



Type of Industry and Environmental Disclosure Quality: Evidence from Developing Country

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Abstract

The activities of company give a distinct pollution on the natural environment and communities. This paper aims to examine how the role of industry influences the quality of environmental disclosures with multi-theories. The research population is non-financial companies listed on the Indonesia Stock Exchange (IDX). The results point out that profitability could not effects on the environmental disclosure quality. Moreover, type of industry has no effect on environmental disclosure quality. In addition, the type of industry cannot moderate the relationship between profitability and the quality of environmental disclosures. This research proves the type of industry is unable to guarantee the level of quality of environmental disclosure by companies. The level of environmental disclosure quality tends to depend on management awareness in each management. This study give contribution for literature review that legitimacy theory could not be implemented. The large companies do not always prioritize environmental disclosure quality.

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INTRODUCTION

The high levels of profitability motivate companies to sharing the environmental information wider than companies with low profitability. It is aligned with legitimacy theory because society will pressure companies to care about environmental issues. If the company has good financial condition, it will be easier to mobilize its ability to publish voluntary disclosure reports. In addition, the higher profit leads to the improvement of corporate governance Hidayat at all (2023). Hence, environmental disclosure is a simple deal for big companies. According to stakeholder theory, companies in their operations are not only for their own needs but also to benefit stakeholders such as investors, creditors, suppliers, consumers, government, analysts, communities and other parties Hidayah at all (2023). Companies carry out environmental disclosures as the report for stakeholders regarding the company's environmental activities.

Profitability has a positive influence on the disclosure of environmental information by companies Hidayah at all (2023). The positive influence of profitability on environmental disclosure explains the better financial performance will support the environmental performance. The legitimacy theory believes that companies have to consider about disclosing environmental information Hidayah at all (2023). Therefore, the better environmental disclosure gives good legitimation from society. The relationship between profitability and environmental disclosure is a reflection showing that social responsibility is needed from companies in order to gain profits Hidayah at all (2023). Companies with the ability to generate high profits will disclose environmental information. In addition, management always show good performance in the term of achieving profitability Hidayah at all (2023).

The opposite result found profitability has a negative effect on the environmental disclosure especially in the term of quality Hidayah at all (2023). In addition, profitability has a negative correlation on environmental

disclosure Hidayah at all (2023). The existence of an adverse effect of profitability on environmental disclosure explains that the better information disclosure by companies with low profit. The small companies tend to attract more investor by using environmental disclosure. The large companies tend to focus on financial performance than social environmental performance Hidayah at all (2023). The company's competency to increase high return keeps it from disclosing more information related to environmental responsibility. Companies with higher levels of profitability have better compliance with environmental regulations, so companies tend to have fewer environmental problems to disclose Hidayah at all (2023). The high level of profitability of a company, the company no longer needs to disclose information. The company's shareholders believe in management's performance and assume that the company is good for investment Hidayah at all (2023).

Profitability does not affect environmental disclosure Hidayah at all (2023). It indicates that there is no correlation between the level of the company's competency and the environmental disclosures. The pressure exerted by the public to make environmental disclosures has not been able to have a significant impact on companies Hidayah at all (2023). The lack of effect on the company's profitability level on environmental disclosure is also due to the fact that the profit generated by the company is not fully used to increase environmental disclosure. The company will be more oriented to use its profits to finance its operational activities. A company with stable profitability shows that the company has been financially successful. In addition, investors are more attracted by high profits than environmental disclosure.

Companies with high profitability will demonstrate successful financial performance and give a positive impression to stakeholders. This happens because high profits will lead to good company performance. Managers are encouraged to share many kinds information related to environmental activities Hidayah at

all (2023). However, based on the results of previous studies, there were still differences in results. Profitability positively influences the quality of environmental disclosure Hidayah at all (2023). In contrast, profitability has a negative influence on the quality of environmental disclosure Hidayah at all (2023). On the other hand, profitability does not influence the quality of environmental disclosure Hidayah at all (2023). According to agency theory, companies with high profitability will disclose broader environmental information. It happens because the company's management will seek to increase the transparency and accountability of its performance as a form of accountability to its owner. The companies engaged in extractive industries (coal and oil, chemicals, wood and paper, iron and steel, power plants, etc.) more disclose environmental information Hidayah at all (2023). In line with legitimacy theory, companies with high sensitivity will disclose better environmental information. The type of industry influences environmental performance Hidayah at all (2023). Companies with high profitability levels will not have a cost deficit to carry out environmental responsibilities. Companies with high profitability can improve their environmental performance. Hence, the large companies in high-profile industry types have more complex environmental report.

H1: Profitability has a positive effect on the quality of environmental disclosure

H2: Industry type has a positive effect on the quality of environmental disclosure

H3: Type of industry significantly moderates the positive effect of profitability on the quality of environmental disclosure

METHODS

This paper focused on non-financial companies listed on the Indonesia Stock Exchange (IDX) in the 2019-2021 period as population. The research sample is 108 units of analysis. This study implemented a purposive sampling. The measurement for environmental disclosure (ED) variables in this study use an index based on adopting the rating scheme by Hidayah at all (2023), namely the environmental disclosure index (EDI). EDI consists of 46 items grouped into nine categories. For measuring profitability in this study uses the ratio of return on assets (ROA). ROA is calculated by comparing the net profit after tax with the total assets owned by the company. A company with a high ROA value indicates a high net profit from owning its assets. The type of industry was measured using a dummy variable; companies included in high-profile industries were given a value of 1, while companies classified in low-profile industries were given a value of 0. Data analysis used WarpPLS.

RESULTS AND DISCUSSION

Based on the descriptive test show the maximum value of QED is 96,000. In comparison, the minimum value generated is 15,000.

Table 1. Sampling Criteria

No	Criteria	Total
1.	Non-financial companies listed on the IDX and reporting consecutive annual reports for 2019-2021.	575
2.	Non-financial companies that report successive sustainability reports for 2019-2021.	(519)
3.	Non-financial companies that consistently use the rupiah currency	(20)
Total sample companies		36
Total units of analysis during the 2019-2021 observation period		108

The average value on QED is 63.759, with a standard deviation of 15.535. Hence, QED has a low data dispersion level.

The maximum value of profitability is 0.420. The minimum value of profitability is -0.510. In addition, mean value of profitability is 0.047, and the standard of deviation is 0.098. Hence, mean value which is smaller than the standard deviation value, indicates that the relative profitability using ROA has a high level of spread or variation of the data.

Based on the results of the descriptive analysis, it shows the average value of type of industry is 0.639 and standard of deviation is 0.480. Hence, the type of industry has a low distribution or variation of data. Evaluation of the outer model uses several indicators: convergent validity, discriminant validity, and reliability. The correlation value between constructs and variables has met convergent validity with an outer loading value above 0.70, which is 1.000. Hence, the variables can be accepted and considered valid.

The discriminant validity results show

the square root value of the Average Variance Extracted (AVE) of the profitability, industry type, and quality of environmental disclosure variables are higher than the correlation value between constructs. Hence, it can be concluded the model is valid because it meets the discriminant validity requirements.

Based on the results of Cronbach's alpha, each indicator of the variable profitability, type of industry, and quality of environmental disclosure is consistent at 1,000. The Cronbach alpha value produced by all constructs is more significant than 0.70, so it meets the reliability assumption. Similarly, the composite reliability value also shows a result of 1.000 for each indicator tested, so it can be concluded that each construct has a high-reliability test.

Based on the Collinearity Statistic (VIF) test shows as a whole, the indicators do not occur multicollinearity because the VIF value obtained is less than 10. Hence, it can be concluded that as whole, the construct does not occur multicollinearity between the profitabi-

Table 2. Result of Descriptive Statistics

Indicator	Mean	Median	Minimum	Maximum	Standard of Deviation
ROA	0.047	0.030	-0.510	0.420	0.098
TI	0.639	1.000	0.000	1.000	0.480
QED	63.759	66.000	15.000	96.000	15.535

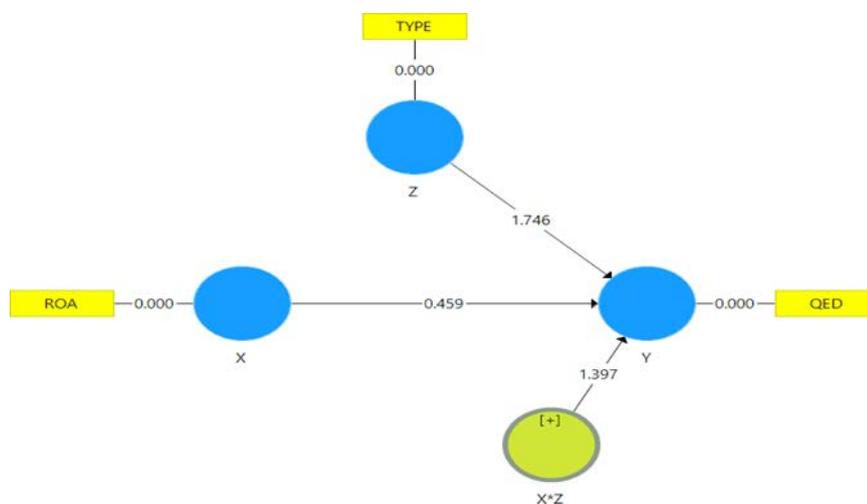


Figure 1. Result of Analysis Model

lity and type of industry and the environmental disclosure.

Evaluation of the structural model or inner model is used to estimate the correlation between latent variables. Based on the analysis using the bootstrapping method on Partial Least Squares (PLS) produces. Structural model can be seen in the Figure 1.

The result shows the environmental disclosure quality variable has an R Square value of 0.042. Hence, the influence of profitability on type of industry can only explain or predict 4.2% of the environmental disclosure. In comparison, the remaining 95.8% will be explained by other variables that are not included in the realm of this study.

Table 3. F Square Value

Correlation	<i>f</i> ²
ROA → QED	0.002
TI → QED	0.026
ROA*TI → QED	0.017

The F-Square table indicates the *f*² value obtained is less than 0.15, so it can be concluded that there is no relationship between the direct and moderating effects of the construct variables, which have a strong mutual influence. The *f*² value in the moderating effect case has different criteria, namely an *f*² value of 0.005; 0.01; and 0.025. Hence, the relationship between the profitability variable and the environmental disclosure quality variable which is moderated by the industry type variable has strong interplay strength medium or moderate, because it has an *f*² value more significant than 0.01.

Table 4. Result of Inner Weight

Correlation	Original Sample	Sample Mean	Std. of Deviation	T Stat.	P Values
ROA → QED	0.058	0.055	0.127	0.459	0.646
TI → QED	0.159	0.161	0.091	1.746	0.081
ROA*TI → QED	0.134	0.150	0.096	1.397	0.163

Based on the test results, it shows that the Q² value of the dependent variable is -0.003. The Q² value obtain.

Based on the analysis show the path coefficient value for testing the influence of profitability on the environmental disclosure is 0.058, then the t-statistic value is 0.459. In addition, the p-value is 0.646. The t-statistic value is smaller than the t-table value of 1.96, and the p-value is more significant than 0.05. This indicates that the first hypothesis is rejected.

This paper believe that profitability could not give any impact for the quality of environmental disclosures made by companies. The fluctuations in the level of company profitability as measured by the value of ROA could not give effects on environmental disclosure. Moreover, the high level of profitability produced by companies is not an indicator for companies to disclose information about the environment widely Hidayah at all (2023). The greater profits do not always provide responsibility for environmental disclosures Hidayah at all (2023). The profits obtained can be allocated to other social programs, such as providing assistance or scholarships, which positively impact the employees and add value to the company. There is no guarantee that high profitability makes companies realize to improve environmental disclosure.

There is no correlation between profitability and the disclosure of environmental information by companies. Hidayah at all (2023). The company's profitability value is used to indicate a signal for users of financial statements who trust their capital regardless of whether or not the environmental disclosures made by the company are extensive Hida-

yah at all (2023). In addition, the non-effect of profitability on environmental disclosure can be caused by the pressure exerted by society that is not sufficient to cause a significant impact on the company. The results of this study break agency theory which states that by aligning the interests of management and company owners, transparency and accountability are needed in company operations. Environmental disclosure is a crucial way to increase corporate transparency and accountability. There is no correlation between the profitability and environmental disclosure because the profits earned by companies are not entirely used to increase environmental disclosure. The companies will have a tendency to use their profits to finance their activities which is sizable funds Hidayah at all (2023). Next, test result shows the value of the path coefficient is 0.159 and the t-statistic value is 1.746, then the p-value is 0.081. The t-statistic value is smaller than the t-table value, equal to 1.96, and the p-value is more significant than 0.05. Hence, the second hypothesis is rejected.

Type of industry does not affect the quality of environmental disclosure. The high or low quality of disclosure does not depend on the company's industry type Hidayah at all (2023). This condition was triggered by the belief of management that the company has good market segmentation. The segmentation would not consider about environmental disclosures. Their loyal customers are spread everywhere, so there is no fear of a declining reputation. Companies believe that as long as the products have high quality, it will give impact for sales. Moreover, if companies provide goods that are needed by consumers, whatever they do will not impact the company's sales. Hence, the type of company cannot influence the quality of environmental disclosure. Furthermore, the company's existence is a solution to meet the community's needs. Hence, the companies have loyal customer. Based on this point of view, the company will be safe even

if it does not correctly make environmental disclosures. Being loyal customers does not mean being blind to everything. They tend to choose the right product and considerations that suit their needs and environment.

Going more depth, the path coefficient value for testing the influence of profitability on the quality of environmental disclosure is moderated by type of industry is 0.134. The t-statistic value is 1.397, and the p-value is 0.163. The t-statistic value is smaller than the t-table value of 1.96, and the p-value is more significant than 0.05. Hence, the third hypothesis is rejected.

The companies with high-profile industrial types indicate that these companies have a high level of risk. Hence, high-profile companies tend to disclose environmental information compared to low-profile companies with a lower risk level. Following legitimacy theory, the type of industry can indicate the implementation of environmental information disclosure by companies.

However, the type of industry is considered incapable of moderating the positive correlation of profitability on the quality of environmental disclosure. Hence, the hypothesis states the type of industry moderates the positive effect of profitability on the quality of environmental disclosure is rejected. The level of profitability and the company industry type do not affect the environmental disclosures. Environmental disclosures are expected to be able to minimize agency costs, but in reality, profitability does not affect the quality of corporate environmental disclosures. It can happen because companies use their profits to finance their operational activities. Then, companies with high-profile industries will not automatically make more environmental disclosures than low-profile companies. This study breaks the legitimacy theory which believes that companies tend to focus on society perspective to show their legitimation. In fact, the high-profile companies have more

focuses on effort to minimize their cost and increase profit.

CONCLUSION

This study provides empirical evidence that profitability and industry type do not affect the quality of environmental disclosure. Whatever the type of industry, the participation of community is significant for protecting the environment from contamination of company waste. In addition, companies must be able to improve the effectiveness of audit committees in overseeing the implementation of environmental disclosures. The quality of environmental disclosure can be achieved with the participation of all elements of the company and society. Hence, this paper gives contribution to literature review that profitability could not give effects on environmental disclosure. This result breaks the legitimacy theory that large companies will always prioritize environmental disclosure for the sake of reputation in society. In reality, the large companies are not always care about environmental disclosure in the term to gain society loyalty.

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