Trends in South African corporate environmental reporting: A research note

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Abstract

The contents of the annual reports of listed mining companies as well as of the Top 100 industrial companies in South Africa were analysed to determine how the disclosure of environmental information has changed over time. Disclosure of general environmental information increased until 1999 and then stabilised at that level. The initial increase in the disclosure of specific environmental information, such as measurable objectives and environmental performance, was followed by a decrease from 1998 onwards. A possible explanation could be that the lack of legal requirements with regard to the reporting of environmental information enables companies to decide what to report and what the extent of the reporting should be. They can therefore elect not to report specific and sometimes sensitive information, because stakeholders could perceive such information to be negative and it could therefore have a negative impact on the corporate image.

Key words
Environmental reporting
Environmental disclosure
Environmental accounting

1 Introduction

Environmental reporting continues to gain importance in international business. Several international studies (Deegan and Gordon 1996; Wilmshurst and Frost 2000; Gray, Kouhy and Lavers 1995) have analysed environmental disclosure in annual reports and have all reported increased disclosure over time. Evidence of the importance of environmental accounting can also be found in the launching of the AccountAbility 1000 Framework (AA1000) (AccountAbility 1999).

A1000 is an ethical accounting standard that is designed to evaluate organisation's social and environmental reporting as well as the quality of their reporting. A survey undertaken by the Pension and Investment Research Consultants indicated that the reporting of environmental information by the FTSE 350 companies increased from 65% to 70% in 1999 (PIRC 1999). A study conducted by the Institute for Environmental Management in association with KPMG found that 35% of the 350 largest corporations in the world regularly issue environmental reports (Kolk 2000). In South Africa, the King Report II (2002), published by the Institute of Directors, emphasised the importance of environmental and social reporting as an integral part of overall corporate responsibility (as was the case with the King Report I).

De Villiers and Barnard (2000) compared the disclosure of environmental information in the annual reports of companies in the mining industry in South Africa with that disclosed by large listed industrial companies. This study also identified an overall increase over time in the percentage of companies that report environmental information. Surprisingly, however, there was a reduction from 1998 onwards in certain categories of disclosure. The categories that reflect reductions in the percentage of companies reporting were those that concern the more specific types of environmental disclosure, namely disclosure of environmental objectives, setting of measurable targets as well as indicating whether environmental targets have been met. De Villiers and Barnard (2000) speculated that *fear of liability* and *litigation* could possibly be reasons for the reduction in these categories of environmental reporting, which commenced in 1998.

This paper aims to establish whether the reduction in the percentage of JSE-listed companies that disclose certain specific types of environmental information in their annual reports heralded the beginning of a new trend or was a temporary phenomenon.

The following section sets the theoretical framework for the paper and precedes a discussion of the research method employed. Thereafter the results are presented, followed by the conclusion.

2 Theoretical framework

The legitimacy theory states that companies cannot continue to exist and thrive if their beliefs and methods are contrary to those of the society in which they operate (Deegan and Rankin 1996; Wilmshurst and Frost 2000; O'Donovan 2002; Campbell 2000). Organisational legitimacy is a way of investigating corporate behaviour, and ". . . an organisation is visualised as operating under a mandate from society, [which is] withdrawable were the organisation be seen not to be doing the things society expects of it . . ." (Woodward, Edwards and Birkin 2001). If, therefore, a company changes its operations in a manner that differs from the expectations of society, society would not support the company

unless it is content with the change in the activities. The implication is that a company that changes its activities should, if it is to continue to exist, ensure that these changes are accompanied by disclosures (Cormier and Gordon 2001; Deegan and Rankin 1996).

Lindblom (1994) identified four strategies that companies can follow to legitimise themselves by voluntarily reporting environmental information, namely:

1 Reporting to educate and inform. (The organisation changes and reports the facts.)

2 Reporting to change perceptions. (The organisation does not change, but reports what it does.)

3 Reporting to manipulate perceptions. (Positive news is emphasised and negative news ignored.)

4 Reporting to change external perceptions. (Expectations are regarded as being unfair.)

In a study conducted by Solomon and Lewis (2002), the researchers aimed to determine the reasons for the disclosure and non-disclosure of environmental information. One of the reasons identified by the researchers in support of increased environmental disclosure is a social incentive that encompasses legitimacy. Patten (2000) supports this view by concluding that additional voluntary disclosure is used to increase social legitimacy.

Solomon and Lewis (2002) conducted their research by analysing the response of three subgroups and their perceptions with regard to environmental reporting. The three subgroups that were analysed comprise a normative group, an interested party and a company group. Only the results of the company group are relevant for the purpose of the current study. The aforementioned study indicates that the following are the main reasons for corporate environmental disclosure, in the order of importance:

☐ Acknowledgement of companies' social responsibility.

☐ Improvement of the companies' corporate image.

☐ Compliance with regulations.

Bansal and Roth (2000) developed a model along the lines of the structure proposed by Solomon and Lewis (2002) to explain the reasons for environmental reporting, namely competitive advantage, legitimisation and environmental responsibility.

Acknowledgement of social responsibility indicates that a company acknowledges the fragile relationship between itself and society. To be socially responsible, a company should keep society informed. This objective can be achieved by means of increased environmental disclosure. Roarty (1997) states that the "greening" of a company is done to exploit commercial opportunities. Increased disclosure can therefore be used to improve the corporate image.

The following are the main reasons, in the order of their importance, for the non-disclosure of corporate environmental information by the companies' group (Solomon and Lewis 2002):

- Reluctance to report sensitive information.
- Lack of a legal obligation for companies to report environmental information.
- Attempting to avoid providing competitors with information.

The sensitivity associated with environmental information was stated as the most important reason for the exclusion of environmental information. When deciding what information to disclose or not to disclose, a company will strive to protect its social image in order to increase stakeholders' value. Sensitive information can influence society negatively and therefore there is a reluctance to report such information.

Legitimacy theory may explain the reluctance of companies to disclose sensitive information. If companies believed that the disclosure of sensitive issues would not necessarily improve the corporate image of the company and if they are afraid that the disclosure of such information would highlight problem areas, which may otherwise escape scrutiny, they may elect not to disclose the information.

Other strategies that are used by companies in an attempt to manage the extent of their environmental disclosure include the disclosure of their association with organisations that are perceived to be legitimate, and the adjustment of their values accordingly (Milne and Patten 2002).

The non-disclosure of certain specifics, such as objectives, could therefore be beneficial to a company when there is no legal requirement to disclose them. On the other hand, the disclosure of general environmental information, such as policies or general environmental risks already known to exist, can enhance the corporate image without posing unnecessary additional risks. Research undertaken by Adams (1999) as well as by Adams and Harte (1998) has found that the disclosure of the nature and extent of environmental information changes over time. They believe that changes in the social, political and economic environment may influence disclosure of this nature.

3 Methodology and checklist development

The investigation was limited to listed companies, because their annual reports are readily available. The annual reports of the listed mining companies as well as the Top 100 industrial companies were included in the study. De Villiers and Barnard (2000) had used the *Financial Mail* Top 100 Industrial Companies. However, from 2000 onwards the *Financial Mail* no longer separated the top industrial companies from its list of top companies. For the years 2000 and 2001 the selection of the top 100 industrial companies was based on data supplied by *McGregor BFA*. The basis of selection in both the "*Financial Mail* period" and the "*McGregor BFA* period" was total assets.

The annual reports were analysed by means of the same checklist that was used in the research undertaken by De Villiers and Barnard (2000). The checklist was originally based on the “minimum requirements” for corporate environmental reporting that were suggested by De Villiers (1996).

In 2001 there was a significant drop in the disclosure of corporate policy or mission statements that mention the environment (question 2). This drop was perplexing, because of a general trend of increased corporate disclosure of environmental information. In an attempt to explain the significant drop in disclosure, question 6 was added to the checklist. This question is concerned with the proportion of companies that disclose a separate environmental policy. In respect of question 6, data were collected for the years 1994 and 1998 to 2001.

Although the classification of the Top 100 industrial companies was used in the survey, some annual reports were not available for specific years as a result of delistings, new listings, mergers and year-end changes.

4 Analysis of annual reports

4.1 *Results*

The number of companies included in the survey is indicated below.

Table 1 Number of companies that disclose environmental information

	De Villiers and Barnard: 2000			Current study	
	1994	1998	1999	2000	2001
Top 100 industrial	99	96	99	97	97
Mining companies	121	72	48	51	44

The percentages of the companies that disclose the relevant environmental information in the case of the Top 100 industrial companies and the mining companies listed on the Johannesburg Stock Exchange are stated in table 2:

Table 2 Results of the survey

1 Companies that disclose the environmental impacts and risks of their business.					
	De Villiers and Barnard: 2000			Current study	
Year	1994	1998	1999	2000	2001
Top 100 Industrial	14%	21%	24%	14%	25%
Mining	13%	28%	48%	34%	36%

2 Companies that disclose a corporate policy or mission statement that mentions a policy or mission regarding the environment.

	De Villiers and Barnard: 2000			Current study	
Year	**1994**	**1998**	**1999**	**2000**	**2001**
Top 100 Industrial	19%	22%	31%	31%	12%
Mining	9%	32%	52%	54%	23%

3 Companies that disclose environmental objectives and also set measurable standards, enabling a comparison of the achieved environmental performance with the objectives.

	De Villiers and Barnard: 2000			Current study	
Year	**1994**	**1998**	**1999**	**2000**	**2001**
Top 100 Industrial	18%	10%	11%	2%	6%
Mining	23%	25%	29%	10%	9%

4 Companies that disclosed whether they have achieved their objectives in respect of the environment.

	De Villiers and Barnard: 2000			Current study	
Year	**1994**	**1998**	**1999**	**2000**	**2001**
Top 100 Industrial	17%	22%	22%	5%	3%
Mining	17%	28%	42%	14%	11%

5 Companies that disclose accounting policy notes regarding environmental accounting.

	De Villiers and Barnard: 2000			Current study	
Year	**1994**	**1998**	**1999**	**2000**	**2001**
Top 100 Industrial	4%	5%	5%	6%	4%
Mining	12%	57%	60%	66%	64%

6 Companies that disclose a separate environmental policy.

	Current study				
Year	**1994**	**1998**	**1999**	**2000**	**2001**
Top 100 Industrial	N/a	13%	15%	2%	20%
Mining	N/a	19%	23%	8%	34%

4.2 *Interpretation of the results*

Mining vs. Top industrial companies

A greater proportion of mining companies than Top industrial companies disclose environmental information. This trend is true in respect of the results obtained for all of the questions in the checklist.

Relatively more mining companies continued to disclose environmental accounting policy notes in each of the years concerned. This trend is not surprising as mining companies have a much greater environmental impact than the Top industrial companies. In South Africa there are specific accounting policies that apply to the mining sector and which they are compelled to adhered to. These policies specifically target rehabilitation liabilities and inevitably lead to the disclosure of environmental information.

The conclusion reached is that the above-mentioned phenomena could explain the relatively greater level of disclosure by mining companies in the years 1994 and 1998 to 2001.

Overall trend

The figures obtained for 2000 and 2001 suggest that mining companies as well as Top industrial companies had reached a plateau with regard to the disclosure of environmental impacts and risks (question 1). The reason for the fact that there was no additional disclosure could be that, because of the general nature of the disclosure and the public's knowledge of the existence of the risks, additional disclosure and/or less disclosure would have no influence whatsoever on how society perceives the company. There is therefore neither an incentive nor a disincentive for increased disclosure.

In 2001 there was a significant decline in the percentage of both the Top industrial companies and the mining companies that disclose a corporate policy or mission statement that includes the environment (question 2). This decline breaks the overall trend of increased disclosure (De Villiers and Barnard 2000). Question 6 (on the percentage of companies, both mining and Top 100 industrial, that disclose a separate environmental policy), could prove to provide an explanation for the surprising results found in respect of question 2. Whereas environmental information was previously included as part of the corporate mission or policy statement, it could now possibly be deemed to be of such importance that companies see it fit to disclose a separate environmental policy or mission statement.

In the research conducted by De Villiers and Barnard (2000), a significant reduction in the percentage of companies that disclose environmental objectives and set measurable targets (question 3) was evident in 1998. This trend continued in 2000 and 2001. The pattern also applies to the disclosure of information regarding whether companies had achieved their objectives in this regard (question 4). This decrease is not only evident for the mining industry, but is also apparent in respect of the Top industrial companies.

The results are surprising when viewed against the background of a market environment that supports increased disclosure of environmental information. The reasons for non-disclosure could include the lack of legal requirements for the disclosure of environmental information. Because there is no relevant legislation, it is the companies themselves that decide what information to report and what the extent of the reporting will be.

Disclosure of specific objectives and the performance of the company in achieving these objectives (questions 3 and 4) have the potential of focusing society's attention on specific environmental issues with regard to the company. Companies have an opportunity to avoid reporting sensitive information that may give rise to negativity among stakeholders and consequently the withdrawal of stakeholders' support. To disclose whether it has achieved its objectives may also prove to be damaging to the company's corporate image, if such information should be negative. Such specific disclosures could result in stakeholders questioning the company's environmental management policies and practices.

With regard to the decrease in the percentage of companies that disclose a corporate policy or mission statement that includes a policy or mission statement regarding the environment (question 2), the phenomenon could be explained by the increased disclosure of a separate environmental policy or mission (question 6).

The consistent results for the years 1998 to 2001 in respect of questions 2 and 5 could be ascribed to the general nature of such disclosure. It is therefore concluded that companies could be reluctant to disclose specific environmental information, but be more inclined to disclose environmental information of a general nature.

5 Conclusion

The research produced evidence of decreased disclosure of specific environmental information, which is in contrast with a historical trend of increased disclosure (see questions 1, 2 and 6) of environmental information. Decreased disclosure, as measured by a reduction in the percentage of companies reporting, was found in the specific disclosure of:

- Environmental objectives (question 3); and
- Environmental performance (question 4).

This phenomenon was evident in respect of both the mining companies and the Top industrial companies.

The new trend of decreased disclosure of specific environmental information first became apparent in 1998 and continued to 2001. The disclosure of general environmental information, such as impacts, risks and mission statements, appear to have increased until 1999, only to stabilise at that level until 2001.

A possible explanation could be that, as a result of the lack of legal requirements to report environmental information, companies may – because of the

sensitive nature of such information – have elected not to report specific environmental information. The reasoning behind this decision may have been that stakeholders could perceive the information to be negative and/or that the information could impact negatively on the corporate image.

This finding is consistent with legitimacy theory, which proposes that companies do not wish to disclose information that could be detrimental to the objective of legitimising their activities and increasing social support.

It is envisaged that specific forms of environmental disclosure will decrease further over time. Legislation that mandates more comprehensive environmental disclosure is an obvious way of reversing this new trend. The King II Report (Institute of Directors 2002:121) states that: "It is recommended that companies be given legislative incentives to improve performance, encourage best practice and promote compliance with environmental corporate governance."

Further research could attempt to establish the willingness of the legislature and/or the accounting establishment to introduce legislation and/or standards in respect of compulsory environmental disclosure.

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