

## Conference Paper

# Are the Financial Performance and Media Coverage Associated with the Quality of Environmental Disclosures?

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### Abstract

Increased economic growth is positively associated with environmental pollution. The concept of environmental accounting has driven the company's ability to minimize environmental problems. The purpose of this study was to examine the effect of profitability and media coverage on the quality of environmental disclosures. The population in this study is a company engaged in mining, energy, chemistry, pharmaceuticals, cosmetics, food and beverages that are listed on the Stock Exchange in 2012-2016. Samples were chosen by a purposive method so that 35 companies were selected so that 135 units of analysis were obtained. The data analysis method used is Structural Equation Modeling (SEM) with a Smart PLS 3.0 analysis tool. The results showed that media coverage had a significant positive effect on the quality of environmental disclosures. While profitability is not associated with the quality of environmental disclosures. The practical implications of this study, the results are expected to contribute to the government and stock exchange authorities in order to take immediate action in making policies related to environmental management for listed companies and their reporting to stakeholders.

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## 1. Introduction

Nowadays, the assessment towards company is not only based on economy (profit), but also based on the company's responsibility towards society (people) and environment (planet) or referred to as the triple bottom line concept. This is due to the company's industrial activities have impacts on economic, social and environmental aspects in general. Aprilia & Rahayu (2014) suggested that the impact of industrial development includes the conversion of industrial development land; environmental pollution including water, soil and air pollution; and also social and economic change.

However the company's industrial activities have a positive impact on the economy, it also has a negative impact on the environment. This is proven by the increase in

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Indonesia's GDP, from \$ 304.4 billion in 2005 to \$ 932.3 billion in 2016 (World Bank, 2017). Ironically, this increase in GDP also goes hand in hand with the decreasing environmental quality or environmental damage. The environmental damage can be seen from the percentage of villages affected by water and air pollution was increasing from 2011 to 2014 (BPS, 2016), the increase of earth temperature due to greenhouse gases.

Environmental damage is reflected by greenhouse gas emissions which cause the warmer earth's temperature. Based on data from the Intergovernmental Panel on Climate Change (IPCC) in 2010 that most of the greenhouse gas donations were CO<sub>2</sub> from fossil fuel activities and 65% of industrial processes. It means that the industrial sector greatly influences the occurrence of environmental degradation. The causal factors of greenhouse gas emissions are CO<sub>2</sub> from forestry along with other 11% of land uses, 16% of CH<sub>4</sub> gas, 6% of N<sub>2</sub>O and 2% of fluoride gases (IPCC, 2014 in the Central Bureau of Statistics, 2016). Another phenomenon of environmental damage is also reflected by the cases of natural disasters ([www.mediatataruang.com](http://www.mediatataruang.com), 2017).

Based on the description above, environmental sustainability is an essential matter to be considered by industries, government and society. Efforts from the government and independent organizations and various environmental reports have not optimally encouraged companies to make environmental disclosure. According to Deegan (2002a) there are several things that motivate companies to disclose their environmental activities. One of them is to win an award for social, environmental and sustainability report that will have positive implications for the company's reputation.

Companies in general disclose their environmental activities by the guidelines of the *Global Initiative Reporting* (GRI). GRI is an international independent organization that pioneers sustainability reports to achieve a sustainable economy, including making business decisions based on sufficient and complete environmental information. The GRI Guidelines consist of three themes including economic, social and environmental. These three themes are identified as the triple bottom line concept, that is, in achieving their goals, the companies do not only focus on achieving profit, but also they are responsible for society (people) and the environment (planet) around them (Muallifin & Priyadi, 2016).

One of things that motivates companies to conduct environmental disclosure is to ensure the legitimacy of the organization's threats. Environmental disclosure is used as the company's response to negative media attention, particular environmental or social incidents as well as the result of poor judgments given by particular rating agencies (Deegan, 2002b). This means that the presence of media coverage can affect the

behavior of companies in reveal the environment. Media coverage in the business scope is one of the dominant factors to build public opinion on activities and activities carried out by the company (Aulia & Agustina, 2015). Previous studies of Reverte (2009), Aulia & Agustina (2015), and Solikhah & Winarsih (2016) regarding the effect of media coverage on CSR / environmental disclosure have inconsistent results. The second factor that seems to have an effect on environmental disclosure is profitability. Sulaiman et al. (2014) found that profitability did not significantly influence the quality of environmental disclosure in Malaysia. Cahyonowati & Darsono (2013) also found that profitability did not affect CSR disclosure, but research by Carreira et al. (2014) suggest that there is a significant relationship between profitability and environmental disclosure.

## 2. Literature Review

### 2.1. Legitimacy Theory

Legitimacy theory describes social contracts between companies and society. Shocker & Sethi (1973) explained an important concept in social contracts, where the continuity and growth of companies and businesses operation are based on two things: (1) the company's final results can be socially given to the community, (2) distribution of economic, social or political benefits to the group according to the power they have. This means that the company's existence and continuity depend on the social contract, which will generate legitimacy from the community. Dowling & Pfeffer (1975) also stated that legitimacy can be a problem for companies so they must take action to ensure their continued legitimacy. The actions that are probably to take, are, (1) companies adjust output, objectives and methods of operation with the prevailing legitimacy definition, (2) companies try to communicate to change the definition of social legitimacy according to current practices, outputs and organizational values, (3) companies try to communicate to identify symbols, values or institutions that have a strong base of social legitimacy. One of the three actions can be realized by making environmental disclosure.

### 2.2. Environmental Disclosure

Environmental disclosure is a process used by a company to disclose information relating to the company's activities and its impact to the social condition and environment of a community (Ghozali & Chairi, 2007). Environmental disclosure can also be interpreted as disclosure of information relating on the environment in the company's annual

report (Suratno, et al. 2006). Febrina & Suaryana (2011) defines the policy of social responsibility and company environment disclosure is the process of communicating the social and environmental impacts of the company's economic activities towards shareholders, creditors, employees and the community as a whole.

### 2.3. The Effect of Media Coverage on Environmental Disclosure

The legitimacy theory asserts that the company will operate in accordance with social norms and society values. The legitimacy theory also encourages companies to ensure that their activities and performances are acceptable to the community. The way for the companies to gain legitimacy from society is by communicating it with relevant stakeholders (Ashforth and Gibbs, 1990 in Rupley et al., 2012). The role of media coverage is to inform stakeholders about how much the company cares about environmental issues. Because of that, it will encourage managers to expose the company's environmental activities to maintain the legitimacy of the community.

The previous research has examined the role of media coverage of environmental disclosure. Aulia & Agustina (2015) stated that media coverage gave an effect on *environmental disclosure*. Reverte (2009) also states that media exposure has a significant effect on CSR disclosure *ratings*. Research Rupley et al. (2012) also stated that environmental media coverage and negative environmental media coverage had a positive relationship with the quality of voluntary disclosure of the environment. Based on this description, it can be proposed the hypothesis that media coverage has a positive effect on the quality of environmental disclosure.

### 2.4. The Effect of Profitability against the Quality of Environmental disclosure

Environmental disclosure is one of the ways to create harmony in social values with company activities. The decision to make environmental disclosure needs to consider the costs to be incurred and the company's financial condition. The higher the level of profitability of the company, the greater the disclosure of social information (Wulandari & Puspaningsih, 2017). Wahyudin & Solikhah (2017) also stated that financial decisions can influence other financial decisions.

Yuliawati & Sukirman on their research (2015) states profitability has a significant positive effect on CSR disclosure. Rindawati & Asyik (2015) also found a positive effect on profitability of CSR disclosure indexes in manufacturing companies. It also strengths

by the Research done by Indraswari & Astika (2015) that profitability has a positive effect on corporate CSR disclosure. Based on the description, it can be assumed that profitability has a positive effect on the quality of environmental disclosure.

### 3. Research Methods

The population in this study was the high profile company listed in Indonesia Stock Exchange from 2012 - 2016. The Company's high profile was categorized by reference to the research Rupley et al. (2012) and Solikhah & Winarsih (2016) which consist of six types of industries, namely mining, energy, chemistry, pharmacy, cosmetics and also food and beverages. The sampling technique of this study was purposive sampling technique. The samples in this study were companies that report the social responsibility and environment report at least 1 item either the *Annual* or *Sustainability Report*. There were 35 high profile companies selected as the samples for 5 years of observation so that there are 175 units of analysis in total. The data and information were collected by analyzing both annual and sustainability report downloaded from [ww.idx.co.id](http://ww.idx.co.id) besides the supporting data were from various online national newspapers.

Furthermore, the data were analyzed by the SEM approach based on PLS using smartPLS 3.0 software. The analysis consists of two stages, they are the analysis of the outer model (measurement model) and the inner model (structural model).

### 4. Results and Discussion

The quality of environmental disclosure on compliance indicator has the average value of 3.926 which indicates that the quality of it on compliance level is still poor. Company evenly discloses the environmental performance for 2-3 items from the maximum score of 54 items. The quality of environmental disclosure in the Pollution Prevention (PP) indicator has the average of 8.017 which means that the company evenly only discloses 12-13 items of Pollution Prevention (PP) from the maximum score of 159 items. The quality of environmental disclosure on Product Stewardship (PS) indicator has an average value of 15.143 which indicates the average disclosures of 19-20 items from a maximum score of 132 items. Environmental disclosure on the indicator of Sustainable Development (SD) has an average value of 3.171 which means that environmental disclosure at the highest level are on average only 0-1 items from the score of a maximum of 13 components. The variable of media coverage has a range of values from 0.000 to 1.000. The lowest value of 0.000 occurs in companies that both do not have media coverage and have

TABLE 1

Variables				
No.	Variable	Definition	Measurement	Literature
1.	Quality of <i>Total Environmental Disclosure</i> (TED)	The process of disclosing information of the environment by the company to stakeholders.	The number of indicators of environmental disclosure quality ( <i>compliance, pollution prevention, product stewardship, and sustainable development</i> ) in the <i>sustainability report or annual report</i> .	Rupley (2012) and Solikhah & Winarsih (2016)
2.	The Media Coverage	News about environmental issues published in the newspapers, magazines, television or other communication media. The media used were the <i>Kompas media, Antara News, SWA magazine, Tempo</i> , and media coverage from the company's website.	Janis-Fadner coefficient = $\frac{e^2 - ec}{t^2}$ if $e > c$ $\frac{ec - c^2}{t^2}$ if $c > e$ $0$ if $e = c$ In which, e is the sum of positive articles of the environment, c is the sum of negative articles of the environment and t is the sum $e + c$	Janis and Fadner (1995 ); Bansal and Clelland, (2004 ) in Rupley et al., (2012); Solikhah & Winarsih (2016)
3 .	Profitability	The company's ability to generate profits	ROA	Nor et al.(2016)

TABLE 2

Descriptive statistics					
Indicator		Mean n = 175	Min	Max	Deviation Standard
<i>Compliance</i>	(Comp)	3.926	0.000	38.000	9.202
<i>Prevention Pollution</i>	(PP)	8.017	0.000	70.000	14.197
<i>Product Stewardship</i>	(PS)	15.143	2.000	66.000	14.582
<i>Sustainable Development</i>	(Elementary)	3.171	0.000	13.000	2.965
Media Coverage	(MC)	0.194	0.000	1.000	0.396
<i>Return on Asset</i>	(ROA)	0.087	-0.180	0.660	0.115

the similar positive and negative media coverage so that it is said to be neutral. The average value of ROA shows a small number, the profit earned is 8.7% of all resources in the form of assets owned by the company.

TABLE 3

Path Coefficients					
	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics ( O/STDEV )	P Values
ROA -> ED	0.033	0.031	0.063	0.520	0.302
Media Coverage -> ED	0.160	0.151	0.060	2.657	0.004*

ED = Environmental disclosure

\*. Statistically significant at 0.05 (one-tailed)

#### 4.1. The Effect of Media Coverage on the Quality of Environmental disclosure

The research hypothesis states that media coverage which has a positive effect on the quality of environmental disclosure is accepted. The results of the inner model test produce the value of coefficient parameter for the effect of media coverage variable toward the quality of environmental disclosure is 0.160 and the p-value is 0.004. This shows that media coverage has a positive and significant effect on the quality of environmental disclosure. This means that when positive media coverage increases, the quality of environmental disclosure will be higher.

This is in line with the legitimacy theory which states that the company will operate based on the social norms and values of the community in order to get legitimacy from the community. The way that companies get legitimacy from society is to communicate with relevant stakeholders (Ashforth and Gibbs, 1990 in Rupley et al., 2012). The Media coverage can inform stakeholders about how much the company cares about environmental issues. This will encourage managers to expose the company's environmental activities to keep legitimacy from the society.

Media coverage in this study is able to increase public attention to environmental problems. When the company becomes a public concern, it will give responds by making quality environmental disclosure. This environmental disclosure is used as a form of confirmation of news published by the media to gain the public trust. This can be seen in PT Aneka Tambang (ANTM) in 2012 that received 1 media coverage with 7 articles of media coverage capable of carrying out environmental disclosure with a total of 164 items while PT Timah Persero (TINS) in 2012 received media coverage of 1 with 4 articles on media coverage carrying out lower environmental disclosure of 143 items.

This research is in line with Aulia & Agustina (2015) which claimed that media coverage has a significant effect on the quality of environmental disclosure. The media

coverage assumed as the representative of stakeholder as non-shareholder, where the non-shareholder will rate the company performance based on the issues released by media coverage about the company finance. The media coverage in a company will make it react through the wider environmental disclosure to fulfil the society's information need.

#### **4.2. The Effect of Financial Performance on the Quality of Environmental disclosure**

The research hypothesis states that profitability has a positive effect on the quality of environmental disclosure that cannot be proven. The inner model test produces the coefficient parameter value for the effect of profitability variables on the quality of environmental disclosure is 0.033 and the p-value is 0.302. This means that the increase in company profitability is not followed by an increase in the quality of significant environmental disclosure.

This is in contrast to the theory previously revealed which stated that companies with higher than average profitability have incentives to carry out and disclose a broad social responsibility program. However, profitability does not affect company policy to improve the quality of environmental disclosure. This happens because a high profile company is a company that is sensitive to the environment so that the company has an awareness to conduct environmental disclosure even though it is limited to meeting regulations.

This research is in line with Nugroho & Yulianto (2015) who stated that profitability does not have a significant effect on CSR disclosures or in other words companies with high profitability do not necessarily disclose CSR information widely. The reason is that when a company has a high level of profitability, the company feels that it does not need to disclose its CSR activities, assuming that the readers of the annual report are interested in the achievements of the company's financial performance. Conversely, when a company has a low level of profitability, it expresses its CSR activities extensively so that the readers of the annual report are interested in reporting on the company's social and environmental activities in an effort to improve the image of the company that is declining financial performance.



## 5. Conclusions and Suggestions

The results showed that media coverage had a significant positive effect on the quality of environmental disclosures. While profitability is not associated with the quality of environmental disclosures. The practical implications of this study, the results are expected to contribute to the government and stock exchange authorities in order to take immediate action in making policies related to environmental management for listed companies and their reporting to stakeholders.

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