



CHAPTER 1

INTRODUCTION

Environmental concerns are an important issue for business nowadays. Pressures from communities, government, and other businesses make companies place improvement of their environmental performance high on their agenda. 'Companies which respond fully and promptly to environmental issues will be in the strongest competitive position in terms of developing new products and markets and, in many cases, improving their efficiency... Those companies which do not respond will be at an increasing and perhaps fatal disadvantage' (ICAEW, 1992). However, recent surveys and studies in the US, Canada, UK, EU, and New Zealand point toward a very limited response by companies with reporting environmental issues although the information is proven to be useful to the users, especially investors of the company. (Buzby and Falk, 1979 and Williams, 1980).

In recent studies and in the survey reported herein (see chapter 3), environmental information related to contingent liabilities is generally required to be disclosed or accounted for by accounting standards world-wide. Other information such as capital expenditures and legal proceedings are required to be disclosed by the Security Exchange Commission of the US stock market and some European countries. Besides disclosures required by the regulations and standards, most companies voluntarily disclose environmental information in their annual reports or supplementary reports. Environmental policies, plans and achievements, environmental audits, and costs and benefits from environmental practices are examples of information voluntarily disclosed by the companies. Formats of disclosures vary: some are a part of an annual report; others are prepared as a supplemental statement.

The Stock Exchange of Thailand [SET] has been established for trading the capital stocks of the Thai listed companies. The market structure resembles the market structures in developed countries, especially the US market. However, its size and liquidity is much lower than those of developed countries. The companies listed in the SET must submit their financial statements to the SET which requires more disclosures than general submission to the Ministry of Commerce. The financial statements of

every company must be prepared in compliance with generally accepted accounting principles [GAAP] and must be audited by a certified public accountant [CPA]. Thai GAAP, in general, follows the International Accounting Standards [IAS] issued by the International Accounting Standards Committee. However, there are some standards which follow US standards or which are unique to Thailand where IAS are not available. The SET requires the listed companies to disclose additional information such as cash flows, etc. Although Thailand now is facing the problems of environmental deterioration like other developing countries are, the concerns of this issue are still rare. Accounting for the environment is very new to Thailand. Due to lack of general reporting standards or guidelines and inconsistencies in reporting, this study aims to encourage the disclosure of environmental information in Thailand.

1.1 Motivation and Statement of Problems

Many studies has been conducted in the area of social accounting and environmental accounting. During the 1970s, social accounting was the topic that many researchers in accounting studied. The notion behind the term of social accounting stemmed from the pressures from the society to urge the companies to have more responsibility to the public as a whole other than just to shareholders and management. The corporate social reporting [CSR] was recognized as a product of those studies. Furthermore, the association between the CSR and some firms' characteristics was evidenced (see chapter 3, section 3.2). The studies also showed that the CSR had information content to the stock market participants. (Belkaoui, 1978 and Dierkes et al., 1985). Later, Value Added Statements were suggested as one solution to the CSR format (Chuaychoo, 1997). Value Added Statements were proposed as supplementary statements to financial statements. The statements included sections of firm's value added to government, shareholder, community, employee, and environment. The idea was to identify and report separately the contribution of a firm toward each party mentioned above. However, there were many problems in implementing the CSR to the world of accounting. These problems included:

- What should be disclosed?
- What form should the reports take?
- Should it be done by accountants?
- Should it be audited?
- Who pays?
- Should it be compulsory or voluntary?

The CSR is focused on a wide range of different information that may be relevant in assessing corporate social performance. According to the survey of Ernst and Ernst (1978), the range of information was very wide and can be classified into these following areas: environment, energy, fair business practices, human resources, community involvement, products, and other social responsibilities.

In the 1990s, the environmental issue became a big issue for society and business. The cases of Exxon Valdez and Union Carbide heightened the responsibility of management to expand their responsibility to address environmental issues. Communities started complaining by taking immediate actions against polluters. Government started issuing laws and regulations for preventing and minimizing environmental deterioration. Management realized its ethical responsibility to start developing environmental management. Thus, pressures from communities, government, and business pushed modern companies to improve their environmental performance. Companies which responded fully and promptly to environmental issues realized that they gained a stronger competitive position in product and market development and, in many cases, efficiency improvement. They also avoided fatal penalties from the law and regulation which were becoming more stringent.

In today's world of technology and information, the issue of environment is popular not only in the developed countries but also in the developing countries such as Thailand. Thailand faced the problems of environmental deterioration not lesser than those developed countries do. The problems of traffic congestion, air pollution, water pollution, toxics, acid rain, and noise pollution in Thailand are at a high level. Communities have started to put pressure on businesses which create those

environmental problems to pay for correction. The concept of "polluters pay" principal, which means that polluters have to pay for costs to minimize its pollution, is realized by government agencies. Consequently, business has to start doing something with the environment. In addition to keep up with the global trend of environmental practices such as ISO 14000, companies have to improve their products and marketing strategies. Accountants, as a member of the management team, have to be alert to those trends. However, based on the primary survey to the companies' reporting (Srichanphet, 1995 and Techamontrikul, 1996), there was insufficient action from accountants in the area of environment.

In order to facilitate and encourage environmental management in businesses, reporting environmental information and using it for evaluation purposes are necessary. Most of the surveys and studies in this area identify that there was no common format in reporting environmental information (see chapter 3, section 3.1). Formats of disclosures vary. Some were a part of an annual report; others were prepared as a supplemental statement. Environmental information provided by the companies can include those required by the standards and those disclosed voluntarily. Contingent liabilities, capital expenditures, and legal proceedings are generally required by the accounting standards or regulation of those studied countries while environmental policies, plans and achievements, environmental audits, and costs and benefits from environmental practices are examples of information voluntarily disclosed by companies. Besides the uncommon format and disclosure elements, those studies did not show the expectation of the users which could be necessary for setting up disclosure strategy.

Another issue that is useful for planning disclosure strategy is to understand the relationship of disclosure level of environmental information and the firms' characteristics. Many studies showed that the disclosed level of environmental information could have an association with the company's environmental performance, its economic performance, its stakeholders' influence, its size, and its risk; and have information content. However, the results of those studies are inconsistent (see also chapter 3, section 3.2).

Finally, most of the surveys and studies have been conducted in the developed countries such as the US, UK, Australia, etc. Few studies have been conducted in developing countries where the environmental problems exist at the same level of these developed countries.

1.2 Objectives of this Study

Due to the lack of format in reporting, the inconsistency of the results of studies about the association of the disclosure level and other related problems stated earlier, this study establishes the following objectives:

1. Provide framework and conceptual guidelines in disclosing environmental information, especially the types of information that should be reported based on the expectation of both provider and user groups .
2. Propose a potential format in reporting the environmental information.
3. Construct a model to confirm an association of voluntary environmental disclosure with factors related to disclosure level.
4. Discuss measurement, presentation, and disclosure problems.
5. Provide guidelines for management and accountants in establishing their environmental disclosure strategy.
6. Provide guidelines for implementation to policy makers.

1.3 Research Questions and Hypotheses

In preparing the report for environmental information, one might have these following questions:

- What should be disclosed?
- What form should the reports take?
- Should it be done by accountants?
- Should it be audited?

- Who pays?
- Should it be compulsory or voluntary?

This study proposes to answer the stated questions by using the survey from both the providers of information and the users of information. It starts by illustrating the expectations of the companies which provide the information and indicates the types of information that should be reported in order to satisfy those expectations. In addition, the expectations of the various groups of users are surveyed accordingly. The opinions provided by the survey respondents will form numerical scores that will measure the intention to disclose and use environmental information. The average scores push toward a consensus of desirable disclosure.

It also proposes to give additional evidence on other questions that have arisen from previous studies. Those questions include:

- Is a company willing to disclose positive information rather than negative information?
- Does corporate environmental performance relate to environmental disclosure levels?
- Does corporate economic performance relate to environmental disclosure levels?
- Does pressure from the companies' stakeholders relate to environmental disclosure levels?

To answer these set of questions, empirical analysis is used. This study tests for an association between the level of intention to disclose obtained from the respondents from the companies and the companies' relative disclosure level calculated from the factors related to disclosures: the companies' environmental performance, their financial performance, and their stakeholders' power, using their characteristics of size, risk and industrial type as control variables. The disclosure model is developed and these following hypotheses are indicated for testing:

First, the willingness of the firms in disclosing positive and negative information is hypothesized and tested.

H₁ Information providers tend to disclose positive information more than negative information.

Then, the association between disclosure level and firms' environmental performance, financial performance, and stakeholder's influence are hypothesized and tested.

H₂ Firms with higher environmental performance tend to disclose more environmental information than those with lesser performance.

H₃ Firms with better financial performance tend to disclose more environmental information than those firms with poorer performance.

H₄ Firms that encounter more pressure from their stakeholders tend to disclose more environmental information than those with lesser pressure.

Finally, two control variables, size and systematic risk, are hypothesized and tested.

H₅ Larger firms tend to disclose more environmental information than smaller firms.

H₆ Firms with higher systematic risk tend to disclose more environmental information than those with lower risk.

1.4 Benefits of this Study

This study has many benefits:

1) It proposes to shed light on accounting for the environment in Thailand with emphasis on disclosure aspects.

2) It proposes framework and conceptual guidelines in disclosing environmental information.

3) As a result of the study, the information that should be reported in order to satisfy the expectations of various users is concluded.

4) The pattern of disclosure is presented for disclosure prototype and further investigation.

5) In addition, the measurement, presentation, and disclosure problems and issues are identified and discussed.

6) The willingness to disclose more positive information than negative information is empirically tested. The result could provide some understanding of Thai firms' disclosure strategy. Thus, the relevant authorities could have better view in supervising the disclosure requirement.

7) It is useful to learn what will be the factors of why firms voluntarily disclose environmental information. The results of the study could suggest a way to enhance policy makers' decisions in disclosure strategy.

8) The result of this study could encourage accountants and a standard-setting body to coordinate their efforts to push Thai accounting standards and practices to an international level.

9) The conclusion of this study should arouse management to realize the importance of environmental concerns.

10) It provides some insights of environmental accounting to Thai society. As a result, it proposes a basic framework for reporting environmental information and connect company performance to compliance with standards and expectations toward environmental conduct and responsibility.

11) It also proposes guidelines for implementation to policy makers such as firms, the Stock Exchange of Thailand, and the Institute of Chartered Accountants and Auditors of Thailand.

12) In macro view, the disclosure model could be benchmark for macro accounting with the modification to include society as one of the primary users.

13) The annual report users gain benefit from the environmental information disclosure which will be useful for decision making.

14) Finally, this example could be the milestone for developing reporting in other emerging countries where similar constructions of accounting environment are existed.

The remainder of this study is organized as follows:

- Chapter 2 Describe environmental management and disclosure requirement.
- Chapter 3 Review of previous literature in the aspects of law requirement, current practices, and suggested practices in other countries. Also illustrate theoretical background and the development of hypotheses related to characteristics associated with environmental disclosures.
- Chapter 4 Present sample selection and methodology.
- Chapter 5 Show empirical tests and results of this study.
- Chapter 6 Conclude the summary, implication, and suggestions for future research.