A STUDY OF ENVIRONMENTAL WEB DISCLOSURES AND FINANCIAL PERFORMANCE OF MAINLAND CHINESE DALLY LISTED COMPANIES

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STATEMENT OF ORIGINALITY

The thesis contains no material which has been accepted for the award of any other degree or diploma in any university or other tertiary institution and, to the best of my knowledge and belief, contains no material previously published or written by another person, except where due reference has been made in the text. I give consent to this copy of my thesis, when deposited in the University Library**, being made available for loan and photocopying subject to the provisions of the Copyright Act 1968.

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Antonio Chi Wing CHAN

September, 2012
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# LIST OF ABBREVIATIONS

The following terms will be consistently abbreviated throughout the dissertation:

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Term</th>
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<tbody>
<tr>
<td>ACCA</td>
<td>The Association of Chartered Certified Accountants</td>
</tr>
<tr>
<td>BHP</td>
<td>The Broken Hill Proprietary Company</td>
</tr>
<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CHCP</td>
<td>The Chinese Communist Party</td>
</tr>
<tr>
<td>China</td>
<td>People's Republic of China</td>
</tr>
<tr>
<td>CIR</td>
<td>Corporate Internet Reporting</td>
</tr>
<tr>
<td>CER</td>
<td>Corporate environmental responsibility</td>
</tr>
<tr>
<td>CSP</td>
<td>Corporate Social Performance</td>
</tr>
<tr>
<td>CSR</td>
<td>Corporate social responsibility</td>
</tr>
<tr>
<td>CRSP</td>
<td>Center for Research in Security Prices</td>
</tr>
<tr>
<td>DAX</td>
<td>German Stock Index</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EHS</td>
<td>Environmental, Health, Safety and Sustainability</td>
</tr>
<tr>
<td>EMAS</td>
<td>The European Standard, Eco-Management and Audit Scheme</td>
</tr>
<tr>
<td>EMS</td>
<td>Environmental Management System</td>
</tr>
<tr>
<td>EPA</td>
<td>Environmental Protection Agency</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>Abbreviation Term</td>
<td>Term</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GEM</td>
<td>Growth Enterprises Market</td>
</tr>
<tr>
<td>GHG</td>
<td>Greenhouse Gases</td>
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<tr>
<td>HKSEx</td>
<td>Hong Kong Stock Exchange</td>
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<tr>
<td>ICT</td>
<td>Information Communication Technology</td>
</tr>
<tr>
<td>IFR</td>
<td>Internet Financial Reporting</td>
</tr>
<tr>
<td>IRRC</td>
<td>Investor Responsibility Research Center</td>
</tr>
<tr>
<td>ISO</td>
<td>International Organization for Standardization</td>
</tr>
<tr>
<td>LSEx</td>
<td>London Stock Exchange</td>
</tr>
<tr>
<td>MNC</td>
<td>Multi-national Corporation</td>
</tr>
<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
</tr>
<tr>
<td>QFIIs</td>
<td>Qualified Foreign Institutional Investors</td>
</tr>
<tr>
<td>Reuters</td>
<td>Thomson Reuters Financial Datastream</td>
</tr>
<tr>
<td>ROA</td>
<td>Return on Assets</td>
</tr>
<tr>
<td>RRC</td>
<td>Raise Rivals’ Costs</td>
</tr>
<tr>
<td>SEC</td>
<td>The Securities and Exchange Commission</td>
</tr>
<tr>
<td>SHSEx</td>
<td>Shanghai Stock Exchange</td>
</tr>
<tr>
<td>Abbreviation Term</td>
<td>Explanation</td>
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<td>------------------</td>
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<tr>
<td>SOE</td>
<td>State Owned Enterprise</td>
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<tr>
<td>SOEs</td>
<td>State Owned Enterprises</td>
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<tr>
<td>SZSEx</td>
<td>Shenzhen Stock Exchange</td>
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<tr>
<td>S&amp;P</td>
<td>Standard &amp; Poor’s</td>
</tr>
<tr>
<td>TRI</td>
<td>Toxics Release Inventory</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>US</td>
<td>United States of America</td>
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<tr>
<td>WTO</td>
<td>The World Trade Organization</td>
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China is one of the fastest growing economies in the world, yet studies have shown that it has a poor corporate governance structure. Researchers have also discovered various problems with corporate governance, corporate social responsibility and corporate environmental responsibility in Mainland Chinese firms. Unlike China, large corporations in Western countries do not generally buy products from firms that have poor environmental practices. Firms use environmental disclosure statements in their annual reports to secure legitimacy because stakeholders admire environmental disclosure more than other socially responsible activity. In addition, firms use corporate websites to build a reputation among stakeholders that is beyond the requirements of corporate disclosure.

Many studies in Western developed countries have documented a positive association between a firm’s level of environmental disclosure and its financial performance. There are few studies in developing countries, especially in Mainland China. This study therefore explored the relationship between discretionary environmental disclosure and the financial performance of Mainland Chinese firms. By analysing relevant literature and theoretical frameworks, the study adopted a multidimensional focus on environmental disclosures and legitimacy in order to answer a number of research questions.
The study examined the environmental disclosure dimensions that could be influenced by a firm’s financial performance. Sample firms were selected using the criteria that they should be Hong Kong-China dually listed corporations (that is, listed both on the Hong Kong Stock Exchange and the China Stock Exchange) as well as listed on the Hang Seng China Enterprises Index.

Content analysis was used to analyse the corporate websites of 64 Mainland Chinese dually listed firms. The environmental disclosures encompassed the following multi-testable dimensions: (1) environmental expenditure and risk, (2) laws and regulations, (3) pollution abatement, (4) sustainable development, (5) land remediation and contamination, and (6) environmental management. Financial performance was assessed by analysing financial data from Thomas Reuters Financial Datastream. For statistical analyses of variables, correlation and linear regression analysis was used. Results from the correlation analysis support a positive association between all six of the above testable dimensions and financial performance. The linear regression results suggest that the extent of environmental disclosures, environmental expenditures and risks, and land remediation and contamination disclosures can be predicted by financial performance. The findings of this study in China are consistent with studies in Western countries.