

# Environmental Reporting Guidelines for Malaysian SMEs to be Equally Accountable

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**Abstract**— Seriousness of environmental impacts recently urged various parties globally, regardless of their size to react promptly to such issues. As a major player in most economies worldwide which make up more than 90% of global businesses and commonly referred to as ‘backbone’ of most economic growth, small and medium-sized enterprises (SMEs) should not be excused from being equally responsible. Individually, they may be considered to be ‘small’ and harmless however collectively they without doubt can provide significant environmental ‘footprint’. They should be made accountable not only to their shareholders but also to the society at large. Unfortunately, most SMEs due to their lack of knowledge are unaware of the various ways available for businesses to discharge their obligations. To be accountable, businesses namely SMEs need to inform their stakeholders as well as the general public of the environmental initiatives and actions taken. Environmental reporting then serves as an effective means to provide useful information regarding their environmental initiatives. This conceptual paper begins by highlighting the importance of environmental reporting as tool for SMEs to convey their accountability. The main aim of this conceptual paper is to identify environmental reporting guidelines available worldwide for businesses especially for SMEs and reviews of similarities as well as differences of the environmental reporting guidelines were completed. It is hoped that the outcome of this paper could enhance SMEs’ understanding on matters related to environmental reporting and provide assistance for more Malaysian SMEs to discharge their accountability through environmental reporting.

**Keywords**— *environmental reporting; guidelines; Malaysia; SMEs*

## I. INTRODUCTION

Global warming, incidence of flooding and drought and many more natural disasters that occurred recently are among the environmental impacts experienced worldwide. Global leaders started making these issues as their top priority after the environmental concerns were seriously addressed in the United Nations Brundtland Commission Report entitled "Our Common Future" in 1987 and the Earth Summit in Rio de Janeiro in 1992. Various parties at national as well as global level are required to respond [1] to such issues. All corporations and businesses regardless of their size are requested to take equal responsibilities and necessary precautions to minimise environmental impacts from their industrial operations and not mainly focused on profit maximisation. They should be accountable not only to their shareholders but also to the society

at large [2]. To be accountable, organisations need to inform their stakeholders as well as the public about the initiatives and actions taken. Environmental reporting then serves as an effective means to provide useful information pertaining to their environmental initiatives. This conceptual paper begins by highlighting the importance of environmental reporting as tool for small and medium-sized enterprises (SMEs) to convey their accountability. The main aim of this paper is to identify environmental reporting guidelines available worldwide for businesses especially for SMEs and reviews of similarities as well as differences of the environmental reporting guidelines were completed. It is hoped that the outcome of this paper could enhance SMEs’ understanding on matters related to environmental reporting and provide assistance for more Malaysian SMEs to discharge their accountability through environmental reporting.

## II. ENVIRONMENTAL REPORTING

### A. What is Environmental Reporting?

Environmental reporting is defined by the European Federation of Accountants as ‘the provision of information about the environmental impact and operational performance of an entity that is useful to relevant stakeholders in assessing their relationship with the reporting entity’ [3]. In Australia, public environmental reporting is stated as a public disclosure of information about an organisation’s environmental performance, including its impacts on the environment, its performance in managing those impacts and its contribution to ecologically sustainable development [4]. A more comprehensive definition of environmental reporting was provided by the Ministry of the Environment Government of Japan who mentioned that [5]:

‘Environmental reporting is, regardless of its name or disclosure media, to promote communication of organizations, to fulfil its accountability regarding environmental efforts in their activities, and to provide useful information to decision making of interested parties. Environmental reporting refers to systematic and holistic statements of environmental burden and environmental efforts in organizations’ activities, such as environmental policies, objectives, programs and their outcomes, organizational structures and systems for the environmental activities, in accordance with general reporting principles of environmental reporting, and that is published and reported periodically to the general public’.

Comprehensive definition would provide varieties of information to be disclosed and could enhance further understanding of what information should be reported. However, giving that 80% of the SMEs are microenterprises and 69% are sole proprietors with different academic backgrounds [6] such detailed information, the use of inappropriate language either too technical or too academic [7] could create further complication. SMEs might not use similar terminology as larger organization to describe what they are doing [8]. In fact, unlike larger organizations, SMEs are managed by entrepreneurs from various academic backgrounds who might not have similar level of understanding. Therefore, in relation to SMEs' environmental reporting it was simply defined in the Environmental Reporting Small Business Handbook-Australia as 'reporting your environmental performance back to the people you do business with'. [9]

#### B. Local and Global Reporting Requirements

[10] identified 3 types of disclosures namely mandatory, voluntary and involuntary disclosure. Mandatory disclosure is to fulfil the regulatory requirements and some information such as toxicity testing of chemicals may not be publicly available. Meanwhile, voluntary disclosure refers to the disclosure of environmental information made by a company voluntarily and available to the public for example Eco Management and Audit Scheme (EMAS) information. There is also information that is voluntarily prepared but confidential in nature and not available to general public. Company may provide environmental information voluntarily to customers, banks, insurers or owners. In contrast, involuntarily disclosures are disclosure about the company which are made by third parties such as media disclosure and legal liability investigations.

#### C. Voluntary Reporting Requirements

Environmental reporting is not a mandatory practice for SMEs in Malaysia and even in most countries environmental reporting still remained as a voluntary initiative. Where survival is the main objective for most of the SMEs, enforcing them to engage in environmental reporting along with their larger counterparts would unnecessarily burden them. Though, the need for SMEs to initiate their environmental reporting process is supported when several prominence organizations and countries issued several environmental reporting guidelines for SMEs.

The Japanese Government launched Eco-Action 21 in 1996 which among others stated the need for SMEs to communicate their environmental initiatives to demonstrate accountability and benefit from competitive advantage. Similarly, Australia analysed a number of SMEs that prepared environmental reporting and produced environmental reporting best practice for the Australian SMEs. Without empirical studies or even any study with regards to SMEs' involvement in environmental reporting it can easily create negative perception that low involvement by SMEs in environmental reporting is due to the nature of its size. However, with the environmental reporting guidelines made available there will also be plausible for SMEs' involvement to set path.

#### D. Environmental Reporting Guidelines

There are several guidelines available for voluntary reporting requirement which includes not only reporting requirements for the environmental reporting but also sustainability reporting [11] and corporate social reporting [12]. On the other hand, Ministry of the Environment, Government of Japan [13,5,14] had issued series of environmental reporting guidelines for Mac 2004, June 2007 and April 2012 focusing of environmental reporting by all organisations regardless of their size. The guidelines provide information such medium of reporting and content of environmental information. In Australia, Australian National Heritage Trust [4] provides Environmental Reporting Framework for Public Environmental Reporting to all organisations regardless of their size to report their environmental reporting publicly.

Accordingly, there is an increasing need to assist SMEs globally to prepare their environmental reporting in which [9] provided a brief guide to environmental reporting by Australian businesses when it presented "Environmental Reporting: Handbook for Small and Medium Size Businesses" in April 2001. Likewise, Japan as the world's leading country certified with ISO 14001 standard has separately issued "Eco-Action 21 (Guidelines for Environmental Management Systems and Environmental Activities Report: Fiscal Year 2004 Version)" aimed at assisting SMEs. In 2007, Global Reporting Initiative (GRI) published "The GRI sustainability reporting cycle: A handbook for small and not so-small organisations" replacing the 2004 publication "High 5! Communicating your business success through sustainability reporting." Again, in 2014, Global Reporting Initiative [14] continues its support to encourage SMEs to prepare sustainability reporting by publishing 'Ready to Report? Introducing sustainability reporting for SMEs.' Malaysian SMEs need to keep abreast with the current practice to become a competitive player and enhance their export performance in this era of globalisation. Table 1 summarises the definitions, functions and the usefulness of environmental reporting provided in the reviewed literature.

TABLE I. DEFINITIONS, FUNCTIONS AND USEFULNESS OF ENVIRONMENTAL REPORTING

What is Environmental Reporting?		
	Doing What?	About What?
[3]	preparation and provision of information	environmental impact, environmental status and operational performance of their company
[4]	public disclosure of information	environmental performance: impact on the environment, performance in managing those impact, contribution to ecologically sustainable development
	process of communicating externally	environmental effects of an organisation's economic activities
[15]	The disclosure by an entity	Environmental risk, environmental impacts, policies, strategies, targets costs, liabilities, environmental performance
[16]	Process of disclosing environmental information	Environmental information as evidences indicated accountability for activities and impact on the environment

What is Environmental Reporting?		
	Doing What?	About What?
[17]	The process of communicating information	The range of environmental activities
[5]	Systematic and holistic statements	Environmental burden and environmental efforts in organisation's activities: environmental policies, objectives, programs and outcomes, organisational structure and systems for the environmental activities
[9]	Reporting	Environmental performance

E. Medium of Reporting

Annual reports are widely use as the reporting medium by large corporations yet it is not the only option. [18] found no evidence stating that annual report is used because it is the most appropriate medium or the relevant audiences were identified. There are other alternative medium of reporting available and appropriate for SMEs to meet the various stakeholders such as website, stand-alone reports, newsletters, bulletins, products catalogues or pamphlets. The medium of reporting to be used by SME will also need to take into consideration how these stakeholders could be reached. However, [10] reminded that 'printed environmental report' is only one of the tools for communications. Alternatively, in the new era of technology, internet is seen as one of the main channels of communication where environmental information could be provided to professional stakeholder groups in a more effective way [10].

According to [19] massive growth of internet accessibility, has transformed businesses' activities and society at large. Accessible from almost everywhere, users who form major parts of other stakeholders of the organisations may turn to the Internet for a quick search on environmental information [18]. Websites are considered to be freely available for everybody, saves paper and information providers are not burden with any printing cost [20]. Taking into consideration the fact that internet is the cheapest, most popular and important communication tool [21]. It provides greater opportunity for SMEs to communicate their environmental information even when their financial resources are quite limited.

In agreement, [9] in his Environmental Reporting: Small Business Handbook suggested 'pages on business website' to be part of medium of reporting for businesses to provide their environmental information. In fact, this handbook also identified 'information on product packaging' or 'simple statement' or 'bound report' could accompany tender submissions or business's application as mediums of communication suitable for small businesses. This could be true since environmental communications is to inform the related stakeholders that their needs have been fulfilled and for small businesses the needs of their customers may be the businesses' top priority since the businesses bottom-line will be most affected by customers. Product packaging could then be an effective medium of reporting since it will clearly reach these SMEs' stakeholders.

Recognizing the need for simpler guidelines for SMEs, GRI [20] launched The GRI sustainability reporting cycle: A handbook for small and not-so-small organizations which

among others, suggests several methods of communication that are more applicable to SMEs. Among the possible methods of communication for SMEs are notice boards, meetings, words of mouth, trade shows, presentations, newsletters, emails, press releases, report publications and also websites. These possible methods seem essential when cost is an issue to consider by most of the SMEs when their financial resources are quite limited. Furthermore, these methods of communications could be more effective for SMEs since they have small range of audience with lesser stakeholders to satisfy.

F. Content of Environmental Reporting

In a research conducted by [15] on the state of environmental reporting in Malaysia, mostly involving large corporations, 50% of them were identified to include at least one of the key environmental issues related to the business operations. The companies surveyed also included information on their environmental management system and related certifications either ISO 14001 or OHSAS 18001. Environmental objectives, along with environmental targets as well as the companies' achievements formed part of their environmental reporting. Stakeholders' engagement included outreach programs, trainings and dialogues with the stakeholders were informed in the environmental report as well. Some companies also included environmental-related financial information and a few included 'candid acknowledgement' of negative information.

Appropriately, Japanese Ministry of the Environment [13] suggested that environmental reports should include environmental policies, environmental objectives and company environmental performances, outlines of major environmental action plans, and information of non-conformance to environment related laws and regulations and litigation (if any). On the other hand, Australian National Heritage Trust [4] in its Framework for Public Environmental Reporting provided five major report components namely (1) organizational context, (2) management performance, policies and systems, (3) stakeholder engagement, (4) environmental performance and (5) product or service performance. The five major components were then divided into further sub-categories as given on in Table II.

TABLE II. COMPONENTS OF PUBLIC ENVIRONMENTAL REPORTING BY AUSTRALIAN NATIONAL HERITAGE TRUST [4]

MAJOR COMPONENTS	
<i>Organisational context</i>	Top management statement -emphasize commitment
	Organisation's profile
	Organisation's Environmental performance – identifying organization key stakeholders, environmental aspects and its position in relation to the environment.
	Environmental policy
<i>Management performance, policies and systems</i>	Scope of the report
	Management systems and programs – outlining environmental systems, programs and initiatives including existence of certified EMS or even any informal system developed by the organization.
	Compliance requirements – considered to be important since it demonstrates openness since it should include not only 'good' news but also 'bad' news such as penalties for non-compliances and environmental penalties.

MAJOR COMPONENTS	
	External recognition and activities such as environmental achievements and awards that could add credibility to the issues reported.
	Suppliers – the organisation may need to participate in fulfilling its suppliers supply chain management.
	Financial information that relates to environmental expenditure, environmental fees, donations and grants, environmental liabilities, benefits and opportunities.
<b>Stakeholder Engagement</b>	Basis for defining, profiling and selecting the major stakeholders
	Consultations with the major stakeholders which includes methods of consultations, number of consultations, information on feedback processes, opportunities for dialogue, communication of environmental information and type of information generated.
	Continuous improvement programs
	Measurement of stakeholders attitude towards organisation's environmental issues
	Plan for strengthening stakeholder engagement
	Internal and external awards schemes
	Programs in creating environmental awareness
Environmental performance	Input indicators – refers to the use of environmental resources by the organization which includes energy consumption, water consumption, land use and biodiversity, materials and other resources used.
	Non-product outputs include components of emissions to air, greenhouse gas production, wastewater emissions, noise, odour and other emissions, solid waste generation and disposal, hazardous waste generation, treatment and disposal and also any site contamination.
Product or service performance	Product or service stewardship– information on environmental impacts associated with the life cycle of products or services
	Product design which could improve environmental performance
	Packaging is considered to be important since it contributes to waste issue.

Since the medium of reporting and its content are very much influenced by the audience of the environmental reporting, [9] in the Environmental Reporting: Small Business Handbook which is based on Australian small businesses suggested that businesses should identify their stakeholders before deciding on the environmental information to be provided. Then a brief description of the business should form part of the introduction. Similar to above discussions, inclusion of environmental policy seems to be important in showing business's commitment its environmental responsibilities and certifications such as ISO 14001 would highlight such commitment. Accordingly, environmental objectives and targets are necessary to ensure environmental commitment set earlier can be fulfilled. Since environmental impacts are different from one business to another, businesses have to identify and prioritize the impacts in accordance to their businesses and mentioned ways taken in minimising any negative environmental effect. Unlike the above mentioned guidelines, either by the Japanese Ministry of Environment or Australian National Heritage Trust, which can be generally applicable to all sort of businesses size, this handbook stresses the importance of mentioning business's

commitment towards employees and the community in the environmental report. Consequently, SMEs do not have many stakeholders, therefore, employees and community could be among the key stakeholders. To provide information which relates to them helps enhance their morale, information on business's commitment on staff and community welfare demonstrates the entity seriousness in carrying the responsibility towards its major stakeholders.

[19] classified the environmental section of companies' websites into four categories: environment (or environmental management), community and the environment, social (or corporate) responsibility and sustainability. The companies also utilise the potential of website by using hyperlinks and graphics to provide further information rather than replicating the print based reports. On the other hand, [22] developed seven categories of environmental reporting comprising of 34 specific parameters which were derived from environmental reporting guidelines including GRI. [23] study on companies' websites identified that companies provided the environmental information on their homepages under several headings such as safety, health and environment, vision and mission and company profile. Various information items in relation to the environment could be obtained from the website including environmental achievements, environmental awareness programme, environmental management services, training programmes, greenery development, global impact, health, safety and environmental policy and environmental friendly products.

Even though, there is an increasing demand for 'green' goods, specific environmental emphasis must be placed by businesses on their manufacturing processes, materials consumption and treatment of waste [24]. ISO certification is found to be an influence to the level of voluntary environmental reporting however a study done by [25] on top 50 Malaysian companies from various industries listed in Bursa Malaysia identified that only 13 companies (36%) were ISO 14001 certified. It was revealed that the ISO's companies only report environmental information either in general or in qualitative terms. Furthermore, environmental management systems such as ISO 14001 are considered to be expensive to implement and maintain [7].

From the web-based environmental reporting by [26] it was identified that there were 212 existences/occurrences of environmental information on the SMEs' websites where some of the SMEs provided the environmental information in more than one place. Environmental information included in form of text, image/visual or multimedia. Average number of sentence for the information provided on the websites is 4.95. However 43% of the SMEs provided only 1 sentence of their environmental information. Most SMEs provided their environmental information or communicated their environmental concerns in 'About Us/Corporate Info' (54.3%), 'Our Products/Process/Services' (14.2%) and 'Others' (9.4%). Out of 212 existences, 51 (24%) were information regarding ISO 14001. Only 9 (7%) published their environmental policy with minimum number of sentences is 2 sentences and maximum number of sentences is 8 sentences. Eight (8) of these SMEs are ISO 14001 certified SMEs. There are also 8 SMEs which integrated their environmental policy into either

‘Environmental, Health and Safety Policy’ or ‘Company’s Policy’. In addition, about 15% of the environmental information occurred either in managing director’s statement, vision or mission with few SMEs mentioned it in more than one placement. Based on the quality and placement of the environmental information provided on the SMEs’ websites emphasize the importance of environmental related issues to the SMEs.

### III. CONCLUSIONS

To be equally accountable for their actions, SMEs need to inform their stakeholders as well as the public about the initiatives and actions taken. Even though it is not a mandatory requirement in Malaysia and most part of the world, environmental reporting is identified as an effective means for organisations to provide useful information about their environmental initiatives. There is a wide range of research on environmental reporting by larger organisations but studies on environmental reporting by SMEs are still lacking despite the existence of environmental initiatives by them. More research in this area is considered to be necessary. Previous studies identified their involvements in implementing several environmental initiatives though research on SMEs’ implementation of environmental reporting is limited.

This study introduces several environmental reporting guidelines that can assist the SMEs to also prepare environmental reporting and to be equally accountable for the environmental actions. It is hoped that the outcome of this paper could enhance SMEs’ understanding on matters related to environmental reporting and provide assistance for more Malaysian SMEs to discharge their accountability through environmental reporting. In connection more research on environmental reporting by SMEs would be possible.

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