

# INVESTIGATING THE FACTORS INFLUENCING ON THE COMPANY VALUE OF THE LISTED COMPANIES IN THE PALM OIL INDUSTRY: EVIDENCE FROM MALAYSIA

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**Abstract:** *It has been many accusations on the palm oil due to the environmental unfriendly product by European Parliament and planned to ban palm oil biofuel by 2020, it will caused an impact to the palm oil related company via reduction in the revenue as European Union had annually import \$20 billion from Malaysia. Those companies can enhance its values with the application of environmental accounting, environmental performance and information disclosure. Hence, the objective of the research is to investigate the factors influencing on the company value of the listed companies in the palm oil industry in Malaysia. The data for the study will be collected based on the 5 years' annual report from those palm oil listed companies in Bursa Malaysia and will emphasize on the level of environmental accounting, environmental performance and information disclosure to the company key indicators such as earning per share, dividend yield and price earnings ratio. The research will able to provide as guidance for the government to encourage company to mandatory inclusion of the above factors to fight back against the ban by the European Union.*

**Keywords:** *Environmental Accounting, Environmental Performance, Information Disclosure, Company Value, Palm Oil Listed Companies in Malaysia*

2020 JGBSE

## Introduction

The relevant of environmental accounting has been discussed for a long time. Many companies and organisation view it as a burden to them to practises. The objectives of the environmental accounting are to achieve sustainable development, fulfilling corporate social relationship and pushing the company in achieving effective and efficient environmental compliance.

This paper is to study on whether the environmental accounting may affect to the corporate value. Environmental disclosure is also important information regarding company's activities that conducted in an ethical manner at globalization era. This is caused by proliferation of media coverage on issue of climate change and global warming, as well as national disasters, both naturally or company negligence. These symptoms encourage greater attention to sustainability reporting, and raise questions about transparency of disclosure and role of accounting information in generating financial information relevant and reliable. A series of data collection had been conducted by the professional accountants to analyse from their perspective on the area which may be challenge them in the near future and how the

mapping of the Industry. The study will eventually provide as a source reference about the future of environmental accounting and what to expect from the obstacles.

According to Hussain (2016), as a subsection of accounting, Environmental accounting basically addresses activities, methods and systems as well as recording, analysis and reporting from the environmentally persuaded financial aspects and ecological impacts of a defined economic system also emphasize two sides of environmental accounting, the non-monetary and monetary aspects.

Environmental awareness has been brought to the world stage in the 1992 United Nations Framework Convention on Climate Change (UNFCCC) which commits the UN members to reduce greenhouse gas (GHG). In general, societies are concerning the industry development will harm the environmental but without growth and sustainable earning the economic will be affected. Environmental disclosure means to reveal environmental costs of development. It reflects the use of precious natural resources for generating national income through environmental reporting (<https://unfccc.int/bigpicture>).

Most of the western countries have label plantation sectors has resulted in deforestation with large area been destroy to make way for plantation. Their NGO have lobbying and push hard for their government to ban or classified those products as environmental harmful. There is clear evidence that the expansion of oil palm cultivation has resulted in deforestation, biodiversity loss, and net greenhouse gas (GHG) emissions. Palm oil has in some instances expanded onto land traditionally used by indigenous and local communities. Malaysia is also the largest exporter of palm oil product. According to Ministry of Primary Industries, in 2017 agriculture made up 8.1% of the GDP in Malaysia and Palm Oil made up about 47% of the agriculture contribution to GDP in Malaysia in 2017. Therefore, this study will explain that palm oil company's value is very significant to the palm oil industry ([www.dosn.gov.my](http://www.dosn.gov.my)).

Based on Ministry of International Trade and Industry (MITI) for February 2019, Palm oil and palm oil-based agriculture products, RM3.04 billion, 4.6% of total exports, decreased by 16.9% compare to January 2019. In January-February 2019, trade with the EU was down by 3.5% to RM28.65 billion compared to the same period last year. ([www.miti.gov.my](http://www.miti.gov.my)).

Palm oil today is by far the most important source of vegetable oil in the world, having overtaken soybean-oil in 2006. Rapeseed oil and sunflower oil are in third and fourth place, respectively. The world is reliant on palm oil to satisfy growing global demand for vegetable oil. Because of its high yield per hectare, the land area requirement for palm oil is lower than that of competing crops. As a result, while more countries are expected to play an increasingly important role in the future, discussion of the oil palm in this study cannot disregard the key role of Indonesia and Malaysia corporate that involve in oil palm development. Recently, lots of negative comment and movement in Europe and Australia called to ban the consumption of palm oil due to the issue regarding to the deforestation. The movement will surely impact the corporate value of those involve in the plantation, therefore the environmental accounting application to those corporate may be significant factors for the industry in large and the company specifically. ([www.nst.com.my](http://www.nst.com.my))

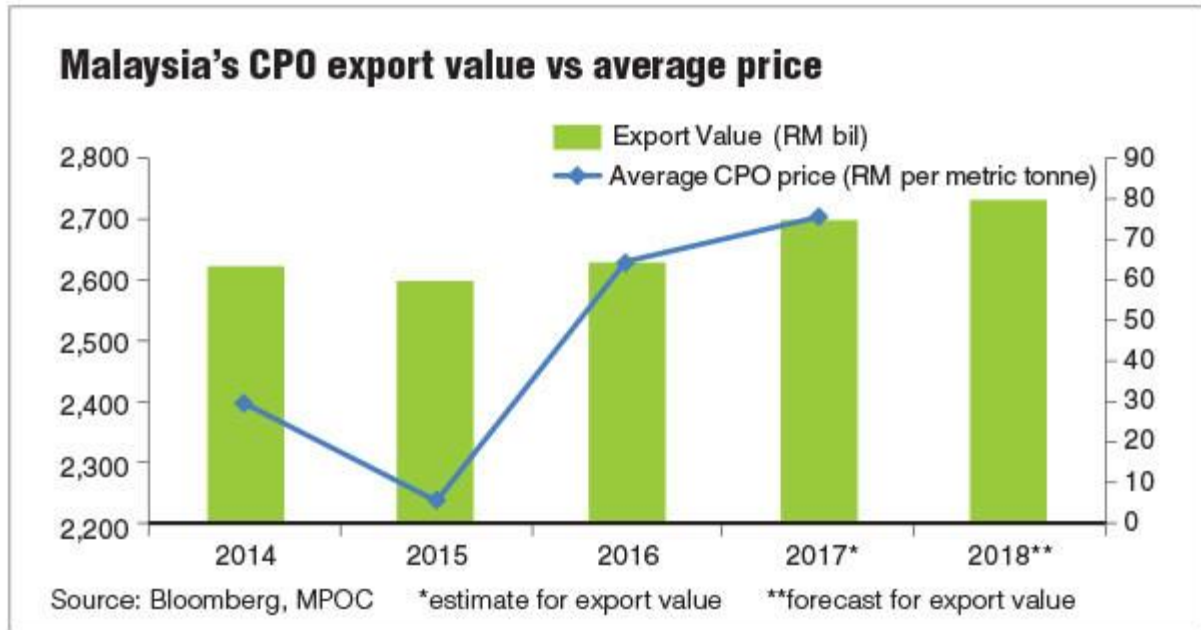


Figure 1: Malaysia's CPO export value vs average price (www.theedgemarkets.com)

As the society, it is concerning the industry development will be benefit with the environmental accounting, environmental performance and information disclosure with the growth and sustainable earning for the country economy as well. Information disclosure reflects the use of precious natural resources for generating national income through environmental reporting. Therefore, if we can measure the company value of the palm oil industry, it is crucial to investigate whether those identify factors will be able to increase the shareholders' wealth via increase of company value and remove the negative impression on the palm oil industry.

### Literature Reviews

Nguyen and Thu (2017) evaluate the impact of accounting and disclosure of environmental accounting information on the ability of Vietnamese firms to access foreign finance, based on survey of 104 foreign investors. The results show that the disclosure of information on environmental accounting has a strong impact on the decision of foreign investors, thus affecting the ability to access foreign capital of firms. The importance of environmental accounting information in ascending order is (i) timeliness of information, (ii) reliability of information, (iii) completeness of information. However, they focus on assessing the demand for management accounting information of foreign investors without analyzing factors affecting the level of provision of environmental accounting information. Environmental Financial Accounting is concerned with physical and monetary aspects of the environmental impact for external reporting purposes. Other environmental accounting is concerned with physical and monetary aspects of specific accounting systems like the tax accounting systems, and other regulatory accounting systems (Namakonzi, 2014).

Environmental accounting includes estimation of environmental expenditures, its actual determination, and recognition of environmental liabilities as well as, disclosure of all environmental liabilities in a specific section of the annual reports of a company. The modern business approaches like as activity based management costing, TQM, business process-reengineering. Life cycle designing, Life cycle assessment, life cycle costing, etc. provide the platform for integrating environmental information into business decisions (Prakash, 2016).

Various studies have been conducted in Pakistan, Bangladesh, Vietnam and Malaysia on the information disclosure. It can be split into broad category of disclosure, voluntarily and mandatory disclosure. Hence, businesses equally concern about the impact of the disclosure of their activities have two sides of positive and negative impacts on the environment, the environment also contributes to the advantages or disadvantages in production and business activities of firms. Therefore, the accounting and information on revenue and environmental costs will help firms understand clearly the relationship between business activities and the environment. Moreover, it will enhance the prestige and image of the business with domestic and foreign partners. This is also the reason for the business community in the countries participating free trade agreements cannot ignore the disclosure of information about activities and measures to protect environment (Nguyen, 2017).

It is important to test the relationship between environmental performance and disclosure content effect on company. The study by Iqbal (2013) shows there is effect there is significant positive effect of company's decision to provide information on tendency of pollution generated. The research show that companies which principally good in environmental performance are not affecting the extent of environmental disclosure level. In contra, research of actually found a significant positive effect between environmental performance with environmental disclosure, that mean a company better environmental performance will create higher environmental disclosure level.

According to Welbeck (2017), the environmental disclosure depends on some factors such as the profitability, firm size, type of industry and auditors. The firm with better profit, well established company, key monitor industry by the government and strict audit requirement usually will force the company to provide more environmental information to the shareholders and stakeholders.

Based on the literature reviews, the objective of the research is to investigate the factors influencing on the company value of the listed companies in the palm oil industry in Malaysia. The data for the study will be collected based on the 5 years' annual report from those palm oil listed companies in Bursa Malaysia and will emphasize on the level of environmental accounting, environmental performance and information disclosure to the company key indicators such as earning per share, dividend yield and price earnings ratio. The conceptual framework of the factors influencing on the company value of the listed companies in the palm oil industry: evidence from Malaysia shows it in Figure 2.

## Conceptual Framework

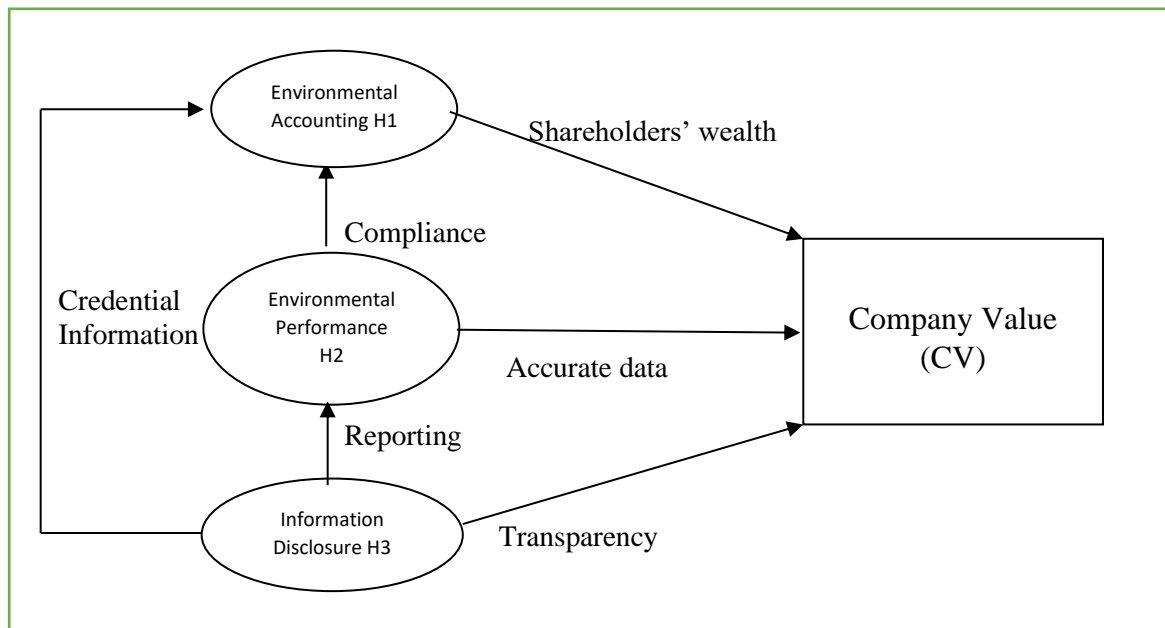


Figure 2: Conceptual Framework of the Factors Influencing on the Company Value of the Palm Oil Industry: evidence from Malaysia

Source: Own Development

The conceptual framework is to test the relationship of environmental accounting, environmental performance and information disclosure with company value of palm oil industry. The three independent factors mention will be formed as hypothesis to test against the company value. It is to measure whether any relationship amongst the independent variables to the dependent value which is the company value.

### Research Hypotheses

Ho1: There is no relationship between environmental accounting and company value

HA1: There is a relationship between environmental accounting and company value

Ho2: There is no relationship between environmental performance and company value

HA2: There is a relationship between environmental performance and company value

Ho3: There is no relationship between information disclosure and company value

HA3: There is a relationship between information disclosure and company value

### Environmental accounting

According to Tu and Huang (2015), Environmental Accounting included the environmental expenditure as operational cost such as product design. In order to sustain their performance, it is important to enhance environmental performance or complied green accounting rules. Hence it is important for the company to design the product into environmental compliance. The recently development on green awareness is to emphasize on preserving the environment and reduce carbon footprint in the business operation. As mention, the initiative has created awareness to the society the important of environment oriented therefore in the long run the society will choose more of the green products hence it will effect

on the company profitability so it is important to the company to manoeuvre in the product design and development process.

First independent variable is environmental accounting is to evaluate the perception on this factor where shareholders view it as an expense rather it will enhance shareholders' wealth with will subsequently increase the company value.

H1: There is a relationship between environmental accounting and company value

### **Environmental Performance**

According to Marnique and Ballester (2017), for the accounting view, many series of studies have been conducted to assess corporate environmental performance (CEP) and corporate financial performance (CFP) where it's show positive relationship between the environmental performance and financial performance. Additionally, their research proof that high levels of CFP provide enable the company have more resources to involve in CSR and environmental practices, they believe that good management lead firms to outperform in CEP and CFP.

The second independent variable is environmental performance, which cover mainly the annual activity of a company toward environmental commitment. Shareholder viewed corporate social responsibility activity as an unnecessary expenditure. But it has been part of the commitment to any company especially with the implementation on Environmental and Sustainability Report to all listed company as compliance. The company face challenge to provide accurate data in the Report but the same time it may go against the will of the shareholders. To ascertain the environmental cost been spending on profitable manner, it is important to demonstrate from the research that it will enhance the company value

H2: There is a relationship between environmental performance and company value

### **Information Disclosure**

Jaworska (2015), the problem in interpreting corporate financial report derive from the information disclosure by the company where the management intentionally manipulate or cover up some information from the interested party. However, analyses of the level of disclosure in financial reports are no clearly stated in the IFRS such as how to determine the comprehensive the information has been disclosure by the company. Some company just provide a brief few line to few pages of disclosure.

Information disclosure is another independent variable to the research. The level of information disclosure is important particularly where palm oil company being label as environmental unfriendly product. The level of disclosure in the reporting will be crucial to provide transparency detail to stakeholders subsequently to boost the company value.

H3: There is a relationship between information disclosure and company value

### **Research Methodology**

A total of 30 listed in Bursa Malaysia companies will be selected in the palm oil industry. The selection of those companies' are based on their main activities are solely involved in palm oil. The environmental and sustainability report in the annual financial report are essential to analyse their relationship to the company value. Hence, a collection of data based on their company values, environmental accounting, environmental performance and information disclosure of the companies.

Panel data analysis is to be employed via E-views to test the relationship between the dependent variable of company value and three independent variables of the environmental accounting, environmental performance and information disclosure of each company. Why we need to use the panel data analysis is due to convenient access to local companies and the different time factors together with in the data (Pedroni 1997, 1999, 2000, 2004; Groen and Kleibergen, 2003; Larsson and Lyhagen, 1999; Bai and Ng, 2004). Furthermore, this study will be extended the univariate approach of the panel unit root and also to a multivariate framework such as panel cointegration test and finally granger causality test will be developed for this study. This will show the long-term effect and short-term effect between the variables and companies also.

Panel data is also known as longitudinal data which is the combination of cross-sectional data and time series data, and it is a study over time of a variable or group of subjects. Observations in panel data involve the cross-section dimension (indicated by subscript *i*) and time series dimension (indicated by subscript *t*) (Gujarati & Porter, 2009). Panel data models examine individual-specific effects, time effects, or both in order to deal with heterogeneity or individual effect (cross-sectional or time specific effect) that may or may not be observed. There are three panel data models namely Pooled OLS (POLS), Fixed Effect Model (FEM) and Random Effect Model (REM). POLS is preferred if the individual effect does not exist, as OLS can produce efficient and consistent parameters estimates. For the presence of individual effects, it can be either fixed or random effects. A FEM model examines if intercepts vary across groups or time periods, whereas a REM explores differences in error variance components across individuals or time periods. Several tests need to be carried out to confirm which model is the most appropriate method for the analysis (Studenmund, 2017).

Granger-causality is between the two variables relationship such as environmental accounting causes to company value or company value causes to environmental accounting for these companies. They are unidirectional and bi-directional causality. It means that is also long-term equilibrium and co-integration relationship. If the companies are long-term equilibrium and co-integration relationship, the company value is long-term benefit for the environmental accounting, environmental performance and information disclosure of the companies (Sutthichaimethee 2018).

## **Conclusion**

The study should be able to demonstrate the relationship between the three independent variables and company value. The outcome is significant for the policy makers such as government and Malaysia Accounting Standard Board to consider a more comprehensive inclusion of the environmental reporting format to the company. The research will also able to provide as guidance for the government to encourage company to mandatory inclusion of the above factors to fight back against the ban by the European Union.

According to Khalid et al (2012), has conducted research to show the level of Environmental Management Accounting (EMA) implementation in companies within environmentally sensitive industries in Malaysia, and to gain insights view on the pressures for implementation. The data collected found that the elements of environmental-related management accounting that applied in those companies which were selected, the implementation was more oriented to focus on cost reduction rather than environmental conservation.



As the latest development from the European Union to ban palm oil and palm oil related products, the research outcome will be able to provide some direction to the government and the company from the sector. The price of CPO at lowest level below RM2,000/MT, the low price still lead to a significant drop for the crude palm oil and related product export will have significant impact to Malaysia GDP and balance of trade.

Many researches have reached very similar overall outcome from the research findings that comprehensive implementation of environmental accounting is an essential issue for sustainable development especially to concentrate on environmental costs, valuing ecosystem services, costing of carbon dioxide, cost of water pollution and ensure income sustainability of leading in the way of sustainable development.

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