



Munich Personal RePEc Archive

Determinants of capital structure decisions in Indonesia

Hiya, Nirmadarningsih and Sadalia, Isfenti and Fachruddin,
Khaira Amalia

2019

Online at <https://mpra.ub.uni-muenchen.de/95521/>
MPRA Paper No. 95521, posted 20 Aug 2019 20:59 UTC

COMPANIES CHARACTERISTICS AND ENVIRONMENTAL QUALITY DISCLOSURE IN INDONESIA

Minda Muliana Sebayang
Sekolah Tinggi Ilmu Ekonomi IBBI
Rina Bukit
Universitas Sumatera Utara

We suggest you to cite this article as:

Sebayang, M.M., Bukit, R. 2019. Companies characteristics and environmental quality disclosure in Indonesia. *Junior Scientific Researcher*, Vol V, No. 1, pp. 32-37.

Abstract

The size of the company (size) is a factor that affects quality disclosure of environmental impacts. This is related to the number of assets owned by the company where large companies need more funds in managing their operations compared to smaller companies. Companies with large sizes also tend to pay more attention to the quality of disclosure of the company's environmental impact to obtain a good impression from stakeholders. This study aims to obtain empirical evidence about the characteristics of companies that influence the quality of disclosure of the company's environmental impact.

Keywords: environmental quality disclosure, Indonesia, companies' characteristics, profitability, company size

JEL Classification: G29, G 30, o44

Introduction

Along with the increasing public awareness about the impact of the company's operational activities, especially manufacturing companies, environmental disclosures in annual reports are an important matter to be considered by management in preparing annual report (Qiu, et.al 2016). The knowledge of the community to invest in the capital market at this time are also increasing and the environmental impact on company activities is one aspect that is considered by investors before deciding to invest (Nor, et.al., 2016; Qiu et al., 2016) This also shows the inherent relationship between the company and the environment in which the company operates.

Profit represent the main objective of the company's operational activities, but in its implementation the company must pay attention to the impact of the company's operations on the environment. There are many cases that show the occurrence of community resistance to the existence of the company because companies pay less attention to these environmental impacts, for example, the case that occurred in PT INALUM in North Sumatra, PT Lapindo in East Java, sugar factory waste PT Industry Gula Glenmore in Banyuwangi, and many more other cases that make the surrounding community feel that the existence of the company has a negative impact.

The policy of disclosing environmental-related activities by companies has recently increased due to encouragement from the public and the government. Although it is still voluntary, according to the results of research in various countries, it shows that from year to year the number is increasing (Cormier & Velthoven, 2005; Gandhi, 2015; Qiu et al., 2016). Many researchers have revealed the characteristics of companies that influence the quality of environmental disclosures, but found different results, especially those related to company characteristics. These characteristics can be financial performance, good corporate governance and company size (Cormier & Velthoven, 2005).

Profitability represents factors that affect the quality of the company's environmental impact disclosure. This factor is related to the company's ability to produce profits where

the company's main goal in carrying out its business activities is to make a profit. Companies with the ability to obtain high profits will tend to pay attention to the quality of disclosure of their environmental impact to get better attention from stakeholder.

Good corporate governance is a systematics found in companies that are expected to be able to oversee the company's operational activities with good governance and in accordance with applicable rules. The number of independent board members, board of directors and audit committees in the GCG system of a company will affect the quality of disclosure of the company's environmental impact because they will tend to try strongly to encourage management to disclose all the good things that have been done by the company.

Environmental performance, in this case is a category where the company has received an ISO 14001 certificate or not. ISO 14001 is an international specification for environmental management systems (SML) that helps companies to identify, prioritize and regulate environmental risks as part of standard business practices. Companies that have already obtained this certificate or with other words that have been certified are expected to have better quality disclosure of the company's environmental impact than companies that have not received an ISO 14001 certificate.

Theoretical basis

Resources Based View Theory

The theory of Resource Based View (RBV) was pioneered for the first time by Wernerfelt (1984). The RBV theory considers that the company's resources and capabilities are essential for the company, because it is the foundation of the company's ability to be able to compete and improve company performance. The assumption in the RBV theory is how companies optimize their resources to achieve competitive advantage.

Natural Resources Based View Theory

This theory was first put forward by (Hart, 1994)

Profitability

The company's ability to generate profits in its operations is the main focus in the company's performance appraisal (company fundamental analysis). Because the profit of the company is not only an indicator of the ability of the company to fulfil its obligations for persons with funds, it is also an element in the creation of corporate value that shows the company's prospects in the future.

Profit is the result of a period that has been achieved by the company as stated in the *Statement of Financial Accounting Standards* (SFAS) No. 1. Profit is one of the potential information contained in the financial statements and that is very important for internal and external parties of the company, to assess the company's *earnings power* in the future. Profitability is a performance indicator that management performs in managing corporate wealth. According to Weston et.al (1987) profitability is the net result of various policies and decisions.

Profitability is measured by comparing the profits obtained in a period with the amount of assets or the number of capitals in the company. Profitability is often used to measure the efficiency of capital use in a company by comparing the capital achieved with operating profit.

Good Corporate Governance

GCM Mechanism is one of the company's benchmarks that is transparent in its operational activities.

Environmental Performance

In determining whether a company has environmental performance that is good or not can be seen one of which is obtaining an ISO 14001 certificate.

Company Size

An established and large company has easier access to the capital market, compared to small companies. The ease of accessibility to the capital market can be interpreted as the flexibility and ability of the company to be bolder and transparent in disclosing the environmental impacts that have been carried out by the company.

The size of the company is often used as an indicator of the possibility of bankruptcy, where larger companies are seen as more capable of facing a crisis in carrying out their business and paying more attention to issues that concern *stakeholders*. This will make it easier for larger firms to improve the quality of disclosure of their environmental impact. The hypothesis can be formulated as follows, financial performance, profitability, environmental performance and company size partially and simultaneously influence the quality of disclosure of the company's environmental impact.

Research methods

Research Population and Samples

The population in this study is manufacturing companies listed on the Indonesia Stock Exchange. Sample drawn from the population by *purposive sampling* method with provisions - provisions as follows: listed on the Stock Exchange during the study period, namely 2014, 2015 and 2016 and published its annual report in a row during the study period until. The research sample amounted to 20 companies with three years of observations, so the number of observations was 60.

Sources and Data Collection Techniques

In this study, the data used is secondary data obtained from the annual reports (2014, 2015 and 2016) by using *content analysis* for the disclosure of environmental impacts in the annual report.

Variable definitions and operations

Dependent Variable

In this study, the dependent variable is the quality of disclosure of the company's environmental impact that is measured by the amount of information disclosed by the company in the annual report relating to the disclosure of environmental impacts which is the ratio between the total disclosed in the annual report with the expressed should be disclosed.

Independent Variables

Profitability

Profitability is defined as the ability of a company to generate profits during a specified period, calculated by the formula:

$$\text{Return on Investment (ROA)} = \text{Company Profit Before Tax} / \text{Total assets}$$

Company Size

Company size is defined as a scale which can be classified as the size of the company in various ways, including the size of income, total assets, and total capital (Brigham & Houston, 2001). The measurement of the company size variable is the natural logarithm of the company's total sales.

Data Analysis Method

Data analysis was done using multiple linear regression, with the original form used to test the hypothesis are as follows:

$$Y = a_0 + a_1 X_1 + a_2 X_2 + a_3 X_3 + a_4 X_4 + e$$

Information:

- Y = Quality of Environmental Impact Disclosure
- X₁ = Financial Performance / profitability
- X₂ = *Good Corporate Governance*
- X₃ = Environmental Performance
- X₄ = Company Size
- a₀ = constants
- a₁ –a₄ = regression coefficient

Classic assumption test

The classic assumption test is carried out before the multiple linear regression test and consists of the normality test, multicollinearity test, autocorrelation test and heteroscedasticity test.

Hypothesis testing

The results of testing multiple linear regression can be displayed as in the following hypothesis testing table:

Linear Regression Equations					
Y = -2,413 + 0,066X ₁ -1,148X ₂ + 0,313X ₃ + 1,734X ₄ + ε					
Variable Name	B	Standard Error	t _{count}	t _{table}	Sig
Constant (a)	-2,413	1,159	-2,081	1,9977	0,042
Profitability (X ₁)	0,066	0,065	1,010	1,9977	0,317
<i>Good Corporate Governance</i> (X ₂)	-1,148	0,267	-4,307	1,9977	0,000
Environmental performance (X ₃)	0,313	0,127	2,467	1,9977	0,017
Company Size (X ₄)	1,734	3,949	0,439	1,9977	0,662
Regression Coefficient (R) = 0.589 Coefficient of Determination (R ²) = 0.347 F _{count} = 5,145 F _{table} = 1.5228 F _{Sig} = 0,000	a. Predictor: (Constant) Profitability, <i>Good Corporate Governance</i> , Environmental Performance and Company Size, b. Dependent Variable: Quality of Environmental Impact Disclosures				

Based on the results of statistical calculations using the SPSS program as shown in the table above, the multiple regression equation is obtained as follows:

$$Y = -2,413 + 0,066X_1 -1,148X_2 + 0,313X_3 + 1,734X_4 + \varepsilon$$

So that the equation can be concluded that with a constant value of - 2.413 means profitability, *good corporate governance*, environmental performance and the size of the company are considered to be non-existent or constant, then the quality of the company in the environmental impact of the annual report is equal to - 2,413 units.

For the first variable regression coefficient, namely *Good Corporate Governance*, the value was -1,148 units. This means that every increase in the *Good Corporate Governance* variable equal to 1 unit will reduce the quality of disclosure of the company's environmental impact in its annual report of 1.148 units, assuming other variables are constant.

The next K regression coefficient is environmental performance, with a value of 0.313 units. This means that each increase in environmental performance variable by 1 unit will increase the quality of disclosure of environmental impact by 0.313 units, assuming other variables are considered constant.

The correlation coefficient (R) in this study was obtained for 0,589 which indicates that the degree of relationship (correlation) between the independent variable and the dependent

variable is 58.9%. This means that the coefficient of Profitability, *Good Corporate Governance*, Environmental Performance and Company Size has a strong relationship with the capital structure.

Coefficient of determination (R^2) obtained a value of 0,347. This means that 34.7% changes in the quality of disclosure of environmental impacts can be explained by changes in Profitability, *Good Corporate Governance*, Environmental Performance and Company Size. While the rest, which is equal to 65.3%, is explained by variables or other factors not included in this research model.

From the table above, it can be seen that partially only *good corporate governance* variables and environmental performance affect on the quality of disclosure of the company's environmental impact, while the variable financial performance / profitability and size of the company do not partially affect the quality of disclosure of the company's environmental impact.

Based on the results of testing in the table above, the F_{count} value is 5.145, while the F_{table} is 1.5228 with a significant level of α 0,000, so it can be concluded that together all the independent variables affect the quality of disclosure of the company's environmental impact.

Conclusion

Based on hypothesis testing using partial and simultaneous tests, the results show that only partially *good corporate governance* variables and environmental performance influence the quality of disclosure of the company's environmental impact, while financial performance variables proxied with profitability and firm size with sales numbers do not partially affect the quality of disclosure of the company's environmental impact. This is thought to occur because the number of board of commissioners in the company does not necessarily improve the quality of disclosure of the company's environmental impact, but reduces it by holding information about environmental impacts because it is considered information that is only voluntarily disclosed so that it will not overly influence the company.

Environmental performance partially has a positive effect on the quality of disclosure of the company's environmental impact, because it can be ascertained that the company that has received ISO 14001 certification is a company that has implemented all the management. This shows that ISO 14001 certification will improve the quality of disclosure of the environmental impact of companies that have obtained it.

While simultaneously profitability, GCG, environmental performance and company size influence the quality of disclosure of the company's environmental impact. Thus, this study accepts the hypothesis that profitability, GCG, environmental performance and company size simultaneously influence the quality of disclosure of the company's environmental impact.

Research Limitations

For the limitations of this study, the sample used in this study is still small and the observation period used is less than three years. If the research is conducted with a more extended range, it is possible that the results of the study will give different results. Another limitation is that, this study only examines manufacturing companies listed on the Indonesia Stock Exchange, so the results cannot be generalized to other companies listed on the Indonesia Stock Exchange.

Future Research

Based on the limitations of the research described earlier, the researcher suggests further research as follows, namely: further research needs to consider a longer research period. For further research the study should be done not only in manufacturing, but also in other sectors (trading company, services, and or finance). This is so that the conclusions generated from the study have broader scope and not only on manufacturing companies. And should include other characteristics, such as the attitude of management, market conditions and the company's internal conditions for further research. This is intended to see in addition to the six characteristics of the

company above, are there other factors that more influence the quality of disclosure of environmental impacts.

Bibliography

- Cormier, et.al. (2005). Environmental disclosure quality in large German companies: Economic incentives, public pressures or institutional conditions? *European Accounting Review*, 14, 3-39. doi: 10.1080 / 0963818042000339617
- Gandhi, Monica Singhanian and Gagan. (2015). Social and environmental disclosure index: perspective from Indian corporate sector. *Journal of Advances in Management Research*, 12, 192-208. doi: 10.1108 / JAMR-12-2013-0069
- Hart, Stuart L. (1994). A Natural Resources-Based View Theory of the Firm. *Tilburg: WORC, Work and Organization Research Center* .
- Nor, Norhasimah Md, Bahari, Norhabibi Aishah Shaiful, Adnan, Nor Amiera, Kamal, Sheh Muhammad Qamarul Ariffin Sheh, & Ali, Inalial Mohd. (2016). The Effects of Environmental Disclosure on Financial Performance in Malaysia. *Procedia Economics and Finance*, 35, 117-126. doi: 10.1016 / s2212-5671 (16) 00016-2
- Qiu, Yan, Shaukat, Amama, & Tharyan, Rajesh. (2016). Environmental and social disclosures: Link with corporate financial performance. *The British Accounting Review*, 48 (1), 102-116. doi: 10.1016 / j.bar.2014.10.007