

CHAPTER I

INTRODUCTION

1.1. Background

The problem of global warming is still very much in the spotlight these days. The average global temperature has risen by 1⁰C in the last three centuries, thus people everywhere should be concerned about this issue as it is significant at the moment. Excessive carbon emission concentrations are the root cause of this disorder, which is brought on by a variety of activities in both individual communities and businesses. activities including farming, clearing land, and the use of fossil fuels. The International Energy Agency (IEA) reports that, as of 2022, carbon dioxide (CO₂) emissions from industrial processes and energy combustion worldwide amounted to 36.8 gigatons. These emissions set a record for the greatest emissions in history, up 0.5 gigatons from the previous year. The combustion of coal and petroleum is mostly responsible for this increase in emissions. The actual amount of petroleum emissions increased by 2.5% year to 11.2 gigatons. As a result, fossil fuel firms set the highest record for worldwide carbon emissions contributions. According to the World Resource Institute (WRI), Indonesia's carbon emissions for 2018 came in at number eight.

One of the cases that has been going on lately involves PT. Adaro Energy Indonesia Tbk. (ADRO) an energy-related corporation. The company's shareholders vehemently objected to the plans to construct a new coal-fired power plant in North Kalimantan for an aluminium smelter on May 11, 2023. It is a 1.1-gigawatt smelter. Adaro has stated that the company would undergo a change, and

its financial report's topic is entitled 'Transforming into a bigger and greener Adaro'. Still, the Adaro company's primary source of revenue remains coal. As evidence, consider the nearly 20% rise in Adaro's coal production in 2021. Should the new smelter be built, it will emit 5.2 million tons of CO₂ equivalent year.

Meanwhile, the International Energy Agency said that Indonesia and the world have agreed to carry out the Net Zero Emission 2050 (IEA NZE 2050) scenario, intending to keep the increase in earth's temperature below 1.5 degrees Celsius. This implies that after 2021, no new coal-fired power plants will be built if this goal is pursued once more. The Paris Agreement, which aims to limit global warming to a maximum of 2⁰C by 2100, has also been implemented globally.

As part of its numerous efforts to combat climate change and sustainably reduce carbon emissions, Indonesia also released the Presidential Regulation of the Republic of Indonesia Number 61 of 2011 regarding the National Action Plan for Reducing Greenhouse Gases, which serves as the framework for putting the plan into action. The public and corporate actors are expected to contribute to the reduction of greenhouse emissions, as outlined in Article 4 of Presidential Regulation No. 71 concerning the Implementation of the National Greenhouse Gas Inventory. This implies that businesses must keep records of their carbon emission disclosures. In Indonesia, the practice of disclosing carbon emissions to stakeholders as a means of informing them about corporate efforts to mitigate the effects of climate change and global warming is beginning to take shape (Carbon Disclosure Project, 2009). Environmental performance disclosure is one way that carbon emissions can be disclosed. "Some entities also present, from financial

reports, reports on the environment and reports on added value, especially for industries where environmental factors are significant and when employees are considered as a group of users of financial reports who play an important role," is where PSAK No. 1 revised 2019 refers to disclosure of environmental performance.

Since environmental performance disclosure affects the social relationships between the business and society, it is significant. Businesses that do well in terms of the environment will gain favour with stakeholders and the general public. Businesses who include information about their environmental performance in their reports are also in favour of increased carbon emission disclosure. The government is totally in favour of businesses disclosing their financial information. As can be observed, in order to increase the role of businesses in environmental conservation programs, the government, through the Ministry of the Environment, established a Company Performance Rating Assessment Program in Environmental Management in the field of environmental impact control in 2002. Businesses that perform well in terms of the environment are more likely to support and positively influence the disclosure of carbon emissions and to be open about their environmental practices. Disclosure of environmental performance is one way to assist the acknowledgement of carbon emissions and is regarded as significant.

Moreover, PT Adaro's issue stems from the excessive emissions the company produces, particularly when it intends to construct a new PLTU. This infuriated investors, who desired more transparency of carbon emissions in order to ensure the company's long-term viability. It is possible to separate shareholders according to ownership by governments, institutions, or managers. Institutional ownership

refers to stockholders who own a specific percentage of a corporation. Institutional ownership plays a significant role in decision-making and the sustainability of businesses; therefore, it may pressure them to reveal more carbon emissions in order to extend their lifespan.

Although there is still little research on this matter, there are several international and national studies that have been carried out by several previous researchers, both regarding the influence of institutional ownership on carbon emissions disclosure, as well as environmental performance on carbon emissions disclosure. International research conducted by Benlemlih et al. (2023) regarding the influence of institutional ownership on Greenhouse Gas (GHG) emissions on companies. The results show that high levels of institutional ownership are related, even to low levels, to Greenhouse Gas (GHG) Emissions. This research took samples from the FTSE All-share Index and the Russell 3000 Index on companies in United States and United Kingdom. The total companies in the sample were 354 United States companies and 247 United Kingdom companies with a period of 2010 and 2019.

Meanwhile, domestically, several studies have been conducted related to carbon emissions, institutional ownership, and environmental performance. Research conducted by Sekarini and Setiadi (2021) on the influence of environmental performance on carbon emissions disclosure. The results state that environmental performance has not been able to encourage management to disclose carbon emissions. This research uses a sample of manufacturing companies on the Indonesia Stock Exchange for the 2014-2018 period. Another research conducted

by Aini et al (2021) regarding the influence of institutional ownership on carbon emissions disclosure. This research states that institutional ownership does not affect carbon emissions disclosure. This research took a sample of manufacturing companies with the materials and chemicals sub-sector in companies listed on the Indonesian Stock Exchange and the sampling period was 2017-2019.

Research conducted by Ratmono et al (2020) on the influence of environmental performance on carbon emissions disclosure states that environmental performance does not affect carbon emissions disclosure. This research took a sample of companies listed on the Indonesia Stock Exchange in the 2013-2017 period. Research conducted by Pradini and Kiswara (2013) regarding the influence of environmental performance on carbon emissions disclosure states that environmental performance has a positive effect on carbon emissions disclosure. This research uses samples of mining, agriculture, forestry and manufacturing companies based on Presidential Regulation 61/2011, Presidential Regulation 71/2011, Law 40/2007, and Government Regulation 47/2012. This sample was taken over the period 2010 to 2011.

Researchers dig deeper into the differences between the current research and previous research based on several previous investigations. Because several previous studies only covered a few sectors such as the manufacturing sector, this research covers all companies listed on the IDX. The data set to be collected spans the years 2016 to 2022.

The fact that Indonesia recently established a climate change law that creates the legal framework for controlling greenhouse gas emissions and climate change

mitigation measures is another reason that data collecting in 2016–2022 is encouraged. Aside from that, Indonesia has filed a Nationally Determined Contribution (NDC) as one of the agreed-upon actions to address global climate change. The state has committed to reducing greenhouse gas emissions through the National Determined Contribution, which includes directing businesses, particularly those in the energy, forestry, agriculture, and waste sectors, to promptly disclose their carbon emissions in writing and acknowledge their environmental performance.

1.2. Research Problem

The disclosure of carbon emissions is becoming more and more important, particularly to shareholders. This notification is a part of the firm's obligation to protect the environment, which has been contaminated by emissions as a result of environmental harm caused by corporate operations. The disclosure of carbon emissions by corporations has also been encouraged by a number of government measures. In 2002, the government also released PROPER to assist businesses in reporting their environmental performance. One of the things that can encourage and impact the disclosure of carbon emissions is the disclosure of environmental performance.

Moreover, given the current issues at PT. Adaro Energy Indonesia Tbk, it can be concluded that shareholders should push businesses to make sure they don't emit excessive amounts of emissions and support the Net Zero Emission 2050 scenario in order to keep the earth's temperature rising steadily. Then a problem formulation

can be drawn. The problem formulation of this research is whether environmental performance and institutional ownership will affect carbon emission disclosure?

1.3. Research Objectives

The aim of this research is to give empirical evidence about the impact of environmental performance and institutional ownership on carbon emissions disclosure based on companies listed on the Indonesian Stock Exchange in the period of 2016-2022.

1.4. Research Contribution

In general, research is conducted in the expectation that it will advance knowledge in a variety of ways and be useful to both the public and professionals in many contexts. Following are some of the expected advantages of this research:

a. Theory Contribution

This research is expected to be a reference source for further researchers to do more research on the influence of carbon emissions disclosure, environment performance, and institutional ownership and can be a complement to further similar research.

b. Regulatory Contribution

This research is expected to be useful for the government to support the company for making the regulation about carbon emissions disclosure and environmental performance clearer in the future.