



For Profit or Planet?

Insights from Corporate Environmental Reporting

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FACULTY OF
ECONOMICS
AND BUSINESS



Key Concepts



Sustainability

Environmental
Aspect

Performance

Reporting

Social Aspect

Readability of sustainability reports: evidence from Indonesia

Desi Adhariani, Elda du Toit ▾

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Readability issue

01

Research Question

“What is the current level of readability of sustainability reports of public companies in Indonesia?”.

02

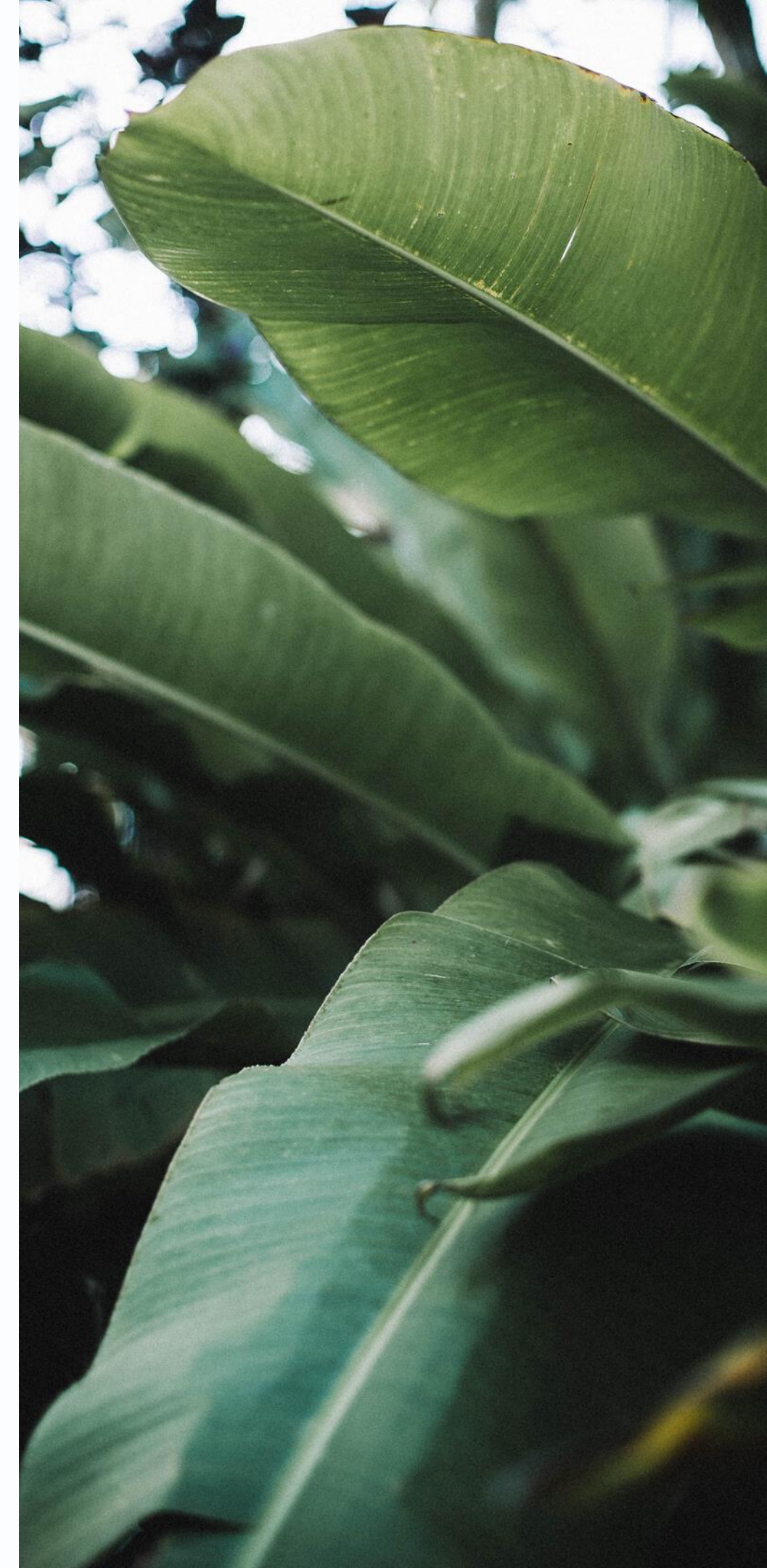
Research Aim

Evaluation of SR readability. Not to criticize, but rather to encourage an increase in initiatives to improve the quality of reporting, .

Theoretical perspectives: Value Relevance vs Opportunistic

Value relevance	Opportunistic
Focuses on the economic value relevance of voluntary disclosures to assess the relationship between financial performance and financial disclosure	Relates to the management-obfuscation hypothesis, which assumes that managers can intentionally reduce the readability of narrative accounting disclosures in company reports to make them more complex and overshadow negative information, thus, creating difficulties to extract the real meaning of a narrative

Institutional theory: mimetic, coercive and normative



Research Design

Score	Description of style	Typical magazine
0–30	Very difficult	Scientific
30–50	Difficult	Academic
50–60	Fairly difficult	Quality
60–70	Standard	Digests
70–80	Fairly easy	Slick fiction
80–90	Easy	Pulp fiction
90–100	Very easy	Comics

Source(s): [Moreno and Casasola \(2016, p. 215\)](#)

Table 1.
FRE formula scores
and levels of
reading ease



Samples

All companies listed on the Indonesian Stock Exchange for the period 2015–2017 and published stand-alone sustainability reports. The three-year period from 2015 to 2017 represents the latest period before POJK 51/2017 came into effect.

Method of Analysis

Software Readability Studio 2015 which enables the analysis of multiple records of multiple pages in a relatively easy, quick and objective way.
Measures: The FRE, Flesch–Kincaid and Gunning Fog

Results

- From 2015 to 2017, the reading-ease rating of sustainability reports published by companies listed on the Indonesian Stock Exchange was consistently classified as very difficult, meaning that the documents were at the level of scientific writing and could only be comprehended by readers possessing a postgraduate degree.
- This rating shows a deteriorating average from 2015, indicating that no improvements were made by companies in the period under study to increase readability.
- Only the agriculture industry consistently had readable sustainability reports, whereas the infrastructure sector had the least readable reports.
- Other measures show consistent results



Other findings

- Mimetic isomorphism might partially explain the uncertainty around the appropriate response to the pressures at the early stage of sustainability reporting in Indonesia.
- The mimetic factor might come from the use of a benchmark in terms of best practices followed by companies publishing stand-alone sustainability reports.

Implications

- Socialisation is needed for professionals involved in the preparation of sustainability reports, such as corporate management/accountant and external parties who provide the independent assurance on the importance of preparing a report with a good readability level.
- Another implication is the need to develop “true” best practices in terms of readability; for example, by assigning some companies with a relatively good readability level report as the benchmark.



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Does Financial Performance Drive Environmental Disclosure and Environmental Cost? Evidence from Indonesia

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Abstract

This study examines whether financial performance affects environmental disclosures and environmental costs. Samples from mining and energy companies that are listed on the Indonesia Stock Exchange from 2015 to 2019 were analyzed using the content analysis method and ordinary least square regression. This study finds that financial performance bears a positive relationship to environmental costs that indicates whether assets are efficiently used as a basis to engage in spending on environmental activities. There is a negative relationship between financial performance and environmental disclosure and a positive relationship between environmental cost and environmental disclosures. This study implies wider stakeholder understanding of how financial performance affects environmental cost and disclosure. The study implies a role of the cost element in the relationship between financial performance and environmental disclosure.

Keywords: financial performance, environmental performance, environmental disclosure, environmental cost



Introduction

Mining companies have significant contribution to the changing of social and environmental structure and are categorized in an environmentally sensitive industry, hence they tended to give more disclosure about environmental information compared to companies in the other industries

Previous study has been dominated by research on the impact of environmental performance and environmental disclosure on the financial performance

FP can affect the environmental disclosure and environmental performance. It indicates that companies with high financial performance are freely and flexible to report their responsibility activities (Heinze, 1976).

Hypotheses

“H1: Financial performance has positive relationship with environmental disclosure

H2: Financial performance has positive relationship with environmental cost

H3: Environmental cost has positive relationship with environmental disclosure

Samples

- Mining companies listed in Indonesia Stock Exchange covering the years 2015-2019 (five years) with total 48 companies.



Table 1. Summary of Variable Definitions, Measurement, and Sources

Category	Measure	Definition/Measurement	Source
Financial Performance	ROS	Return on Sales – the ratio of earnings before interest and taxes to net sales.	Thomson Reuters
	Tobin's Q _i	Ratio of market value of equity to total assets.	Thomson Reuters
Environmental Disclosure	Total disclosure scores	Total disclosure computed by adopting the content analysis to measure total environmental disclosure scores that consist of hard disclosure and soft disclosure in corporate annual and sustainability reports (Clarkson, 2008). Ratio Total environmental score divided 95 (Maximum Scores).	Annual Report, Sustainability Report
Environmental Cost	Total environmental costs	Total environmental costs that consist of reclamation cost and environmental activities cost disclosed in corporate annual and sustainability reports.	Annual Report, Sustainability Report
Firm Size	Size	Natural logarithm of net sales	Thomson Reuters
Leverage	Lev	Total debt divided by total assets.	Thomson Reuters
Growth	ROA	Return on Assets – the ratio of earnings before interest and taxes to total assets.	Thomson Reuters
	MKTBK	Ratio Market value of equity to book value of equity.	Thomson Reuters
BVPS		Book Value per Share.	Thomson Reuters
Profit Margin	MARGIN	Ratio net income to net sales.	Thomson Reuters
Capital Intensity	CAPINT	Ratio net property, plant, and equipment to total asset.	Thomson Reuters

Results

- There is no positive relationship financial performance to environmental disclosure.
- It indicates that the company does not put the profitability factor to increase the information of environmental activities.
- On the other hand, there is positive relationship of financial performance to environmental cost.
- This result confirms that companies utilized the asset efficiently to fund environmental activities expenditure.
- Then, the result also show that environmental cost has positive relationship to environmental disclosure and confirm legitimacy theory.
- Companies will disclose their environmental information as a measure of legitimacy to show that company's profitability is allocated to fund the environmental cost.



Implications

- Theoretically, this study contributes to further expand the study of impact of industry characteristics on environmental disclosure.
- In terms of the environmental cost, since previous study only focus on the environmental performance, this study attempts to identify another factor related to environmental activities.
- It was found that environmental cost is impacted by financial performance from both ROA and Tobin's Q indicating that the source of the expenditure related to environmental activities is from the asset efficiency or asset base and market performance to utilize the environmental activities.





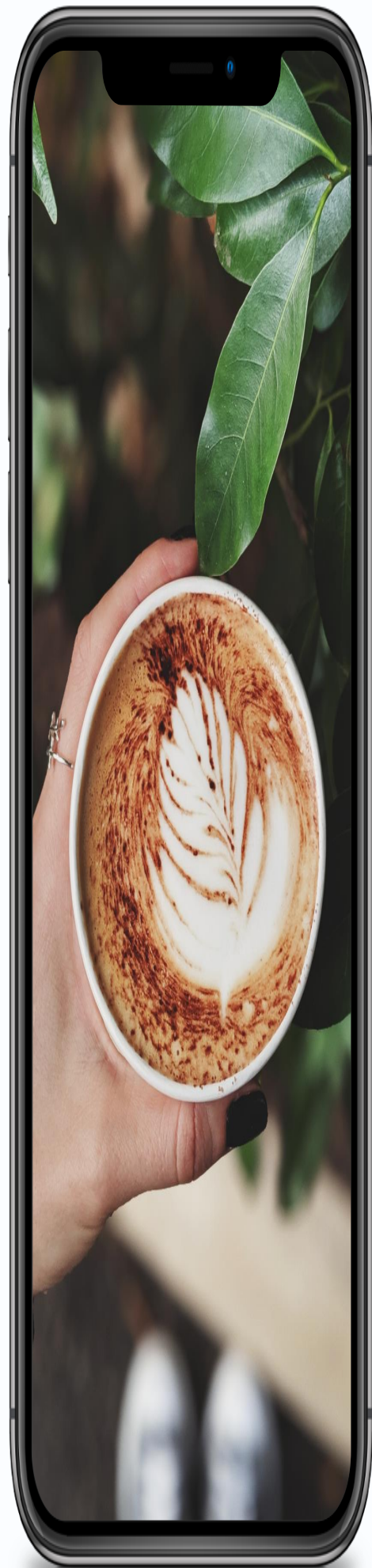
Another critical point

Drempetic, S., Klein, C., & Zwergel, B. (2020). The influence of firm size on the ESG score: Corporate sustainability ratings under review. *Journal of Business Ethics*, 167(2), 333-360.

Abstract

The concept of sustainable and responsible (SR) investments expresses that every investment should be based on the SR investor's code of ethics. To a large extent the allocation of SR investments to more sustainable companies and ethical practices is based on the environmental, social, and corporate governance (ESG) scores provided by rating agencies. However, a thorough investigation of ESG scores is a neglected topic in the literature. This paper uses Thomson Reuters ASSET4 ESG ratings to analyze the influence of firm size, a company's available resources for providing ESG data, and the availability of a company's ESG data on the company's sustainability performance. We find a significant positive correlation between the stated variables, which can be explained by organizational legitimacy. The results raise the question of whether the way the ESG score measures corporate sustainability gives an advantage to larger firms with more resources while not providing SR investors with the information needed to make decisions based on their beliefs. Due to our results, SR investors and scholars should reopen the discussion about: what sustainability rating agencies measure with ESG scores, what exactly needs to be measured, and if the sustainable finance community can reach their self-imposed objectives with this measurement.

SRI Kehati Index, ESGI, Refinitive, Bloomberg, MSCI???



COVID-19 Pandemic as a “Genuine” indicator?

- Purpose – This study aims to analyse whether Sharia-compliant companies have better sustainability performance, especially in the midst of the COVID-19 pandemic. The pandemic context is worth investigating as there is a concern that companies will reduce their sustainability activities to focus more on economic recovery, thereby leading to lower sustainability performance.
- Design/methodology/approach – This study uses data from companies listed on Indonesian and Malaysian stock exchanges. These two countries have experienced rapid developments in Islamic finance and possess similar criteria in assigning the Sharia compliance label to a company. The data on sustainability performance and its three dimensions (environmental, social and governance) were gathered from Refinitiv (Thomson Reuters) and analysed using panel data regression.
- Findings – The results show that Sharia-compliant companies had a higher sustainability performance in all research periods, but not during the COVID-19 pandemic. This implies that the pandemic has not triggered a need for Sharia-compliant companies to improve their sustainability performance. The results can be interpreted that sustainability performance is not only at stake during the COVID-19 pandemic but it can also indicate a “business-as-usual” approach applied by companies regardless of the Sharia-compliant label.

The current issue and full text archive of this journal is available on Emerald Insight at:
<https://www.emerald.com/insight/1759-0817.htm>

Sustainability performance at stake during COVID-19 pandemic? Evidence from Sharia-compliant companies in emerging markets

Sharia-compliant companies

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OVERALL CONCLUSIONS



The Hope vs Reality

THE HOPE

- Companies would do less harm to the planet and the society
- Investors and consumers will reward strong performers
- Rigorous metric would become the norm
- More sustainable form of capitalism

THE REALITY

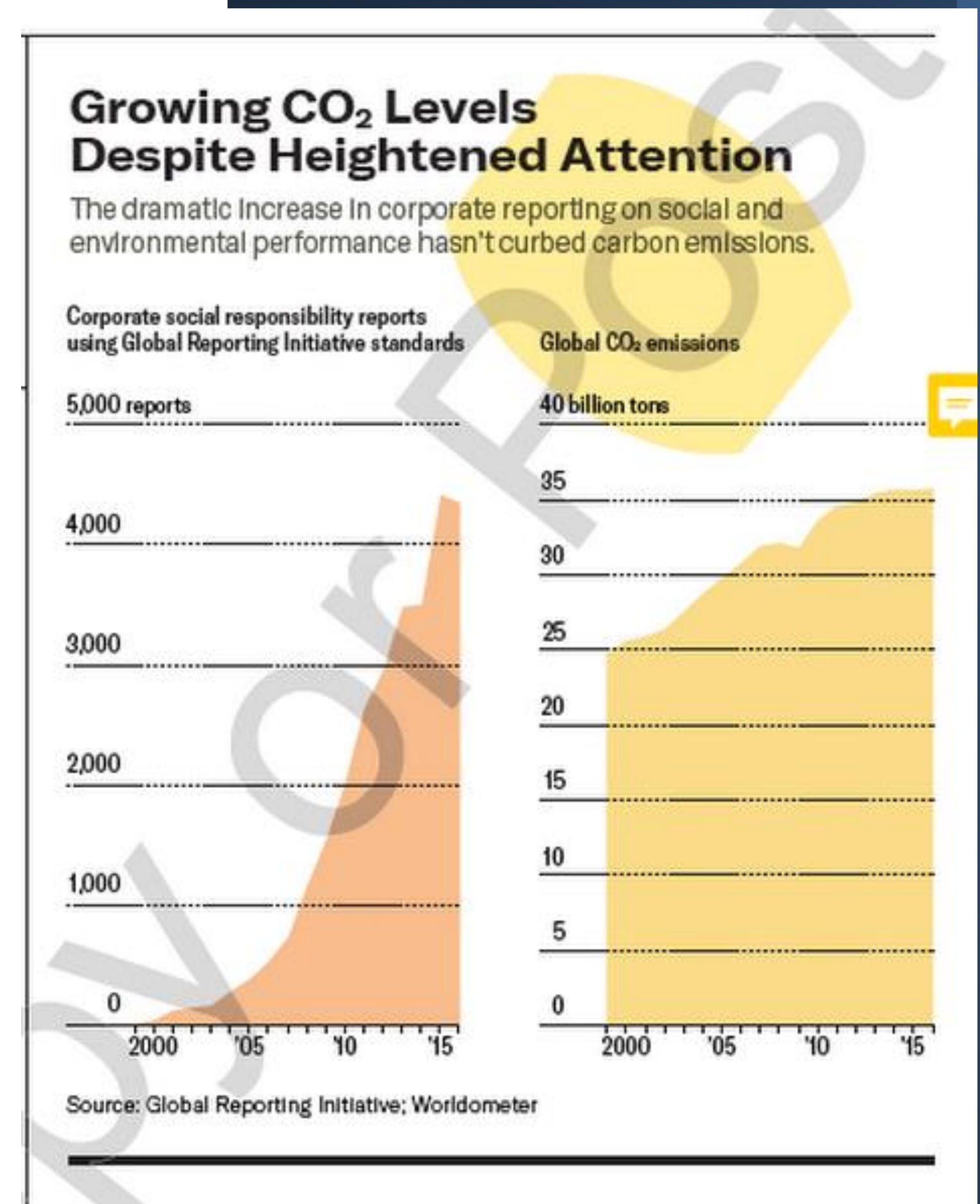
- Reporting is riddled with problems
- Sustainable investing is overhyped
- Environmental threats continue to mount
- Inequality continues to grow

A Better Approach

- Metrics can and should be improved
- Stakeholder pressure to advance sustainability
- Stronger civic engagement
- Sharper regulation
- Different incentives for investment
- **RETHINKING** of what makes a company or society successful

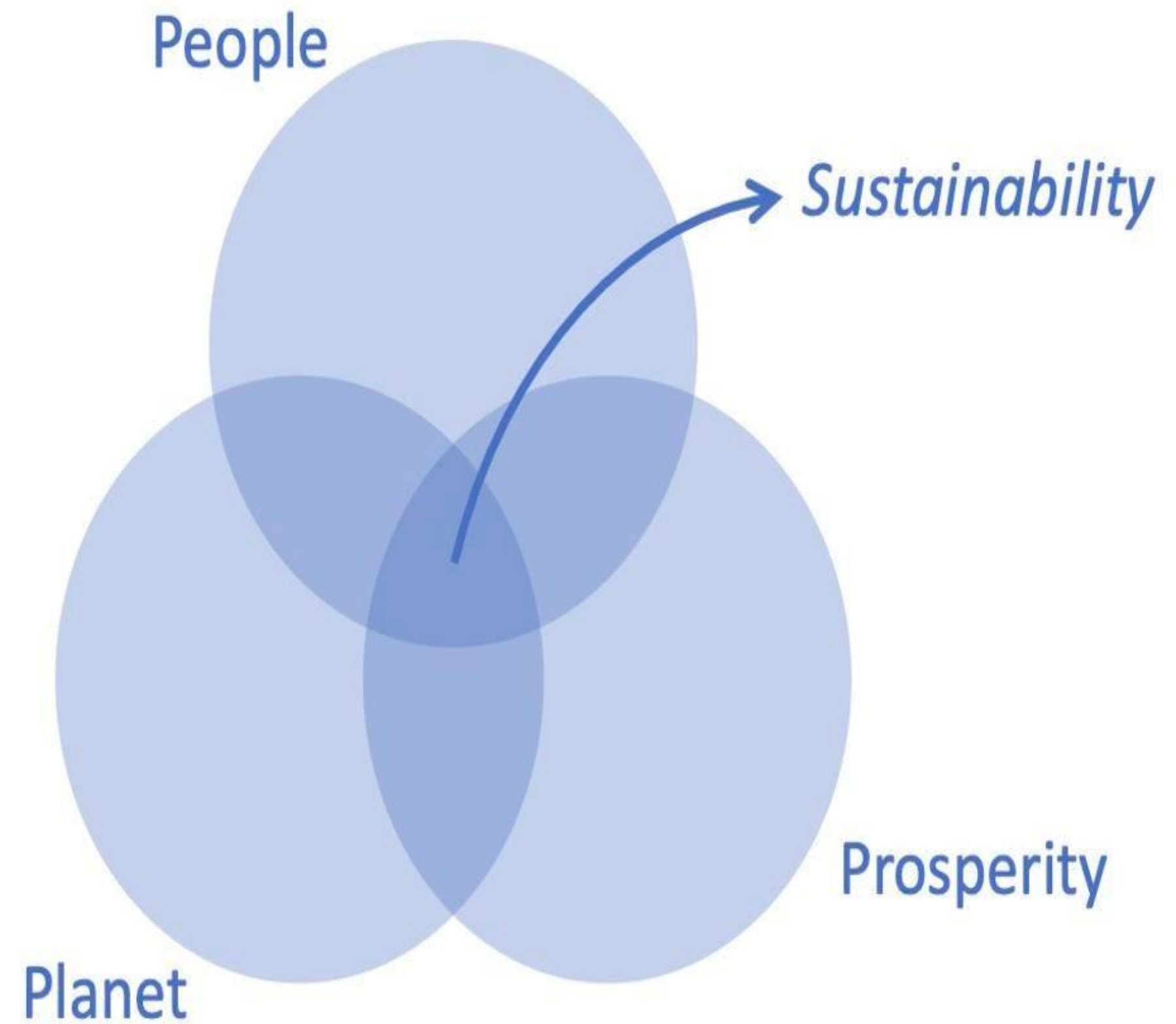


- For research: A critical look (method, theories, etc) is needed
- For practice:
 - Advance a more 'genuine' approach instead of 'business as usual'
 - Integrated thinking, system, and strategy (such as the application of Levers of Eco Control)
- More importantly, to save planets and people, not only profit (but also prosperity for all) – the 'updated' Triple Bottom Line





- <https://www.forbes.com/sites/jeroenkraaijenbrink/2019/12/10/what-the-3ps-of-the-triple-bottom-line-really-mean/?sh=603012f85143>





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