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Environmental Reporting Practice by SMEs in Malaysia

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Abstract

SMEs should be made accountable for their environmental actions and environmental reporting can serve as an effective means to fulfil the purpose. Unfortunately, SMEs do not receive as much emphasis as they should be. To add value to the existing knowledge and to also provide the chance for SMEs to be equally accountable, this study aims to explore the current state of environmental reporting practice by SMEs in Malaysia. The medium of reporting used by the SMEs to communicate their environmental information will be identified along with the forms of environmental information reported by them. This study used qualitative research methodology employing grounded theory approach. All three stages of data collection involved a total of 14 SMEs. The data collection process of this study includes interviews, observations and content analysis of documents. It was identified that the SMEs in this study did prepare environmental reporting but it was quite simple, less variety, very straightforward and a lot lesser than the larger organisations. It was also identified that there were numerous mediums of reporting used by the SMEs to disseminate their environmental information. Apart from written communications, the SMEs also utilised verbal communication to disseminate the environmental information. Mainly, the SMEs in this study used the company's Environmental Policy which was made available to their stakeholders and publicly accessible. The SMEs also displayed their ISO 14001 certifications publicly. Conversely, the Environmental Objectives, Environmental Targets and Strategies were mostly confidential and circulated internally and they were not publicly accessible. The findings would allow the SMEs to select among the variety of mediums of reporting that is suitable for their businesses. The qualitative approach adopted by this study also provides detailed and rich information which may widen the scope of research that could be conducted further in the future.

Keywords: SMEs, environmental reporting, medium of reporting, qualitative research

1. INTRODUCTION

Numerous environmental impacts experienced worldwide demand all corporations and businesses regardless of their size 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 (Hackston & Milne, 1996). 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.

The need to report was generally addressed to businesses and corporations without specifying their size, nature of businesses or ownership structure. However, most of the surveys conducted earlier either internationally or locally focused on large organisations, mostly public listed companies and commonly done by analysing their annual reports (see for examples: Andrikopoulos & Krikiani, 2013; Charumathi & Ramesh, 2017; Fauzi, 2008; Mohamed Zain & Mohammad, 2007; Situ, Tilt & Seet, 2015; Smith, Yahya, & Amiruddin, 2007). Served as the most

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accessible source of information (Smith et al., 2007), the annual reports increased researchers' interests on public listed companies. However, the difficulty in assessing data (Sharma & Vredenburg, 1998) of small and medium-sized enterprises (SMEs) caused them to be under-researched even though they are believed to cause more than 70% of the environmental pollution globally (Hillary, 2004; Hussey & Eagan, 2007; Rao, O' Castillo, Intal Jr, & Sajid, 2006).

Even though there are growing researchers' interests on SMEs, research on environmental reporting by SMEs is hardly discovered and research on Malaysian SMEs' involvement in environmental reporting are correspondingly limited. To add value to the existing knowledge and to also provide the chance for SMEs to be equally accountable, this study aims to explore the current state of environmental reporting practice by SMEs in Malaysia. The medium of reporting used by the SMEs to communicate their environmental information will be identified along with the forms of environmental information reported by them. Findings from this study is hoped to be an eye-opener for these SMEs. Conveying environmental related information to the various stakeholders allows them to provide feedback which will later assist the SMEs to continuously improve their environmental performance.

2. LITERATURE REVIEW

2.1 SMEs and the Environment

Well known as the 'backbone' of most economic growth worldwide (Singh et al., 2008) SMEs' significant role in developing countries such as Malaysia is indisputable (Madanchian, Hussein, Noordin & Taherdoost, 2015). In accordance to Department of Statistics Malaysia (DOSM, 2011) for the year 2010, there are 645,136 SMEs representing 97.3% of the total establishments in Malaysia. They provide jobs to almost 3.7 million workers equivalent to 52.7% of Malaysian total employment. Unfortunately, the mushrooming growth of SMEs, seem to create serious environmental issues along the way. In fact, 70% to 98% of the world manufacturing pollution was produced by SMEs (Hillary, 2000). Individually, SME may seem to have little impact on the environment but their 'collective footprint' should be considered to be significant. Unfortunately, SMEs do not received as much emphasize as they should be. Due to publicly inaccessible financial information and other related documentations, unintentionally researchers had shaded SMEs away from the public scrutiny.

Smaller size is not an excuse for SMEs to ignore their impacts either on the social issues or on the environmental matters. Operations in any size namely micro, small, medium or large and in any industry such as manufacturing, agriculture or even services, will surely utilised the basic resources such as land, water and energy and produced certain amount of wastes. Majority of SMEs still use obsolete technologies, manage raw materials inefficiently, lack of awareness with legislations and lack of pollution control facilities (Condon, 2004; Feil, Quevedo and Schreiber, 2015). If the group of more than 500,000 SMEs in Malaysia continue to ignore the concept of sustainable development in their businesses decisions, in short period of time the businesses legacy will be meaningless for the future generations.

2.2 Environmental Reporting

Environmental reporting is considered as effective means for organisations to convey their environmental information to their stakeholders at large. Therefore, to be equally accountable for their environmental impacts SMEs could utilise the same means as well. In fact, transparency and accountability issues are becoming increasingly important to smaller organizations as well (Australian Natural Heritage Trust, 2000). However, environmental reporting is still a voluntary practice for SMEs in Malaysia and even in most countries.

According to Ministry of the Environment Government of Japan (June 2007, p.7):

'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'.

The more comprehensive the definition the more it could enhance understanding of how environmental information should be reported. Nonetheless, with 80% of the SMEs are microenterprises and 69% are sole proprietors with different academic backgrounds (Omar, 2006), such detailed information, the use of inappropriate

language either too technical or too academic (Walker, Redmond, Sheridan, Wang, & Goeft, 2008) could create further complication.

To describe their environmental actions, SMEs might use different terminology from their larger counterparts (Perrini, Russo, & Tencati, 2007). In actual fact, SMEs are managed by entrepreneurs from various academic backgrounds who might have different level of understanding. As such, a simple definition provided by the *Environmental Reporting Small Business Handbook-Australia* as 'reporting your environmental performance back to the people you do business with' (Williamson, 2001, p.1) is seem more appropriately related to SMEs.

2.3 Medium of Reporting

Large corporations commonly used annual reports as medium of reporting but it is not the only option. No evidence has been found that state annual report is used because it is the most appropriate medium Tilt (2001). There are various other alternatives of medium available and appropriate for SMEs to meet their stakeholders such as website, stand-alone reports, newsletters, bulletins, products catalogues or pamphlets. Despite being widely accepted as primary medium of reporting for environmental disclosure, annual reports received criticism with regard to the timeliness of information provided (Lodhia, 2004). Adams (2002) identified the internet to be the medium of the future. In addition hardcopy reports are expensive to produce and historic and may not well read by the stakeholders (Adams, 2002).

Yusoff, Othman and Yatim (2013) identify the existence of reports other than annual report namely stand-alone environmental report, corporate websites and newsletter that are utilised by Malaysian and Australian companies in their study to disclose their environmental information. Zeghal and Ahmed (1990) suggested the medium of communications namely newsletters, press release, magazines and corporate booklets as an alternative to annual reports. Meanwhile, Dutta and Bose (2007) listed annual reports, stand-alone environmental reports, press releases, news media, advertisements, glossy booklets, newsletters, internal magazines and brochures as some choices as a medium of reporting. However, in the new era of technology, medium of reporting is not limited to 'printed environmental report' only. Instead 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 (Gee, 2001). According to Lodhia (2004) massive growth of internet accessibility, has transformed businesses activities and society at large. Websites are considered to be freely available for everybody, saves paper and information providers are not burden with any printing cost (GRI, 2007). In agreement, Williamson (2001) 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.

Recognizing the need for much simpler guidelines for SMEs, Global Reporting Initiative (GRI) (2007) 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. GRI (2014) continues to suggest the small company to either publish its report on the company's website, through a printed publication and/or through communication to all the related stakeholders. Furthermore, these methods of communications could be more effective for SMEs since they have small range of audience with lesser stakeholders to satisfy.

2.4 Content of Environmental Reporting

50% of large corporations in Malaysia were identified to include at least one of the key environmental issues related to the business operations and they also included information on their environmental management system and related certifications either ISO 14001 or OHSAS 18001 (ACCA, 2002). According to Japanese Ministry of the Environment (March 2004) 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 (2000) 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.

Since the medium of reporting and its content are very much influenced by the audience of the environmental reporting, Williamson (2001) in the *Environmental Reporting: Small Business Handbook* 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 and its environmental responsibilities. At the same time, certifications such as ISO 14001 would highlight such commitment. Unlike the above mentioned guidelines, this handbook stresses the importance of mentioning business's commitment towards employees and the community in the environmental report.

Lodhia (2004) classified the environmental section of the companies' websites into four categories: environment (or environmental management), community and the environment, social (or corporate) responsibility and sustainability. However, it was identified that these companies do not extensively use the website to report various environmental initiatives that they are engaged in. Chatterjee and Mir's (2008) 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.

From the web-based environmental reporting by Nik-Wan, Mohamed Zain & Atan (2012) 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. 43% of the SMEs provided only one (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, fifty-one (51/24%) were information regarding ISO 14001. Only nine (9/4%) published their environmental policy with minimum number of sentences is two (2) sentences and maximum number of sentences is eight (8) sentences. Eight (8) of these SMEs are ISO 14001 certified SMEs. There are also eight (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.

3. RESEARCH METHODOLOGY

This study which aimed to explore the current state of environmental reporting practice by SMEs in Malaysia used qualitative research methodology employing grounded theory approach. Grounded theory is suitable when there is comparatively, little is known about a phenomenon the area of study (Birks & Mills, 2011; Corbin & Strauss, 1990; Glaser & Strauss, 1967). To fulfil the objectives of this study it is necessary to include SMEs which have experiences and were actually involved in preparing environmental reporting. Consistent with the previous study of SMEs in Malaysia (Baba, 2004) the list of companies was obtained from the FMM Directory 2009 and 1,340 companies were identified to be SMEs.

In order to identify knowledgeable and experienced SMEs, presumably those with environmental reporting in practice, the researcher sent letters to these 1,340 SMEs listed in the directory. Taking into consideration of different interpretations and understandings of environmental reporting by the companies, they were then also asked to respond if their organisations have either (1) Environmental Policy, (2) Environmental Objectives or (3) Environmental Management System since there is a possibility for such information to be communicated to certain parties or users group. Even though only 75 (5.59%) SMEs returned the surveys, it was considered to be acceptable because there were some variations and similarities in term of states as well as industries and most of the respondents had provided the information necessary for the researcher to move on further to the rich data collection process.

Non-probability purposive sampling was used to identify SMEs that could be considered to have experiences in environmental practices for further interviews. A form of ranking system was created to identify potential SMEs that probably had most environmental related practices that could assist the researcher with rich information. However, since purposive sampling was necessary only at the initial stage prior to the development of theoretical sampling, the first 5 SMEs from the 'Top 35' list that had agreed to participate were selected as the first group to be further interviewed. In consistence with theoretical sampling technique the initial sampling begins where the phenomenon and the next stage of data collection proceed with theoretical sampling (Coyne, 1997). The data collected were analysed using constant comparative analysis to guide the data collection further according to theoretical sampling. Constant comparative analyses enable '*a comparison of data against itself, against other data and also against conceptualisations*' (Boychuk Duchscher and Morgan, 2004).

In developing the theoretical sampling which is the most crucial components of the grounded theory approach, the data collected from the interviews of the first 5 SMEs were coded and analysed to guide the researcher about what data to collect next and where it should be collected from in order to develop the emerging theory (Kirk & van Staden, 2001). Hence, the next stage of sample selection was according to the analysis done on these first 5 SMEs. For the second stage of the data collection, the researcher searched for SMEs that fulfilled several criteria that had emerged from the data collection done earlier. SMEs from the 'Top 35' list were contacted again using similar procedure as before. However, those SMEs that clearly refused participation were excluded from the list totally. Then another 5 SMEs which agreed to participate formed the second stage of data collection. Once again the data collected from the 5 SMEs in the second stage of data collection were analysed to identify the necessity for more data and samples. The researcher had decided to proceed further with the third stage of data collection where another 4 SMEs agreed to participate and formed the third stage of data collection. All three stages of data collection involved a total of 14 SMEs with 18 participants where 4 of the SMEs had 2 of their personnel involved in the data collection process. The data collection process of this study includes (1) interviews, (2) observations and (3) content analysis of documents.

4. RESULTS AND DISCUSSIONS

4.1 Companies' Profiles

This study involved 14 small and medium-sized enterprises (SMEs) located in almost all the states in East Malaysia. Six (42.9%) of the SMEs are categorised as medium-sized enterprises while the remaining number (8/57.1%) of the SMEs fell under the category of small-sized enterprises. Each industry, namely chemicals, electrical, food, plastics and other non-metallic mineral products was represented by 2 SMEs. Meanwhile, metal industry and wood and products of woods were represented by 3 and 1 SMEs respectively.

4.2 Current State of Environmental Reporting by Malaysian SMEs

In the preliminary stage, when the SMEs were asked whether they engage in environmental reporting, several of them had answered 'No' but when they were asked whether they provided environmental information, then their answer would be 'Yes'. It was discovered later during the interviews that the SMEs had assumed that 'environmental reporting' referred to a formal report presentation. This discovery changed the researcher's way of asking question during the interview where instead of directly asking whether the SMEs engage in environmental reporting, the question was rephrased to ask whether they provided the environmental information to others.

Accordingly, it was identified that the SMEs in this study did prepare environmental reporting where they communicated the companies' environmental information to their stakeholders. However, it was also identified that the information was provided more on ad hoc basis rather than systematically and periodically. Further investigation revealed that even though the reports were not provided in systematic manner and periodically, but it managed to fulfil the need of its stakeholders. In fact, for the SMEs the ad hoc basis had been significantly important and effective to reach their stakeholders that are located nearby and have a close relationship with the SMEs. Furthermore, periodical reports would not seem to be necessary as due to the nature of SMEs' operations, there were not many changes to the environmental activities that could be reported to the stakeholders. Moreover, systematic and periodical reports can be too costly to the SMEs and its effectiveness was vaguely identified as well.

4.3 Medium of Environmental Reporting

It was identified in this study that there were numerous medium of reporting used by the SMEs to disseminate its environmental information. Medium of reporting utilised by this Malaysian SMEs comprised of reports which were prepared according to the standard formatting provided either by the regulators or by the customers, pamphlets, websites, newspapers, newsletters, magazines, group annual reports, notice boards, emails, memos, posters, banners and internal reports. The medium of reporting utilised by the SMEs seems to be consistent with the earlier literature, further in-depth research through interviews and content analysis had revealed that some of the medium of reporting were utilised more than other medium of communications. The SMEs seldom use the annual reports as compared to their larger counterparts. Instead, the SMEs preferred the medium of reporting that could effectively fulfil their need to disseminate the environmental information on ad-hoc basis at lower cost and could be done within their limited resources. It seems to be a common practice by the SMEs to only utilise a few pieces of papers to either inform the public, suppliers, employees or its management about the company's environmental information.

Apart from written communications, the SMEs also utilised verbal communication to disseminate the environmental information. This is according to the suggestion made by the *GRI sustainability reporting cycle: A handbook for small and not-so-small organisations* (GRI, 2007) which identified ‘word of mouth’ as one of the medium of reporting. The SMEs in this study provided some environmental related information through their company’s morning assemblies with its employees and regular meetings with the top management. Sometimes, phone calls also seemed to be a more appropriate and effective medium in informing the neighbouring companies of the company’s environmental activities that would impact their companies. Nonetheless, despite of the numerous medium of reporting utilised by the SMEs, they seemed to employ similar concepts in selecting most of the medium of reporting where the SMEs used the guidelines provided by Global Reporting Initiatives. The guidelines required the SMEs to focus on their stakeholders in identifying the most suitable medium of reporting that would effectively reach their stakeholders.

Unlike public listed companies, most of the SMEs are managed by its owners which positioned the SMEs with the influence of owners-managers characteristics. Therefore, environmental issues of the company were commonly known to its owners at the initial stage. In most of the cases, no separate reports to the owners of the business seemed to be necessary since they are already involved in the company’s management meetings as well as its daily operations. As such, annual reports which were widely utilised as medium of reporting by large corporations received less popularity in this study and the preparation of annual reports as medium of reporting could be too costly for the SMEs as well. Furthermore, the used of other medium of reporting such as internal reports, emails and newsletters seems to be more effective to disseminate the environmental information to its owners that happened to also be part of the company’s management team. Consequently verbal communications were regularly practiced by the SMEs in order to provide environmental information to its employees. Verbal communications were practices through morning assemblies with the employees and through meetings with the top management.

Commonly, SMEs have only several numbers of customers as well as suppliers. In fact most of the SMEs in this study served only a handful of customers. Few of them served only one customer. Consequently, the SME would be close to its customer(s) as well as suppliers, allowing them to respond to those stakeholders groups promptly. Due to the close connection between the SME and its customers and suppliers, relationships were built easily allowing the SME to respond to the stakeholders’ demands and implement their policies quickly. Likewise, majority of the SMEs serve local markets and surrounded by only several neighbouring companies in which direct communications such as through phone calls and stakeholders’ dialogue seems to be more practical, effective and cost saving. Being a ‘small business’, SME has a strong relationship and close connection with the stakeholders allowing them to establish direct communications and enable the SMEs to response to their stakeholders’ demand and needs promptly and accordingly. This had also led to a more flexible, informal and unstructured medium of communications

4.4 Types of Environmental Information

Mainly, the SMEs in this study used the company’s Environmental Policy as the environmental information which was made available to their stakeholders and publicly accessible either through the company’s website or being displayed at the company’s premises. Though, there were a few SMEs in the study that voluntarily provided environmental information related to its products on their websites

Since most of the Environmental Policy was formed in the process of obtaining the ISO 14001 certifications, the SMEs also displayed their ISO 14001 certifications publicly. Conversely, the Environmental Objectives, Environmental Targets and Strategies were mostly confidential and circulated internally among management team and employees and they were not publicly accessible. There were other environmental information such as information on environmental awareness and consciousness that were conveyed voluntarily but only exclusive for management and employees in which the information were conveyed through memos, emails, meetings and morning assemblies.

The SMEs that mostly serve one or only several customers also had the commitment to provide some environmental information required by their customers. The environmental information provided was commonly related to the products as well as the company’s operations. The customers were interested in the compliance level of the SMEs in ensuring that their suppliers are legally approved. The environmental information provided focused on the information requested by the customers through either products’ survey or the SME’s environmental audit.

Even though the environmental information provided reflected the SMEs’ nature of businesses but it was quite simple, less variety, very straight forward and a lot lesser than the larger organisations. At first the simplicity, less

variety and straight forward environmental information provided by the SMEs was assumed to be because their operations were less complicated with only several production lines concentrated on minimal amount of products. However, thorough review of the research findings and discussions notified that what was actually limited and lacking is the provision of environmental information to the respective stakeholders i.e. the environmental reporting and not the environmental friendly initiatives themselves. In other words, there are SMEs' involvements in environmental friendly initiatives but they did not document them and did not inform the respective stakeholders as well as the public at large of their equal involvement in taking care of the environment. The environmental information provided as environmental reporting did not portray the actual involvement by the SMEs in preserving the environment.

5. CONCLUSION

This study notifies that SMEs did provide environmental reporting alongside their larger counterparts even though their reporting was not as publicly available as larger corporations such as public limited companies. Furthermore, the findings of this study also reveal the available medium of reporting utilised by the SMEs which were quite different from the findings of several earlier studies conducted on larger corporations. This would allow the SMEs to select among the variety of medium of reporting that is suitable for their businesses and not rigid to what is provided for large organisation. The qualitative approach adopted by this study also provides detailed and rich information which may widen the scope of research that could be conducted further in the future. Additionally, further understanding of SMEs involvement in environmental reporting enables the academicians to create teaching modules to educate more SMEs to involve in environmental reporting. Further understanding obtained from this study will equip the academicians with better and improved knowledge to enable them to provide consultations and assistance for more SMEs to be involved in environmental reporting in the future.

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