THE EFFECTS OF CORPORATE GOVERNANCE STRUCTURE AND FIRM CHARACTERISTIC TOWARDS ENVIRONMENTAL DISCLOSURE

UNDERGRADUATE THESIS

Submitted as Partial Requirement to Complete
Undergraduate Degree (S1)
Faculty of Economics and Business
University of Diponegoro

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FACULTY OF ECONOMICS AND BUSINESS
UNIVERSITY OF DIPONEGORO
SEMARANG
2015

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Certificate of Originality

I, Alfiandita Putri Fortunella, hereby state and declare that this assignment is true and accurate to be my own work specially written for the fulfillment of Undergraduate Program of Accounting and has not initially been presented in any other occasion. I bear full responsibility for my undergraduate thesis.

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MOTTO AND DEDICATION

"But those who hope in the LORD will renew their strenght.
They will soar on wings like eagles; They will run and not grow weary,
they will walk and not be faint." – **Isaiah 40:31**

"Be joyful in hope, patient in affliction, faithful in prayer." – **Romans 12:12**

"Dare to dream big. Believe in yourself. Laugh often. Be authentic and have fun.
Have no regrets. Don't play-it-safers. Keep moving forward.
Don't be afraid of failure. Work hard.
Never give up. Focus on the positive.
Always grateful and pray.
And you'll see magic happen." – **Putri Fortunella**

This thesis I dedicate for :

My beloved parents and my big families.

My supervisor, my lecturers, and my best friends.

For everyone who read this, you're blessed beyond measure.

ACKNOWLEDGEMENT

First and foremost, I want to offer this endeavor to the most Gracious and Merciful, my Jesus Almighty for the wisdom He bestowed upon me, the strenght, peace of mind and good health in order to finish this thesis.

I would like to express my eternal appreciation towards my beloved parents, Budi Setyana and Sussy Prapti Kusumaningtyas also my big family who have always been there for me no matter what, for all unconditional loves, prayers, and patience. Thanks for being ever so understanding and supportive.

I give respectful gratitude to my supervisor, Mr. P. Basuki H, MBA, M.Acc, Akt. for imparting his knowledge and expertise in this study, for his guidance, precious advices and his support throughout this research.

This thesis becomes a reality with the kind support and help of many people.

I would like to extend my sincere thanks to:

1. Dr. Suharnomo, S.E., M.Si. as the Dean of Faculty of Economics and Business, University of Diponegoro.
2. Dr. Endang Kiswara S.E., M.Si., Akt. as the author's trustee in Accounting Department, University of Diponegoro.
3. All of the lecturers and staffs of Faculty of Economics and Business, Diponegoro University for help and all valuable knowledges.
4. Accounting 2011 squad, thank for everything!
5. Angguners : Arinda, Kartika, Karina, Kasyaretha, Nita, Noora, Indri, Inten. Thanks for being my lovely kost-mate yet sweet sister in Semarang.

6. SOBAS : Aryani Intan, Melvin, Putri, Yosua Ucup, Rifqy, Galuh, Rainer, Rheza Bekun, Faisal, Alvin, Reza, Habib. Thanks for advice, information and motivation.
7. FINEREG : Paguh, Samuel, Claudia, Mindo, Yehezkiel, Abram, Mariati, Yonathan, Liese, Eliana, Tia. I Jesus you to the infinity and beyond!
8. My Super Ladies : Gusna, Gadis, Bella, Auda, Zukha. Thank you for help, advice, support, and care in any circumtances.
9. Geng Holiday : Andre, Omi, Tika, Pandam, Gladys, Ined, Anto, Kevin, Tian, Ryan. Thanks for joyful, laugh, love, and hapiness. Let’s get lost again!
10. Power Rangers : Devita, Diana Ghozali, Fivtina, Agvi, Rezky Farras, Faezal, Bonastella. Thanks for support and every joy we share.
11. Woohoo People : Siska, Jannete, Simson, Dwi, Yuni, Odi, Nathan, Anthon, Joseph, Brigitta, Brayen, Dita, Ribka, Yunika, Stephanie, Retno, Triando, Elika, Melia, Junior, Jonathan, all Finereg. Thanks for great team to serve Jesus more, you’re guys extraordinary!
12. Super Family PMK, because of huge members so I can’t mention it one by one, but you guys deserve my deepest thanks, thanks for be my second family here, I’m so grateful. I Jesus You all!
13. My Brother and Sister who trully helping in every advices, thank you Lauren Yapp, Andhika Rahadian, Yoseph Edo, Ludia, Rexy, Adiel and many more.

14. Lopen Semarang : Kartika, Nimas, Lily, Fransis, Ratna, Kicil, Yogi, Ridho, Wisnu, Dimas, Angga, Gita Pilar, Siddik, Mahe, Wisda and all. Thanks for every chances and new experiences. I've learn a lot. Great!
15. Special thanks to Alfi, Isma, Tasya, Evans, Wisnu, Intan, Nanin, Nurul, Nutfi, Lisa, Erika, Andrian, Randy, Doly, Hendra, Uli, Uswah, Frans, Jete. Thanks for support and help, guys!
16. Tambourine Ministry : Rut Ajeng, Merry, Floren, Neirista , Albertha, Arin, Valen, Shanty, Siska and all. Thanks very much!
17. Young On Top Community and Indonesia International Work Camp Semarang. Thanks for learn and share. I'm proud to know you guys, very inspiring. See you on top!
18. Thank you for all people who help me in completing this thesis which cannot mention it one by one. I'm very thank you.

I realize that there are still some lacks in this thesis. Therefore, I hope receive some critics and suggests for this thesis. I do hope that this thesis is worthwhile for those who need it.

Semarang, 11th March 2015

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ABSTRACT

This study aims to obtain empirical evidence about the effect of corporate governance structure and firm characteristic towards environmental disclosure of firms in Indonesia. Prior research review show that there is no consistency and have variety results. This research is a replication with modification of the research by Rao, et al (2012) and Burgwal and Vieira (2014) that examined the influence of corporate governance structure and firm characteristic on environmental disclosure. This study attempts to examine it with seven independent variables. These are independent commissioners, institutional ownership, board of commissioners size, proportion of women directors, firm size, profitability and industry type.

The population of this study was all companies listed in Indonesia Stock Exchange (IDX) in 2012 and 2013. Sample consists of companies which disclose environmental disclosure through the GRI 3.1 index table on sustainability report so there are 59 firms that determined as samples and 59 observations of financial statements. Analysis of Covariance (ANCOVA) test was used as an analysis technique to examine the hypotheses. Statistic program in this study used SPSS 20.

The results of this study showed that board of independent commissioners, board of commissioners size and industry type have significant positive effect on environmental diclosure. While institutional ownership, proportion of women directors, firm size and profitability have no significant influence on environmental disclosure. This research showed that corporate governance practices and firm characteristic in Indonesia was still minimize to control the extent of environmental disclosure.

Keywords: corporate governance, firm characteristic, environmental disclosure, index GRI 3.1

ABSTRAK

Penelitian ini bertujuan untuk memperoleh bukti empiris tentang pengaruh struktur tata kelola perusahaan dan karakteristik perusahaan terhadap pengungkapan lingkungan perusahaan di Indonesia. Penelitian sebelumnya menunjukkan bahwa terdapat ketidakkonsistenan dan memiliki hasil bervariasi. Penelitian ini merupakan replikasi dengan modifikasi penelitian oleh Rao, et al (2012) dan Burgwal dan Vieira (2014) yang meneliti pengaruh struktur tata kelola perusahaan dan karakteristik perusahaan terhadap pengungkapan lingkungan. Penelitian ini menggunakan tujuh variabel independen. Variabel tersebut adalah komisaris independen, kepemilikan institusional, ukuran dewan komisaris, proporsi direksi wanita, ukuran perusahaan, profitabilitas dan jenis industri.

Populasi dalam penelitian ini adalah semua perusahaan yang terdaftar di Bursa Efek Indonesia (BEI) pada tahun 2012 dan 2013. Sampel terdiri dari perusahaan yang melakukan pengungkapan lingkungan dilihat dari indeks GRI 3.1 yang ada pada laporan keberlanjutan sehingga ada 59 perusahaan yang ditentukan sebagai sampel dan 59 total observasi dari laporan keuangan perusahaan. Analisis Kovarians (ANCOVA) digunakan sebagai teknik analisis untuk pengujian hipotesis. Program statistik dalam penelitian menggunakan SPSS 20.

Hasil penelitian ini menunjukkan bahwa komisaris independen, ukuran dewan komisaris dan jenis industri berpengaruh positif signifikan terhadap pengungkapan lingkungan. Sementara kepemilikan institusional, proporsi direksi wanita, ukuran perusahaan dan profitabilitas tidak memiliki pengaruh yang signifikan terhadap pengungkapan lingkungan. Penelitian ini menunjukkan bahwa struktur tata kelola perusahaan dan karakteristik perusahaan di Indonesia masih belum sepenuhnya mengontrol luas pengungkapan lingkungan.

Kata kunci: tata kelola perusahaan, karakteristik perusahaan, pengungkapan lingkungan, indeks GRI 3.1

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CHAPTER I

INTRODUCTION

1.1 Background

The world economic development and business industry's growth brings along negative environmental impacts such as climate change, global warming, environmental degradation and pollution. These negative effects lead to an increase in awareness of environmental issues worldwide (Akbas and Canikli, 2014). Social awareness about the environmental impact of increased corporate activity of the past few decades has risen (Burgwal and Vieira, 2014). Companies in Indonesia and even in the whole world are under more public scrutiny than ever before and are under pressure to provide information about the environmental performance of the company.

The increase in environmental awareness brings growing demand for environmental accountability by companies. As a major force in economic development, firms have come to be seen as the primary party responsible in environmental issues and have confronted pressure from stakeholders to be more environmentally responsible by reducing the negative impact of their activities on the environment and provide information about their environmental performance (Akbas and Canikli, 2014). Rao, et al (2012) explains that companies are required to be more responsible towards the environment by reducing the negative impact of their operational activities on the environment and providing information about the environmental performance to a wider group that is affected such as

governments, consumers, environmental community, regulators, media, investors, financial institutions, employees and shareholders.

According to Akbas and Canikli (2014), in addition to maximizing value for shareholders, companies are expected to operate in an environmentally friendly way to minimize environmental pollution, lowering greenhouse gas emissions, lowering the carbon footprint, reduce toxic wastes and increase the use of alternative renewable energy and recycled products. As a response to this pressure, companies around the world began to look for ways of reducing their negative environmental impact and started to voluntary disclose their environmental activities and environmental performance (Gherardi et al, 2014). This meant that the company can obtain legitimacy from the public to support the long-term sustainability of the company.

Environmental disclosure has been understood broadly as providing information related to the environmental implications of the company operations (Rao et al, 2012). Environmental disclosure is important to describe the crucial information about the company's operational practices that relate directly to the environment. Disclosure on environmental performance not only helps the company to gain stakeholder support, but also helps companies to assess the possible risks caused in running the company and to reduce the impact of operations on the environment.

In Indonesia, environmental disclosure that initially was voluntary has now become a mandatory (Halida, 2014). It can be seen from many laws and regulations that control in Indonesia companies. The Corporation Law No. 40 of

2007, in Article 74 Number 1 states that the company and its business activity shall be obliged to perform their social and environmental responsibilities. This was then reinforced by the release of PP 47 of 2012 about Social and Environmental Responsibility of the Limited Company. In addition, there is the presence of Statement of Financial Accounting Standards (SFAS) No. 1 paragraph 9 which states:

> “Enterprises can also present additional statements such as environmental reports and value added statements, particularly in industries where environmental factors are significant and where employees are considered to be an important user group.”

Thus the environmental cost and performance disclosures are increasingly important for companies as a form of public accountability and compliance with government regulations.

As such reporting practices become widespread and environmental disclosures made by some organizations become more extensive to report, companies started to publish them in a separate social and environmental report (Gherardi et al, 2014). Companies are increasingly improving their environmental performance and publish comprehensive sustainability reports. The fact that now more and more companies are following ISRA (Indonesian Sustainability Report Award) indicates how companies in Indonesia started to voluntary give extra information about their social and environmental activity. According to the CPA (2002) in Halida (2014), a sustainability report is a method conducted by a company in order to gain legitimacy in the long-term sustainability of the operation. Companies that provides social and environmental information has several reasons, such as a desire to fulfill with legal requirements, to comply with

the expectations of society, as a result of a specific threat to the legitimacy of the organization, to manage certain stakeholders, to attract investment funds, for the avoidance of disclosure rules heavier, and to win the award for specific reporting (Degaan, 2002).

Environmental disclosure is an important way to ensure transparancy and accountability for performance and it is crucial for an organization's long term survival. Studies have found that strong corporate governance mechanisms increase the level of corporate disclosure generally (Lakhal, 2005 in Rao et al, 2012). Gibson and O'Donovan (2007) in Rao, et al (2012) explain that an increase in environmental disclosure could be achieved by strong corporate governance, which includes the provision of environmental information to legitimate stakeholders. So this is an indication that corporate governance plays a role in environmental disclosure. Companies with good corporate governance structure will provide a report on the environmental performance effectively as corporate responsibility and sustainability of operations.

Previous empirical studies have shown that social and environmental information disclosures varies across companies and industries. Differences in the disclosure occurred because social and environment impacts caused by each company are not always the same, many factors differentiate a company with other companies. Firm characteristics are factors that differentiate a company with the others. Every companies have their own characteristic such as firm size, leverage, profitability, company age, type of industry, capital intensity, liquidity,

country of firm ownership, and so on. These firm characteristics cause the differences in the extent of company's environmental disclosures.

This study builds on existing research on corporate social responsibility disclosures, specifically in the environmental disclosure area. It has differences with previous studies in terms of the variables used, samples and measures. Environmental disclosure will be linked with several factors that affect environmental performance. This study is a modification of the research conducted by Burgwal and Vieira (2014) and Rao, et al (2012). Research from Burgwal and Vieira (2014) investigated the effect of firm characteristics such as profitability, firm size, and type of industry on environmental disclosure. Research by Rao, et al (2012) examined the effect of corporate governance structure, which is proxied by the independent board, the board size, the proportion of women directors, and institutional ownership on environmental disclosure.

From the background described above, this study aims to investigate and analyse the extent of environmental disclosure by companies in Indonesia that are listed in Indonesia Stock Exchange (IDX) from 2012-2013 which disclose environmental report through the index GRI 3.1 on sustainability report. This study uses factors based on previous studies of the corporate governance structure and firm characteristics. Firm characteristics are proxied by firm size, profitability, and industry type. The corporate governance structures are proxied by the board of independent commissioners, institutional ownership, board of commissioners size, and the proportion of women directors on the board. Based on this research, the information content in environmental disclosure was

measured by items of Global Reporting Initiative (GRI) index version 3.1 because it can be used widely internationally as a generally accepted reporting framework.

1.2 Problem Formulation

Many corporations take responsibility for their environmental impacts, a responsibility reflected in their willingness to make public disclosures of behaviour with environmental implications (Suttiipun and Stanton, 2012). There is a significant increase in the amount of companies that provide environmental disclosures in their annual reports and any other report such as sustainability report.

The tendency of public corporations to voluntary provide environmental disclosures has been interest to accounting researchers. Previous reseach by Burgwal and Vieira (2014) found that there are positive effect between environmental disclosure with firm size and industry. Rao, et al (2011) found a significant positive relationship between environmental reporting and the proportion of independent and female directors on a board. In Indonesia, research about environmental disclosure has increased, for instance in research from Setyawan (2012), Yesika (2013), Nugroho (2013), Ariningtika (2013), Raras Halida (2014), Paramitha (2014) and so on. The results of previous studies still tends to vary and is inconsistent. Inconsistency in the results of previous studies has prompted this study to determine the effect of corporate governance structure and firm characteristics towards environmental disclosure.

This study aims to fulfill that gap by investigating factors that effect environmental disclosure in Indonesia companies. Based on the explanation above, the author formulates the problem as follows:

1. Does Board of Independent Commissioners Affect Environmental Disclosure?
2. Does Institutional Ownership Affect Environmental Disclosure?
3. Does Board of Commissioners Size Affect Environmental Disclosure?
4. Does Proportion of Women Directors Affect Environmental Disclosure?
5. Does Firm Size Affect Environmental Disclosure?
6. Does Profitability Affect Environmental Disclosure?
7. Does Industry Type Affect Environmental Disclosure?

1.3 Objectives and Purposes

1.3.1 Research Objectives

According to the background and problem formulation as stated above, this research has objectives as follows:

1. To analyze the effect of board of independent commissioners on environmental disclosure.
2. To analyze the effect of institutional ownership on environmental disclosure.
3. To analyze the effect of board of commissioners size on environmental disclosure.
4. To analyze the effect of proportion of women directors on environmental disclosure.

5. To analyze the effect of firm size on environmental disclosure.
6. To analyze the effect of profitability on environmental disclosure.
7. To analyze the the effect of industry type on environmental disclosure.

1.3.2 Research Purposes

This study is expected to give advantages, such as:

1. For the researcher, the result of this study is expected to give new contribution to accounting development especially about the disclosure of environmental and can be used as a consideration for the next researcher to extend the work in this field of disclosure and sustainability issue which contribute to the literature.
2. For management of companies, the result of this study is expected to give awareness about the importance of environmental management and the implementation of good corporate governance so companies can provide more information about their environmental performance for their survival.
3. For the government, the result of this study can be used as an understanding that environmental policy is important to reduce environmental destruction.

1.4 Structure of Thesis

This thesis is devided into five sections, arranged as follows:

CHAPTER I : INTRODUCTION

In this chapter the readers will get the explanation about the background, problem formulation, research objectives and purposes, and the structure of this research.

CHAPTER II : LITERATURE REVIEW

In this chapter the readers will get the explanation about the theories and literatures that formed from the basic of this study, the previous research, conceptual framework and the hypothesis development.

CHAPTER III : RESEARCH METHODS

In this chapter the readers will get the explanation about the research design, type and source of data, data collect method, research object and data analysis.

CHAPTER IV : RESULT AND ANALYSIS

In this chapter, the readers will get the description about the research objects, data analysis that consist of descriptive statistic, the analysis test model, hypothesis test results that are proposed in this chapter and interpret results.

CHAPTER V : CONCLUSION

In this chapter, the readers will get the explanation about conclusion that can be drawn from the analysis result, research implications, the limitations of this research and suggestions for further research.

CHAPTER II

LITERATURE REVIEW

2.1 Underlying Theories and The Previous Research

2.1.1 Agency Theory

Agency relationship is a contract that happened between one or more parties (the principal) involving another party (the agent) to perform some services for the benefit of the principal (Jensen and Meckling, 1976). Both the agent and the principal have their different interests that can lead to asymmetry of information that led to the conflict of interest. Agency theory appears to overcome agency conflicts that may occur in the agency relationship.

The existence of structures with good corporate governance mechanisms within the company can overcome the agency problem. One purpose of the existence of corporate governance in the company is to encourage awareness and responsibility towards social and environmental factors that can maintain the continuity of the company in the long term (KNKG, 2006). Good corporate governance will comply with the principles of transparency, accountability, responsibility, independence, fairness and equality. By conducting environmental disclosure as a form of corporate sustainability reporting then is an attempt by the company to comply with the principles of transparency, responsibility and corporate performance (Rao, et al 2012). This may be accomplished if the company has a structure with good corporate governance mechanisms. Moreover, Gibson and O'Donovan (2007) in Rao, et al (2012) stated that the increase in

environmental disclosure could be achieved by strong corporate governance, which includes the provision of information about the company environment to legitimacy of the stakeholders.

2.1.2 Legitimacy Theory

Legitimacy theory is a theory that is most widely used in explaining how environmental disclosure is done by the company. According to Gray, et al (1995), theories that seem to have been the most successful in describing the content of social and envorinmental information disclosures are legitimacy theory and stakeholder theory. Cho and Patten (2007) stated that legitimacy theory is an implication that environmental disclosure is a function of the intensity of political and social pressures faced by the company regarding its environmental performance. As a reaction to this pressure, the company seeks to provide more information about its environmental performance.

Perrow (1970) in Juhmani (2014) defines legitimacy as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, value, beliefs, and definitions. Companies has always tried to balance the value of the company and its social value. Legitimacy theory essentially is a social contract made between the company and the community (Kuo and Chen, 2013). The company uses existing resources in the community, so it is a responsibility of the company to deliver value or benefit to the community as a form of reciprocity.

Legitimacy theory suggests a relationship between environmental disclosure and community concerns so that management must react to community

expectations (Deegan, 2002). The difference between the company's organizational actions with public expectations can lead to failure of the social contract that triggered the legitimacy gap. Whereas public recognition is important for companies to be able to survive in the long term. For that the company is always trying to align the company's value with the social value so that the company does not lose its legitimacy (Kuo and Chen, 2013). If companies do not operate in a manner consisted with community expectations, they will penalized.

If companies failed to be viewed by the public as in the task of this social contract, social values would not be in accordance with the value of companies, so there will be a negative impact on public opinion of the companies (Burgwal and Vieira, 2014). Negative opinion of this community could be a threat to the company. Social contract between the company and the community will be damaged when the operational activities of the company fail to comply with the expectations of society. Public will react to disappointment against the company, as for example, reducing the demand for the products or services, suppliers will limit the supply, or financial institution will restrict credit or a loan to the company (Deegan and Rankin, 1996 in Halida, 2014). As a result, corporations will adapt their activities to meet community expectations and perform various socially desired actions, which will guarantee their continued existance and their success (Juhmani, 2014).

Companies tend to have a good performance environment and disclose environmental information as legitimate activities of companies (Ghozali and Chariri, 2007). In response to legitimacy gap, the company will make every effort

to rectify or compensate for the failure of the contract to provide positive environmental disclosure. By providing informative environmental disclosure, the company can continue to maintain corporate image.

2.1.3 Stakeholder Theory

Stakeholder theory is related to legitimacy theory. If the legitimacy theory focuses on the social contract and the communication of information to the society, stakeholder theory is more focused in corporate communications to distinct stakeholder groups. According to stakeholders theory, the community consists of various stakeholder groups (Burgwal and Vieira, 2014). The strength of the effects of stakeholders in the company's activities are not always the same.

Basically, stakeholder theory is that companies are so big and their impact on society and environment so pervasive that companies should be held accountable to many more sectors of society than solely their shareholders (Solomon, 2007). The companies need the stakeholders support so their activities should be adjusted to the stakeholder’s demand (Robert, 1992 in Burgwal and Vieira, 2014). Gray, et al (1995) explains that the more power stakeholders have, the more a company must adjust its activities to stakeholder’s demand because stakeholders have the ability to control resources that are critical for the company.

Legitimacy theory and stakeholder theory are closely related and are not contradictory but interrelated and complementary (Deegan, 2002). The main purpose why companies participate in the stakeholder engagement related to continuity figures, that is profitability (Burgwal and Vieira, 2014). Because companies also need the support from stakeholders, the companies will try to

attract the stakeholder's attention. One way to draw attention is related with corporate social responsibility and to reveal it in a special report, such as sustainability report.

2.1.4 Environmental Disclosure

It is important for companies to disclose their performance information as a means of communication to the various parties in sustainability efforts. Corporate responsibility is to be able to harmonize the achievement of economic performance, social performance and environmental performance. Solomon (2007) stated that one of the first areas where companies have been encouraged to discharge a wider accountability has been the environment. Environmental disclosure is an important way to ensure the transparency and accountability of corporate performance (Rao, et al 2012).

Environmental disclosure is a set of information items that relate to a firm's past, current, and future environmental management activities and performance. Through disclosure mechanisms, a firm's environmental information can be conveyed to stakeholders (Kuo and Chen, 2013). Environmental disclosure is the provision of a public or private information, financial information and non-financial, and qualitative or quantitative information about the management of the company according to environmental issues. That information can be found either in the annual report or in any other form separately. A separate environmental report is often referred to as a sustainability report.

Research has shown that there are more and more companies deciding to disclose environmental information to stakeholders (Burgwal and Vieira, 2014). Environmental disclosure has increased in various countries around the world. In this study, Global Reporting Initiative (GRI) index version 3.1 is used to measure the extent of environmental disclosure practice in Indonesian companies. The Global Reporting Initiative (GRI) is an independent organization that works towards a sustainable global economy by providing sustainability reporting guidance, whose mission is to provide and disseminate globally applicable sustainability reporting guidelines that help organizations to report on the economic, environmental and social dimensions of their activities, products, and services. These guidelines are intended to be applicable to organizations of all sizes and types operating in any sector. GRI has pioneered and developed a comprehensive Sustainability Reporting Framework that is widely used around the world. A sustainability report is a report published by a company or organization about the economic, environmental and social impacts caused by its everyday activities. A sustainability report also presents the organization's values and governance model, and demonstrates the link between its strategy and its commitment to a sustainable global economy *(www.globalreporting.org).*

In Indonesia, more companies start to publish sustainability reports using GRI index guidelines, because GRI can used internationally as a generally accepted reporting framework and provides a method for increased comparability. GRI index are flexible and can be used in different sectors and geographical contexts. Based on Sustainability Reporting Guidelines, environmental indicator

exhibits the organization's impact against living and non-living system, including ecosystems, land, air, and water.

2.1.5 Corporate Governance

2.1.5.1 Corporate Governance Definition

Corporate governance is a company's management mechanism based on agency theory. The Organization for Economic Corporation and Development (OECD), defines corporate governance as follows:

> "Corporate governance is defined as the structures and processes by which companies are directed and controlled. Good corporate governance helps companies operate more efficiently, improve access to capital, mitigate risk and safeguard against mismanagement. It makes companies more accountable and transparent to investors and gives them the tools to respond to stakeholder concerns. Corporate governance also contributes to development. Increased access to capital encourages new investments, boosts economic growth, and provides employment opportunities."

The implementation of corporate governance is expected to function as an instrument to give beliefs to investors that they would receive a return on the funds they invest in a company.

Corporate governance is a structure and process applied by the company to improve the achievement of business objectives and optimize enterprise value for all stakeholders. Implementation of good corporate governance is necessary to fulfill the trust as an essential condition for the industry to develop properly and aims at realizing stakeholder value. The general guidelines of good corporate governance Indonesia (KNKG, 2006) states that there are five (5) principles of good corporate governance are necessary for business sustainability, namely:

1. Transparency

   To maintain objectivity in running a business, then the company should provide material and relevant information in a manner easily accessible and understood by stakeholders.

2. Accountability

   Companies must be responsible for its performance so that the company should be managed properly, measurable, and in accordance with the interests of stakeholders. Accountability is a requirement that must be done to achieve continuous performance.

3. Responsibility

   Companies must comply with legislation and fulfill its responsibility towards society and the environment. The company must fulfill its social responsibility by caring for the community and the environment, especially around the company with adequate planning.

4. Independency

   In implementing the principles of good corporate governance, the company must be managed independently so that each organ of the company not dominating each other and be intervened by other parties.

5. Fairness

   In performing its activities company should always consider the interests of shareholders other stakeholders based on fairness and equality.

2.1.5.2 Corporate Governance Structure

2.1.5.2.1 Board of Independent Commissioner

Board of commissioners are parts of the company in charge of organ and collectively responsible for supervising the management of the company held management (directors), and is responsible for determining whether management fulfill their responsibilities in developing and organizing the company's internal control (KNKG, 2006). An independent commissioner is a member of the board of commissioners who is not affiliated with the board of directors, other members of the board of commissioners and its controlling shareholder, as well as being free from the business relationship or other relationship which could affect its ability to act independently or act solely in the interest of the company (Rao et al, 2012).

The independent board is expected to conduct effective oversight as an independent commissioner has high integrity. Independent commissioner should ensure that the control mechanism works effectively and in accordance with the legislation. Besides being a supervisory function, independent commissioners also provide more guidance to directors to conduct their activities in a socially responsible way so that there is harmony between firm value and social value (Khan, 2010).

2.1.5.2.2 Institutional Ownership

Shareholding composition has a significant impact on the company's control system. Ownership of the company can be divided into two types, namely concentrated and spread. Institutional ownership is concentrated ownership as

measured by the percentage of institutional shares divided by the total shares. Institutional investors are companies that raise and manage funds as investors and could be pension companies, leasing, banking, investment and insurance companies (Lakhal, 2005 in Rao et al, 2012).

Institutional investors as majority shareholder will reduce the effectiveness of the board of directors or company management. Investors who have large stocks will dominate and influence management decisions in exchange for shares in the invested company (Solomon, 2007). With greater ownership concentration, firm are less likely to disclose their environmental activity (Brammer and Pavelin, 2008 in Akbas and Canikli, et al 2014). Moreover, Rao, et al (2012) explain that the absence of powerful institutional ownership will influence on management's decisions and the company is expected to be less independent under highly concentrated ownership.

2.1.5.2.3 Board of Commissioner Size

A board of commissioners' size can be seen from the number of board members that exist in the company. The board of commissioners is the organ in charge of the company and is collectively responsible for overseeing and providing advice to the directors and for ensuring that companies implement good corporate governance (KNKG, 2006). Board of commissioners supervise the maintenance policy, and maintenance in general, both regarding the company and the company's business, and to advise the board of directors for the benefit of the company and in accordance with the aims and goals of the company (Rao, et al 2012). The more efficient a company would have an impact on the increase of the

reporting system by the company and would be increase the voluntary reports made such as the environmental report.

2.1.5.2.4 Women Directors on Board

The proportion of women directors is the percentage of women directors on the board. Companies with women on their boards of directors have a better record of corporate transparency in the area of environmental disclosure, according to a study by Rao, et al (2012).

Smith, et al (2006) explain that there are three reasons explain the importance of have a women directors on the board:

1. Women directors usually have a better understanding of the market conditions compared to male directors. This understanding will improve better decision made by the board.
2. Members of women directors will bring a better picture in perception community for the company and this will make a positive contribution to the company performance.
3. The other board members will have an enhanced understanding of the current business environment if the company has representatives from women directors.

2.1.5.3 Firm Characteristic

2.1.5.3.1 Firm Size

Firm size is a variable that can explain the variation in quantity of disclosures in annual reports. Companies that have a larger size have a higher demand in the disclosure of information relative to the smaller size. This positive

relationship is based on the fact that the larger companies generally exhibit more amount of effort and operate on an international scale. Larger companies have more responsibilities to satisfy the various parties more (Burgwal and Vieira, 2014).

2.1.5.3.2 Profitability

Profitability is one of the indicators used to measure the financial performance of the company and is deemed appropriate for the company's success, which is usually manifested in the profit generated from the operation of the company (Brammer and Pavelin, 2008 in Burgwal and Vieira, 2014). The higher level of profitability, more detailed information is also provided by the manager because the management wanted to reassure investors about the profitability of the company and compensation of managers (Nugroho, 2013).

2.1.5.3.3 Industry Type

Industry type is the type of business entity driven by business sector. According to industry type relationship with the economic environment, social, and environmental communities can be distinguished in the category of high profile and low profile (Brammer and Pavelin, 2008 in Burgwal and Vieira, 2014). Companies that are included in the category of high profile are the companies that have a high degree of sensitivity to the environment, a high political risk, or intense competition. As a high profile example is the mining industry, chemical, pharmaceutical, energy, oil, metal. The low profile industry is a company that lacks a high degree of sensitivity to the environment, for example a company of consumer services and goods, financial, and communication (Burgwal and Vieira,

2014). Companies where the operation will potentially impact the environment tend to disclose more often than those which have less impact on the environment (Deegan, 2002).

2.2 Previous Research

Research on the social and environmental responsibility of the company has been carried out widely. In Indonesia, there have been many developments in research on either voluntary or mandatory disclosure. There are several studies on environmental disclosure that have been made, but by using different measurement methods, variables and samples. The results are also varied, giving rise to inconsistencies and research gaps. This section will be summarized previous studies on environmental disclosure, firm characteristics, and corporate governance in a table as follows :

Table 2.1

Previous Research

Researcher	Variable Used	Data Used and Statistical Tools	Result
Rao, et al (2012)	Dependent variable: environmental disclosure Independent variables: board of independent commissioners, institutional ownership, board of commissioners size, board of female directors Control variable: firm	100 big companies by market capitalization in Australia Tools : OLS Regresion	Independent commissioners, institutional ownership, board size and proportion women directors have a positive significant affect toward environmental disclosure

	size, profitability, type industry		
Bahtiar Effendi, dkk (2013)	Dependent variable: environmental disclosure Independent variables: board size, the proportion of independent board, chairman educational background, and the number of board meetings Control variables: firm size, profitability, and leverage	All manufacture companies in the year 2008-2011 Tools: Multiple Linear Regression	Board size, the proportion of independent board, chairman educational background, the number of board meetings, profitability and leverage does not affect significantly the environmental disclosure. Firm size has positive influence on environmental disclosure.
Nugroho, A K (2013)	Dependent variable: triple bottom line disclosure Independent variables: leverage, profitability, liquidity, industry types, management ownership, foreign ownership, institutional ownership, good corporate governance and audit committee size	Manufacturing firms listed in IDX during the period 2008-2011 Tools: Multiple Regression	Leverage, type of industry, size of board of directors, and audit committees significantly influence the disclosure by the triple bottom line. Profitability, liquidity, institutional ownership, management ownership, and foreign ownership does not significantly influence the triple bottom line disclosure by companies.
Halida, R (2014)	Dependent variable: environmental disclosure Independent variables: independent board, institutional ownership, board size, the proportion of	All the entire company incorporated in NCSR in year 2009-2012 Tools: Linear	Institutional ownership and size of the audit committee have significant positive effect on environmental disclosure. Independent board, board size, the proportion of female

	female directors, audit committee size Control variables: firm size, profitability, industry type	Regression	directors did not significantly effect environmental disclosure.
Dion van de Burgwal and Rui Oliveira Viera (2014)	Dependent variable: environmental disclosure Independent variables: firm size, profitability, industry type	28 Dutch listed companies year 2008, which ones represent 90% of the total market capitalization on the Dutch Stock Exchange Tools: Multiple Regression	Company size and industry type have significant effect on environmental disclosure. Profitability has no significant effect on environmental disclosure.
Paramitha, B. W (2014)	Dependent variable: environmental disclosure Independent variable: Firm size, leverage profitability, firm age Control: Composition of the board of commissioners	101 manufacturing companies in Indonesia year 2010-2012 Tools: Multiple Linear Regresion	Firm size and leverage have positive significant effect on environmental disclosure, while profitability and firm age variables did not significantly influence the environmental disclosure

Source : Developed for this study, 2014

This research refers to research conducted by Rao, et al (2012) and Burgwal and Vieira (2014). This study tried to collaborate and modified the research that has been done and has some differences to adjust to the situation in Indonesia. Variable board size adjusted to the two-tier system that separates the functions of directors and supervisory functions. Furthermore, study of Rao, et al (2012) used firm size, profitability and industry type as control variables, but in this study the author is using the control variables as independent variables. It

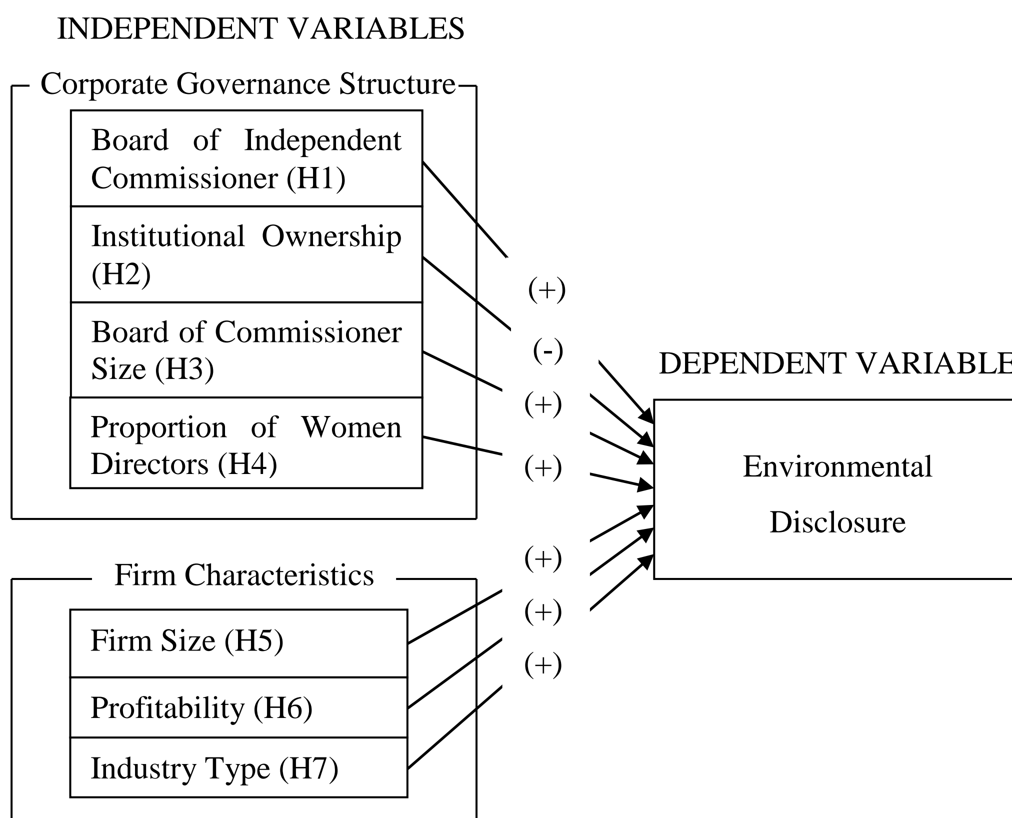
reffered to study of Burgwal and Vieira (2014) that used firm size, profitability and industry type as independent variables. This study aims to analyse the extend of environmental disclosure in Indonesian companies.

2.3 Theoretical Framework

This section described and outlined about the logical relationship between corporate governance structure and firm characteristics towards environmental disclosure that will be visualized in the form of a figure about the theoretical framework. Based on theory, previous researchers, and hypothesis development, theoretical framework is arranged to describe the relationship between independent variables and dependent variable. Theoretical framework is arranged to ease the hypothesis understanding which is constructed in this research.

Figure 2.1

Theoretical Framework



2.4 Hypothesis Development

Related theories and previous studies are used to formulate the hypothesis in this study, which can be described as follows:

2.4.1 Effect of Board of the Independent Commissioner on Environmental Disclosure

Based on agency theory perspective, it can be explained that by having a greater number independent commissioners it will be easier to control and supervise the performance of the company so that it can minimize the deviation. In addition, independent commissioners tends to increase the transparency of the company with both mandatory and voluntary disclosure of information (Rao, et al 2012).

Independent commissioners can increase the effectiveness of the board and improve company performance (Rao, et al 2012). Independent commissioners can better monitor management as a non-official position in the organization and has incentive to build a reputation as a separate monitoring of the internal directors. Lack of interest in the material and independent assessment will encourage board members to act in support of both shareholders and stakeholders.

In some studies there is a positive relationship between the independent commissioners with a voluntary disclosure. But research result from Halida (2010) found that independent commissioners has no effect on environmental disclosure. Independent commissioners provide transparency in corporate performance information and other voluntary disclosure as additional information (Cheng and Courtenay, 2006 in Rao, et al 2012). The more independent

commissioners will be trying to ensure that the company conducts environmental social responsibility, including environmental responsibility disclosure.

According to De Villiers, et al (2009), more independent commissioners within the board will force managers to make decisions that support the environment and have a strong corporate environmental performance. Furthermore, the presence of independent commissioners has focused on increasing the shareholder value and disclosing environmental problems. So it can be concluded that environmental disclosure will increase with increasing the proportion or number of independent commissioners. Based on the above, the hypothesis proposed in this study are as follows:

H1. Independent commissioners have positive effect on environmental disclosure.

2.4.2 Effect of Institutional Ownership on Environmental Disclosure

Institutional ownership is a form of ownership concentrated and is measured by the percentage of shares held by institutional shareholders. They include banks and suppliers of funds in the financial markets such as insurance companies, pension funds, and investment companies (Lakhal, 2005 in Rao et al, 2012). Having large institutional investors can reduce the effectiveness of the board.

Increasing demand for information occurs because of the separation between ownership and control, so that there is continued pressure from management to provide more information (Jensen and Mekling, 1976). Several previous studies have found a positive relationship between disclosure by

institutional ownership. But, majority of previous studies found that there is a negative relationship between institutional ownership and environmental disclosure (Lakhal, 2005 in Rao et al, 2012). Larger investors tend to dominate and influence managements decisions include decision to disclose environment issue because they hold a significant share in the companies. Strong shareholders have more influence on management decisions so that the organization becomes less independent under concentrated ownership. So it can be formulated that there will be lower environmental disclosure by independent organizations or companies with concentrated ownership. Based on these descriptions, then the hypothesis proposed in this study are as follows:

H2. Institutional ownership negatively affects environmental disclosure.

2.4.3 Effect of Board of the Commissioners Size on Environmental Disclosure

Board of Commissioners size is the number of commissioners in the company, where commissioners have an important role in monitoring the performance of the company (Rao, et al 2012). Small board size is more effective in monitoring management actions (de Villiers, et al 2009) and functions effectively in decision-making. But other opinion states that a large board of commissioners is more effective where they can provide much better experience and knowledge and offer better advice (Bonn, 2004 in Rao, et al 2012). There are many previous studies examining the relationship of the size of the board with environmental disclosure and still have inconsistencies in results. Decisions such as the content and the level of environmental disclosures in annual reports and

sustainability reports require intensive engagement, effective communication and coordination by members of the board. These characteristics can be achieved with larger board size. Furthermore, agency theory explains that the greater commissioners size would fasilitate the control of the agent and effective monitoring. Then the hypothesis proposed in this study is as follows:

H3. Board of commissioners size positively affects environmental disclosure.

2.4.4 Effect of Proportion of Women Directors on Environmental Disclosure

Diversity on a board can affect the activities of the company and one considerably debated characteristic of board diversity is gender (Adam and Ferreira, 2004 in Rao, et al 2012). Women emancipation also affect the high position that can be obtained by women in a company. Nowadays, there are more women in the board. Many researchers have found that the presence of women on the board of directors had a positive contribution on firm performance. Even research result from Halida (2010) found that proportion of women directors have no effect on environmental disclosure.

More women in the company can improve the decision-making process, improving the effectiveness of the company and women tend to have a better presence participation (Rao, et al 2012). Then, Huse and Solberg (2006) in Rao, et al (2012) found that women are more committed and involved, more prepared, more diligent, asking questions and ultimately creating a good atmosphere in the meeting room. Moreover, more women directors were able to increase the independence of the company and independence is an important factor that

increases accountability, and thus has the potential to increase the level of disclosure as well as environmental disclosure (Kang, et al 2007 in Rao, et al 2012). Hence the hypothesis proposed in this study are as follows:

H4. Proportion of women directors positively affects environmental disclosure.

2.4.5 Effect of Firm Size on Environmental Disclosure

Majority of empirical studies find significant evidence that there is a positive relationship between firm size and the level of social and environmental disclosure (Burgwal and Vieira, 2014). This positive relationship is based on the fact that, in general, larger companies taking part in a number of higher business and operations on an international scale. The company's activities can have a major impact on the environment and society. In addition, larger companies have a responsibility to satisfy stakeholders more interested in environmental management and enterprise initiatives. However, other studies did not find a positive relationship between firm size and environmental disclosure (Burgwal and Vieira, 2014).

Companies became aware of the importance of establishing and managing a good corporate reputation and companies tried to make disclosure of environmental information to protect or expand its reputation (Brammer and Pavelin, 2008 in Burgwal and Vieira, 2014). This is consistent with the stakeholder theory, which states that the stakeholders have the opportunity to control the resources of the company. Larger companies have more stakeholders and therefore they are more likely to satisfy the stakeholders in order to sustain its

operations (Burgwal and Vieira 2014). Based on description above, the hypothesis proposed in this study are as follows:

H5. Firm size has a positive effect on environmental disclosure.

2.4.6 Effect of Profitability on Environmental Disclosure

Profitability is an indicator of a company that is used to look at the ability of companies to makes a profit. Research conducted by Djoko Suhardjanto (2010) stated that the profitability of companies has a positive relationship where the higher profitability of companies, the level of corporate disclosure will also increase. Profitability is a factor that makes the management to be free and flexible to express social responsibility to its shareholders (Heinze, 1976 in Burgwal and Vieira, 2014). But some other research found no relationship like research from Ariningtika (2013) and Setyawan (2012). Fauzi, et al (2007) in Burgwal and Vieira (2014) found empirical evidence that there is a positive and significant relationship between corporate social performance and ROA that later stated that if the company has a high level of ROA, the company will have sufficient funds to be allocated to social and environmental activities so that the level of social responsibility disclosure by companies will be high. Based on the description above, the hypothesis that can be proposed in this study are as follows:

H6. Profitability has positive effects on environmental disclosure.

2.4.7 Effect of Industry Type on Environmental Disclosure

Industry can be categorized based on the type of environment sensitivity and non-sensitivity. Companies with environmental sensitivity tend to try to provide more extensive information disclosure (Brammer and Pavelin, 2006 in

Burgwal and Vieira, 2014). These disclosures by the company show the legitimacy of the company's operational activities in order to reduce the pressure from stakeholders.

There are two assumptions that support, first, companies operating in the industry with environmental sensitivities must comply with strict environmental regulations for pollution characteristics of their activities, therefore, firms operating in sensitive industries should disclose their environmental concern, if stakeholders and especially the investor will be assume the worst (Burgwal and Vieira, 2014). Second, the industry with environmental sensitivity face greater social pressures as they relate to environmental concentrations, like greenhouse gas emissions and environmental damage.

Consistent with legitimacy and stakeholder theory which states that some of the industry considering the enormous pressure from the public or specific stakeholders, to provide environmental information and they do this disclosure to prevent of a legitimacy gap between companies and social operations (Deegan, 2002). It can be formulated that companies operating the high-profile (environment sensitive) industry achieve a higher level of disclosure than the industry on a low profile (environment non-sensitive) companies.

H7. Industry type has positive effects on environmental disclosure.

CHAPTER III

RESEARCH METHOD

This chapter will explain the research design, population and research sample, research variables and operational definitions, data collection procedures, and data analysis method.

3.1 Research Variables and Operational Definition

3.1.1 Dependent Variable

The dependent variable is a variable that is influenced by the independent variables. The dependent variable in this study is the environmental disclosure. This study measures the environmental variables using scores disclosure in accordance with the disclosure of items based on the guidelines in the field of environmental CSR index by guideline GRI (Global Reporting Initiative) 3.1. The use of this index was chosen because CSR disclosure using the guidelines GRI index has been applied internationally and has been used by many countries. In Indonesia, many companies start using GRI guidelines in the CSR disclosure and display tables check list GRI index on the last page of the sustainability report.

Overall, CSR disclosure items according to GRI include 79 items, while in this study the only indicators of environmental performance are used, which amounts to 30 items. Environmental performance includes performance related to six aspects, namely materials, energy, water, biodiversity, waste effluent emissions, product services, transportation and comprehensive aspect. CSR calculations are performed using dummy variables, then this variable is measured

by comparing the number of items disclosed environmental disclosure by the company by the GRI environmental disclosure items and total items in environment indicator GRI 3.1. Environmental disclosure in this study was denoted by symbol ENVDISC.

3.1.2 Independent Variables

The independent variable is the variable that was the cause of the onset of or change in the dependent variable. The independent variables in this study are as follows:

3.1.2.1 Board of Independent Commissioners

Variable independent commissioner is used to describe those who are not affiliated with the controlling shareholders, directors and commissioners, as well as the company itself (KNKG, 2006). Variable independent commissioners is measured by the ratio between the number of independent commissioners to the total amount of all commissioners. This variable is declared with the symbol INDKOM.

3.1.2.2 Institutional Ownership

Institutional ownership is a concentrated form of ownership in which the ownership of the company is owned by the institution/ body. This variable is measured by the percentage of shares held by institutional investors. Institutions referred to in this research include all organizations, agencies or companies that originate from within the country. This variable is declared with the symbol INSOWN.

3.1.2.3 Board of Commissioners Size

Variable board size in this study is used to describe the total number of members who sit on the board of commissioners in charge of monitoring the company's performance. This variable is measured by counting the number of commissioners. This variable is declared in the symbol DEKOM.

3.1.2.4 Proportion of Women Directors

This variable is measured by counting the number of women directors compared to the total number of existing directors on the board of directors. The independent variable proportion of women directors is expressed with symbol GENDER.

3.1.2.5 Firm Size

The size of the company can be measured in various ways. The most common measurement is the number of employees, total assets, sales volume, or the rank index. In this study, firm size is measured by the natural logarithm of total assets because the effect of total assets almost always consistently and significantly affect the quality of disclosure. In addition, measurement of the total assets are not affected by the market so it can generate more valid data (Purwanto, 2011). This variable is denoted by SIZE.

3.1.2.6 Profitability

Profitability is the ratio used to calculate the company's ability to generate operating profit of the company in an effort to increase shareholder value. Profitability in this study was measured by using Return on Assets (ROA) because this measurement provides a better measure of the effectiveness of company’s

management in generating profitability by leveraging the company's assets (Purwanto, 2011). This variable is denoted by ROA.

3.1.2.7 Industry Type

Type of industry in this study using the criteria that classify by Robert (1992) in Dion van de Burgwal (2014). Industry types divided according to the category of high profile and low profile. High profile industry is a company that gets the spotlight of the public, have a high level of risk, and intersect with broad interests. Companies that fall into this category is the company that is engaged in the construction industry, mining, agriculture, forestry, fisheries, chemical, automotive, paper, pharmaceuticals, and plastics. While companies with low profile industry is a company engaged in consumer services and goods, financial, and communication. This variable measured using a dummy, which is for the companies included in the category of high profile given the value of 1 and a company with a low profile category rated 0.

The summary of research variables, dimensions, indicators and measurement scales in this research are presented in table below.

Table 3.1
Operational Definition of Variables

Variable	Definition	Code	Measurement and Scale of Measurement
Environ mental Disclosure (y)	Companies disclosure regarding environmental aspects and performance	ENV DISC	Total firm's envdisc 30 items by GRI index (Ratio scale)
Board of Independent Commissio	Parties who do not have a relationship with the controlling	IND KOM	Independent commissioner Total board of commissioner

ners (x)	shareholders, directors and commissioners as well as the company		(Ratio scale)
Institutional Ownership (x)	Shareholding company by other institutions	INS OWN	Percentage of institutional ownership (%) (Ratio scale)
Board of Commissioners Size (x)	Number of commissioners	DE KOM	Total number of commissioners in companies (Ratio scale)
Proportion of Women Directors (x)	Number of women directors on a board	GEN DER	Women directors / Total board directors (Ratio scale)
Firm Size (x)	Measure the company based on specific rules	SIZE	Ln Total Asset (Ratio scale)
Profitability (x)	The company's ability to generate earnings on its operations	ROA	Earnings after tax / Total assets (Ratio scale)
Industry Type (x)	Types of companies based on their sensitivity to social and environmental	INDS	Dummy : High profile (1), Low profile (0) (Nominal scale)

Developed for this study, 2014

3.2 Population and Sample Determination

The population used in this study are all companies listed on the Indonesia Stock Exchange (IDX) in 2012 - 2013. The sampling method used in this research is purposive sampling method that is the type of sample selection by using certain criteria.

Criteria for the determination of the sample used in this study are:

1. Companies listed on the Indonesia Stock Exchange in 2012 -2013 exclude bank/ financial companies.

2. Companies publishes an annual report and sustainability reports in 2012 – 2013.
3. Companies have complete data about variables examined in this study.

3.3 Types and Sources of Data

This study used secondary data, data obtained from the data that already exists and does not need to be searched again by researchers. Secondary data were chosen in this study because it is easier to obtain the data and more trustworthy because it has been audited by a public accountant. Secondary data is sourced from research company documentation in the form of annual reports and corporate sustainability reports in 2012 and 2013 that were obtained from http://www.idx.co.id or from the company's website.

3.4 Data Collection Method

The data in this study was collected by way of documentation and literature studies. Documentation study is a data collection technique that is not directly aimed at the subject of research but through documents. While the literature study is the technique of data collection related to the theoretical basis and previous studies obtained through documents, books, internet or other written data source either theory, research reports and the results of previous findings related to this research.

This study used data obtained by collecting empirical data in the form of annual reports and financial statements that can be accessed on the website of the Stock Exchange on www.idx.com and through the website of each company to acquire the company's sustainability report. The data retrieved is the company's

annual report, financial statement and corporate sustainability reports in 2012 and 2013 by downloading all the data required in this study.

3.5 Analysis Method

This study tested the hypothesis using the method of Analysis of Covarianve (ANCOVA). Descriptive statistics also conducted to determine a description of the variables used in this study.

3.5.1 Descriptive Analysis

Descriptive statistical analysis in this study is used to describe the variables in this study that were viewed from the average value (mean), standard deviation, maximum and minimum values (Ghozali, 2013). The standard deviation, maximum value and minimum value illustrate the distribution of the data. Data that has a greater standard deviation illustrate the data spreading.

3.5.2 Analysis of Covariance (ANCOVA) Test

Regression model consisting of a mixture of quntitative and qualitative variables is called a model analysis of covariance. ANCOVA models is a continuation of the ANOVA models to provide a statistical models to control the influence of quantitative regressors, called covariates, in a models that involves both quantitative and qualitative regressor or dummy (Gujarati and Porter, 2011). Analysis method used to test the hypothesis of one to seven hypotheses in this research is Analysis of Covariance (ANCOVA) using SPSS 20. This is because one variable is measured as nominal (Gujarati and Porter, 2011). However this will first be tested on the presence or absence of deviations from the assumptions of normality and homogeneity.

3.5.2.1 Normality

Normality test aims to test whether in the regression model, the residual or confounding variable has a normal distribution. Statistical test that can be used to test the normality of the residuals is the statistic test Kolmogorov-Smirnov (KS) . The basis for decision making statistic test Kolmogorov-Smirnov (KS) is:

a. If the value of Asymp Sig (2-tailed) is smaller than 0,05, then Ho is rejected. This means that the data residuals are not normally distributed.

b. If the value of Asymp Sig (2-tailed) is greater than 0,05, then Ha is rejected. This means that the data residuals are normally distributed.

3.5.2.2 Homogeneity

Homogeneity test is used to analyse whether in the dependent variabel have error variances equality among the dependent variables. Test of Anova must have homogen variance. To detect the presence of homogenity in Anova can be done using Lavene Test. Levene's test of homogeinity of variance were calculated by SPSS to test the Anova assumption that each group (category) independent variables have the same variance. If Levene's statistic significant at 0,05 (5%) then we can reject the null hypothesis that stated the group have the same variance (Ghozali, 2013).

3.5.2.3 Hypothesis Test using ANCOVA

ANCOVA test were used to determine the effect of each independent variable on the dependent variable. Significant level 5% was used because this is social research and 5% means that the righteousness value were 95%.

ANCOVA (Analysis of Covariance) is an analysis of variance which incorporate independent variable metric as a covariate in the model. The purpose is to reduce the error variance by eliminating the effect of non-categorical variables (metric or interval) that is believed can make bias the results of analysis (Ghozali, 2011).

ANCOVA test done by considering the following points:

1. The level of significance (α) which is used by 5% (0.05).
2. Criteria for acceptance and rejection of the hypothesis is based on the significance of the p-value (probability value). If the p-value <α, then Ha accepted. Conversely, if the p-value> α, then Ha rejected.