ENVIRONMENTAL DISCLOSURE PRACTICES OF MANUFACTURING INDUSTRY –EVIDENCE FROM LISTED COMPANIES IN THE COLOMBO STOCK EXCHANGE (CSE) IN SRI LANKA

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Introduction

Environmental reporting which is a relatively recent development in accounting can be treated as the media to communicate the environmental impact of business entities for their stakeholders. Therefore with regards to the environment, there is a "social contract" between the accounting entity and society at large, and stakeholders have a "right" to know information on the environmental impact of the organizations' activities (Deegan, 2000). Consequently, the environmental reporting may be derived as recognition of those rights and as a partial discharge of the associated accountability (Gray &Kouhy, 1995). Guthrie & Parker, (1989); Gibson & Guthrie, (1995) also reviewed the environmental reporting practices adopted by Australian corporations and they have concluded that the proportion of corporations which disclose environmental information is increasing across the time, along with the amount of environmental disclosure incorporated within annual reports. Gray &Kouhy,(1995); Chan & Milne, (1999) support previous researchers' findings and state that, over recent years, the reporting of firms' impact on the physical environment has dramatically increased. Further Kolk (2000) says that, at present, environmental reporting is becoming more and more common in business.

According to the above facts, it is clear that stakeholders' attitudes towards the demanding for environmental information have increased during the recent past few years. Thus our intuition focuses to explore the level of environmental-related disclosure practices in Sri Lanka. The major objective of this study is to explore the extent of environmental-related disclosure practices of companies in manufacturing industry in Sri Lanka and examine the association between specific attributes including shareholder power, creditor power, government power, environmental concern, ISO 14001 certification award, finance performances, company size, company age and the level of environmental disclosures.

Methodology

Hypotheses Development

Hypotheses were formulated based on the nature of the relationship to be prevailed between level of environmental disclosures and selected attributes. There could be positive, negative or neutral relationship between the variables. Hypotheses developed under selected attributes are as follows.

H1: The level of corporate environmental disclosures is positively associated with the nubmer of Shareholders.

H2: The level of corporate environmental disclosures is positively associated with Creditor Power (CP).

H3: The level of corporate environmental disclosures of the firms in environmentally sensitive industries is higher than the firms in non-sensitive industries.

H4: the level of corporate environmental disclosures of the firms with environment concern is higher than the firms without such concern.

H5: The level of corporate environmental disclosures of the firms that are having ISO 14001 certificate, is higher than the firms that do not have such certification.

H6: The level of corporate environmental disclosures is positively associated with Finance performances of the firm.

H7: The level of corporate environmental disclosure is positively associated with the size of the firm.

H8: The level of corporate environmental disclosure is positively associated with the Age of the firm.

Sample and Data

The 36 companies listed on Colombo Stock Exchange as at 01st January 2012 under manufacturing category are included in the sample of this study. The annual reports of the financial year 2010/2011 are examined by each company to determine the level of Environment disclosure.

Model development

The following Ordinary Least Square (OLS) regression model is conducted to identify the association between firms specific attributes, viz. Shareholder Power (SP), Creditor Power (CP), Government Power (GP), Environmental Concern (EC), ISO14001certification (ISO), Return on Assets (ROA), Size (Lsiz), Age (Age) and level of environmental disclosure.

$$Y = \beta0 + \beta1\ SP + \beta2CP + \beta3GP + \beta4EC + \beta5ISO + \beta6ROA + \beta7LSIZ + \beta AGE + e$$

Where; Y = total disclosure score received for each firm

$\beta0$ =the intercept;

e = the error term

Results and analysis

The results of the Ordinary Least Square (OLS) regression model for all variables are presented in the following Table 01.The share holder power and creditor power variables are not significant. A similar result was found in Elijido-Ten (2003). This implies that the level of disclosure is not affected by the shareholder power and creditor power of the manufacturing firms. The firms with environmental concern in their vision/mission statement and/or environmental committee tend to disclosure more information about environmental activities in their annual reports. Further, the firms with ISO certification disclose more environmental information than firms with no such certification. These results are in line with the result from previous researches. Size by assets is not statistically related to the level of information disclosed by the sample of manufacturing firms in their annual reports. Age and Return on Assets are not significant. This also implies that the level of environmental disclosure is not affected by the age of the firms or the number of years it has in business and profitability of firms.

Table 1: Results of the Ordinary Least Square Regression Model

Variable	Coefficients	Standard Error	T Stat	P-value
Intercept	7.1000	7.4316	0.9554	0.34787
Shareholder Power	0.0007	0.0588	0.0127	0.98993
Creditors Power	0.0008	0.0011	0.7384	0.46667
Government Power	(1.2013)	2.1285	(0.5644)	0.57715
Environmental Concern	7.3539	3.5417	2.0764	0.04750**
ISO 14001 Certification	14.7764	2.9620	4.9886	0.00003**
Return on Assets	(0.0570)	0.0714	(0.7973)	0.43225
Size	(0.0867)	0.7809	(0.1111)	0.91239
Age	(0.0572)	0.0763	(0.7502)	0.45962

*** Significant at 5% level*

Conclusion

From the analysis described in the previous section, it is apparent that environmentally sensitivity does not affect the level of environmental disclosure by Sri Lankan manufacturing firms. This is unlike with previous studies. Many previous studies have found that there is association between the level of environmental disclosure and environmentally sensitivity. This study also provides evidence of the lack of environmental disclosures in the absence of mandatory requirements to do so. This should give an implication to the accounting regulatory body in considering mandatory environmental disclosures

References

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