that an

indirect withholding strategy will be used given that Case 1 features an event with a **negative** impact to the environment. Despite the differing preferred strategy¹⁶ of the media [Interviewees 12 & 15] and environmentalist [Interviewees 6 & 17] representatives as shown in Table 8.10, the analysis of responses confirms this prediction. Lacking power and a legitimate stake in MHB, the three stakeholder groups, media, environmentalists and competitors, can not threaten the management directly. What they can do, however, is to find some allies who have the ability to withhold support to the firm as one environmentalist representative suggests.

As environmentalist, I'd lobby with other government environmental protection agencies... [6].

The influence of the media to inform the public as shown in the following comments provides some evidence on its ability to use indirect withholding strategy.

This is why I said before that the environmental awareness is more or less on the increase because of the activities publicised by the media. The media plays a very important role because they are the one who inform the public on what is happening... [15]

The above view is shared by other respondents including the two top executives interviewed in Phase 2(a). Although, as noted earlier, there is no competitor representative interviewed, it is clear from the respondents' comments (as discussed in 8.4.1.6) that this event can be used by the competitors to destroy MHB's reputation thereby effectively making an indirect alliance with current or prospective customers that could or have the potential to move their patronage elsewhere.

8.5.6.1.3 Prop. 3 – Stakeholder Power Quadrant

As shown in Exhibit 8.6a, the relationship between the management and those of the relevant government officer [Interviewee 16] and major customers [Interviewees 19 & 20] is one of **stakeholder power** since MHB is dependent upon these stakeholder groups to continue its existence. **Proposition 3** predicts that if these stakeholders place high significance to the **negative** environmental event, then they will adopt **direct withholding strategy**. This is evident in Interviewees' 16 (government representative) and 20 (customer representative) responses who both choose strategy (c), **say something and stop support** (see Table 8.10) as their most preferred strategy and (a), **ignore & support** as the least favourite. Analysis of qualitative responses confirm that

¹⁶ This wide variation on preferred strategy is due to mixed views among the media and environmentalist representatives regarding MHB's reaction to the explicit statement (b and c) which, Interviewees 6, 12, 15 and 17, are intending to make regarding this environmental event. However, all of them agree that ignoring this event is either their last resort [12, 15, 6] or would not even consider it [17].

both the government and major customer representatives can choose to withhold their support to the firm if their concerns are not taken seriously as evident in these quotes:

I would prefer (c) as number 1 - I would make explicit statement informing the company to immediately stop using the chemical, in fact, I would issue a directive, not only a statement but a directive and make them take some remedial action. [16]

As a major customer, I would choose (c) as number1 because of my concern for others in my chain of operation, I'll bring my business elsewhere. [20]

As both Interviewees 16 and 20 put high significance on Case 1 event, it is clear from the above comments that they would not hesitate to **directly withhold** their support to MHB. On the other hand, Interviewee 19, who confesses to not being a good corporate citizen, chooses to ignore this event entirely as shown in the following comment:

I'm taking the stand that I am not a good corporate citizen which mean I'd choose (a) as 1st and (b) as 2nd... it's very unlikely that I will withhold my support to this company... [19]

8.5.6.1.4 Prop. 5 – Management Power Quadrant

Finally, since the employees, minor shareholders and the general suppliers (i.e. other suppliers apart from the chemical suppliers) depend on MHB to achieve their respective goals, i.e. job security (for employees), investment returns (for minor shareholders) and continued business dealings (for suppliers), it is conceivable that the relationship is one of **management power**. Under these circumstances, **Proposition 5** predicts that **indirect usage strategy** is likely to be adopted. As evident from Table 8.10, this prediction is confirmed by Interviewees 18 (minor shareholder representative), 8 & 9 (employee representatives) and 7 (general supplier representative) who all choose to continue firm support (either strategy a or b) as their first choice suggesting that none of these stakeholder groups would threaten the firm for not providing environmental disclosures. The following quotes confirm their dependence on the firm:

... I won't even consider encouraging the company to make environmental disclosure – they won't take notice of me as a minor shareholder anyway. [18]

People have family to support. We can not just resign... Even though you may not agree with what the company does, you have no choice but to continue to work for the company because of job security. I think that a lot of Malaysians are in that situation. They don't have this luxury. It's still survival – everyday bills come in and they have to be paid. [8]

The above comments provide evidence that these stakeholder groups possess no power to influence the firm directly. Without this ability, their only recourse is to make an alliance with other more powerful stakeholders such as the government in order to achieve their goal as predicted in the model. The quote below confirms this assertion.

In the business environment in Malaysia, if it's not required to disclose, most companies will not volunteer to disclose additional information particularly sensitive environmental issues. So if I feel very strongly about this, I'll have to lobby from the relevant government agencies to make this compulsory. [18]

8.5.6.2 Case-Specific Discussion: Case 2 – Shexxon Refining Berhad (SRB)

Recall (from Table 8.7) that the overall ARED ranking from the stakeholders' point of view shows that the preferred ARED for both Cases 1 and 2 are the same with ***defend*** and ***do nothing*** as the most and least favourite, respectively. Furthermore, an examination of Tables 8.9 and 8.10 reveal that there is not much change in stakeholder strategy preference between Cases 1 and 2¹⁷. If nothing else, a close scrutiny of the slight change in strategy preference from Table 8.10 affirms an even stronger management/stakeholder relationship (mostly in the same direction as in Case 1) given the immediate effect to human life brought about by the event described in Case 2. Hence, it is not surprising that both the quantitative and qualitative analyses of management/stakeholder resource relationships for Cases 1 and 2 divulge the same results. Exhibit 8.6b shows that all the stakeholder representatives analysed for Case 2 remain in the same quadrant as in Case 1.

8.5.6.2.1 Prop. 4 - High Interdependence Quadrant

As in Case 1, there is **high interdependence** between SRB's management and those of the major shareholder, long-term creditor and the major supplier representatives because of congruent goals as discussed earlier, hence **direct usage strategy** is expected. Note from Table 8.10 that Interviewees 13 (major shareholder), 10 & 11 (long-term creditors) and 14 (major supplier), despite a slight change in their preferred strategy, still choose strategy (b), ***say something & support***, as ranked 1 suggesting that none of them would threaten to stop supporting the firm for not providing disclosures. However, their ability to 'attach strings' for the relationship to continue, are clear in their comments:

I'm not likely to stop supporting this company because it's my company, I'm the major shareholder. I'll just have to make sure that they rectify the situation. [13]

If this is a one-off incident, I'm sure as a creditor, we have to support them because if we stop supporting them with a one-off event, very likely we won't get our money back. But we have to make sure that they have proper control over the situation... if this happened quite often then the ranking will be (c) first and then (d). [10]

I'm not likely to withdraw my support if I'm the major supplier. As a supplier of crude oil and being most likely to own part of the refinery, I will get the firm to rectify whatever is wrong. [14]

These quotes confirm the prediction in **Proposition 4** that **direct usage** strategy is likely to be used because of the **highly interdependent** relationship portrayed.

¹⁷ With the exception of Interviewees 7 (SUP) and 12 (MED), who both choose b as 1st in Case 1 and c as 1st in Case 2, all the participants' first preference remain either in the first two strategies (continue supporting the firm) or the last two choices (stop supporting the firm).

8.5.6.2.2 Prop. 2 – Low Interdependence Quadrant

As neither SRB nor the media, environmentalists and competitors depend on each other to realise their goals, there is **low interdependence** and thus **indirect withholding strategy** is predicted in **Proposition 2**, given the negative impact of Case 2 event. The analysis shows that the responses to Case 2 are very similar to Case 1. The only change is that one of the media representatives [Interviewee 12], as shown in Table 8.10, shifts her strategy preference to withhold her support of this company given the immediate impact of Case 2 event to human life. This change is more in line with the predicted **withholding strategy** through **indirect** means as elaborated in the following comment:

Now that there is immediate health hazard, I'm most likely to choose (c), to make explicit statement and stop supporting the company. And, it's also very likely that I'd make an attempt to influence other stakeholders. This is easily done through media coverage. [12]

8.5.6.2.3 Prop. 3 – Stakeholder Power Quadrant

Similar to Case 1, the relationship between SRB and those of the government and major customers is one of **stakeholder power** hence **direct withholding strategy** is expected as Case 2 event has a negative impact to human life and the environment. It is clear from Table 8.10 that neither the government [Interviewee 16] nor the major customer [20] representatives change their strategy preference in Cases 1 and 2. Even Interviewee 19, who takes the stand of not being socially responsible, chooses the same preferences in both Case 1 and 2. Hence it is reasonable to say that the analysis shown in Case 1 confirms the findings in Case 2. Once again, as both Interviewees 16 and 20 put high significance to Case 2 event, it is clear that they would not hesitate to adopt **direct withholding strategy** as confirmed in the following comment from the relevant government agency representative:

I will issue a directive, not just a statement, to carry out remedial action immediately and to provide reports on actions that have been taken... so that we can have a strategic action plan. If they don't abide by the directives, we'll stop supporting this company. That means, we might revoke their license to continue their operation or shut them down. [16]

8.5.6.2.4 Prop. 5 – Management Power Quadrant

Since the employees, minor shareholders and other suppliers (i.e. other suppliers apart from the oil supplier) depend more on SRB than vice versa implying **management power**, the model predicts that **indirect usage strategy** is likely to be adopted. Again as in Case 1, Table 8.10 shows that the most preferred strategy for both the minor shareholder [Interviewee 18] and employee representatives [Interviewees 8 & 9] remains the same in Case 2 suggesting that Case 1 analysis holds true in Case 2. There

is, however, one significant change revealed in the analysis. Interviewee 7, a supplier representative supplying insurance policy, believes that because of the seriousness of Case 2 event, her insurance company is not likely to close an eye as pointed out in the following quote:

Because of this event, this company is considered risky. So most likely, we'll stop insuring this company. Even if we decide to support, this company, we're not likely to just close the eye and ignore the issue. As the level of risk increase, the amount of premium will increase. So there will be an additional cost to this company. [8]

The above quote suggests that **indirect usage strategy** may come in the form of increased cost rather than direct alliance with other powerful stakeholder groups.

8.5.6.3 Case-Specific Discussion: Case 3 – Keluarga Banking Berhad (KBB)

Case 3 is entirely different to Cases 1 and 2 as the event described here has a positive connotation, i.e. promoting environmentally friendly practices. Thus, this case provides only 3 choices of strategy to rank, all of which are of positive nature, that is, to continue supporting KBB. Because of this, the dichotomous typology of usage/withholding strategy is not entirely suitable without a slight modification since none of the choices provide the option to withhold support. Given that the 3 choices portray different levels of support with (a), **ignore & support**, being the lowest and (c), **support & influence others**, being the highest level of support, it is considered appropriate to change **withholding** and use **promoting** instead. The idea is such that those stakeholders who are more in favour of sustainable and environmentally friendly practices are more likely to go beyond encouraging KBB's management to provide environmental disclosures (choice b, **encourage & support**) but will go to the extent of **promoting** this initiative to influence others (choice c). Exhibit 8.7 shows the analysis of interdependence and strategy used corresponding to Case 3.

8.5.6.3.1 Prop. 4 - High Interdependence Quadrant

There is **high interdependence** between the management of KBB and those of the major shareholder and long-term creditors (see Exhibit 8.7) because of mutual dependence to achieve profitability goals. Hence as in the first two cases, **direct usage strategy** is expected. Although it is clear from Table 8.10 that the major shareholder [Interviewee 13] and long-term creditor representatives [Interviewees 10 & 11] prefer to encourage KBB to provide disclosures (i.e. their most preferred strategy is b) mainly

because it is good for company image, their ability to ‘attach strings’ is again inherent particularly in this comment from the major shareholder representative:

I'll just invite the CEO one morning over coffee and ask him to explain what is happening. I'll encourage him to make disclosures – call a press conference, make posters and brochures; sponsor environmental campaigns– these are mainly exploiting mechanisms to enhance our public image. I can easily do that. [13]

This suggests that because both parties are highly interdependent, the major shareholders and creditors would happily leave the job of influencing others to KBB’s management since they have the ability to pull some strings in their relationship.

Exhibit 8.7: Case 3 Analysis of Stakeholder/Firm Interdependence & Strategy

		IS THE STAKEHOLDER DEPENDENT ON THE FIRM?	
		NO	YES
Is the firm dependent on the stakeholder?	NO	Prop. 2=>Low Interdependence Indirect promoting strategy MGT / COM, MED, ENV <i>ENV[6&17]</i>	Prop. 5 => Firm (MGT) Power Indirect usage strategy MGT / EMP, SUP, MIS <i>EMP[8&9],SUP[7,14],MIS[18]</i>
	YES	Prop. 3=>Stakeholder Power Direct promoting strategy MGT / CUS, RGA <i>RGA[16],CUS[19&20],MED[12&15]</i>	Prop. 4 => High Interdependence Direct usage strategy MGT / MJS, LTC <i>MJS[13], LTC[10&11]</i>

LEGEND: MGT – management; ENV –environmentalist; RGA – relevant government agency; COM – competitors; MJS – major shareholders; MED – media; EMP – employees; LTC – long-term creditors; CUS – customers; MIS – minor shareholders; SUP – suppliers

8.5.6.3.2 Prop. 2 – Low Interdependence Quadrant

Given that neither KBB’s management nor the environmentalists rely on each other to fulfil their goals, the relationship is one of **low interdependence**. However, because of KBB’s proactive initiative to adopt sustainable practices, it is in both parties’ best interest to promote this event. As such, the slightly modified model predicts that the environmentalist groups will adopt **indirect promoting strategy**. This is evident from the results shown in Table 8.10. The two environmentalist representatives’ most preferred strategy is (c), **to support and influence others**, in an attempt to influence other stakeholders to follow KBB’s example as revealed in the following direct quotes:

Since they are doing something good, it would be good to let other stakeholders know so they can set a good example. [17]
An environmentalist will be most comfortable lending a hand to a reputable company that does not just talk but takes the necessary action... I'm happy to discuss this initiative with other stakeholders and write an article which can be sent to the media. [6]

Interviewee 6’s desire to promote KBB’s initiative through discussions with other stakeholders including the mobilisation of the media is characteristic of an **indirect** attempt to help **promote** the event featured in Case 3.

8.5.6.3.3 Prop. 3 – Stakeholder Power Quadrant

The analysis reveals that the relationship between the management and those of the relevant government agency, customers and the media is one of **stakeholder power** as shown in Exhibit 8.7. For the same reason discussed in the first two cases, the government and customers remain in the same quadrant. The media, however, move from **low interdependence** to **stakeholder power** quadrant mainly because KBB is now perceived to rely more on the media to get wide coverage for this event in order to satisfy the ‘strings attached’ by the major shareholders as discussed previously. Although in the modified model, the predicted strategy is one of **direct promoting**, it is important to highlight the fact that, given the lower overall significance placed by the respondents in Case 3, not all the stakeholder groups may exercise their prerogative to promote this event. In other words, there is not as much pressure or incentive for the government, media and customers to adopt **direct promoting strategy** as there is to use **direct withholding strategy** (as in the first two cases). Hence, it all boils down to the personal convictions of the stakeholder representatives. It is interesting to see from Table 8.10 that the government [Interviewee 16], the media [Interviewees 12 & 15] and one of the customer [20] representatives’ most preferred strategy is choice (c), **support & influence others**. In fact, the only respondent who choose (a), **ignore & support**, as the most preferred strategy is the customer representative [Interviewee 19] who consistently takes the stand of a ‘bad’ corporate citizen. It is clear, however, that even the socially responsible customer is not willing to forego his own interest in the name of sustainability as evident in this comment:

If the customers hear that this is a socially responsible bank, they’ll support it as long as their benefits are not being eroded significantly. They might not want to sacrifice their benefits though. If this expenditure of RM 20 million is out of the bank’s pocket and it’s not affecting their interest rates or their long-term investments, they will continue supporting this bank. [20]

Likewise, although the media representatives choose to promote this event, they both agree that it is highly likely that the initiative to publicise this event has to come from the firm as confirmed in this comment by the major shareholder representative:

Yes, I will ask the management to pay the newspaper, underline the word “pay”, to publicise this as a major event with pictures. [13]

Despite this, perhaps the best display of **direct promoting strategy** is the one portrayed by the relevant government representative in this direct quote:

Because this event is more of a private sector initiative, we'll look at this positively. What we, as relevant government agencies, will do is to establish good networking so that we can look after them as one of our partners – as a good example for other companies to follow. [16]

8.5.6.3.4 Prop. 5 – Management Power Quadrant

As with earlier discussions, since the employees, minor shareholders and suppliers depend more on KBB's management to fulfil their goal, the relationship is one of **management power**. Hence, *Proposition 5* predicts that **indirect usage strategy** is likely to be adopted but only if the stakeholders place high significance to the environmental event as suggested in the main proposition (*Proposition 1*). Despite the varied strategy preference among the employees [Interviewees 8 & 9], suppliers [Interviewees 7 & 14] and minor shareholder [Interviewee 18] representatives as shown in Table 8.10, it is clear that none of them choose (c), **support & influence others**, as their number one choice suggesting that either they do not put high significance on this event or they do not care whether it is publicised or not. This is confirmed in the following comments by the employee representatives:

If this is a good thing, as in this case, it doesn't matter to us whether they disclose or not. But if there is any risk on health or any environmental/ social concerns, then we would like to know. [8]
I personally think that if the company does something good, they should do it willingly. It's not necessary to let other people know so I don't care whether they publicise it or not. [9]

As such, it is highly unlikely that anyone of them will use the **indirect usage strategy**. A close examination of the responses to open-ended questions confirms that none of the respondents in the **management power** quadrant intend to make alliances with the other stakeholders. This is hardly surprising particularly since earlier findings from Phase 2 reveal that economic concerns are likely to supersede environmental concerns magnified by the fact that environmental awareness in Malaysia, albeit increasing, is still very low.

Phase 3-B adopts a modified version of Frooman's (1999) typology of resource relationships and influence strategies to understand from the point of view of the stakeholders, how they go about seeking what they want from the management. The findings discussed in this section, even though based on a sample, confirm for this research the usefulness and suitability of the stakeholder framework developed thereby extending the application of stakeholder theory from the stakeholders' point of view. This is a major contribution of this research given the scarcity of literature addressing the question 'how will the stakeholders try to get what they want from the firm?' which, according to Frooman (1999, p. 194), "has been left largely unattended".

8.6 SUMMARY

Chapter 8 provides the biggest bulk of the discussion of findings in this research. This chapter starts with a discussion of how the three phases of the study are interrelated. Phases 1 and 2 findings reveal that the top management's decision to adopt and disclose environmentally-friendly practices is very much related to the increasing demand from various stakeholders despite the fact that firm profitability and economic performance are still given higher priority than environmental concerns particularly in a developing country like Malaysia.

Phase 3, while seeking further explanations regarding environmental disclosure motivations, also intends to explore and further develop stakeholder theory particularly in its application to corporate environmental reporting practices. To achieve this aim, a stakeholder framework that accommodates a two-way analysis both from the point of view of the management and the stakeholders is developed utilising a combination of Freeman (1983, 1984), Savage et al (1991) and Frooman (1999) models. Phase 3-A (from the management's point of view) results confirm that the stakeholder's potential for cooperation and potential for threat determines the type of Annual Report Environmental Disclosure (ARED) approach the management is likely to provide. Likewise the results in Phase 3-B (from the stakeholders' point of view) reveal that the level of interdependence between the firm management and stakeholders together with the perceived significance of events has some bearing on whether or not the stakeholders will demand environmental disclosures from the management.

Overall, the findings confirm the predictions in the stakeholder framework suggesting its suitability and usefulness, albeit subject to the limitations discussed in section 9.7. Most importantly, this research extends the application of stakeholder theory by developing a framework that offers a distinct way of synthesising the managerial (descriptive and instrumental) and normative (ethical/moral) aspects of stakeholder theory enabling a balanced mix of quantitative and qualitative analysis.

The next chapter provides the summary and conclusions from this investigation as well as the limitations of the study and some suggestions for further research.

CHAPTER 9

SUMMARY AND CONCLUSION

9.1 INTRODUCTION

The purpose of this chapter is to provide a brief summary and to report on the conclusions arrived at in relation to the main findings from the three phases of this research. The chapter starts with a brief review of the motivations and objectives of the study. This is followed by the summary and conclusions reached from each of the three phases of this study. The overall conclusion from the theoretical and practical perspective is then presented followed by a brief discussion on the limitations and caveats to the interpretation of the research findings. The chapter concludes with some recommendations for future research in line with the findings and conclusions offered.

9.2 BRIEF REVIEW OF RESEARCH MOTIVATIONS AND OBJECTIVES

The continuing pursuit for economic progress and the desire to increase living standards, particularly in the Western world, come at a price to the environment. The hard-learned lessons from the effects of global warming, ozone depletion and acid rain, just to name a few, prompt the increasing demand from the corporate world to act in a socially responsible manner thereby creating the need for companies to provide environmental disclosures. The central thesis in this research is that voluntary environmental disclosures are used by corporate entities to manage their stakeholders. Stakeholder theory offers a useful framework given its basic premise that the firm's success is dependent upon the successful management of the relationship that a firm has with its stakeholders (Freeman 1983). The country of Malaysia is chosen as the focus for this study because it is a country that is aiming to become a developed economy by the year 2020 (Vision 2020). The lesson learned from the Western experience hints that with rapid economic growth comes the price of environmental degradation as a downside to industrialisation. As such, Malaysia offers a unique setting on how corporate entities manage their possibly competing stakeholder demands through the provision of environmental disclosures. The three-fold objective of the study corresponds to the three phases of the investigation as shown in Table 9.1. The sources of data and the main method of analysis used are also provided in the table.

Table 9.1: Research Objectives and the Three Phases of the Study

Research Objectives	Phase of the Study	Sources of Data and Main Method of Analysis Used
1. To identify the determinants of Annual Report Environmental Disclosures (AREDs) of Malaysian public companies using the stakeholder model.	Phase 1 (Quantitative)	<ul style="list-style-type: none"> ■ Annual Reports from Kuala Lumpur Stock Exchange (KLSE) Main Board listed companies ■ Content analysis and Ordinary Least Squares (OLS) Regression Analysis
2. To investigate the motives for providing AREDs and to understand the Malaysian business psyche	Phase 2(a) (Qualitative)	<ul style="list-style-type: none"> ■ Semi-structured interviews with top executives of companies included in Phase 1 ■ Question by Question Matrix and Conceptual Matrix analysis of interviews
	Phase 2(b) (Qualitative)	<ul style="list-style-type: none"> ■ Unstructured interviews and website/media reports perusal ■ ‘Read & recall’ analysis of interviews triangulated with website/media reports perused
3. To apply and refine stakeholder theory by developing a framework that can be used to analyse environmental disclosures prepared for and/or required by its stakeholders in the Malaysian context.	Phase 3 A&B (Quantitative and Qualitative)	<ul style="list-style-type: none"> ■ Structured interviews with various representatives of stakeholder groups identified from Phase 2 ■ Weighting/Averaging and Ranking ■ Question by Question Matrix and Conceptual Matrix analysis of interviews

The summary of the findings together with the conclusions drawn from each of the three phases of this study are presented next.

9.3 PHASE 1: SUMMARY AND CONCLUSION

Phase 1 uses stakeholder theory by operationalising Ullmann’s (1985) three-dimensional stakeholder model consisting of *stakeholder power*, *strategic posture* and *economic performance* by replicating similar quantitative studies conducted in developed countries like the US (see Roberts 1992) and Australia (see Chan 1996; Chan & Kent 2003; Elijido-Ten 2005). The main contribution of this phase lies in its potential to give insights on the extent to which Western models can be applied to analyse a developing economy like Malaysia.

Table 9.2 shows the hypotheses that are supported and rejected. The findings show that the *strategic posture* adopted by the firm’s top management is indeed a main determinant of the quality and quantity of Annual Report Environmental Disclosures (AREDs). Of the three stakeholders represented in the *stakeholder power*, only one is found to have significant relationship with both the quality and quantity of AREDs, that is, the government’s power (GP) to sanction companies particularly in the

environmentally-sensitive industry. The *economic performance* of the firm is not found to be significantly related to AREDs.

Table 9.2: Phase 1 Results Summary

Hypotheses Tested:	Dependent Variable	Supported/ Rejected?
<i>H1a: Firms with high level of shareholder concentration are less likely to provide more and better quality environmental disclosures than firms with low level of shareholder concentration.</i>	Shareholder Power (SP)	Rejected
<i>H1b: Firms with high leverage (i.e. debt/equity ratio) are more likely to provide more and better quality environmental disclosures than less leveraged firms.</i>	Creditor Power (CP)	Rejected
<i>H1c: Firms that belong to environmentally sensitive industries are more likely to provide more and better quality environmental disclosures than those in non-sensitive industries.</i>	Government Power (GP)	Supported
<i>*H2a: Firms with environmental committees and/or environmental concern in their vision/mission statement are more likely to provide more and better quality environmental disclosures than those firms without such committees or concern.</i>	Environmental Concern (EC)	Supported
<i>*H2b: Firms that are ISO 14001 certified are more likely to provide more and better quality environmental disclosures than firms that do not have such certification.</i>	ISO 14001 certification (ISO)	Supported (but weaker than EC)
<i>H3: Firms with higher AROA are more likely to provide more and better quality environmental disclosure than firms with lower AROA.</i>	Ave. ROA (AROA)	Rejected
Legend: H1 - Stakeholder Power; H2 - Strategic Posture; H3 - Economic Performance <i>*Note that H2a and H2b are alternative dependent variables.</i>		

At first glance, the above results can easily be misinterpreted to suggest that the stakeholder model is not effective in the Malaysian setting. However, the insignificant relationships, for example, between the independent variables of shareholder power (SP) and creditor power (CP) (both measures of *stakeholder power*) against the AREDs, provide an impetus to ask further questions in order to understand the motives behind environmental reporting.

Therefore, the usefulness of the findings in Phase 1 is not only based on the established significant relationships but also on the opportunity to probe deeper into the possible explanations behind the insignificant relationships discovered.

Furthermore, it is also resolved that although it is useful to adopt a model used in developed countries, it is important to ensure that its interpretation considers the specific context of the country being examined. This can only be achieved through further probing. Thus, the questions raised from the findings in this phase form the basis for Phase 2 which is discussed next.

9.4 PHASE 2: SUMMARY AND CONCLUSION

Phase 2 has a dual aim: (a) to seek explanations on the motives behind AREDs through direct interviews with the top management of publicly listed companies included in Phase 1; and (b) to explore how stakeholder theory can be further refined and applied in the Malaysian context by attempting to have a general understanding of the Malaysian business environment. **Phase 2(a)** achieves the first aim through semi-structured interviews with top executives of companies analysed from Phase 1. The main findings, summarised in Exhibit 6.2 (see 6.4.3.), provide explanations to the earlier findings in Phase 1. For example, the reason why there is no significant relationship between Malaysian shareholders/creditors and the quality and quantity of AREDs is because there is no evidence to prove that these stakeholders demand such disclosures. The analysis also confirms that while top management believes that AREDs can indirectly enhance firm value, its effect is not immediate given the perceived low level of environmental awareness among the Malaysian public. Other stakeholders identified as interested with environmental matters and reporting include customers, employees, environmentalists and the media. **Phase 2(b)** achieves the second aim of exploring how to refine stakeholder theory through various means including qualitative interviews and media/website perusal. Apart from confirming previous findings from Phase 1 and 2(a), the analysis in Phase 2(b) leads to the identification of the relevant environmental issues/events and the salient stakeholders used in the design of structured interviews for Phase 3.

The conclusion drawn from Phase 2 findings is that, top managements' conviction to adopt and disclose environmentally-friendly practices is very much related to the increasing demand from various stakeholders, not all of which are represented in the quantitative model used in Phase 1. Recall that only three stakeholder groups, namely the shareholders, creditors and the government, are represented in the model. This is a common limitation of quantitative empirical studies.

Hence, a stakeholder model that accommodates the analysis of both quantitative and qualitative information is envisaged to be more effective in analysing an abstract concept such as the management's decision to provide environmental disclosures. This is what Phase 3 attempts to achieve and is discussed next.

9.5 PHASE 3: SUMMARY AND CONCLUSION

Phase 3 is different from the first two phases in that whilst Phases 1 and 2 attempt to describe and understand the ‘real-world’ environmental reporting and business practices of Malaysian firms, Phase 3 uses fictitious vignettes based on real-life Malaysian corporate scenarios on which various representatives of stakeholder groups are asked to comment. Although Phase 3 seeks further explanations on ARED motivations, its main purpose is to extend the application of stakeholder theory to corporate environmental reporting particularly in the context of a developing country that aims to achieve a developed status in less than two decades. To achieve this aim, a stakeholder framework that accommodates a two-way analysis both from the management’s point of view and the stakeholders’ point of view is developed. Hence Phase 3 has two parts, Phase 3-A focuses on the management’s point of view while Phase 3-B considers the stakeholders’ point of view.

9.5.1. Phase 3-A: From the Management’s Point of View

Phase 3-A results confirm that the stakeholder’s potential to either cooperate and/or threaten the firm’s survival influence the type of disclosures the management is likely to provide. This potential for cooperation/threat is, however, dependent on the perceived seriousness of the environmental event and whether or not the event is published by the media. The more immediate the threat of the event is to human life/environment, the higher the potential threat exercised by the stakeholder groups, which then determines the type of ARED approach (*do nothing, exploit, defend* and *influence the ‘rules of the game’*) most preferred by the firm’s management. Table 9.3 summarises the propositions based on Freeman (1984) and Savage et al’s (1991) models and the results from Phase 3-A analysis. Likewise, Table 9.4 shows the summary of preferred ARED approach for each of the three fictitious ‘cases’.

In Case 1, ‘not published’ scenario, it is very likely that the only stakeholder groups that have knowledge of this event are the major shareholder and the chemical supplier. Despite the perceived high potential for cooperation and threat of the major shareholder (see Table 9.3), their profit motive is likely to supersede, thus, it is highly unlikely that they would demand any ARED regarding this event from the management. Furthermore, without any knowledge about this event, it is highly unlikely for the other

stakeholder groups to have high threat potential, hence there will be no demand for ARED, even from the adversarial stakeholder groups. Thus the prediction of **Proposition 5**, i.e. to *do nothing* is likely to happen in the ‘not published’ scenario. The results shown in Table 9.4 confirm this prediction with *do nothing* as the most preferred ARED while *defend* is the least favourite.

Table 9.3: Phase 3-A: Propositions & Stakeholder Classification According to Cooperation and Threat Potential for Cases 1, 2 & 3

Fictitious Events (‘Cases’)	RESULTS			
	Case 1: Use of new chemical that destroys ecological balance	Case 2: Faulty equipment caused toxic air emission	Case 3: Expenditure on new technology to promote sustainability	
PROPOSITIONS:	Not Published	Published	Not Published/ Published	Not Published/ Published
Prop. 2 -If the salient stakeholders have relatively high potential for cooperation (PC) and low potential for threat (PT), the management is likely to provide disclosures to <i>exploit</i> the situation.	RGA, EMP & SUP	RGA, EMP & SUP	MJS, LTC & SUP	ENV, MJS, RGA, EMP, SUP, CUS & LTC
Prop. 3 - If the salient stakeholders have relatively low PC and high PT, the management is likely to provide disclosures that will <i>defend</i> their position.		CUS, MED, ENV, &COM	CUS, EMP, MED & ENV	MJS & LTC
Prop. 4 - If the salient stakeholders have relatively high PC and high PT, the management is likely to provide disclosures that will <i>influence the rules of the game</i> .	MJS	MJS & LTC	RGA	MED
Prop. 5 - If the salient stakeholders have relatively low PC and low PT, the management is likely to <i>do nothing</i> , ie not provide any environmental disclosures.	CUS,LTC MIS,COM MED & ENV	MIS	MIS & COM	MIS & COM
Stakeholder Legend: MJS – major shareholders; CUS – customers; EMP – employees; LTC – long-term creditors; RGA – relevant government agency; SUP – suppliers; MIS – minor shareholders; COM – competitors; MED – media; ENV –environmentalist				

Table 9.4: Phase 3-A: Summary of Preferred ARED Approach for Cases 1, 2 & 3

Propo- sition No.	ARED Approach	RESULTS			
		Case 1 – ARED Ranking		Case 2 - ARED Ranking	Case 3- ARED Ranking
		Not Published	Published		
2	Exploit	2	2	2	1
3	Defend	4	1	1	3
4	Influence the ‘rules’	3	3	3	2
5	Do nothing	1	4	4	4
Legend for ARED Ranking: 1 – most preferred; 4 – least preferred					

The situation is, however, reversed once the event is ‘published’. The analysis shows that the ‘published’ scenario creates the perception of increased potential for threat among overseas customers and the adversarial stakeholders (media, environmentalists

and competitors). As such, the prediction in **Proposition 3** (i.e. that top management is likely to *defend* its position in an attempt to gain the support of these stakeholders) is likely to happen in the ‘published’ scenario. Once again, the results in Table 9.4 confirm that the most preferred ARED strategy is *defend* and *do nothing* is now the least favourite.

Given the immediate threat to human life featured in Case 2, the overall consensus is such that this event cannot be hidden from the public, thus the management’s perception of the stakeholders’ potential for cooperation/threat and ARED preference are the same regardless of whether the event is ‘published’ or ‘not published’. Similar to Case 1 ‘published’ scenario, the high potential for threat from the adversarial stakeholders (environmentalists and media) magnified by the added pressure from both the customers and employees make the prediction in **Proposition 3** most likely to occur, that is, to adopt the ARED strategy of *defending* the firm’s position. Again, the results shown in Table 9.4 confirm that the most preferred ARED strategy is to *defend* and *do nothing* is the least preferred.

As Case 3 features an event that promotes a sustainable and environmentally friendly practice, there is a consensus that the management is likely to adopt the same ARED approach regardless of whether this event is ‘published’ or ‘not published’. Likewise, given the event’s positive impact, most of the stakeholders including the environmentalists, major shareholders, relevant government agency, employees, suppliers and customers, as shown in Table 9.3, are expected to have high potential for cooperation and low potential for threat. Hence, the prediction in **Proposition 2** is likely to happen, that is, the management is likely to provide AREDs that will *exploit* this event. Once again, the results in Table 9.4 confirm this prediction with the most preferred ARED approach being *exploit* and, as expected, *do nothing* is the least favourite. Not surprisingly, the second most preferred ARED strategy is to *influence* the ‘rules of the game’ since it is believed that there is a need to influence and improve the environmental awareness of the general public by adopting the *influence* strategy.

The conclusion reached from this phase clearly indicates that the significance of the event to the salient stakeholders is an important factor in determining the ARED approach adopted by the management. This is because the event’s significance has a direct impact on the stakeholder’s level of cooperation and threat potential which could

either make or break the company. Although this empirical evidence, in itself, is a major contribution of this research given the scarcity of studies in this area, it also highlights the potential for companies to use ‘greenwashing’¹ disclosure techniques particularly in the face of a voluntary environmental reporting regime such as the Malaysian context.

9.5.2 Phase 3-B: From Stakeholders’ Point of View

Table 9.5 shows the propositions based on Frooman’s (1999) model and the stakeholders analysed according to their level of interdependence with the firm.

Table 9.5: Phase 3-B: Propositions & Stakeholder [Interviewee] Classification According to Level of Interdependence

CASES 1 & 2 PROPOSITIONS:	Case 1 Results	Case 2 Results	CASE 3 PROPOSITIONS:	Case 3 Results
Prop. 2- If the stakeholder/s place high significance to the negative environmental event and their relationship with the firm is that of ‘ <i>low interdependence</i> ’, the stakeholder/s will adopt <i>indirect/withholding strategy</i> .	MED [12, 15], ENV [6&17] COM	MED [12, 15], ENV [6&17] COM	Prop. 2- If the stakeholder/s place high significance to the positive environmental event and their relationship with the firm is that of ‘ <i>low interdependence</i> ’, the stakeholder/s will adopt <i>indirect/promoting strategy</i> .	ENV [6&17]
Prop. 3- If the stakeholder/s place high significance to the negative environmental event and their relationship with the firm is that of ‘ <i>stakeholder power</i> ’, the stakeholder/s will adopt <i>direct/withholding strategy</i> .	RGA [16], CUS [19&20]	RGA [16], CUS [19&20]	Prop. 3- If the stakeholder/s place high significance to the positive environmental event and their relationship with the firm is that of ‘ <i>stakeholder power</i> ’, the stakeholder/s will adopt <i>direct/promoting strategy</i> .	RGA [16], CUS [19&20], MED [12, 15]
Prop. 4- If the stakeholder/s place high significance to the environmental issue/event and their relationship with the firm is that of ‘ <i>high interdependence</i> ’, the stakeholder/s will adopt <i>direct usage strategy</i> .	MJS [13], LTC [10,11], SUP [14]	MJS [13], LTC [10,11], SUP [14]	Prop. 4- If the stakeholder/s place high significance to the environmental issue/event and their relationship with the firm is that of ‘ <i>high interdependence</i> ’, the stakeholder/s will adopt <i>direct usage strategy</i> .	MJS [13], LTC [10,11]
Prop. 5- If the stakeholder/s place high significance to the environmental issue/event and their relationship with the firm is that of ‘ <i>firm power</i> ’, the stakeholder/s will adopt <i>indirect usage strategy</i> .	EMP [8&9], SUP[7], MIS [18]	EMP [8&9], SUP[7], MIS [18]	Prop. 5- If the stakeholder/s place high significance to the environmental issue/event and their relationship with the firm is that of ‘ <i>firm power</i> ’, the stakeholder/s will adopt <i>indirect usage strategy</i> .	EMP [8&9], SUP[7 &14], MIS [18]
Legend: MJS – major shareholders; CUS – customers; EMP – employees; LTC – long-term/major creditors; RGA – relevant government agency; SUP – suppliers; MIS – minor shareholders; COM – competitors; MED – media; ENV –environmentalist <i>Note: The numbers in brackets [] represents Interviewee numbers.</i>				

The results in Phase 3-B reveal that the level of interdependence between the firm management and the stakeholder groups as well as the perceived significance of events

¹ **Greenwash** is a term that environmentalists and other critics give to the activity of giving a positive public image to putatively environmentally unsound practices (‘Greenwash’ in Wikipedia, cited 30 June 2006).

have some bearing on the type of influence strategies used by the stakeholders to demand environmental disclosures. Note that for Case 3, it is considered appropriate to slightly modify the model by replacing the '*withholding strategy*' with '*promoting strategy*' since it is highly unlikely that the stakeholders will threaten to 'withhold' their support to the firm given the positive impact of the featured event. On the contrary, 'promoting' is very likely if the stakeholder place high significance to the event described in the case.

The analysis confirms the predictions emanating from Frooman's (1999) typology. For example, for Cases 1 and 2 (see Table 9.5), the analysis shows that the media, environmentalists and competitors have low interdependence with the firm's management, hence **Proposition 2** suggests that these stakeholder groups will adopt *indirect withholding strategy* but only if these stakeholders place high significance to the environmental event. The findings concur to this suggestion and to the rest of the stakeholders as shown in Table 9.5. A detailed discussion of Phase 3-B results are provided in section 8.5.

The findings confirm the usefulness of the model developed thereby extending the application of stakeholder theory from the stakeholders' point of view. This is another major contribution of this research given the scarcity of literature addressing the question 'how will the stakeholders try to get what they want from the firm?'

The conclusion in relation to these findings indicate that although the model is useful to predict the influence strategies each stakeholder group is likely to take, its effectiveness is tempered by the level of significance placed on the environmental event by the stakeholders. Because of the negative impact to the environment and human life in Cases 1 and 2, the stakeholders put higher significance level to these events in comparison to the event in Case 3. Given the considerably low level of environmental awareness in Malaysia, it is clear from the analysis that proactive efforts such as the one featured in Case 3 is not given high priority by many of the stakeholder groups.

This conclusion has major implications on the practical significance of this research which is discussed in the succeeding section together with the overall conclusion and contribution of this study.

9.6 OVERALL CONCLUSION AND CONTRIBUTION OF THIS STUDY

From a **theoretical perspective**, the results presented lead to the conclusion that voluntary environmental disclosures are used by corporate entities to manage their possibly competing stakeholder demands. This is in accordance with the basic premise of stakeholder theory. This is also in line with the conclusion reached in Cormier et al's (2004) study of multinational companies' environmental disclosures from Canada, France and Germany. They summarise their findings as follows:

As we attempt to understand the actions taken by corporate managers ...we know that managers react to stakeholder demands. Over time such reactions lead to an evolutionary process that results from managers adapting and changing as they try to understand what stakeholders think is important as well as deciding which stakeholders are most important in a given setting. This evolution may indeed explain why studies' findings have been contradictory and confusing at times (Cormier et al 2004, p. 160).

This suggests that stakeholder theory has much to offer in order to understand management/stakeholder behaviour and corporate environmental disclosures. Prior to this investigation, stakeholder theory was rarely used to understand the motivations behind environmental disclosures particularly from the context of a rapidly developing economy such as Malaysia. Hence, this study offers an empirical contribution to the body of knowledge.

Likewise, this investigation contributes further to the body of knowledge by gathering data both from an *ex post* and *ex ante* perspective. Much of previous research provides evidence from an *ex post* perspective thereby excluding the possibility of uncovering the motivations behind management's decision to either disclose or not disclose environmental information.

Most importantly, this research extends the application of stakeholder theory by developing a framework that offers a distinct way of synthesising the managerial (descriptive and instrumental) and normative (ethical/moral) aspects of stakeholder theory enabling a balanced mix of quantitative and qualitative analysis.

From a **practical perspective**, the most pivotal conclusion drawn from this investigation is that Annual Report Environmental Disclosures (AREDs) are still very limited among Malaysian companies as both the *ex post* and *ex ante* evidences show that there is insufficient incentive for the management to provide this type of information. There are a number of reasons for this limited motivation. Firstly,

environmental awareness in Malaysia, although slowly increasing, is still very low (see 7.4.3 and 7.5.1.1). Not surprisingly, because of this low awareness, Malaysian stakeholders are neither likely to demand environmental disclosures nor show much interest with whether or not the firm adopts environmentally-friendly practices.

Secondly, the government's tight control over company-specific environmental information (see 7.4.1.3) and the Malaysian media (see 8.4.1.6) is seen to inhibit public awareness and consequently, there is less pressure for companies to provide disclosures. Although it is clear from the *ex ante* evidence that the severity of environmental events helps to increase environmental concern, the government's tight control diminishes the media and the environmental groups' ability to mobilise public opinion.

Finally, many of the stakeholders represented in this study rely on the relevant government agencies to regulate the company's environmental activities and disclosures (see for example the respondents' comments in 8.4.4.3). Thus, without sufficient government regulations mandating environmental protection and disclosures, Malaysian companies are more likely to put maximisation of shareholder value ahead of environmental concerns.

However, as in all research, the summary and conclusions must be interpreted with caution subject to the limitations and constraints which are discussed next.

9.7 LIMITATIONS OF THE STUDY

Apart from the limitations on the quantitative analysis in Phase 1 (discussed in 6.3.7), it is important to acknowledge some methodological and theoretical limitations in order to interpret the findings in the right context.

On the **methodological front**, a common constraint for in-depth qualitative studies, such as Phases 2 and 3 of this research, is the issue of generalisability given the limited number of respondents interviewed: five in Phase 2 and fifteen in Phase 3. Given that the aim in the last two phases of this investigation is one of theory development (rather than theory testing, see 5.5.4), it is important to remember that the results presented can only be generalised within similar contexts, that is, analytical generalisability. Hence, statistical generalisability is not claimed.

Other caveats to the *ex ante* results from Phase 3 pertain to: (1) the choice of the environmental events featured in each fictitious ‘cases’; and (2) the researcher-supplied ARED approaches and influence strategies from which the interviewees have to choose. Although it is acknowledged that this information may have influenced the respondents’ preferences, it is vital to recognise that these choices are made based on a thorough examination of both the relevant international literature and local (Malaysian) setting.

Furthermore, while the use of role playing to understand and explain management/stakeholder behaviour is deemed appropriate in the framework developed (see Freeman 1984), this could also pose as a constraint. For example, given that the same person initially takes the role of the management and then later plays the part of a specific stakeholder of the firm, it can be expected that their own personal biases could influence the responses provided. Despite this inherent limitation, the decision to choose respondents from a wide array of senior positions (based on their past or current involvement in relevant areas, e.g. management, government, media, environmentalist groups, etc.) is envisaged to provide a wide variety of views making the analysis more meaningful.

On the **theoretical front**, it is acknowledged that while stakeholder theory offers a useful framework, other social theories such as political economy, legitimacy, signaling and accountability theory, just to name a few, can be used to examine Malaysian ARED motivations.

Signalling theory, for example, suggests that firms use disclosures to signal to the market their ‘true’ performance. In this context, stakeholder theory suggests a similar reaction to what is suggested in signaling theory in relation to managements’ use of ARED. In fact, it is clear that stakeholder theory overlaps with other social theories and their boundaries are often undetected. It is no wonder that numerous researchers promote the importance of seeing theories as overlapping perspectives rather than competing theories (Deegan 2002; Gray, Kouhy & Lavers 1995b; O’Donovan 2002).

Having said this, the extension of the application of stakeholder theory, one of the main aims of this study, opens new research opportunities which are discussed next in the final section of this chapter.

9.8 FUTURE RESEARCH DIRECTIONS

A number of possible future research directions are offered in this section in relation to the findings presented from this investigation. First, although the Annual Report is used in this study as the main way of communicating environmental disclosures to various stakeholders, the findings suggest that other ways of communication such as media reports, company websites and newsletters are some of the preferred communication media that could offer a more timely disclosure. Hence, this is an area where the stakeholder framework developed in this study can be replicated.

Second, longitudinal studies can be conducted to see the effect on the demand for environmental disclosures now that the Malaysian public has access to relevant environmental information such as the Air Pollution Index and the list of companies prosecuted for environmentally-related offences from the DOE website (see 7.5.1.6).

Third, while this study focuses on the Malaysian context, there is an opportunity to replicate this study from the context of other countries or conduct a comparative country study using the stakeholder framework developed. Such an analysis would provide insights as to whether disclosure preferences may vary between different legal, political and cultural settings.

Fourth, this study does not attempt to directly match environmental disclosure and environmental performance. As shown in the findings from Phase 2(b) of this investigation, the relevant Malaysian government agencies' confidentiality policy of keeping environmental information away from public access (see 7.4.1.3) makes matching the firms' actual environmental performance with AREDs impossible. However, given that recent visits to Malaysian DOE website shows that companies prosecuted for environmentally-related offences are now made available for public access (see 7.5.1.6), it is now possible to extend this research and include some environmental performance measure in the analysis.

Finally, given that environmental disclosure is a subset of social disclosure, it is possible to extend the application of the stakeholder framework used in this study to the full scope of social responsibility disclosures. This could provide further insights on the possibility of trade-offs between the different aspects of corporate social responsibility.

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APPENDICES

A to J

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APPENDIX A
SEMI-STRUCTURED QUESTIONNAIRE
(Interview Duration: Between 30 to 45 minutes)

QUESTIONS FOR DISCUSSION:

1. Stakeholder Power and Motivations behind Environmental Disclosures:

a) The Environmental Resources Management Malaysia (ERMM, 2002) commissioned by the Association of Chartered Certified Accountants (ACCA) conducted a study on “The State of Corporate Environmental Reporting in Malaysia.” Your company has been identified as one of the only forty Main Board KLSE listed companies that provide environmental disclosures in the Annual Report (AR). Given that there is very limited legal requirement in Malaysia to disclose environmental information in the company’s annual report (AR)¹, the question therefore is why do it?

b) Do you believe that environmental concerns are perceived as important by your company’s major stakeholders and the Malaysian public?

2. Strategic Posture and Environmental Disclosures:

a) Does your firm have current or in the process of getting any environmentally-related certification, e.g. ISO 14000 series?

b) The ERMM (2002) Report suggests (on page 48) that there appears to be no correlation between ISO 14001 certified companies and the amount and quality of information provided in AR. It is, however, worth noting that the report also specifically states (on page 47) that “only 3 of 13 reporting companies certified to ISO 14001 included an environmental policy statement within their AR. Note that ISO 14001 certification requires companies to make their environmental policy available to the public. Based on your extensive business experience, what comment can you offer regarding these findings?

c) Do you see the AR as an effective way of communicating to your company stakeholders the company’s environmental performance? In other words, do you feel that the company’s environmental performance is well reflected in the AR environmental disclosure?

3. Economic Value and Environmental Disclosures:

a) Do you think providing environmental disclosure enhances firm value either directly or indirectly?

4. Possible Way Forward and Other Concerns:

a) The ERMM report also noted on p. 46 that “very few companies reported environmental financial information and candid acknowledgement of negative information.” It was further noted that “none of the reports were verified by a third party to provide assurance that the information provided was true and fair.” Do you see this as a possible way forward for environmental reporting in Malaysia, in general and perhaps your company, in particular?

b) Is there anything else you would like to add, i.e. other concerns re: environmental matters?

¹ Except MASB 1 par 10 (additional disclosure on environmental disclosures to assist users), MASB 20 appendix 4 (disclosure on types of liability including contingent liabilities) and for listed companies, LR item 16 of Appendix 9C requiring disclosure of “particulars of all sanctions and/or penalties imposed on the listed issuer and its subsidiaries, directors or management by the relevant regulatory bodies => this makes it compulsory for any public listed company to disclose in their annual report (AR) environment-related litigation or penalties.

APPENDIX B
STRUCTURED QUESTIONNAIRE
DURATION: Between 1 to 1 ½ hours

PART I: GENERAL INFORMATION

INTERVIEW NUMBER: ____ **NAME:** _____

What is/was your current/previous position? _____

Name of the Company: _____

Nature of the Company: _____

How long have you been working (have worked) in this position? _____

RELEVANCE OF STAKEHOLDERS:

Please rank the following stakeholders in the order of their importance to a **company's survival** with 1 (most important) to 10 or 11 (least important).

Stakeholder Type	RANK
Major shareholders => Owns > 5% of shareholding / Top 20	
Minor shareholders => Owns < 5% of shareholding / non-Top 20	
Major / Long-term Creditors	
Relevant government agency	
Employees	
Customers	
Suppliers	
Media	
Special Interest Group, i.e. Environmentalist	
Competitors	
Others (please indicate if any)	

In your current/previous job or situation, please indicate which type of stakeholder would you most likely be classified: _____

PART II: CASE-SPECIFIC INFORMATION

Instruction: Please read the following three fictitious cases. THEN, for each case, please answer the questions in Part A taking the role of the senior officer of the company responsible for the decision to include (or not include) environmental disclosure in the Annual Report. Again, for each case, please answer the questions in Part B taking the role of the stakeholder you are most likely to be classified with.

Case 1: Malaysian Holdings Berhad (Plantation and Logging)

Malaysian Holdings Berhad (MHB) is a large publicly listed company dealing with plantation and logging operations. It has operations in several parts of Peninsular Malaysia and in Sarawak, however its head office is located in Kuala Lumpur. The company has been operating profitably for more than 25 years but because of the Asian crisis in 1998, its profitability has been severely affected. Furthermore, with the increasing campaign for zero-burning policy (MHB decided to adopt zero-burning policy since its major competitors publicised that they have already adopted zero-burning policy), the operational costs to control pest infestation in its logging and plantation operations increased significantly. Since then, its research and development (R&D) team has been investigating the use of a new chemical that could significantly cut the cost of operating activities. Research has indicated that the **use of this new chemical** pose *no immediate threat to human health*. However, the R&D team found that the chemical *destroys other plant and animal species which could affect the ecological balance*. Furthermore, they *could not rule out the possibility of any long-term effect to human health* if continuous exposure to this chemical occurs. The top management decided to use this new chemical at the beginning of the current reporting period.

Case 2: Shexxon Refinery Berhad (Oil Refinery)

Shexxon Refinery Berhad is an international oil company located in Port Dickson. Its core business is the extraction and refining of crude oil. It also sells petroleum products through its own chain of service station outlets. Recently, a **significant amount of toxic fume was accidentally emitted to the air**. A nearby primary school was directly hit causing many students to experience breathing difficulty and vomiting. More than 20 *students became seriously ill and were hospitalised*. As soon as the school notified Shexxon of this incident, the company immediately conducted an investigation. Shexxon discovered that a faulty refining equipment caused the unusual emission of toxic waste on the air and as such the equipment was immediately shut down. The Environmental Protection Agency came to investigate whether the level of air emission is still hazardous for human health.

Case 3: Keluarga Banking Berhad (Banking Industry)

Keluarga Banking Berhad (KBB) is a large publicly listed company operating profitably since 1975. The company has been an active supporter of socially responsible initiatives including sustainable development. Its corporate mission and vision specifically includes environmental and social concern and this is reflected in the corporate environmental policies which are regularly revised in line with the social audits conducted annually. Recently, KBB spent **RMS 20 million for a state of the art technology** which will enable the following:

- *reduce energy consumption by 25%;*
- *make paper and other stationery recycling easy;*
- *reduce wastes and rubbish collection by 20%;*
- *promote paperless transactions thereby reducing the use of paper.*

PART II - A: Assuming that you are the senior officer in the company who is responsible for the decision to include (or not include) environmental disclosure in your **company's annual report**, please answer the questions below:

1. How significant do you believe the environmental issues/events, as described in the case are, to the following stakeholders of the company? Please indicate the significance level (i.e. 5=Not Significant; 4 = Moderately Significant; 3=Significant; 2=Very Significant; 1= Extremely Significant) for each stakeholder for each case.

Stakeholder Type	Case 1	Case 2	Case 3
Major shareholders => Owns >5% of shareholding/Top 20			
Minor shareholders => Owns <5% of shareholding/non-Top 20			
Major / Long-term Creditors			
Relevant government agency			
Employees			
Customers			
Suppliers			
Media			
Special Interest Group, i.e. Environmentalist			
Competitors			
Others (please indicate if any)			

Can you elaborate as to the reasons for your choice?

2A) Assume that the event as described in the case has **NOT been publicised** yet. In deciding what to include (or not include) in the current period's annual report, place a number in each box (NP column) ranking your choice of **Disclosure Approach** from 1 (most likely) to 4 (least likely).

2B) Assume that the event as described in the case has **NOW been well publicised**. In deciding what to include (or not include) in the current period's annual report, place a number in each box (P column) ranking your choice **Disclosure Approach** from 1 (most likely) to 4 (least likely).

Disclosure Approach	Case 1		Disclosure Approach	Case 2		Disclosure Approach	Case 3	
	Rank			Rank			Rank	
	NP	P		NP	P		NP	P
a) <i>Do nothing, i.e</i> provide no environmental disclosure.			a) <i>Do nothing, i.e</i> provide no environmental disclosure.			a) <i>Do nothing, i.e</i> provide no environmental disclosure.		
b) <i>Exploit, e.g.</i> make some environmental disclosure concentrating on past environmental achievements of the company.			b) <i>Exploit, e.g.</i> make some environmental disclosure concentrating on past environmental achievements of the company.			b) <i>Exploit, e.g.</i> make disclosures on the RMS\$20million technology highlighting the efficiencies it brings and incorporate the past and current environmental and social achievements of the company.		
c) <i>Defend, e.g.</i> disclose the use of the new chemical and its potential effect to the environment BUT highlight the negative economic impact of not changing to the new technology.			c) <i>Defend, e.g.</i> disclose the accidental emission of toxic fume BUT point out that remedial measures were taken ASAP & that precautionary measures have been adopted to prevent this from happening again.			c) <i>Defend, e.g.</i> disclose that the \$20 million expenditure is more than compensated by the savings brought about by the 25% reduction on energy consumption, etc. and that this action is in line with the company's mission of promoting sustainability.		
d) <i>Influence the 'rules of the games', e.g.</i> make some disclosure to explain that the use of this chemical is a necessary step to ensure the economic stability of this large company which is essential if Malaysia is to achieve its 2020 Vision, i.e. to be a developed country by 2020.			d) <i>Influence the 'rules of the games'</i> . Make some disclosure to explain that oil refineries serve an important role in society and that environmental accidents like this will occur from time to time and the public has to be aware and prepared for this.			d) <i>Influence the 'rules of the games'</i> . Highlight the need to be proactive in promoting social and environmental initiatives and that expenditures of this magnitude is the only way to maintain the company's competitive edge in this highly competitive industry.		

Why did you rank these in the order you did?

3) Will you be likely to use other ways of communication to provide environmental disclosure regarding this event? Why or why not? If yes, please indicate what other ways of communication will you use to provide environmental disclosure regarding this event?

PART II -B: Please answer the following questions assuming the role of the stakeholder you are most likely to be classified as indicated on page 1 of this questionnaire.

1) How significant do you believe this environmental event is to you in deciding whether to provide your support to the company? Please indicate the significance level i.e. 5=Not Significant; 4 = Moderately Significant; 3=Significant; 2=Very Significant; 1= Extremely Significant) for each case.

Stakeholder Type	Case 1	Case 2	Case 3

Can you elaborate as to the reason for your choice?

2) If you are aware of the environmental event identified in this case, what kind of **annual report disclosure** approach do you expect the company should adopt for you to continue providing support to this company? Rank the following **Disclosure Approach** in the order of 1 (most preferred approach) to 4 (least preferred).

	Case 1		Case 2		Case 3
Disclosure Approach	Rank	Disclosure Approach	Rank	Disclosure Approach	Rank
a) <i>Do nothing, i.e.</i> provide no environmental disclosure.		a) <i>Do nothing, i.e.</i> provide no environmental disclosure.		a) <i>Do nothing, i.e.</i> provide no environmental disclosure.	
b) <i>Exploit, e.g.</i> make some environmental disclosure concentrating on past environmental achievements of the company.		b) <i>Exploit, e.g.</i> make some environmental disclosure concentrating on past environmental achievements of the company.		b) <i>Exploit, e.g.</i> make disclosures on the RM\$20million technology highlighting the efficiencies it brings and incorporate the past and current environmental and social achievements of the company.	
c) <i>Defend, e.g.</i> disclose the use of the new chemical and its potential effect to the environment BUT highlight the negative economic impact of not changing to the new technology.		c) <i>Defend, e.g.</i> disclose the accidental emission of toxic fume BUT point out that remedial measures were taken ASAP & that precautionary measures have been adopted to prevent this from happening again.		c) <i>Defend, e.g.</i> disclose that the \$20 million expenditure is more than compensated by the savings brought about by the 25% reduction on energy consumption, etc. and that this action is in line with the company's mission of promoting sustainability.	
d) <i>Influence the 'rules of the games', e.g.</i> make some disclosure to explain that the use of this chemical is a necessary step to ensure the economic stability of this large company which is essential if Malaysia is to achieve its 2020 Vision, i.e. to be a developed country by 2020.		d) <i>Influence the 'rules of the games'.</i> Make some disclosure to explain that oil refineries serve an important role in society and that environmental accidents like this will occur from time to time and the public has to be aware and prepared for this.		d) <i>Influence the 'rules of the games'.</i> Highlight the need to be proactive in promoting social and environmental initiatives and that expenditures of this magnitude is the only way to maintain the company's competitive edge in this highly competitive industry.	

Why did you rank these in the order you did?

3) Will you be expecting the company to use other ways of communication to provide environmental disclosures regarding this event? If yes, please indicate and explain why?

4) If you are aware of the environmental event identified in this case and the company did not make any disclosure, rank the following **Possible Steps to be Taken** in the order of 1 (most likely to take) to 4 (least likely to take).

	Case 1	Case 2		Case 3
Possible Steps to be Taken	Rank	Rank	Possible Steps to be Taken	Rank
a) Ignore the environmental issue and continue to support the company			a) Ignore the environmental issue and continue to support the company	
b) Make explicit statement informing the company of your view regarding this environmental event but continue supporting the company			b) Encourage the company to make environmental disclosure and continue supporting the company	
c) Make explicit statement informing the company of your view regarding this environmental event and stop supporting the company			c) Continue supporting the company and make an attempt to influence other stakeholders to do the same	
d) Stop supporting the company and make an attempt to influence other stakeholders. (Indicate possible way to do this): e.g. through word of mouth or campaigning or lobbying against the company				

Please elaborate on the reason for your choice.

Appendix C:
LIST OF DISCLOSING COMPANIES
INCLUDED IN THIS STUDY
(As Identified by the ERMM REPORT, 2002)

	COMPANY NAME	COMPANY CODE
1	Aluminium Company Malaysia Berhad	ALCOM
2	Cement Industries of Malaysia Berhad	CIMA
3	Chemical Company of Malaysia Berhad	CCM
4	DRB-Hicom Berhad	DRB HICOM
5	Fraser and Neave Holdings Berhad	F&N
6	Golden Hope Plantations Berhad	GHOPE
7	Golden Pharos Berhad	GPHAROS
8	Guinness Anchor Berhad	GUINNESS
9	Guthrie Ropel Berhad	GROPEL
10	Highlands and Lowlands Berhad	H/L LAND
11	IOI Corporation Berhad	IOI CORP
12	IJM Corporation Berhad	IJM CORP
13	Intan Utilities Berhad	INTAN UTIL
14	Kim Hin Industry Berhad	KIM HIN
15	Kulim (Malaysia) Berhad	KULIM
16	Kumpulan Guthrie Berhad	GUTHRIE
17	Lingui Developments Berhad	LINGUI
18	Malayan Cement Berhad	MCEMENT
19	Malaysia International Shipping Corporation Berhad	MISC
20	Matsushita Electric Company (Malaysia) Berhad	M'SHITA
21	Negara Properties (Malaysia) Berhad	NEGARA
22	Perusahaan Otomobil Nasional Berhad	PROTON
23	Petronas Dagangan Berhad	PDB/PETDAG
24	Petronas Gas Berhad	PGAS/PETGAS
25	Powertek Berhad	POWERTK
26	Projek Penyelenggaraan Lebuhraya Berhad	PROPEL
27	Public Bank Berhad	PBB/PBBANK
28	Public Finance Berhad	PFB/PBFIN
29	Puncak Niaga Holdings Berhad	PUNCAK
30	Road Builders (M) Holdings Berhad	ROADBLD
31	Shell Refining Company (Federation of Malaysia) Berhad	SHELL
32	Star Publications (Malaysia) Berhad	STAR
33	Ta Ann Holdings Berhad	TAANN
34	Tenaga Nasional Berhad	TENAGA
35	TH Group Berhad	THGROUP
36	Tractors Malaysia Holdings Berhad	TRACTOR
37	Tradewinds (Malaysia) Berhad	T'WINDS/TWS
38	UMW Holdings Berhad	UMW
39	United Engineers (Malaysia) Berhad (<i>delisted in 2001</i>)	UE(M)
40	Worldwide Holdings Berhad	WHB/WLDWIDE

APPENDIX D: COMPANY-SPECIFIC SCORING SAMPLE

ITEMS IN THE ENVIRONMENTAL DISCLOSURE INDEX (EDI)	FS/N [#]		CSTAT ^{##}		OR/O ^{###}	
	2000	2001	2000	2001	2000	2001
<i>ECONOMIC FACTORS</i>						
1.Past/current expenditures: environmental equipment, facilities and remediation					1	1
2.Past/current operating costs: environmental equipment, facilities and remediation					2	2
3.Future expenditures: environmental equipment, facilities and remediation					3	3
4.Future operating costs: environmental equipment, facilities and remediation						
5.Accrued liabilities/ Deferred tax provision relating to environmental expenditures						
6.Restructuring, shutdown and/or plant closing due to environmental concerns						
<i>LITIGATION</i>						
7.Present litigation						
8.Potential litigation						
9.Estimated cost / Contingent liability						
<i>POLLUTION ABATEMENT</i>						
10.Pollution abatement					2	2
11.Emission and discharge information					1	1
12.Compliance status of facilities					1	1
<i>OTHER ENVIRONMENTALLY-RELATED INFORMATION</i>						
13.Discussion of regulations and requirements						
14.Policies or concern for the environment					2	2
15.Conservation of natural resources					3	3
16.Awards for environmental protection						1
17.Recycling					3	2
18.Department/committee/offices for pollution control					1	1
19.Others: e.g.Environmentally-friendly biological control					2	2
TOTAL QUALITY: 2000 => 21; 2001 => 21	0	0	0	0	21	21
TOTAL QUANTITY (NO. OF SENTENCES): 2000 => 59; 2001 => 72	0	0	0	0	59	72
<i>ECONOMIC FACTORS</i>						
1.Past/current expenditures: environmental equipment, facilities and remediation					2	1
2.Past/current operating costs: environmental equipment, facilities and remediation					1	1
3.Future expenditures: environmental equipment, facilities and remediation						
4.Future operating costs: environmental equipment, facilities and remediation						
5.Accrued liabilities/ Deferred tax provision relating to environmental expenditures						
6.Restructuring, shutdown and/or plant closing due to environmental concerns						
<i>LITIGATION</i>						
7.Present litigation						
8.Potential litigation						
9.Estimated cost / Contingent liability						
<i>POLLUTION ABATEMENT</i>						
10.Pollution abatement					2	2
11.Emission and discharge information					3	3
12.Compliance status of facilities			1	1	3	3
<i>OTHER ENVIRONMENTALLY-RELATED INFORMATION</i>						
13.Discussion of regulations and requirements					1	2
14.Policies or concern for the environment			1	2	2	2
15.Conservation of natural resources						
16.Awards for environmental protection					1	1
17.Recycling					3	3
18.Department/committee/offices for pollution control						
TOTAL QUALITY: 2000 => 19; 2001 => 22	0	0	2	4	17	18
TOTAL QUANTITY (NO. OF SENTENCES): 2000 => 84; 2001 => 76	0	0	8	10	76	66
# FS/N = Financial Statements and Notes to Accounts ## CSTAT = Chairman's Statement ### OR/O = Operations Review and Others						



APPENDIX E SWINBURNE UNIVERSITY OF TECHNOLOGY

FORM OF DISCLOSURE

PROJECT TITLE

DETERMINANTS OF ENVIRONMENTAL DISCLOSURES IN MALAYSIAN COMPANIES' ANNUAL REPORTS: AN APPLICATION OF THE STAKEHOLDER THEORY

INVESTIGATORS

Evangeline Eljido-Ten and Louise Kloot

EXPLANATION OF PROJECT

This research project is part of the Doctor of Philosophy study undertaken in the Faculty of Business and Enterprise at Swinburne University, Hawthorn Campus. The aim of this study is to apply the stakeholder theory to gain an understanding of how Malaysian and Australian companies may show similarities and differences in the way they manage their various stakeholders through the use of environmental disclosures. Another important contribution of this study is the use of the stakeholder theory from the point of view of the stakeholders themselves. This study attempts to understand how various stakeholders perceive the significance of environmental issues and how they, in turn, may influence the companies (to whom their support is provided) depending on the intensity of environmental events. A study focussing on Malaysian environmental reporting practices could potentially provide insights on the possible benefits derived from these environmental disclosures which could be useful to both the users and preparers of the annual reports as well as the regulators.

In order to collect relevant data for this study, you are invited to participate in an interview session where you will be provided with vignettes describing fictitious environmental events/issues and you will be asked questions pertaining to these events. Part A of the questionnaire asks questions from the point of view of the person responsible for the provision of the environmental disclosures while Part B asks questions from the point of view of the various stakeholders. The interview is expected to last for about an hour. Please be assured that you are completely free to withdraw your consent or to discontinue your participation from this study at any time. Should you have further questions or concern regarding this project, you can contact the main researchers as follows:

Evangeline Eljido-Ten and Louise Kloot
Faculty of Business and Enterprise, Swinburne University
PO Box 218, John Street, Hawthorn, VIC, Australia 3122
Phone: +61 3 9214 4471; Fax +61 3 9819 2117

PRIVACY PROTECTION

The confidentiality of your information is assured and your details will not be made available to any person other than the researchers. The electronic copy of the data collected will be password-protected while the hard copy will be stored in a safely secured and locked filing cabinet at Swinburne University for five years in accordance with Swinburne University Code of Research Practice.

Only the principal investigators will have knowledge of your name which will only be used for record identification purposes. Neither your name nor your institutional affiliation will be identified in the final write-up of the case studies that will be included in the PhD thesis and possibly published in leading Accounting journals.

COMPLAINT PROCEDURE

If you have any question/s that the main researchers have been unable to satisfy or a complaint about the way you have been treated during the study, you may contact:

Dr. Michela Betta
Chair, FBE, Human Research Ethics Committee
Swinburne University of Technology
P O Box 218
HAWTHORN. VIC. 3122
Phone: (03) 9214 5339

INFORMED CONSENT

PROJECT TITLE

DETERMINANTS OF ENVIRONMENTAL DISCLOSURES IN MALAYSIAN COMPANIES' ANNUAL REPORTS: AN APPLICATION OF THE STAKEHOLDER THEORY

AGREEMENT

The previous page, "Form of Disclosure," is yours to keep as an information statement. It would be very much appreciated if you can sign the "Informed Consent" page and return it back to the researcher as soon as possible. Thank you for your willingness to participate in this study.

I,

(Participant's name and address)

have read and understood the information contained in the "Form of Disclosure".

Any questions I have asked have been answered to my satisfaction.

I agree to participate in this activity, realising that I may withdraw at any time.

I agree that the interview / activity may be recorded on audio tape as data on the condition that no part of it is included in any presentation or public display.

I agree that research data collected for the study may be published or provided to other researchers on the condition that anonymity is preserved and that I cannot be identified.

NAME OF PARTICIPANT:

SIGNATURE.....DATE.....

CURRENT POSITION / COMPANY NAME:

NAME/S OF PRINCIPAL INVESTIGATOR/S.....

SIGNATURE.....DATE.....

SIGNATURE.....DATE.....

APPENDIX F: Letter to Malaysian Companies CEO/CFO

January 27, 2003

Dear Sir or Madam:

RE: A STUDY ON THE DETERMINANTS OF CORPORATE ENVIRONMENTAL REPORTING IN MALAYSIA

Most studies on social and environmental reporting have been focused on the Western world. A study conducted in 2002 by Environmental Resources Management Malaysia (ERMM) entitled “The State of Corporate Environmental Reporting in Malaysia” is indeed a very timely exception. In a survey of company annual reports and stand-alone environmental reports of KLSE main board listed companies, ERMM found an increase in the number of companies engaged in environmental reporting from 1999 (25 companies) to 2001 (40 companies). As one of the 40 companies singled out by the ERMM study to have provided environmental reports in 2001, I am seeking your participation in this worthy, non-commercial, university-funded research project.

This study aims to extend the ERMM findings by investigating the determinants of corporate environmental reporting in Malaysia. In general, I intend to identify the motivations behind environmental reporting and in particular, I seek to understand your view of the importance of disseminating your environmental initiatives. It is hoped that the findings in this research will provide useful insights from the perspective of an emerging economy like Malaysia.

Your invaluable help is needed for this study to be successful. Hence, I would really appreciate it if you can send me a copy of your annual reports and/or stand-alone environmental reports (if any) for the years 1999, 2000, 2001 and 2002 (if already available) as soon as possible. I would also appreciate it very much if you can give me an indication of your willingness to participate in an interview by completing the attached form and returning it together with the company reports. I intend to conduct the interviews from mid 2003 onwards.

Should you have any query regarding this study, please do not hesitate to contact me. My contact details are shown below. Thank you very much for your participation in this study.

Yours sincerely,

Evangeline Elijido Ten, CA(NZ), MBA
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11 Salisbury Road, Ipswich
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Telephone (direct): +61 7 3381 1031
Email: e.elijido-ten@business.uq.edu.au

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Telephone (direct): +61 7 3381 1031
Email: e.eljido-ten@business.uq.edu.au

Dear Evangeline,

Attached, please find the following (please tick):

<input type="checkbox"/> 1999 Annual Report	<input type="checkbox"/> 1999 Stand-Alone Environmental Report
<input type="checkbox"/> 2000 Annual Report	<input type="checkbox"/> 2000 Stand-Alone Environmental Report
<input type="checkbox"/> 2001 Annual Report	<input type="checkbox"/> 2001 Stand-Alone Environmental Report
<input type="checkbox"/> 2002 Annual Report	<input type="checkbox"/> 2002 Stand-Alone Environmental Report

Regarding the interview (please tick):

I am willing to participate through face-to-face interviews
 I am willing to be interviewed by phone
 I am not available but another officer/employee can be interviewed

(Please kindly provide name and contact details:)

I respectfully decline to be interviewed.

Yours truly,

Appendix G: OLS Results for Quality and Quantity of Disclosure Excluding Companies in the Financial Sector

INDEPENDENT VARIABLES	QUALITY OF ENVIRONMENTAL DISCLOSURE (QLENDIS)			QUANTITY OF ENVIRONMENTAL DISCLOSURE (QTENDIS)		
	<i>Coefficients</i>	<i>t Stat</i>	<i>P-value</i>	<i>Coefficients</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	0.8624	0.0841	0.9332	-16.9539	-0.4708	0.6393
Shareholder Power (SP)	-0.0156	-0.4235	0.6733	-0.0621	-0.4787	0.6337
Creditor Power (CP)	0.0047	0.6448	0.5212	0.0332	1.2948	0.1999
Government Power (GP)	2.8047	1.9503	0.0553	10.4918	2.0769	0.0417
Environmental Concern (EC)*	6.0544	4.6101	0.0000	19.2198	4.1661	0.0001
Average Return on Assets (AROA)	-0.1050	-0.8523	0.3971	0.0804	0.1858	0.8531
Log of Size (LSIZ)	0.1894	0.1568	0.8759	1.6954	0.3995	0.6908
Years since incorporation (AGE)	0.0406	0.7986	0.4273	0.1514	0.8474	0.3998

Regression Statistics	QLENDIS	QTENDIS
R Square	0.3182	0.2914
Adjusted R Square	0.2470	0.2174
<i>Significance F</i>	0.0004	0.0012
Observations	75	75

**Note: Since it is determined that Environmental Concern (EC) is a better measure of strategic posture, it is decided to use only EC to test the sensitivity of the results when the companies in the finance sector are excluded in the analysis.*

**Appendix H: Example of a ‘Question-by-Question Matrix’ and ‘Memoing’
for Phase 2(a) Semi-Structure Interviews**

MEMOING	Interview No. 1	Interview No. 2	MEMOING
<p>TRANSPARENCY</p> <p>BALANCING PROFITABILITY WITH SUSTAINABILITY</p> <p>IMAGE BUILDING</p> <p>LOWER COST OF CAPITAL</p> <p>ENHANCED CONSUMER CONFIDENCE</p> <p>INDIRECT BENEFIT</p> <p>INCREASE EMPLOYEE CONFIDENCE IN THE COMPANY</p>	<p>[For the first part, we’ll talk about motivations behind environmental disclosures. We know that KGB has won the most outstanding annual report since 1998 and recently the environmental reporting award. Yet there is very limited requirement in Malaysia as far as reporting environmental information is concerned particularly in the company’s annual report, so why do it? Does it enhance firm value?] <i>I think the firm belief is the concept of transparency. Because we subscribe to transparency. Among the things that we adhere to is the concept of people, planet and profit. Of course, people, we have to explain to our people that is our most important resource in our company. Planet is how we maintain a sustainable environment and how we deal with it. Of course, we have to make profit in order to continue to move forward. And therefore, if we feel that these 3 are very important item in the process of existence of our group, therefore we need to report that and to show what are the programs that we have done that entails the, what we call, the effort in the company. Does that mean the value of the firm will be enhanced? Yes and no but I think in the long-run, there is plan. Whatever [our company] does, [we] will be very concerned about the image they have in terms of people, planet and profit. And that is very significant. And people may not realise ... if we talk to the bank and if they want to give us a loan and if they thought that we comply with all the 3 requirements, then it’s likely that we will have lower interest rates. And that give some value to the firm. Second, I think is that if you produce your goods and because you have been very transparent, then there will be less, what we call, effort by other people to continue to look at your quality and so forth. And that save a lot of cost in terms of the products that we are giving, in terms of the networking with the people that we are dealing with. And also less hassle in terms of how we deal with the public. So I think overall, even though it is not, what we call, a direct benefit, the indirect benefit and the total benefit to the group will be enormous and it can sustain all the previous time then you get an advantage that is worth more than the value of the asset.</i></p> <p>[So that means it enhances the company’s public image as well as, to a certain extent, even though the benefits are not directly quantifiable, you are saying that it helps reduce the cost of ...] <i>Yeah, yeah of doing business and therefore, it gives [our] staff the confidence that the Group are doing the right thing and therefore we will be able to deal in a very professional way.</i></p>	<p>[The Environmental Resources Management of Malaysia (ERMM, 2002) commissioned by the Association of Chartered Certified Accountants (ACCA), conducted a study on “The State of Corporate Environmental Reporting in Malaysia.” Ta Ann Holdings Bhd has been identified by the ERMM report as one of the 40 main-board listed companies that provide environmental disclosures in their Annual Report (AR). As there is very limited legal requirement here in Malaysia to make such disclosures, the question therefore is why do it? Do you think it enhances firm value either directly or indirectly?] <i>I think this disclosure for a public company is very important. We like to be transparent to all our shareholders. We want them to understand us more. And for environmental things, you know that [our company] is a resource-based industry. So we are very concerned about this environmental issue especially now that worldwide, these greenies, you know ... NGOs are talking about to maintain the beauty of the nature so as a responsible corporate [citizen], we have to look after this environmental issue. Especially this ... our product users, they are the public in Europe or in Japan, they want to know whether this timber come from where ... how it came from. Is it going to chop down all the trees and ah... maybe we will shut the whole timber industry in the future. So we like to tell them what we are doing. We are really concerned about environmental ... we like to disclose everything to the public. So that’s why it is very essential to have this disclosure in the AR.</i></p> <p>[Do you reckon that it’s good for profitability or in a sense it enhances stock market value?] <i>We can not interpret it directly like that. This environmental thing is the awareness of the surrounding. So if we environmentally aware, then we will find that we are more friendly to more people. Therefore profits will be more acceptable to more people. It means that we have a better position with the market.</i></p> <p>[So it’s more indirect rather than direct. Ok. And do you believe that environmental concerns are perceived as important by the major stakeholders?] <i>Of course. And we have our major stakeholders represented in the Board. So it’s a Board decision and it’s our company’s decision so we are going to that direction. So it is more or less representing for the major shareholders.</i></p>	<p>TRANSPARENCY</p> <p>INCREASE IN ENVIRONMENTAL CONCERN</p> <p>DEMAND FROM OVERSEAS CUSTOMERS</p> <p>NATURE OF INDUSTRY</p> <p>NOT DIRECTLY GOOD FOR PROFIT BUT IMPROVES MARKET POSITION – IMAGE BLDG</p> <p>MAJOR SHAREHOLDERS REPRESENTED IN BOARD</p>

**Appendix I: Example of a ‘Question-by-Question Matrix’ and ‘Memoing’
for Phase 3 Structured Interviews**

**PART 1 – RELEVANCE OF STAKEHOLDERS RANKING
in the order of importance to *company’s survival* (1-most important; 10-least important)**

Inter- view No.	Relevant Position /	Stakeholder Represented /Case No.	Major Shareholder (MjS)	Minor Shareholder (MnS)	Major Creditors (MC)	Relevant Government Agency (RGC)	Employees (Emp)	Customers (Cus)	Suppliers (Sup)	Media (Med)	Environ- mentalists (Env)	Competitors (Com)
6	Director – NGO	Environmentalist	1	5.5	8	4	10	9	2	3	7	5.5
	Reason for ranking		Major shareholders have their money have their money in this company and are likely to have control over the management.									
7	Insurance Co. Manager	Supplier	3	6	4	2	5	1	8	7	10	9
	Reason for ranking		No business can survive without the patronage of the customers so I rank them as 1.									
8	Finance & Admin Director /	Employee	1	5.5	4	3	5.5	2	8	7	9	10
	Reason for ranking		Major shareholders will be the major decision maker so ranked 1; minor shareholders would depend on whether the company is listed and if they are have a lot of minor shareholders and they can be grouped into quite a significant amount ... but still they are not the decision maker, the major shareholder will be the decision maker. Then customers will be 2 nd . In some industries, relevant government agency will be quite critical like timber (as in Case 1) because timber concession is controlled by the government so for environmentally sensitive industries like timber, the relevant government agency will be ranked 3. Long-term creditors will be 4 th . Then employees 5 th , the media will be 6 th , 7 th will be suppliers, 8 th will be environmentalists and 9 th will be competitors – the competitors will be last because if the company can eliminate competitors then it’s better for the company. The minor shareholders can be ranked together with the employees. I do think that sometimes minor shareholders as like the employees, they play a role so around 5 th ranked as well.									
9	Mrktg. Lecturer	Employee	1.5	1.5	6	8	4	5	3	9	10	7
	Reason for ranking		Major and minor shareholders will be both 1 st because of their capital contribution.									
10	Acct/Bank Ofcr	Creditor	3	7	5	8	2	1	4	10	9	6
	Reason for ranking		I’ve ranked customers as first for company survival because the company cannot survive without them. And most of the time, we need them more than they need us.									
11	Bank Branch Mgr	Creditor	1	10	2	8	3	4	5	7	9	6
	Reason for ranking		Major shareholders are most significant especially if one or few control the company as a whole. In my ranking above, it’s assumed that MnS do not constitute a significant portion of shareholding. Many companies depend on MC for source of finance, hence if they retract their funds, it will affect company’s survival.									
12	Business Editor	Media	3	5	6	7	1	2	4	9	8	10
	Reason for ranking		It’s the employees who provide the main service/support to the company. However, I’d say if the company is involved in any environmentally sensitive activities, the media will certainly play a much more important role. That would depend on case-to-case basis. So I ranked media as 9 th , that is assuming that the company is engaged in business that are not likely to be the target of media attention, so it’s normal business practices.									

**Appendix J: Example of a ‘Conceptual Matrix’ and ‘Pattern-Matching’ for Phase 3 Part 1
Stakeholder Cooperation/Threat Potential (Stakeholders’ Significance to Company’s Survival)**

Stakeholders Identified	<p align="center">REASONS BEHIND RANKING PREFERENCES</p> <p align="center">KEY: <i>italics: direct quotations</i>; CAPITALS: RESEARCHER MEMO, NOTES AND PATTERNS</p> <p>Stakeholder ranking in the order of importance to company’s survival (1-10 =>most to least important)</p>	<p align="center">PATTERN MATCHING</p>
Major SH	<p>(Ranked 1) <i>Major shareholders have their money in this company and are likely to have control over the management.</i> [6]</p> <p>(Ranked 1) <i>Major shareholders will be the major decision maker so ranked 1 ... the major shareholder will be the decision maker.</i> [8]</p> <p>(Ranked 1) <i>Major and minor shareholders will be both 1st because of their capital contribution.</i> [9]</p> <p>(Ranked 1) <i>Major shareholders are most significant especially if one or few control the company as a whole. In my ranking above, it’s assumed that MnS do not constitute a significant portion of shareholding.</i>[11]</p> <p>(Ranked 1) <i>Just to give you some general information about Malaysian Companies, I’d say about 85% of the listed companies are 51% or more owned; another 5% of companies have pervasive government shareholding, I mean the government of Malaysia. So in other words about 90% (85 + 5) will have a very strong pervasive shareholder control, either by the government or controlled by families. [So minor shareholders are not really that powerful in this sense.] Yes, the truly public company - as you know it in Australia - I would say would only make up not more than 5%. In Malaysia, we have about 900 listed companies. [That’s both main board listed and second board listed companies combined, right? Because in 2000-2002, there are only around 500 main board listed companies in Malaysia.] Yes, so for the main-board listed companies only, the truly public companies will not exceed between 30% to 40%. Truly public meaning the major shareholders will not control about 30% and certainly not 50% ownership. [13]</i></p> <p>(Ranked 2) <i>If anything happens to this company, the Mjr Creditors will be the biggest loser – they will lose out the most as they take the most risk, then followed by the major and minor shareholders. Without them, there won’t be a company in the first place so as the company depend on them for funding, they will be the three most important stakeholders.</i>[15]</p> <p>(Ranked 1/2) <i>I reckon that major shareholders are the ones who determine the business policies and how they are going to market themselves. The major shareholders are the one who will determine the direction of the company’s competitiveness in the global market. The assumption is such that the major shareholders are very active in making decision for the company.</i> [16]</p> <p>(Ranked 1) <i>The major shareholders are the ones who have the power to make decisions for this company.</i> [17]</p> <p>(Ranked 1) <i>Because of the stake that they have in terms of equity, they will most certainly cooperate with or be the decision makers here and if the minority shareholders, say, hold about 49%, then they will probably have to tag along. That’s sort of the culture you have in Malaysia. If the major shareholders hold 51%, they will be making the decisions and normally the minor shareholders will follow suit.</i> [20]</p>	<p>COHERENT VIEW ON MJS SIGNIFICANCE=> RANKING RANGE FROM 1 TO 6 (ONLY 1 RANKED 6 [19]; 2 RANKED 5 [14, 18] AND THE REST BETWEEN 1 TO 3)</p> <p>THREAT POTENTIAL => HIGH POSSESS CONTROL & POWER TO MAKE DECISIONS [6, 8, 11, 13, 16, 17, 20]]</p> <p>COOPERATION POTENTIAL => HIGH BECAUSE OF CAPITAL INVESTMENT [15, 20] “Because of the stake that they have in terms of equity” [20] ... “If anything happens to this company, they will lose out the most as they take the most risk” [15]</p>
Minor SH	<p>(Ranked 5.5) <i>... minor shareholders would depend on whether they can be grouped into quite a significant amount ... but still they are not the decision maker ... and if they are not happy with the decisions made, they can easily sell their shares.</i> [8]</p> <p>(Ranked 1) <i>Major and minor shareholders will be both 1st because of their capital contribution.</i> [9]</p> <p>(Ranked 10) <i>The minor shareholders really can’t make any decision. As it is, most of them will just abide by the decisions made by the major shareholders.</i> [16]</p> <p>(Ranked 2) <i>The minor shareholders will still be relevant, to my view, because they could form into a cohesive force and, in terms of decision making, that’s still 49%, they can still influence the others. Of course the major shareholders will ultimately make the decisions but there may be some tossing over in terms of making decisions.</i> [20]</p>	<p>WIDE VARIATION ON MIS SIGNIFICANCE => RANKING RANGE FROM 1 - 10.</p> <p>THREAT => LOW POSSESS NO POWER INDIVIDUALLY; CAN’T MAKE DECISION [8, 16, 20]</p> <p>COOPERATION=> LOW CAPITAL INVESTMENT CAN BE EASILY LIQUIDATED [8, 9]</p>
Major/ L-T Creditors	<p>(Ranked 2) <i>Many companies depend on MC for source of finance, hence if they retract their funds, it will affect company’s survival.</i> [11]</p> <p>(Ranked 1) <i>If anything happens to this company, the Mjr Creditors will be the biggest loser – they will lose out the most as they take the most risk, then followed by the major and minor shareholders. Without them, there won’t be a company in the first place so as the company depend on them for funding, they will be the three most important stakeholders.</i>[15]</p> <p>(Ranked 3) <i>Then the major / long term creditors will also be quite high up (number 3) because the company could rely heavily on LTC as a source of fund. Also because most of the time, if the company needs additional funds, they are likely to go to the banks first rather than raising additional funds from the major shareholders or having additional share issues.</i> [18]</p> <p>ANSWERS FROM PART 2(B) Q1: (Significance Level in bracket and in bold)</p> <p>FROM CASE 1: (3.5) ...if we’ve been dealing with this company for, say 20 to 30 years, as a creditor you would feel very comfortable with this relationship. You will have the feeling that this company will find ways of dealing with things right. So I still think that it all depends on the relationship. [11]</p> <p>FROM CASE 2: (2) <i>If you’re talking about the oil business, a lot of the creditors are interested in this type of business. So it becomes very competitive, e.g. if the bank will increase the rate, the company might switch to another competitor bank.</i> [11]</p>	<p>MIXED VIEW ON LTC SIGNIFICANCE =>RANKING RANGE FROM 1 – 10 (ONLY 1 RANKED 1 [15])</p> <p>POTENTIAL FOR THREAT (PT) =>LO TO HI NOT ALL DEPEND ON THEM BUT MANY DEPEND ON BANKS FOR FUNDING; POSSESS POWER TO RETRACT FUNDING [11, 18]</p> <p>POTENTIAL FOR COOPERATION (PC) => LO TO HI COMPETITIVE INVESTMENT & L-TERM RELATIONSHIP [11,15]</p>

Relevant Gov't Agency	<p>(Ranked 3) <i>In some industries like timber (as in Case 1), relevant government agency will be quite critical because timber concession is controlled by the government so for environmentally sensitive industries like timber, the relevant government agency will be ranked quite high.. [8]</i></p> <p>(Ranked 2) <i>For Cases 2 & 3, I'll put the relevant government agency as number 2, next only to the major shareholders. The government is very, very important because the oil refinery and banking industries are highly controlled... If you run foul out of politicians and the government, you can get into so much trouble... In the banking industry, the relevant government agency is the Bank Negara (Central Bank). They enforce the Act, in Malaysia, it's called BAFIA (Banking and Financial Industries Act). That Act is so powerful and so cohesive that it dictates what all the financial institutions have to do. I know about this because I use to own a bank. Number 1, CEO appointment requires their consent.- they appoint for you or you nominate and they will say yes or no. Number 2, every single director has to be voted and agreed to by Bank Negara. Number 3, even policies like dividends – you can not issue dividends without their approval. Number 4, you can not employ any senior staff without approval – anybody from the General Manager to the top 20 positions requires the voting of the Central Bank. Number 5, they tell you what interest rate to set, you can not set the interest rate that you want in terms of deposits. So you can not charge the interest you want as far as loans are concerned. Also, here in Malaysia, banks are not allowed to move their branches. Everything must be approved by Bank Negara. So it's generally controlled by the government. Because of that, the major shareholders only propose and the government dispose so they are very powerful – this industry is very highly regulated. In many ways, well, it probably saved a lot of companies especially during the Asian financial crisis. [13]</i></p> <p>(Ranked 3/4) <i>The government policy sometimes provide conducive investment climate for the oil industry particularly the international oil companies. So because of this conducive investment policy, it will help the company in establishing themselves. Furthermore, oil companies are deemed to be high pollutants and they have to be seen to be environmentally conscious and they have to comply with strict government regulations. That's why I've ranked the relevant government agency quite high up in terms of company survival. The relevant government agency is important in facilitating the business, in terms of the procedures they have to meet and requirements they have to fulfil because if they can't comply, this will hinder their business development. That's why they are very important – the relevant government agency should be able to assist the company because without their support, this company will have lots of problems especially in the timber and logging industry. [16]</i></p> <p>(Ranked 2) <i>In the Malaysian context particularly in the plantation and logging industry, the relevant government agency will be very important so I think they will be second. If they don't give you concession, you don't have the business – and there's a lot of corruption involved. [18]</i></p> <p>(Ranked 3) <i>Third would be the relevant government agency. As far as environmental issues are concerned, the relevant government agency like DOE, have strong influence on company's survival. They have the power to make or break the company. [20]</i></p>	<p>MIDDLE RANGE VIEW ON RGA SIGNIFICANCE => RANKING RANGE FROM 2 TO 8</p> <p>POTENTIAL FOR THREAT (PT) => LO TO HI <i>DEPENDING ON THE INDUSTRY [8;]. POSSESS PUNITIVE & OTHER POWERS; COULD STOP OPERATION IF NECESSARY [13, 16, 18, 20]</i></p> <p>POTENTIAL FOR COOPERATION (PC) => LO TO HI <i>POLICIES CAN PROVIDE CONDUCTIVE INVESTMENT CLIMATE TO ASSIST THE COMPANY [16, 18, 20]</i></p>
Employees	<p>(Ranked 1) <i>Employees should be ranked first because it's the employees who provide the main service/support to the company.[12]</i></p> <p>(Ranked 1) <i>Employees should be first because their relevant skills and productivity is very important for the survival of this firm – in this kind of business. The company must have the right quality of employees in terms of their technical skills, capability and so on. [16]</i></p> <p>(Ranked 4) – <i>in Malaysia, the employees generally have not much say in the way companies are run. But the reason I put employees quite high is because if the company has really good and dedicated staff, then the company will perform very well. [18]</i></p> <p>(Ranked 3) <i>... it's commonly said that the 'employees are the most important asset in the company. Although, in my opinion, I don't think employees are as important as customers and suppliers so I decided to rank them as number 3 because I think once I've taken care of my customers and suppliers, I think we should also take care of the employees. It's true to say that without the dedication and commitment of the employees, the company will not go forward.[19]</i></p> <p>ANSWERS FROM PART 2(A) Q1: (ALL FROM CASE 1)</p> <p>(Signif. Level -4) <i>I think, the bottom line for the employees is job security, at the end of the day. [8].</i></p> <p>(Signif. Level -2) <i>The employees... will have to support the company because if ... the company is successful, they will also be successful ...[14]</i></p> <p>(Signif. Level -1) <i>I think survival of the company is very important to the employees... assuming that this will boost the performance of the company with the healthy bottom-line ... a better performance, a better bottom-line could mean bigger bonus or bigger pay rise. [18]</i></p>	<p>WIDE VARIATION ON EMP SIGNIF. => RANKING RANGE FROM 1 – 10 (ONLY 1 EACH RANKED 10 [6] AND RANKED 9 [15] AND THE REST BETWEEN 1 TO 6).</p> <p>(PT) => LO to HI <i>HI=>Employee skills/services are vital [12],[16]. ME => Employee skills/dedication is needed [19] LO=> employees generally have not much say [18]</i></p> <p>(PC) => HI <i>COMPANY'S [FINANCIAL] SUCCESS IS CRUCIAL TO EMPLOYEES' JOB SECURITY [8, 14, 18]</i></p>
Customers	<p>(Ranked 1) <i>Customers comes first because the company cannot survive without them and most of the time, we need them more than they need us because of strict competition.[10]</i></p> <p>(Ranked 2) <i>Obviously, we need the customers because without their support, the company can't survive. [14]</i></p> <p>(Ranked 2/3) <i>The customers are very important because without their support there would be no business – the more customers the better the business - if they can't find the right customers or establish networks with them, they will certainly find it difficult to market their products. [16]</i></p> <p>(Ranked 1) <i>The customers will be the most important because if they don't buy our products, then you'll be gone. [18]</i></p> <p>(Ranked 1) <i>...in any business and industry, customers are the most important stakeholder because without the customers, we can't run the business... [19]</i></p> <p>ANSWERS FROM PART 2(A) Q1: (Significance Level in bracket and in bold)</p> <p>CASE 1: (2) <i>Short-term customers might not care much... but for our long-term customers, it would be very significant because if we start destroying the environment, then in the long-term, we wouldn't have anything to supply them. [14]</i></p> <p>CASE 2: (2) <i>The customers will be worried that we may close-shop and that we won't be able to supply them. [14]</i></p> <p>CASE 2: (2) <i>If the company shuts down, it will affect the customers as they can't proceed with their own production, so there will be a chain effect. [19]</i></p>	<p>MIXED VIEW ON CUS SIGNIFICANCE => RANKING RANGE FROM 1 TO 9 (ONLY 1 RANKED 9 [6] WHILE MAJORITY RANKED BETWEEN 1 TO 3).</p> <p>THREAT => HIGH <i>WITHOUT CUSTOMERS' SUPPORT, THE COMPANY CAN'T SURVIVE [10,14,16,18,19]</i></p> <p>COOPERATION=> LOW <i>LOW to MED =>LEVEL OF COOPERATION IS DEPENDENT ON HOW MUCH THE CUSTOMER RELY ON THE FIRM FOR MUCH NEEDED RESOURCES, [10,14, 19]</i></p>

<p>Suppliers</p>	<p>(Ranked 1) <i>Being a supplier myself, I think the suppliers are the most important because without them, the company have nothing to sell. [14]</i> (Ranked 2) <i>Then the next will be the suppliers because for us to manufacture the products and provide the services, we depend on the suppliers – so we need the support and the cooperation of the suppliers to meet the needs of the customers.[19]</i> (Ranked 10) <i>The suppliers – they don't care actually ... they just want to make their money, that's all. [15]</i> (Ranked 7) <i>The suppliers wouldn't care much since there is a lot of competition and they have to fight for the business. [18]</i> ANSWERS FROM PART 2(A) Q1: (ALL FROM CASE 2) (Significance Level in bracket and in bold) (2) <i>The suppliers is more concerned about what will be the effect of this event in their future relationship and their company image as well. [14]</i> (3.5) <i>The suppliers [will be concerned that] they might loose a major customer if this company or this plant is shut down. [17]</i> (4) <i>I think the only part that the suppliers would care about is if the company shuts down their operation then they will have less order. I think that they only care that their business will be affected if the government shuts down the operation of this company. [18]</i> (3) <i>The suppliers are most likely to be affected by this event because if for some reasons there's an investigation, they will also be involved and their business will be affected. [20]</i></p>	<p>WIDE VARIATION ON SUP SIGNIFICANCE => RANKING RANGE FROM 1 – 10 [ONLY 1 RANKED SUP AS 1 [14] WHILE MAJORITY RANKED BETWEEN 5-10). POTENTIAL FOR THREAT (PT) => LO TO HI BECAUSE OF BUSINESS OPPORTUNITY & COMPETITION, [14,15,18,19] POTENTIAL FOR COOPERATION (PC) => HI MUTUAL BUSINESS RELATIONSHIP NECESSITATES SUPPLIER COOPERATION [17, 18, 20]</p>
<p>Media</p>	<p>(Ranked 10) <i>If we're talking about the importance to company's survival, the media could play an important role. But the media over here is just a puppet of the government, let's be honest about that and I work very closely with the government. I sit in the cabinet advisory committee on a lot of matters, you know, and the media is just a joke, it's a waste of time. Everybody knows that here. [13]</i> (Ranked 5) <i>But for Case 3, I think this company will depend a lot on the media to publicise this event and enhance its public image... [15]</i> (Ranked 7) <i>The media wouldn't care much since a lot of this plantation and logging companies are controlled by the government. And everyone knows that the government controls the media. And for sure these companies have a lot of political connections and they don't care about environmental care. [18]</i> (Ranked 9) <i>I don't think Malaysia has reached the stage where the media is as powerful as in developed countries or in the Western world mainly because the media is very much controlled by the political party in the Malaysian environment. Really, they exist mainly to serve the interest of the government in terms of advocating government propaganda. That is the reality in Malaysia. [19]</i> CASE 1: (4) To the media, I'd say it's a (4). I don't think they'll take the trouble to dig this up and write about it - the media is largely controlled by the government. [20]</p>	<p>QUANTITATIVE RANKING RANGE FROM 2 – 10 (ONLY 1 EACH RANKED 2 [17] AND 3 [6] WHILE THE REST RANKED BETWEEN 5 TO 10) POTENTIAL FOR THREAT (PT) => LO TO HI MEDIA COULD PLAY A ROLE BUT NOT SO POWERFUL BECAUSE ITS GOVERNMENT-CONTROLLED [13] [15] [18] [19] [20] POTENTIAL FOR COOPERATION (PC) => LO TO HI => DEPENDING ON POLITICAL CONNECTIONS [18] [15] [19]</p>
<p>Environmentalists</p>	<p>(Ranked 8) <i>Some environmental groups in Malaysia are very active ... the environmentalist groups ... could make a lot of trouble for the company... there is a group known as Sahabat Alam Malaysia (SAM) ... it means Friends of the Environment, this is a very powerful group. There is also CAP, the Consumer's Association of Penang and another one in Selangor, Selangor Association. So any issues related to the environment, they, together with other groups like CAP will have some kind of joint event, organising campaigns and similar activities. [20]</i> ANSWERS FROM PART 2(A) Q1: (ALL FROM CASE 2) (Significance Level in bracket and in bold) (1) <i>I'd put 1 for the environmentalists because this is their rice bowl. This is an opportunity for them to prove their point. [19]</i> (1) <i>I think the environmentalists would tend to ask the question "would this be a possibility for other refineries?" So the environmentalists will look not just at this one-off event but on the possible effect from the others in the industry. [20]</i> ANSWERS FROM PART 2(A) Q1: (ALL FROM CASE 3) (Significance Level in bracket and in bold) (1) <i>The environmentalists would try to make this as an example for other companies to follow. [11]</i> (1) <i>The environmentalists will use this company as a model for other companies to follow. [15]</i> (1) <i>The environmentalists will find this a 1 ... they will welcome an opportunity to form a network with this company. [16]</i> (3) <i>The environmentalists... could use this company as an example – a good corporate citizen as far as the environment is concerned. [18]</i> (1.5) <i>I think the environmentalists will be quite pleased. They will find this a (2) depending on how large the contribution is. If there is a plan for further expenditure in the future, I think they will move up to extremely significant (1) as this company will be a good example. [20]</i></p>	<p>QUANTITATIVE RANKING RANGE FROM 4 – 10 (WITH MOST RESPONDENTS RANKING BETWEEN 8 TO 10) POTENTIAL FOR THREAT (PT) => LO TO HI => could create a lot of trouble for the company if there is a need. [20] POTENTIAL FOR COOPERATION (PC) => LO TO HI => DEPENDING ON WHETHER THE COMPANY ADOPTS ENVIRONMENTALLY FRIENDLY PRACTICE OR NOT [11, 15, 16, 18, 19, 20]</p>
<p>Competitors</p>	<p>(Ranked 3) <i>The competitors are also important because we need to know what they are offering so that we can match it or do better. [14]</i> See the responses to Part 2 (A) Q1 (Significance Level in bracket and in bold) CASE 1: (1) Competitors will find this extremely significant because they can use this event to destroy this company's name. [7] (2) <i>Competitors – 2. Why I said 2, it's because they could use this event to try to eliminate competition. If they can do that by saying that you are not environmentally conscious, then why not take advantage of this situation. [8]</i> (2) <i>To the competitors, this will be an avenue for them to 'bad-mouth' this company, so they could use this event to their advantage ... [15]</i> (2) <i>To the competitors, this is an opportunity to kill this company, so I'll put (2). It's an opportunity for them to take advantage of the situation. [19]</i> CASE 2: (3) To the competitors ... this may affect the industry as a whole – not mainly to their advantage now – but any incident like this could affect their competitiveness... it will possibly affect the image of the industry as a whole – so people will perceive the oil industry in a negative sense. [16]</p>	<p>QUANTITATIVE RANKING RANGE FROM 3 – 10 (ONLY 1 RANKED 3 [14] WHILE MAJORITY RANKED BETWEEN 6 TO 10). THREAT => LOW TO HIGH GENERALLY LOW [8] BUT MAY BECOME HIGH IF THERE ARE URGENT EVENTS [7, 8, 15, 19] [14] COOPERATION=> LOW EXCEPT WHEN THERE'S AN INDUSTRY-WIDE THREAT [16]</p>