

CHAPTER 1 INTRODUCTION

1.1 Research Background

As a developing country, Indonesia tries to develop by using technological and utilize the environment. Hartarto (2017) stated that Government of Indonesia targeted the realization of capital investment can sustain the growth of economy from industrial sector. The economy growth is in line with the development of industry in Indonesia that most of industry run the business using the natural resources. Development in industrial sector is a part of the process of national development in increasing the economy growth (Dewi & Yasa, 2017).

The development of industry in most countries is one of the cause of change on environment sustainability then make natural problems. On National Geographic Indonesia (2016) data, the level of corporations in using the natural resources growing three times faster in the last 40 years in spending the non-renewable natural resources. Industrial and business activities are causing deforestation, global warming (showed by the climate changed (Kurniawan, 2018) in (Chandra, 2018)) loss of biodiversity, glacier meltdown, soil erosion, land degradation and pollution of all kinds such as water, air, marine, noise & light (Chandok & Singh, 2017) and the changes of animals habitat (Raharjo, 2018). Natural problems exist because of the activities of the corporations who just focus on the profit and ignore the damage of non-renewable natural resources (Aulia & Agustina, 2015).

The condition of the world environment nowadays getting worse, this condition make the attention of many parties such as government, environmentalists,

non-governmental organization, stakeholders and creditor (Dewi & Yasa, 2017). Monteiro & Guzman (2010) thought that the attention of those parties in natural problems make the corporations got pressure to do their operational activities based on environment and resulting the information related environmental have been done by corporations.

The relationship between business organizations and their environment in contemporary times has witnessed drastic change (Welbeck *et al.*, 2017). In the past, responsibility of organizations was an economic performance in the first place, as the continuation of the organizations requires a commitment to maximize profits for shareholder groups (Balabanis *et al.*, 1998). Eugenio *et al.* (2013) thought that previously, environmental and social issues do not seriously considered in management objectives because they deemed not to have any significant financial impact.

Nowadays, corporate responsibility is not only their financial actions, but also the non-financial implications of their activities (Macarulla & Talalweh, 2012). D'Amato *et al.* (2009) stated that non-financial activities are considered as important as financial activities. The performance of any business does not only depend on its economic achievements, but also on how efficiently it discharges its responsibilities toward the environment and social dimensions because profit is only a part of total performance (Chandok & Singh, 2017).

Investors interested to a corporation that implement a good environmental management that is a non-financial activities by seeing the disclosure in the

financial report instrument. It means that investors and stakeholders do not just see the profit that gained by corporations but furthermore how the corporations commit to disclose the environmental responsibility for the society sustainability (Arifianata & Wahyudin, 2017).

Corporations cannot get of conflict with stakeholders, thus many Indonesia's corporations develop that called as corporate social responsibility include the environmental disclosure. It became an obligation on the corporations to disclose their responsibility toward the society and the environment (Iwata & Okada, 2011), (Pahuja, 2009) and (Ahmed & Mousa, 2010). Based on Agrifood (2004), disclosure is an important tool to communicate the economy performance, natural environment and social of corporations. Disclosure consist of the financial and non-financial information related the interaction of the corporations to social & environmental and stated in the annual report or separate report (Guthrie & Parker, 1990). Disclosure also may contain how far the corporations can give contribution to the quality of human life and natural environment (Guthrie & Parker, 1990). That is why, it often described as accounting narratives (Jones & Shoemaker, 1994). Thru the use of the narratives, corporations decide the amount of information (quantify) and range of topics (thematic content) provided in their reports (Cho & Roberts, 2007). Disclosure of the information is divided into two, which are (1) mandatory disclosure, is done based on the current regulation and standard; and (2) voluntary disclosure, is done voluntarily over the current regulation and standard. Corporations who care about the environmental considered has more value than other corporations (Ahmad & Sulaiman, 2004).

Milne & Paten (2001) stated that environmental information must help the society and corporations to recognize the impact on the environment of business decision and as one of the elements disclosed in corporate social responsibility (Nor *et al.*, 2016). That is why the investors and stakeholders need the corporations to disclose the environmental information in their annual report.

Based on Djajadikerta & Trireksani (2012), Indonesian corporations, for some time now, have been facing a number of factors exposing them to corporate social and environmental disclosure. It also proved by corporations who disclose the environmental information increase year by year started from 2014 until 2016.

Table 1.1
Announcement of Environmental Disclosure

Explanation	2014	2015	2016
Corporations Announce Environmental Disclosure	211	281	304
Corporations do not Announce Environmental Disclosure	269	199	181
Total Corporations Publish Annual Report in idx.co.id	480	480	485
Percentage of Corporations who Announce Environmental Disclosure	44%	59%	63%

Source: Processed Data 2018

Environmental disclosure is a process that used by corporations to disclose the information related to the corporation's activity and the effect to the environment and society (Ghozali & Chariri, 2007). Environmental disclosure became a rising topic with the existence of an increasingly severe deterioration of the ecological environmental (Elshabasy , 2017). Therefore, environmental protection pressures from government, society & media and stakeholders have progressively paid much attention to environmental disclosure of the listed corporations (Chang, 2013).

Environmental disclosure become an important part in the process of annual report, the social responsibility report and other information disclosure (Clarkson *et al.*, 2008). Corporate social responsibility disclosure in Indonesia is in the form of mandatory and voluntary (Aulia & Agustina, 2015). Mandatory because of the government regulation that oblige the corporations to disclose their corporate social responsibility in Government Regulation No. 47 Year 2012. Otherwise, there is still no standard of regulation in disclosing the environmental information that published by government (Aulia & Agustina, 2015). Therefore, it made variation in disclosing the corporate social responsibility. According to Aulia & Agustina (2015), the format, contain and the wide of the disclosure still be voluntary or based on the policy of corporation.

In addition as corporation's responsibility, environmental disclosure used as corporations branding. Corporations need to disclose the environment information to create the image in stakeholder's perspective that they have the attention to the natural environment (Ahmad & Sulaiman, 2004). Based on Suhardjanto & Miranti (2009), the reputation, credibility and value added urge the corporations to disclose environmental information in their annual report.

Based on Marwata (2001), environmental disclosure is affected by some factor in corporate characteristics that consist of size, profitability, number of shareholders, leverage, liquidity, type of industry and many more. This research take the type of industry, size, age and profitability as the independent variable. It because of there are still research gap among others research. In the test that conducted by Akbas (2014) and Arifianata & Wahyudin (2016) showed that type

of industry has positive significant relationship with the environmental disclosure. The activity of the corporations who affect the environment such as extractive industry will tend to disclose the effect of environment than others consumer-industry-oriented that tend to disclose the social effect.

Larger corporations care about their reputation, so they try to increase their financial performance through disclosing more environmental information to gain the public trust. Paramitha & Rohman (2014) and Burgwal & Vieira (2014) proved that the size of corporation has positive significant relationship to environmental disclosure while Elshabasy (2017) & Indriastuti (2012) resulting there is no positive significant relationship. If the corporation has established since a long time ago this shows the corporation is satisfying its stakeholders as it meets its financial and environmental obligations. Contrary from size, Welbeck *et al.* (2017) and Yulianti *et al.* (2016) proved that the age of corporation has positive significant relationship to environmental disclosure while Paramitha & Rohman (2014) and Arifianata & Wahyudin (2016) showed there is no positive significant relationship.

Corporations with high profitability try to increase their public image as well as attracting new investor therefore they tend to increase the level of environmental disclosure. Suhardjanto & Miranti (2009) and Nguyen *et al.* (2017) showed the positive significant relationship between profitability and environmental disclosure while Paramitha & Rohman (2014) and Hartikayanti *et al.* (2016) showed there is no positive significant relationship. Considered as an important thing for the stakeholders and investors, this research will test the type of industry, size, age and profitability to environmental disclosure under the title “**The**

Effect of Type of Industry, Size, Age and Profitability toward Environmental Disclosure” and use the data from annual report listed in Indonesia Stock Exchange in 2014-2016.

1.2 Research Problems

Based on the previous explanation and previous study, then this research want to find whether the corporate characteristics consist of type of industry, size, age and profitability affected environmental disclosure, under formulation as follows:

1. Does type of industry have positive significant relationship to environmental disclosure?
2. Does size have positive significant relationship to environmental disclosure?
3. Does age have positive significant relationship to environmental disclosure?
4. Does profitability have positive significant relationship to environmental disclosure?

1.3 Research Objectives

This research conducted to know the effect of corporate characteristics on environmental disclosure in all listed corporations in Indonesia Stock Exchange under the following descriptions:

1. To find the empirical evidence about the positive significant relationship between type of industry and environmental disclosure.
2. To find the empirical evidence about the positive significant relationship between size and environmental disclosure.

3. To find the empirical evidence about the positive significant relationship between age and environmental disclosure.
4. To find the empirical evidence about the positive significant relationship between profitability and environmental disclosure.

1.4 Research Contributions

This research expected to contribute in several aspects based on background, problem statement and research objectives for:

1. Academics

The result of this research expected to give the contribution in the development of economics science, especially in financial accounting. Moreover, by this research it would make the diversity of science for those who wants to hold next research.

2. External Parties

The result of this research expected to give contributions in theory, relating to the effect of type of industry, size, age and profitability toward environmental disclosure in Indonesia. The parties who are expected: (1) Investors & stakeholders, that can be an additional information to analyse about the corporations, because those parties should be cautious and have a deep fundamental analysis in order to decide which corporation to invest to; (2) Government of Indonesia, that can be an input to make policy regarding environmental on how far the environmental disclosure that be done by corporations; (3) Other parties, than can give information as knowledge to

control the corporations in non-financial activities especially the environmental activities.

1.5 Research Structure

In this research there will be 5 chapter consist of:

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| CHAPTER 1 | INTRODUCTION
Consist of background of the research, problem statement, research objectives, research contributions and the structure of research. |
| CHAPTER 2 | LITERATURE REVIEW
Consist of the theoretical basis, previous research, explanation of definition, framework and hypothesis development. |
| CHAPTER 3 | RESEARCH METHODOLOGY
Consist of the explanation of the method, sample selection, number of samples, data sources, variables with definition and type, collecting data and analysis method. |
| CHAPTER 4 | DATA ANALYSIS & DISCUSSION
Consist of the explanation of data analysis and result discussion. |
| CHAPTER 5 | CONCLUSION
Consist of the conclusion, limitation and advice of the research & the next research. |