THE EFFECT OF VOLUNTARY DISCLOSURE OF ENVIRONMENTAL PERFORMANCE AND LEVEL OF EXTERNALITIES TO CORPORATE ECONOMIC PERFORMANCE.

(A Case Study in Companies Listed in Indonesia Stock Exchange)

1. Eka Sutami, S.E, Accounting, State University of Jakarta
2. Ratna Anggraini ZR, S.E. Ak, M.Si, Accounting, State University of Jakarta
3. Adam Zakaria, S.E. Ak, M.Si, Accounting, State University of Jakarta

Abstract

The purposes of this study are: to test hypothesis and analyze the relationship of environmental performance, voluntary disclosure and the level of externalities and their effects on economic performance of the company. Data were analyzed using the classic assumption test, multiple regression analysis, F test, t test, and R². The results showed that: F test (ANOVA) at 5% significance level and t-test shows the results of environmental performance, voluntary disclosure and the level of externality is at the level of significance above 5%, thus these three variables did not significantly influence economic performance.

Keywords: Environmental Performance, Voluntary Disclosure, Externalities and Economic Performance

1. Background

Corporation or similar business always requires the input of natural resources to support the production process. It aims not only to meet human needs, but also to build and deliver benefits to the company. Benefits were not only in terms of finance, such reaching an expected profit. Corporate profits were also obtained from non-financial terms, that is, when the company gets the positive values of the stakeholders of the company's attention to environmental and community relations. In achieving this goal, the company is always
interacting with the environment so that it can be said that the environment contributes to the company (Yuniarti, 1998) and the company could not escape from the responsibility of the environment (Mustakim, 1996). The conventional view assumes that corporate profits can only be assessed in financial terms. However, current views are deemed no longer to accommodate the interests of stakeholders so that the modern view of corporate responsibility appeared. One reason for the modern view of the company's goals because of the conservative view, the companies goal are only to seek profits for the company welfare and eventually make the company do some exploitation to environment. Moreover, they do not pay attention and repair of environmental damage caused by the activities of the company.

The impact arise in any operational activities of this company will certainly bring a result to the environment surrounding the company in business. The most negative impact that occurs found in each of the operational organization of the company's business is noise pollution, waste production, inequality, discrimination and so others. The impact of this kind is called *Eksternalitiy* (Harahap, 1999). A greater level of externalities and a negative impact on people's lives motivate some organization to take control of what was done by the company. The new paradigm of the current environment is positive thing that can be used as a reference to add a company value of the stakeholders. Awareness of the importance of sustainable development, especially with the impact on environment result a pressure companies to conduct environmental management performance. If the company do in their actions indicate an attempt to preserve the environment, then of course the company will get a profitable value for itself (Pfleiger et al, 2005).

There are so much research about the effect of environmental performance and voluntary disclosure in environmental aspect to economic performance. Pattern (2002) found a negative relationship between environmental disclosure in annual report with the environmental performance. Al-Tuariji, et al. (2004) found a significant positive relationship between economic performance with environmental performance, as well as between environmental performance and environmental disclosure. Fredman and Jaggi (1992) examine the long-term relationship between environmental performance with economic performance using the percentage change in three measures of pollution and various accounting ratios as empirical proxies from environmental performance and economic performance. They accept a hypothesis that there is a significant relationship between environmental performance with economic performance and fail to reject the null hypothesis of no significant relationship between environmental performance with economic performance.
performance. Research of Hackston & Milne (1996), both current empirical evidence of the environmental and social disclosure practices in companies in New Zealand and examine some potential relation between the characteristics of companies with social and environmental disclosure. The results reveal consistency with the research in other countries where firm size and industry type has a significant relationship with social disclosure, otherwise there is no relationship was found between the profit with social disclosure.

Based on the facts that have been showed above, researchers interested to discovered "The Effect of Environmental Performance, Voluntary Disclosure, and Level Company Externalities on Economic Performance of Companies Listed in Indonesia Stock Exchange”

2. Research Question

Based on the description above, this research focus the problem divided into 3 main investigations, follow:

1. Are assessments received by the company (environmental performance) influence the economic performance of firms?

2. Does the existence of consciousness to make disclosure of corporate reporting in as a voluntary in environmental aspects influence the economic performance of firms?

3. Is the emphasis on the externalities produced by the company affect the economic performance of firms?

3. Technical Terms

John Witmore in Coaching for Performance (1997: 104) states that performance is implementation of the functions required of a person or some act, an achievement, a public exhibition of skill. While economic performance is a condition or state of the economy from an agency that should be known by others and confirmed by the related parties to determine the level of achievement in terms of economic results and in line with the vision and mission. Economic performance is usually showed in terms of financial companies that can be measured through several financial ratios, such as profitability ratios, liquidity, activity, solvency, and the ratio of the market.

Environment according to the general definition is everything around the subject of human-related activities. Elements of the environment are matters relating to: land, air, water, natural resources, flora, fauna, humans, and the relationship between these factors (Purwanto,
Environmental performance is measurable results of an environmental management system, associated with the control aspects of their environment. Assessment of environmental performance based on environmental policy, environmental objectives and environmental targets (Purwanto, 2000). Meanwhile, according Lankoski (2000), the concept of environmental performance refers to the level of environmental damage caused by activities undertaken by the company. If one company made some damage for environment but the damage lower than another company, it indicates the level of environmental damaged by the company is better than another company.

Disclosure defined as the provision of information needed for optimal operation of an efficient capital market (Hendriksen, 1996). Generally, the interpretation of disclosures related to good information contained in financial reports and additional communications (supplementary communication) which consists of footnotes, information about the incident after the date of reporting, analysis, management of the company's operations in the future, the financial forecasts of operations, and also other information (Wolk and Tearney in Widiastuti; 2000).

In general we can say that the externality is a side effect of a particular party action against another party, whether the beneficial effects and adverse (Rahmanta, 2002). In foreign literature, side effects have terms like: "3rd Party Effect", external effects, externalities, neighborhood effects, side effects, spillover effects (Mishan, 1990).

4. Framework of Study

The company is the source of life for some parties operations of the company produces products used in daily life or for other function aims to achieve company goals such a welfare benefits for the company and the elements in it. However, in each of these activities would provide a negative impact for others for example the creation of the rest of the production of potentially damaging the environment.

Increased public awareness of the negative impact on the environment due to the company's production activities influence the community wanted the existence of a rule that sets standards regarding the environment for the company. The government supports this effort by involving the company to participate to keep the environment with scoring the companies performance to show their companies value with PROPER measurement. PROPER is the measurement made by Indonesia government to give a level for companies keep the environment during production activities. The company that publishes voluntary
Disclosure is also one of the alternatives in order to show concern for the social aspects of such companies in an effort to preserve the environment. The emphasis on the externalities of production companies is also becoming important to support activities. For company that produces lower externalities during production process, it will lift up the value of company.

For the company itself, environmentally conscious programs can also enhance corporate value in the eyes of stakeholders for instance government and community who play an important role for the survival of the company. However, in Indonesia, many companies still assume the existence of the environment as matters that are not so important to be prioritized. This is evidenced by the many companies still get less value from the government as outlined in the environmental assessment program (PROPER). Moreover, disclosure of environmental performance is not a mandatory, but only voluntarily. In fact, whether consciously or not, contribute to the sustainability of the business environment companies can not be easily considered. The contribution of environment is also affect the company having a good value for stakeholders. For a long time, financial performance is considered a matter that accurate in the assessment of corporate performance. But when the modern view changes the conservative view of the environment, awareness of the company to always preserve the environment are expected to have a positive impact for the company in terms of improving company performance. A study that used for reference give effect to the development environment as well as other interested parties, such as stakeholders and the company itself also.

5. Research Methodology

The method used for analysis in this research is a method of documentary, because the data is secondary data collected in the form of financial statements of the company that made the object of research. The dependent variable for this research is financial performance, using data on stock price fluctuations. While the environmental performance data obtained from the valuation report issued by the PROPER program, authorized by Ministry of Environment. Corporate environmental disclosure data obtained from social responsibility reporting in annual reports. The control variables obtained from various sources. The data in this study obtained from secondary data in the form of annual financial reports, valuation report from the Ministry of Environment PROPER obtained from the website IDX (www.idx.co.id), Ministry of Environment website (www.menlh.go.id), and each company's website. The population of this research is that industrial companies listed in
Indonesia Stock Exchange in the period of two years during 2007 and 2008 and has followed the Corporate Performance Rating Program in Environmental Management (PROPER) held by the Ministry of Environment in 2007 until 2008.

The population reached from this research is a company that does the conversion process during production activities. The research sample was taken by purposive technique with criteria:

1. Industrial companies continuous listed on the Indonesia Stock Exchange during the period.
2. Following PROPER in 2007 until 2008,
3. Having a voluntary disclosure statement

6. Conclusions

Feasibility of 1-Sample Test K-S

Results of normality test calculation using the 1-sample Kolmogorov-Smirnov test can be seen in Table 1 which states that the coefficient of Kolmogorov-Smirnov Z-value signifkansi 1.245 and more than 5% that is equal to 0.090, it can be concluded that the normal distribution of data.

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Residual</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>45</td>
</tr>
<tr>
<td>Kolmogorov-Smirnov Z</td>
<td>1.245</td>
</tr>
<tr>
<td>Asymp. Sig. (2-tailed)</td>
<td>0.090</td>
</tr>
</tbody>
</table>

Table 1

1- Sample K-S

One-Sample Kolmogorov-Smirnov Test

Hypothesis Testing

Data analysis in this study was using multiple linear regression analysis. The equation used in this study using seven variables which consists of one dependent variable namely economic performance (economic performance), three independent variables namely environmental performance (environmental performance), a voluntary disclosure (voluntary disclosure) and the level of corporate externalities. Meanwhile, four other variables is the
control variable is profit margin, unexpected earnings, environmental concerns, and public visibility.

Table 2

Coefficient of Regression

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td>2.112</td>
</tr>
<tr>
<td>PROPER</td>
<td>-.644</td>
</tr>
<tr>
<td>VOL_DIS</td>
<td>-.079</td>
</tr>
<tr>
<td>EXT</td>
<td>.442</td>
</tr>
<tr>
<td>PRO_MARG</td>
<td>2.596</td>
</tr>
<tr>
<td>UNEX_EARS</td>
<td>3.205</td>
</tr>
<tr>
<td>ENCV_CONC</td>
<td>-.203</td>
</tr>
<tr>
<td>PUB_VIS</td>
<td>-.302</td>
</tr>
</tbody>
</table>

Secondary data is processed, 2010

Based on the table above, the coefficient of each variable is as follows:

$$\text{EcP} = 2.112 - 0.644\text{EnP} - 0.079\text{Dis} + 0.442\text{Ext} + 2.569\text{UE} + 3.205\text{PM} - 0.203\text{EnC} - 0.302\text{Vs} + \varepsilon_1$$

F test

ANOVA results between PROPER (X1), the level of environmental disclosure (X2), externalities (X3), profit margin (X4), environmental concern (X5), public visibility (X6), and unexpected earnings (X7) to return the company (Y) indicates F count value of 3.074 > 2.194 F table and significant F values obtained for 0.012 < 0.05 significant level. While the table is the 2.194 value of F where F count has a value of 3.074. In other words, this indicates that simultaneously or jointly independent variables namely PROPER, voluntary disclosure and externalities significantly influence the dependent variable is the return of the company. This indicates that H1 is accepted. Coefficient of determination (adj R^2) showed R^2 (adjusted R^2) of 0.248 or 24%. So we can say that 24% of the company's return caused by PROPER assessment, the level of environmental disclosure, externalities, profit margins, unexpected
earnings, environmental concerns, and public visibility. The other 76% was caused by other variables that are not included in the regression model.

**Tabel 3**

**Uji F**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>22.147</td>
<td>7</td>
<td>3.164</td>
<td>3.074</td>
<td>.012a</td>
</tr>
<tr>
<td>Residual</td>
<td>38.087</td>
<td>37</td>
<td>1.029</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>60.235</td>
<td>44</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), PUB_VIS, VOL_DIS, ENCV_CONC, UNEX_EARS, PROPER, PRO_MARG, EXT

b. Dependent Variable: RETURN

Secondary data is processed, 2010

**T test**

In tests performed partially using the t test (t-test) significance level for variable environmental performance (PROPER), voluntary disclosure, and externalities indicate significance values above 5% which mean a separate test of the three has no effect on economic performance. PROPER variable value significance 0.065 so that the first hypothesis is rejected. The second variable is the voluntary disclosure based on the results of regression analysis, the significance level is 0.944, which means greater than the significance level of 5% or 0.05 so that it can be concluded that the level of disclosure of environmental variables was not significantly influence the return. The third variable is the level of externalities company stating that the level of externality does not affect the return with a significance level of 0.311, which means greater than the significance level of 5% or 0.05 so that it can be concluded that the externality level variables significantly affected the return. Thus, the third hypothesis, which states that the level of externalities affects the return, was rejected.

This study used four control variables of profit margins, unexpected earnings, environmental concerns and public visibility. Based on t test results, obtained significant value for the variable profit margin and unexpected earnings amounted to 0.040 and 0.003, which means under the significance level of 5% or 0.05. Thus, it can be concluded that the variable profit margin and unexpected earnings as control variables have a significant...
influence on the dependent variable, namely the return. Meanwhile, two other control variables are environmental concerns and public visibility is above the required level of significance, respectively 0.637 and 0.438 so that it can be concluded that both these variables had no significant effect on the dependent variable.

7. Discussions lebih awal dari conclusion

Based on the research and data analysis, it can be concluded as follows:

1. Environmental performance as measured by the PROPER not significantly affect the financial performance of the proxy with the return of the company on companies from all industry sectors that contribute to the environment and is listed on the Indonesia Stock Exchange 2007-2008 period.

2. The level of environmental disclosures that do not affect the company's financial performance with the return of company proxies in companies from all industry sectors that contribute to the environment and is listed on the Indonesia Stock Exchange 2007-2008 period.

3. Externality levels do not affect the company's financial performance with the return of company proxies in companies from all industry sectors that contribute to the environment and is listed on the Indonesia Stock Exchange 2007-2008 period.

4. Control variables give effect to this research. Two of the four control variables used in have significant value where the significant level below 5% are profit margin and unexpected earnings.

8. Recommendations

Based on the limitations of the study, this study about environmental performance, voluntary disclosure, and the level of externalities to economic performance gave suggestions as follows:

1. The samples will be used as research data better in a single industry because it has similar characteristics so that research results can be consistent.

2. Selection of a longer period and the selection of appropriate control variables for the results of this study could be consistent with existing theory.

9. References


