

**THE EFFECT OF THE STAKEHOLDERS'
PRESSURE ON ENVIRONMENTAL
ACCOUNTING REPORTING OF SMES IN
SHANXI PROVINCE, CHINA**



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**FACULTY OF BUSINESS, ECONOMICS AND
ACCOUNTANCY
UNIVERSITI MALAYSIA SABAH
2022**

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**THESIS SUBMITTED IN FULFILMENT OF THE
REQUIREMENT FOR THE DEGREE OF MASTER
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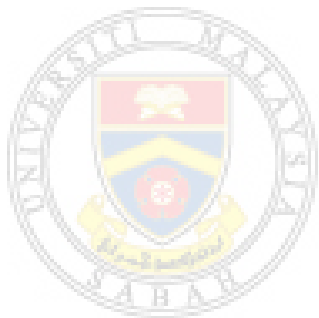
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DECLARATION

I hereby declare that the materials in this study are my own except for quotation, equations, summaries and references, which have been duly acknowledged.

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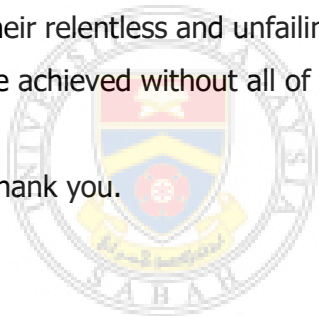
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Zhao Xin
16 June 2021



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ABSTRACT

The small and medium enterprises (SMEs) in China have achieved rapid and sustainable growth for more than three decades that have also contributed to the China's economic development. There are growing concerns on how the human social and economic related activities especially have contributed to the serious damage on the environment which can in turn harmful to the quality life and the future generations. These unwanted impacts are now becoming evident and cause the degradation of environment and scarcity of world natural resources reserve. However, the studies on the public's sensitivity to environmental issues are still scarce which signal for more research to be conducted on the environmental topics. Therefore, the objective of this study is to examine the pressure of stakeholders, namely External stakeholders (Government, Customers, Suppliers, Community, and Media) and Internal stakeholders (Shareholders and Employees) of SMEs in Shan Xi Province in China towards the need to comply with environmental accounting reporting. Five hundred copies of questionnaires were distributed, but only two hundred twelve ready copies were subsequently collected. The data was then analyzed by utilizing Partial Least Squares-Structural Equation Modeling (PLS-SEM) using SmartPLS 3.3.2. The results of this study indicate that the pressures from Government, Community, Media, Shareholders, and Employees do have an effect on EAR. The pressures from Customers, Suppliers don't have any effect on EAR. The insights of this study prove that the Government, Community, Media, Shareholders, and Employees in SMEs in Shan Xi Province do concern of the environmental issues due to fact that environmental accounting reporting can improve SME's performances concerning the environment, inventory and controlling costs, efficient technologies with less pollution, non-polluting products.

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ABSTRAK

PENGARUH TEKANAN PEMEGANG TARUH TERHADAP PELAPORAN PERAKAUNAN ALAM SEKITAR DI PKS DI WULAYAH SHANXI, CHINA

Perusahaan kecil dan sederhana (PKS) di China telah mencapai pertumbuhan yang pesat dan berterusan selama lebih dari tiga dekad yang turut menyumbang kepada pembangunan ekonomi negara China. Terdapat peningkatan kebimbangan mengenai bagaimana aktiviti sosial dan ekonomi khususnya telah menyebabkan kerosakan yang serius ke atas persekitaran pada masa hadapan dan seterusnya juga ke atas kualiti kehidupan dan generasi akan datang. Impak yang tidak diingini ini kini semakin jelas dan menyebabkan kerosakan alam sekitar dan juga ke atas simpanan sumber-sumber alam semulajadi. Walau bagaimanapun, kajian mengenai kepekaan masyarakat terhadap isu-isu alam sekitar masih agak sedikit yang menunjukkan bahawa lebih banyak kajian perlu dilakukan mengenai topik alam sekitar. Oleh itu, objektif kajian ini adalah untuk mengkaji tekanan pihak berkepentingan, iaitu pihak berkepentingan Luar (Kerajaan, Pelanggan, Pembekal, Komuniti, dan Media) dan pihak berkepentingan Dalaman (Pemegang Saham dan Pekerja) PKS di Wilayah Shan Xi di China terhadap keperluan untuk mematuhi berkenaan pelaporan perakaunan persekitaran. Sebanyak lima ratus salinan soal selidik telah diedarkan, tetapi hanya sebanyak dua ratus dua belas salinan lengkap dikumpulkan semula. Data kemudian dianalisis dengan menggunakan Partial Least Squares-Structural Equation Modeling (PLS-SEM) menggunakan SmartPLS 3.3.2. Hasil kajian ini menunjukkan bahawa tekanan dari Kerajaan, Komuniti, Media, Pemegang Saham, dan Pekerja mempunyai pengaruh terhadap EAR. Tekanan dari Pelanggan, Pembekal tidak mempengaruhi EAR. Dapatan kajian ini membuktikan bahawa Kerajaan, Komuniti, Media, Pemegang Saham, dan Media berkaitan PKS di Wilayah Shan Xi mengambil berat mengenai isu-isu persekitaran kerana pelaporan perakaunan alam sekitar dapat meningkatkan prestasi PKS dalam hal mengenai alam sekitar, inventori dan pengendalian kos, teknologi yang efisien dan produk yang kurang mencemarkan.

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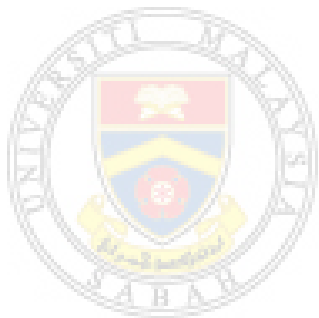
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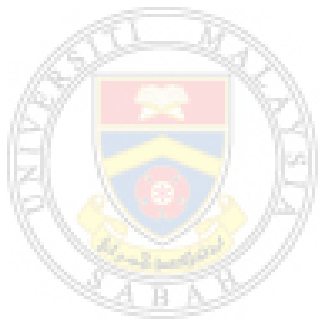
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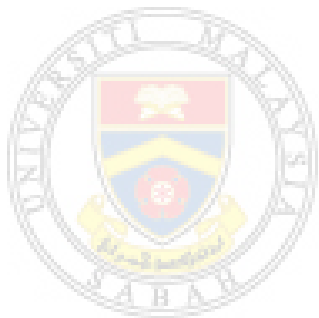
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CHAPTER 1

INTRODUCTION

1.1 Background of the Study

Nowadays environmental issues are becoming increasingly prominent globally, especially in China (Zhu, 2019). Since the 21st century, the global economy has been developing rapidly and people's living standards have been improving continuously. The rapid growth of science and technology has promoted the rapid growth of social economy as well. However, along with the economic development is the deteriorating environment, which leads to the continuous decline of the environmental quality of people's life, more and more environmental problems appear (Yu & Rowe, 2017). The thinning of the ozone layer, global warming, deforestation, species extinction, waste disposal, habitat destruction, energy usage, acid rain, desertification, soil erosion, air pollution, water deletion, usage of toxic chemicals, land pollution, nuclear waste, noise pollution, and resource scarcity are some examples of the global environmental problems that are prevalent today (Deegan, Rankin, & Voght, 2000). Enterprises are the main body of national economic development and the main users of public resources. Currently, 80% of pollution in the natural environment comes from enterprises (Xu, 2019). Companies pursue the principle of maximizing profits, but they also have the responsibility to control pollution and protect the environment. With the progress of the times and the deepening of people's awareness of environmental protection, people are paying more and more attention to the company's pollution control activities and environmental protection. The various activities of the enterprise in environmental protection are reflected in its environmental report (Zhou, 2011). Therefore, company's environmental report has attracted more and more attention from the society.

The Global Reporting Initiative (GRI) Sustainability Reporting Guidelines (G3) emphasizes that the openness and transparency of information is a fundamental trend for sustainable construction and development in the future. There are still considerable obstacles and difficulties in the development process. However, challenges and opportunities will make the transparency of economic, environmental and social impacts as the basic elements in the various subjects of market relations. Information disclosure is the fundamental way to achieve information transparency. As an important source of pollution, enterprises need to increase the intensity of environmental reporting to deal with environment pressure (Lin, Wang, Marinova, Zhao, & Hong, 2017).

Environmental reporting refers to the information of the relevant environmental behavior, which is published by government or enterprises through certain form. Therefore, the managers, managed object and the public can realize the current environmental situation and share the environmental information through environmental report. As a result, it can inspire the public to protect environment, can constrain the environmental damage behavior as well as promote the harmonious development among social economy, resource and environment (Meng, 1999). Environmental accounting report is the report of the enterprise's environmental accounting results. The environmental impact of the natural environment and human activities has been a concern for humans for centuries. Driven by industrialization worldwide, the international community is more concerned and has therefore been trying to find solutions through international policies and regulations in order to use the natural environment to serve the interests of the present without compromising the interests of future generations (Buss, 2007). Therefore, Environment Accounting reporting has become one of the most important topics for debate in the world (Hopwood, 2009).

However, there are many problems in the environmental accounting reporting of Chinese companies (Zhu, 2019). First of all, compared to developed countries, Chinese environmental accounting reporting is relatively new, still in the initial stage, the development is not comprehensive, so in the report of relevant rules and regulations, it is still lacking. Second, environmental accounting reporting is not often appeared at Chinese enterprises. Previous related study shows that only

approximately one-third of companies have environmental accounting reporting (Zeng, Xu, Yin, & Tam, 2012). Compared to some foreign companies that pay more attention to environmental responsibility, Chinese enterprises still have much room for improvement in this area (Campbell, Shrives, & Bohmbach-Saager, 2001). Thirdly, although relevant departments issued "guideline to environmental reporting" file, and that clearly stipulated heavily polluting industry shall publish annual environmental report every year to reveal the conditions of the discharge of pollutants. While most of companies abide by the law and environment management information, there is no clear regulation on other industry (Xie, 2016). The fourth, KPMG (2013) the responsibility report survey also shows that the EAR quality of Chinese companies is far behind the global standard.

The main cause of increasingly serious environmental pollution is the substantial increase in primary energy consumption accompanied by rapid development. Although China is now using more and more new energy sources, it still relies heavily on coal resources. In 2019, coal consumption accounted for 61.83% of China's energy consumption structure (Prospective industry research institute), and this situation is difficult to change in the short term. Shan Xi, Chinese largest coal producing province (See Figure 1.1), has the largest coal reserves, it plays an important role in promoting China's economic development and environmental issues (for example, haze) are particularly prominent (Chen, 2015). Therefore, in the face of the current increasingly stringent international requirements for environmental protection, the question on how enterprises in Shan Xi province should change their own development model and take the road of sustainable development is a key issue of concern to business managers and the country. Based on the research of the previous literature, scholars have found that if companies want to achieve transformation and take the road of sustainable development, it is very important to seriously implement environmental reporting.

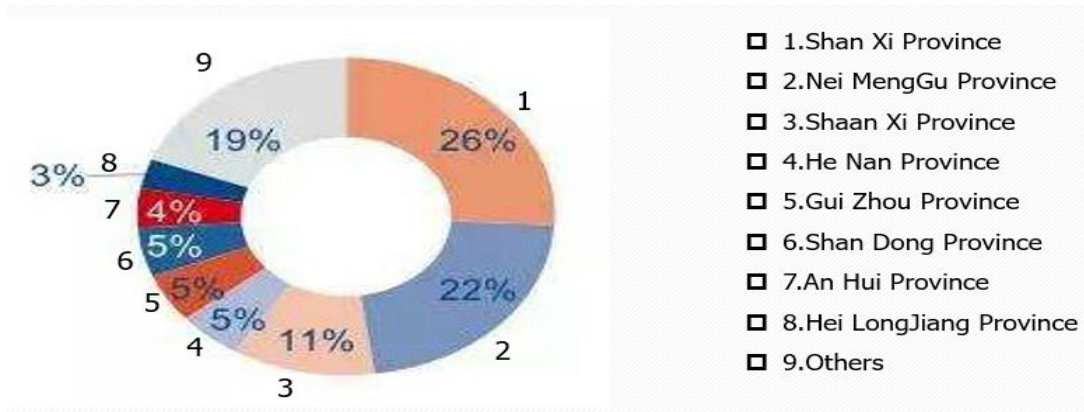


Figure 1.1 : The coal producing in China

Source : National Bureau of Statistics of China

This study purposely chose small and medium enterprises (SMEs) as the subject of the study based on the numbers of justifications. Firstly, as argued by Jaffar & Buniamin (2004), the SMEs if viewed individually seems insignificant but collectively they are significantly influential in contributing to the harm and hazard of the environmental. On top of that, economically speaking, Jaffar & Buniamin (2004) posited that SMEs are the backbone of most of the nations in the world and therefore any research on this sector will enrich the required knowledge in ensuring the sustainability of SMEs with respect to their operation and contributions to the nation' aggregate income. Secondly, vast majority of researchers and academia in this field highlight that at present there is indication that regulations and laws relating to EAR for SMEs are ineffective and even not exist (Jaffar & Buniamin, 2004; Luo & Jin, 2015; Wan, Zain & Atan, 2010).

At present, SMEs do not have certain requirements and regulations on whether to disclose environmental accounting information, and relevant government management departments also lack corresponding mandatory system for the disclosure of corporate environmental information (Zhao, 2013). Some companies have a certain understanding of environmental accounting, so they disclosed environmental information in the financial statements, but still many companies that have a serious lack of understanding of environmental accounting, and no relevant environmental accounting information is mentioned in the financial statements, which seriously affects the authenticity of corporate information disclosure. The number of SMEs is increasing year by year. However, compared with largest

enterprises, little attention has been paid to environmental accounting for SMEs (Han, 2013). The characteristics of SMEs in my country are their large numbers and small scale, and their impact on the environment should not be underestimated. Compared with the mandatory environmental accounting information disclosure system of listed companies, the environmental accounting information disclosure system of SMEs is not sound, and there are few environmental accounting regulations specifically for SMEs companies (Zhao, 2013). In order to better respond to the construction of ecological civilization, it is urgent to study the environmental accounting information disclosure of SMEs.

This study chooses small and medium enterprises (SMEs) in Shan Xi, because the proportion of SMEs in Shan Xi Province is currently large, far exceeding the number of listed companies (Sun, 2008). Therefore, SMEs are the main body of environmental pollution, which will cause a lot of environmental damage. At present, the biggest problem currently facing SMEs is that they have not published data and are not clearly aware of their impact on the environment (Sun, 2008). Therefore, the research on the environmental accounting reporting of SMEs is one of the current main topics in this field of study.

With the deterioration of the environment and increasingly serious environmental problems, stakeholders pay more and more attention to the environmental responsibilities of firms, and environmental accounting reporting is the most basic and effective way of communication between enterprises and stakeholders (Zhang, 2015). Relevant national institutions attach great importance to environmental accounting reporting and encourage enterprises to take environmental report, so they have issued supporting laws and regulations to regulate relevant work (see table 1.1). Under the supervision of law and public opinion, the relevance of environmental information and decision-making have become increasingly prominent (Zhao & Patten, 2016). Corporate stakeholders have the right to be informed of environmental accounting reporting, which is conducive to make judgments on the potential profitability and enterprise value of the enterprise, thus reducing environmental risks. As environmental accounting reporting is gradually promoted by external pressure, the demand for environmental accounting reporting is more and more obvious. As an enterprise, the company seeks to

maximize the interests of stakeholders and needs to provide more adequate environmental accounting reporting (Zhang, 2015).

Table 1.1: Environmental Accounting Reporting laws and regulations in China

Year	Organizations	Title	Content
1997	China Securities Regulatory Commission (CSRC)	The contents and format of the prospectus	Industry risk, which involves the limitation of environmental factors.
2005	State Environmental Protection Administration (SEPA)	Opinions on accelerating the evaluation of enterprise environmental behavior	The disclosure of enterprise environmental information is an important measure to protect the public's right to know about the environment.
2006	State Environmental Protection Administration (SEPA)	Interim measures for public participation in environmental impact assessment	During certain new, modified or expanded construction stages prior to production or business activities, the enterprise shall disclose its relevant environmental information to the public in a manner accessible to the public by relevant consulting agencies.
2007	State Environmental Protection Administration (SEPA)	Measures for environmental Reporting (trial)	Requiring environmental protection departments to disclose government environmental information in a timely and accurate manner; Enterprises are required to disclose their environmental information timely and accurately in accordance with the principle of combining voluntary disclosure with

			mandatory disclosure.
2008	State ministry of environmental protection	Guidance on strengthening environmental protection supervision and management of listed companies	It is required to establish a mechanism for the disclosure of environmental information of listed companies. When major events related to environmental protection occur and are not known to investors, listed companies shall immediately disclose such information
2010	State ministry of environmental protection	Guidelines for environmental reporting of listed companies (draft for comments)	It requires listed companies to disclose environmental information to the public regularly or temporarily, heavy polluting industries to release annual environmental reports, and environmental emergencies to release temporary environmental reports. It stipulates the items to be disclosed in reports and provides reference Outlines for the preparation of reports
2014	The standing committee of the 12th National People's Congress (China)	New environmental law	Chapter five is "information disclosure and public participation", of which article 55 relates to enterprise environmental information disclosure.

Source : Zhang (2015)

Stakeholder pressure is considered one of the most important determinants influencing firm's environmental strategy. Companies understand the importance of responding accordingly to pressure from stakeholders to help improve their competitive posture (Freeman, 1984). The importance of managing and balancing

these external pressures with internal capabilities is not only important for organizations to manage but also provides insights for policy makers and partners within a broader perspective. Previous environmental accounting reporting research have demonstrated that various stakeholder groups may prompt companies to expand their environmental accounting reporting (De Villiers and van Staden, 2012; Huang and Kung, 2010). These studies demonstrate the need for companies to fulfill their social responsibilities and the obligation to meet the needs of their stakeholders. However, most of the literature so far has only discussed the correlation between specific stakeholder groups and environmental accounting reporting, and in general has focused on the expectations of stakeholders on corporate governance. This study uses a broader perspective and analyzes the roles of governments, customers, suppliers, communities, media, shareholders, and employees, and then examines the effect of the pressure from external and internal stakeholders to clarify the needs of multiple stakeholders. In specific, this study is applying the stakeholders' theory to investigate the impacts of the identified stakeholders' pressures on the EAR.

Based on the findings and results of the previous study, the researcher found that the supply of environmental accounting reporting is driven by the relationship between managers and stakeholders. Therefore, the economic interests of different stakeholder groups provide important signals for the environmental accounting reporting, and environmental accounting reporting should meet demand (Huang & Kung, 2010). On the other hand, if the economic benefits of stakeholders increase the value of environmental information, the demand for environmental accounting reporting will increase, and management will commit to provide more environmental accounting reporting to enhance environmental awareness (Aerts & Cormier, 2009). Therefore, this study investigates the effect of the pressure from stakeholders (government, customers, suppliers, community, media, shareholders, employees) on EAR.