

## WHAT ARE THE AFFECTING FACTORS ON ENVIRONMENTAL DISCLOSURE ON THE COMPANIES?

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### ABSTRACT

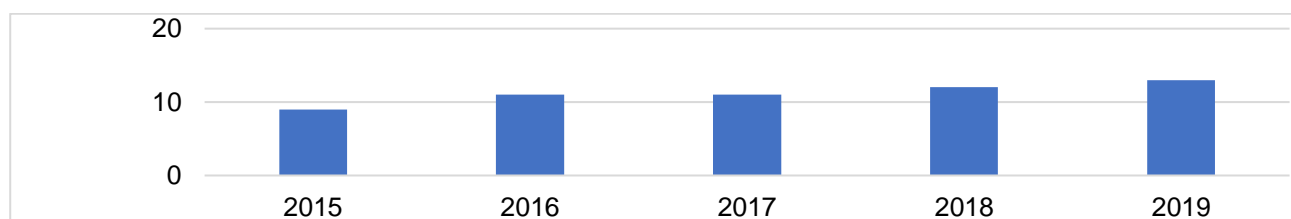
The aim of this study is to determine affecting factors on Corporate Environmental Disclosure on Go Public companies listed in PROPER from 2015 to 2019. Companies with gold and green ranking and listed in PROPER are included the population in this study. This phrase could be omitted, samples were taken using a purposive sampling method with specific parameters. The findings of this research show that: (1) The size of the Audit Committee has a positive impact on the occurrence of corporate environmental disclosure. This is because if the number of audit committees within an organization exceeds the number of requirements set, it will lead to increased supervision and company controls to ensure that the expected environmental disclosures are made. (2) Managerial ownership has a negative impact on the occurrence of corporate environmental disclosure, indicating that the size of a company's managerial share ownership has little bearing on the company's environmental disclosures. (3) The incidence of corporate environmental disclosure is unaffected by environmental results. This explains why environmental success has had little effect on companies that are featured prominently in the PROPER ranking, allowing the public to better recognize and support the company's efforts.

**Key Words:** The Size of the Audit Committee, Managerial Ownership, Environmental Performance, Corporate Environmental Disclosure

### I. INTRODUCTION

Environmental issues have become an inextricable part of human life, and they are still relevant topics to address today. Slowly, structural shifts in the pattern of social life are occurring, which will have an effect on the environment, either directly or indirectly (Putra and Utami, 2017).

Environmental contamination by industry is one of the major problems that has gotten a lot of attention. Water contamination from toxic waste, flooding, landslides, species destruction, decreased soil productivity, disrupted environmental balance, and ozone layer perforation are only a few of the issues that occur. As a result, a company's obligation extends beyond generating income for investors to include not only management and capital owners, but also workers, customers, society, and the environment. Corporate Social Responsibility refers to a company's environmental responsibilities (Abidin and Lestari, 2019).



Source: Kemen LHK, 2019

**Figure 1. The total Companies that disclose CED Registered in PROPER**

According to the illustration above, in terms of the growth of an organization that publishes its sustainability report. As a result, there are a number of indicators that a company's sustainability report is already inconsistent. The first is that the company is not honest about how it runs its business or does not have a commitment to being a Good Corporate Governance company. The organization views the sustainability report as an extra expense in its management, which is the second aspect. The number of companies reported in PROPER in the gold and green categories is disproportionately high as compared to the number of companies that have prepared and released sustainability reports. There are gold and green scores for each of the 21 companies listed in PROPER, and up to ten companies were included in the study from 2015 to 2019. This demonstrates that the corporation has not made voluntary information disclosure a priority.

Wardani and Haryani (2018) found that the size of the audit committee has no impact on corporate environmental disclosure. Bicer and Feneir (2019) found that the size of the audit committee has no effect on corporate environmental disclosure. Meanwhile, Kurniawan's research (2019) shows that corporate environmental disclosure has a negative effect. But, Dewi (2019), Suprapti, et al. (2019), and Sari, et al. (2018) found that the audit committee's size has a positive impact on corporate environmental disclosure.

Putra, (2017), based on previous research concluded that managerial ownership has a negative relationship with disclosure of the company's environment. In contrast, research conducted by Suprapti, et al. (2019) and Sari, et al. (2018) found that managerial ownership has a positive impact on corporate environmental disclosure.

Environmental output has no impact on corporate environmental disclosure, according to previous research conducted by Indriani's research (2018). Meanwhile, according to Dewi and Yasa's (2017) study, Sari, et.al (2018), corporate environmental disclosure is influenced by environmental results.

## **II. LITERATURE REVIEW**

### **2.1 Signaling Theory**

Signal theory, according to Brigham and Houston (2011: 186) is "published information that will provide cues for investors in making investment decisions." Following notification of the information to all market participants and receipt of the information, market participants would first express their opinions and analyze the information as a good or bad signal.

The agent is the company's management, and the principal is the company's owner, and both are bound by a contract. The agent is contracted to perform certain duties for the principal when it acts as the decision maker, and the principal is contracted to compensate the agent when it acts as the decision maker. "In agency theory, all principals and agents are believed to be individuals who always act rationally and want to maximize income," Kamayanti (2019: 65).

### **2.2 Corporate Environmental Disclosure**

The disclosure of environmental information in a company's annual report is known as corporate environmental disclosure. A company's economic performance (profit) must be aligned with social performance (people) and environmental performance (planet) based on

the amount of obligations it has. This is known as triple bottom-line performance. "Environmental disclosure is an item of information provided by an agency, whether it is past, current, or future," Wong, et al. (2016: 9).

## **2.3 Audit Committee**

The audit committee is one of the institutional elements in the Good Corporate Governance concept, and it is expected to make a significant contribution at the implementation stage. According to Effendi (2020: 48), the audit committee is a competent and autonomous committee appointed by the Board of Commissioners. Its mission is to assist and improve the supervisory role (oversight) of the financial reporting process, audit implementation, risk management, and corporate governance implementation in companies performed by the board of commissioners.

## **2.4 Managerial Ownership**

The aims of the principal party and the goals of the agent's various parties may trigger disagreements, according to agency theory, because company managers prefer to follow goals for their own personal interests. Managerial ownership is a situation in which a manager participates in the company's capital structure, or in other words, the manager serves as both a manager and a shareholder.

Sudana (2011: 11) argues that the separation of the owner or company holder from those who have capital in a company is the ownership structure; the manager is the party appointed by the owner and granted the authority to make decisions in managing the company, with the expectation that the manager will behave in the owner's best interests.

## **2.5 Environmental Performance**

The PROPER ranking decision, which will be made public and available to all stakeholders. Gold, green, blue, red, and black are the five color scores for the company's environmental efficiency. It is hoped that by implementing this color coding, the group would be able to better understand the success of each company arrangement. Environmental performance measures, according to Chest. et al. (2013: 1), help assess an organization's effects on ecosystems, soil, air, and water. This measure clearly shows how the company is doing in this field and gives management the details they need to make the best choices for future growth.

## **2.6 Hypothesis**

### **2.6.1 Impact The size of the audit committee on corporate environmental disclosure.**

The audit committee was established by the board of commissioners to assist in the performance of the board's duties and functions (Pratama, 2013: 11). The audit committee's function is to advise the board of commissioners on reports or other matters submitted by the directors to the board of commissioners, as well as to identify issues that require the board's attention (Efendi, 2012: 8).

The size of the audit committee has a positive impact on corporate environmental disclosure, according to Dewi (2019), Sari, et al (2018), and Suprapti, et al (2019) study.

The findings of this study back up previous studies by Aniktia & Khafid (2015) and Indriani (2015). The audit committee can be used as a medium for stakeholder engagement, encouraging management to make environmental disclosures later. If the company has an audit committee, it will report its corporate environment in great detail, and if the audit committee becomes larger, it will disclose even more information. To carry out the expected environmental disclosures, the company's oversight and control will be increased.

H1= The size of the audit committee has a positive effect on corporate environmental disclosure.

### **2.6.2 Impact of Managerial Ownership on Environmental Performance**

The manager is the party appointed by the owner and granted authority to make decisions in the management of the business, and the manager is required to behave in the owner's best interests (Sudana, 2011: 11).

Managerial ownership has a beneficial impact on corporate environmental transparency, according to Suprapti, et al. (2019) and Sari, et al. (2018). The findings of this study back up previous studies by Listyaningsih, et al. (2018), which found that the higher managerial ownership, the more environmental knowledge is disclosed. The greater the managers' ownership in the company, the more they will think about the interests and welfare of shareholders, and because they believe they own the company, they will do everything they can to reveal the company's environment, which will improve the company's image and thus increase the company's shares.

H2= Managerial ownership has a positive impact on environmental disclosure

### **2.6.3 Impact of Corporate Environmental Disclosure on Environmental Performance**

Environmental performance is a measurement of a company's efforts to enhance and protect the environment, as well as a measure of the company's environmental responsibility (Anjarwati, 2018). The Company Performance Rating Program in Environmental Management (PROPER), a flagship program of the Ministry of Environment (KLH) that supervises with a public disclosure process, can be used to assess environmental performance (Adriana, 2017).

Sari, et al (2018) show that environmental performance has a positive impact on corporate environmental disclosure in Dewi and Yasa's (2017) study. The findings of this study back up previous studies by Putra (2017), which found that the environmental performance variable has a positive impact on environmental disclosure because information about a company's activities or performance is very relevant to stakeholders, especially investors, who need this information. This demonstrates that the company's PROPER ranking has an effect on the extent of environmental disclosure. The greater the company's ability to make reports, the higher the PROPER ranking it receives.

H3= Environmental Performance has a positive impact on corporate environmental disclosure

### 2.6.4 The Framework

The variables used in this analysis are the size of the audit committee, managerial ownership, and environmental efficiency, all of which are based on the theory previously mentioned and the findings of previous studies. As a result, the following diagram can be used to illustrate this study:

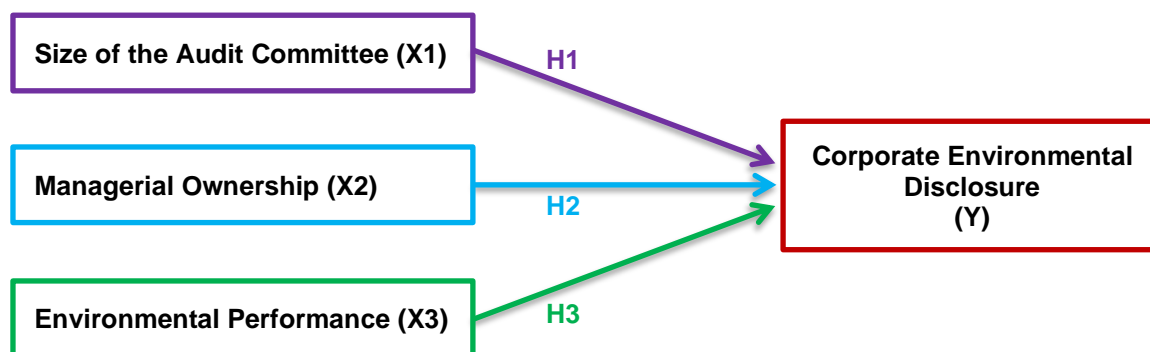


Figure 2. The Framework

## III. METHODS OF RESEARCH

### 3.1 Object of research

For the period 2015-2019, the items that become the population are all Go Public sectors specified in PROPER in the gold and green ranking categories. In this analysis, the sample includes all sectors of Go Public companies reported in PROPER from 2015 to 2019, with up to 6 companies publishing reports according to the research year.

Table 1. Sample Companies and PROPER Criteria

| No | Criteria   | Total |
|----|--|-------|
| 1  | Companies ranked in the PROPER PERIOD 200 rankings from 2015 to 2019   | 200   |
| 2  | Non-public companies.  | (179) |
| 3  | Companies who did not submit sustainability reports on a regular basis | (11)  |
| 4  | Companies that are not managed by their owners                         | (5)   |
| 5  | The number of companies included in the survey                         | 6     |

Source: Data was processed, 2020

### 3.2 Data Sources and Types

The information will be gathered through a literature review and documentation. Secondary data was gathered from the Indonesia Stock Exchange (IDX) website as well as the company's own website. Data for the years 2015-2019 was gathered from the website in the form of sustainability reports and annual reports.

### 3.3 Variable Measurement and Operational Definition

#### 1) Corporate Environmental Disclosure

Corporate social responsibility includes environmental transparency (Paramitha, 2014:2). The following formula was used to calculate it:

$$CED = \frac{\text{The total items the company disclosed}}{\text{The total environmental disclosure items}}$$

2) Size of the Audit Committee

One or more members of the audit committee must have accounting and finance experience, so that it can be determined which expertise can help to reduce the incidence of earnings management activities (Putri and Erinoss, 2019). The following formula was used to calculate it:

$$\text{Size of the Audit Committee} = \frac{\text{The company's total audit}}{\text{Total Minimum Audit Committee has been established}}$$

3) Managerial Ownership

The manager is the party appointed by the owner and granted the authority to make decisions in managing the business, with the expectation that the manager will behave in the owner's best interests. (Sudana, 2011:11). Using a ratio scale (Rianza, 2019), this managerial ownership is calculated as a percentage of the company's outstanding shares:

$$\text{Managerial Ownership} = \frac{\text{The total of management} \times 100\%}{\text{The total of shares}}$$

4) Environmental Performance

Environmental Performance is a measure of a company's efforts to change and protect the environment, as well as a measure of corporate responsibility (Anjarwati, 2018) The Ministry of Environment's PROPER rating is used to assess this variable. The PROPER working rating system covers the ranking of companies in five different colors, each with a different score. The fifth score is gold, the fourth is green, the third is blue, the second is red, and the first is black.

This approach's empirical method is based on quantitative techniques. Descriptive analysis is used in this form of study. The statistical analysis approach with SPSS 26 software was used to analyze the data in this study.

IV. RESULTS AND DISCUSSION

4.1 Results

The results of the multiple regression equation, based on statistical evidence, are as follows:

Table 2. Results of Multiple Regression Analysis

| Model        | Coefficients <sup>a</sup>   |            |                           |        |      |
|--------------|-----------------------------|------------|---------------------------|--------|------|
|              | Unstandardized Coefficients |            | Standardized Coefficients |        |      |
|              | B                           | Std. Error | Beta                      | t      | Sig. |
| 1 (Constant) | .015                        | .134       |                           | .114   | .910 |
| UKA          | .190                        | .083       | .371                      | 2.290  | .030 |
| KM           | -.187                       | .084       | -.376                     | -2.219 | .035 |
| EP           | .012                        | .020       | .095                      | .600   | .554 |

a. Dependent Variable: CED

Source: Data was processed, 2020

The statistical equation results can be obtained as follows based on the results of multiple regression analysis: **CED = 0,015 + 0,190 UKA – 0,187 KM + 0,012 EP + e**

The following can be deduced from the regression equation model created by the above test:

- 1) The audit committee size variable has a major positive impact on corporate environmental disclosure.
- 2) The variable of managerial ownership has a substantial negative impact on corporate environmental reporting.
- 3) Corporate environmental transparency is unaffected by environmental performance factors.

#### 4.1.1 Results of the Determinant Coefficient Test

**Table 3. The results of the Determination Coefficient Test (R<sup>2</sup>)**

| Model Summary <sup>b</sup> |                   |          |                   |                            |
|----------------------------|-------------------|----------|-------------------|----------------------------|
| Model                      | R                 | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1                          | .646 <sup>a</sup> | .417     | .350              | .10047                     |

a. Predictors: (Constant), EP, UKA, KM

b. Dependent Variable: CED

Source: Data was processed, 2020

The modified R<sup>2</sup> coefficient of determination was 0.417 as a result of the coefficient of determination analysis. According to these findings, 41.7 percent of the variance in the independent variables influences the regression equation model in this analysis, while the remaining 58.3 percent is affected by other factors not included in the regression model.

#### 4.1.2 Simultaneous F Test Results

**Table 4. F Test Results**

| ANOVA <sup>a</sup> |            |                |    |             |       |                   |
|--------------------|------------|----------------|----|-------------|-------|-------------------|
| Model              |            | Sum of Squares | df | Mean Square | F     | Sig.              |
| 1                  | Regression | .188           | 3  | .063        | 6.194 | .003 <sup>b</sup> |
|                    | Residual   | .262           | 26 | .010        |       |                   |
|                    | Total      | .450           | 29 |             |       |                   |

a. Dependent Variable: CED

b. Predictors: (Constant), EP, UKA, KM

Source: Data was processed, 2020

Table 4 shows that F is 6.194 with a significant level of 0.003 using the ANOVA test or F test. The size of the audit committee, managerial ownership, and environmental performance all have an impact on corporate environmental disclosure, according to research using the Anova test or F-test.

## 4.2 Discussion

### 4.2.1 Impact of the Size of the Audit Committee on Corporate Environmental Disclosure

Companies that have met the audit committee's standard size have three independent members as a result of tightening internal controls to increase the consistency of the company's financial statements. As stated in Financial Services Authority Regulation Number 55 / POJK.04 / 2015 on the Establishment and Work Guidelines for Audit

Committees, the audit committee's role is to assist and encourage the board of commissioners in carrying out its supervisory function as well as the duty to provide professional opinions to the board of commissioners. The greater the number of people on the audit committee in an organization, the better the implementation of environmental disclosure.

The findings of this study support those of Dewi (2019), Suprapti, et al. (2019), who found that the size of the audit committee has a positive impact on corporate environmental disclosure. Where the committee's size can be used as a coordination tool for stakeholders to enable management to disclose environmental information. The presence of an audit committee in a corporation encourages the company to report its corporate environment broadly, and the bigger the audit committee, the more oversight and power the company has over making the necessary environmental disclosures.

#### **4.2.2 Impact of Corporate Environmental Disclosure and Managerial Ownership**

This suggests that managerial ownership cannot solve agency problems in agency theory because managers who own stock in the business have different interests than shareholders. The rise in managerial ownership has failed to bring management and shareholders' interests closer together. As can be shown, corporate environmental transparency suffers as a result of managerial ownership.

The findings of this study agree with those of Putra (2017), who found that executive ownership has a negative impact on corporate environmental disclosure. This implies that the size of a manager's shareholding has no bearing on environmental disclosure. Since they are both owners and employees, managers should strike a balance between the needs of shareholders and management. However, since the amount of managerial ownership in an organization is still relatively limited, managerial ownership is still unable to align their interests as equity owners and managers. The incentive to carry out direct company activities that do not produce income would be ignored by the manager with a limited number of managerial ownerships, and they will choose to carry out activities that earn profits directly and efficiently.

#### **4.2.3 Impact of Corporate Environmental Disclosure on Environmental Performance**

The findings of this study agree with those of Indriani (2018), who found that corporate environmental disclosure is unaffected by environmental success. Since corporate environmental success has had little impact on businesses who join PROPER, such as offering incentives or prizes, the society will value the business more in the future. While many organizations that have enrolled in the PROPER program do not disclose or obey the rules in PROPER performance, there are also many that do.

As a result, the company's environmental performance continues to lag behind what is needed to meet the standards for good environmental performance. Furthermore, PROPER's rating did not adequately reflect the company's environmental efficiency. Because of the company's weak environmental efficiency, it has a great opportunity to not reveal it because it is feared that it will become bad news for the company.



## V. CLOSING

### 5.1 Conclusions

Based on the findings and discussions, it can be inferred that the first variable, the audit committee's scale, has a positive impact on corporate environmental disclosure. If the number of audit committees in an organization exceeds the number of standards set, the company's oversight and control in carrying out the necessary environmental disclosures may be increased.

Corporate environmental transparency suffers as a result of administrative ownership. This demonstrates that the size of the managerial equity holding has little bearing on the company's environmental disclosures.

Finally, corporate environmental disclosure is unaffected by environmental results. This demonstrates that environmental performance has had little effect on businesses, which are included in the PROPER ranking in order for the public to better understand and appreciate company performance.

### 5.2 Recommendation

Other factors, such as organization size, profitability, board meetings, institutional ownership, and leverage, may be used in future research.

The PROPER rating can be used in all categories in future tests, including gold, green, blue, red, and black. Since only the gold and green categories are included in this report.

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