Environmental Disclosure in Agricultural Sector and Consumer Goods Annual Report (Comparison between Indonesia and Malaysia)

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ABSTRACT

This study aims to find the difference in environmental disclosure level in Indonesia and Malaysia and the effect of company characteristics, corporate governance, and international certification on environmental disclosure. Company characteristic is proxied using company size and profitability, while corporate governance is proxied using the proportion of independent commissioners and the proportion of independent audit committee. Environmental disclosure by company is measured using GRI G4 index. The samples are selected using purposive sampling method; there are 41 Indonesian companies selected and 56 Malaysian companies. The combination samples show that there are 13.22% of sampled companies that disclosed environmental information. The result of t-test shows that there is no difference of disclosure level between Indonesian and Malaysian companies and the result of regression analysis shows that company size, profitability and international certification have significant effect on environmental disclosure.

Keywords: environmental disclosure, company characteristics, corporate governance, international certification

1. INTRODUCTION

This study aims to find the effect of company size, profitability, the proportion of independent commissioners, the proportion of independent audit committee, and international certification, on the level of environmental disclosure. Environmental disclosure is voluntary disclosure and has just emerged in the last few decades, both in Indonesia and Malaysia (Buniamin, 2010; Dianawati, 2012). However, there are several guiding regulations, formulated by standard arranger authorities in Indonesia and Malaysia.

Even though there are regulations on environmental disclosure, agricultural and consumer goods are still become two causes of environmental damage. Flash flood in Garut district in 2016 is caused by the expansion of agricultural, tourism, and mining sectors (www.voaindonesia.com). Another environmental problem is industrial waste pollution in Cikalapa River in Karawang industrial area (www.nasional.tempo.co). Besides, there is another problem arising from agricultural sector. IOI Corporation

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Berhad performs deforestation of primary forest, development of plantation in peat area, and forest fires in Papua and Borneo during 2014 to 2015 (www.greenpeace.org).

The result of previous studies shows that the environmental disclosure level in the developing countries is low (Djajadikerta and Trireksani, 2012; Jo and Harjoto, 2012). Study on environmental disclosure mostly are conducted in the developed countries (Ahmad and Haraf, 2013; Thomson and Bebbington, 2005; Snider *et al.*, 2003). This condition accentuates the need of study on environmental disclosure practice in the developing countries because the result from developed countries cannot be generalized into developing countries (Djadjadikerta and Trireksani, 2012; Tsang, 1998).

This study is significant to be conducted because of the following reasons. Firstly, environmental disclosure becomes a hot topic for research. Secondly, this study includes Indonesia and Malaysia as developing countries and is expected to add more studies in environmental disclosure in both countries. Thirdly, this study tests the differences in the level of environmental disclosure in both countries.

Study in environmental disclosure has been conducted before. Chandok and Singh (2017) show that company size has positive effect, while profitability has negative effect on the level of environmental disclosure. Nurhayati *et al.* (2016) state that company size and the size of audit committee have positive and significant effect, while the number of independent commissioner and profitability do not affect environmental disclosure. Yuen (2009) mentions that company size and non-executive independent director affect the level of company voluntary disclosure. Contrary, profitability and audit committee do not affect voluntary disclosure. Trireksani and Djadjadikerta (2016) show that environmental disclosure is in moderate level. Ahmad and Haraf (2013) state that environmental disclosure is still low and declarative in nature.

This study is different from previous ones. The current study focuses on agricultural and consumer goods companies in Indonesia and Malaysia because both companies have significant influence to the environment (Gunawan *et al.*, 2009; Yusoff *et al.*, 2006). Another novelty of the current study is that it compares the level of environmental disclosure in Indonesia and Malaysia.

This study contributes to the science by showing that companies have to consider the effect from variables that might affect the level of environmental disclosure. The variables that have significant statistic effect can be used as indicator that management needs to change their company strategy in improving environmental disclosure to fulfill stakeholder demands, especially in gaining legitimacy from the community as well as fulfilling the prevailing regulation.

Based on the background above, we formulate research question; is there any difference in the level of environmental disclosure in agricultural and consumer good companies from Indonesia and Malaysia? Does company size, profitability, proportion of independent commissioner, proportion of independent audit committee, and international certification affect environmental disclosure?

2. THEORETICAL FRAMEWORK

2.1 Legitimacy Theory

Legitimacy is a process in synchronize perception or assumption that an action performed by an entity obeys norms, values, beliefs, and definitions in social context

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(Suchman, 1995). Nasi *et al.* (1997) mention that legitimacy theory is recognition from the public for the company regarding company's corporate social responsibility. Legitimacy will be threatened if there is gap between public's expectation and company's ability to meet the expectation. Company must provide prompt reaction to solve this condition by increasing environmental disclosure in order to save the company legitimacy (Brown and Deegan, 1998).

2.2 Environmental Disclosure

O'Donovan (2002) states that environmental disclosure is the information presented by the company concerning organization relation with its environment, both favorable and unfavorable information. The information can be delivered in monetary and non-monetary unit. Suratno *et al.* (2006) state that environmental disclosure is disclosure of information related with environment in company annual report. Environmental disclosure is voluntary disclosure as a mean to explain the effect of company activities on the environment (Said *et al.*, 2013).

Study conducted by Ahmad and Haraf (2013) reveal that legitimacy theory is used to state that natural disaster has caused significant threat of legitimacy for companies in property business. Thus, these companies will react to the legitimacy theories by performing environmental disclosure in their annual report to avoid public anxiety and restore company reputation.

This study uses the standard released by Global Reporting Initiative (GRI) to measure environmental disclosure. GRI is selected due to the widespread use of this index in the studies of social and environmental disclosure (Nor *et al.*, 2016; Nurhayati *et al.*, 2016; Supriyono *et al.*, 2015; Nurkhin, 2010).

2.3 Company Size

Legitimacy theory argues that company with larger size gets higher pressure to disclose information further to the society in order to get a support and preserve company sustainability (Guthrie and Parker, 1989). Larger companies have higher responsibility to provide information for stakeholders (Cooke, 1991), because they have significant influence to the community (Hackston and Milne, 1996). The larger the size of the company, the scope of information disclosure will get wider (Sembring, 2005).

2.4 Profitability

Profitability is a managerial factor that provides flexibility in performing social responsibility disclosure for stockholders. Hence, the higher the profitability of a company, the higher is their social information disclosure (Sulaiman, 2014). The higher disclosure is provided mainly because company wants to get trust from their investors (Hackston and Milne, 1996). Besides, the higher the profit of a company, the more complete is the information presented for external parties (Pahuja, 2009).

2.5 The Proportion of Independent Commissioners

Board of Commissioner consists of independent commissioners and non-independent commissioners. Nurhayati *et al.* (2015) mention that independent commissioner will encourage management to disclosure voluntary information. Community perception on company legitimacy can be strengthened if a company has higher percentage of independent commissioners in the board (Nurhayati *et al.*, 2006). Independent commissioners is more effective in overseeing management and has

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stronger power to make management disclosure voluntary information to the stakeholders (Nurhayati *et al.*, 2015).

2.6 The Proportion of Independent Audit Committee

Audit committee is a committee that has a duty to assist board of commissioner to ensure that financial report has been prepared reasonably and has comply with general accounting principle. Besides, audit committee also has a duty to ascertain that internal control has been conducted correctly, audit has been performed according to the standard, and board of committee has been following up audit findings (KNKG, 2006).

Higher proportion of independent audit committee has a potency of stronger power to ensure management to better communicate more voluntary information due to its role that can improve supervision on company activities (Jo and Harjoto, 2011; Forker 1992).

2.7 International Certification

One of international certifications on environmental management is ISO 14001 certificate (Dianawati, 2012). ISO 14001 is an international certification concerning environmental management, which is granted to companies that meet the standard set by ISO. This certification applies Environment Management System (EMS).

ISO 14001 certificate will create trust that the company capable of controlling their operational activities without damaging the environment (Dianawati, 2012). This statement is supported by previous study that ISO 14001 certification affect company commitment in applying environmental management (Ann *et al.*, 2006) and ISO 14001 certificate is found to be able to control and affect environmental performance in a company (Nor *et al*., 2016).

3. HYPOTHESIS DEVELOPMENT

3.1 Comparison of Environmental Disclosure in Indonesia and Malaysia

Kolk *et al.* (2001) state that there is a difference in disclosure in each country. The difference is caused by various factors, among others economic condition and the implementation of national regulation by a company. Adams *et al.* (1998) state that each country has different economic, cultural, and political environment. That is why the level of environmental disclosure in each country will be different, depends on each country condition.

Djajadikerta and Trireksani (2012) conduct a study on the practice of social and environmental disclosure in the companies that sensitive to environmental issues in Indonesia. The result of their study shows that company environmental disclosure is at 20% level, while the implementation of environmental disclosure in environmentally sensitive industry is at 24.80% level (Sulaiman, 2014). Based on the description, we proposed the following hypothesis:

H1: There is a difference in the level of environmental disclosure in Indonesia and Malaysia.

3.2 The Effect of Company Size on Environmental Disclosure

Companies with larger assets will disclosure more environmental information (Hackston and Milne, 1996). This phenomenon take place because larger companies tend to get more attention from public, thus they get stronger pressures to take social responsibility (Cowen *et al.*, 1987).

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Previous study states that there is positive relationship between company size and company voluntary disclosure (Nurhayati *et al*., 2015; Hackston and Milne, 1996). This is in line with the statement from Chandok and Singh (2017) who state that company size, assessed from market capitalization may affect environmental disclosure. This becomes the underlying rationale of the following hypothesis:

H2: Company size positively affects environmental disclosure.

3.3 The Effect of Profitability on Environmental Disclosure

Profitability is managerial factor that can provide flexibility in implementing social responsibility disclosure to stockholders. Thus, the higher the profitability of a company, the higher is the level of social information disclosure (Sulaiman, 2014).

Nurhayati *et al.* (2015) state that profitability has significant and positive effect on social and environmental disclosure. According to Sulaiman (2014) statement and supported with the result of study conducted by Nurhayati *et al.* (2015), the next proposed hypothesis is as follows:

H3: Profitability positively affects environmental disclosure.

3.4 The Effect of Independent Commissioner Proportion on Environmental Disclosure

Several previous studies report positive relationship between independent commissioners in board and the level of disclosure (Chen and Jaggi, 2000), however, there are studies that report negative relationship between the two (Eng and Mak, 2003). Even though previous studies show inconsistent relationship between the variables, the literature in corporate governance mentions that there is positive relation between the existences of independent commissioners in the board with disclosure level (Nurhayati *et al.*, 2015). Thus, the following hypothesis is formulated:

H4: The proportion of independent commissioners positively affects environmental disclosure.

3.5 The Effect of Independent Audit Committee Proportion on Environmental Disclosure

Several previous studies show that the proportion of independent audit committee affects environmental disclosure. Yuen (2009) states that independent audit committee has significant and positive effect on the level of voluntary disclosure. Besides that, Djuminah *et al.* (2017) and Suhardjanto and Permatasari (2010), state that independent audit committee has no effect on social and environmental disclosure. However, higher proportion of independent audit committee has stronger power to encourage management in communicating voluntary information better (Jo and Harjoto, 2011; Forker *et al.*, 1992). Thus, the following hypothesis is proposed:

H5: The proportion of independent audit committee has positive effect on environmental disclosure.

3.6 The Effect of International Certification on Environmental Disclosure

Study by Corbett (2003) in 15 countries shows that one of the main motivations to achieve ISO 14001 certificate is to gain positive image from the society and to perform environmental improvement. The finding is in line with Yusoff and Lehman (2005) study in two countries, Malaysia and Australia, who conclude that one of the factors that affect environmental disclosure is the ownership of ISO 14000 certificate.

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Study conducted by Nurhayati *et al.* (2015) also reveals that international certification has positive and significant effect on social and environmental disclosure performed by company. Thus, the proposed hypothesis is as follows:

H6: International certification has positive effect on environmental disclosure.

4. RESEARCH METHOD

4.1 Population, Sample, and Sampling Technique

The studied population in this research is all agricultural and consumer goods industry listed in Indonesia Stock Exchange and Malaysia Stock Exchange. The result of Slovin Theory computation shows that the appropriate numbers of sample from agricultural and consumer goods industry from Indonesia is 41 companies and from Malaysia 56 companies.

This study employs purposive sampling method. The criteria for selecting the samples are: companies in agricultural and consumer goods production listed in Indonesia Stock Exchange and Malaysia Stock Exchange, publish annual report in 2015, present financial statement in Rupiah (Rp) or Ringgit Malaysia (RM), and perform environmental disclosure in their annual report.

The data analyzed in this study is secondary data collected from company annual report for the period of 2015. The period is selected because companies in Indonesia and Malaysia experienced environmental problem in the selected period. Besides, the time period is selected to represents current condition. Annual report is selected as a source of data because it is deemed as having high credibility. Annual report also used by several stakeholders as the main source of information (Deegan and Rankin, 1996).

4.2 Operational Definition and Variable Measures

Dependent variable is measured using disclosure scoring. This technique identifies environmental issues and then analyzes environmental disclosure on each issue with 1 or 0 scoring system. After these steps, the total disclosure items are divided with the number of reporting criteria (34 items). The independent variables are measured using the instruments listed in the following table.

Table 1
Measurement for Independent Variables

Variable	Measurement
Company Size	Natural logarithm of total assets
Profitability	The percentage of net income from total assets
Proportion of Independent Commissioners	The percentage of commissioners from external parties from total board of commissioners
Proportion of Independent Audit Committee	The percentage of external audit committee from total audit committee
International Certification	1= have ISO 14001 certification, 0= others

5. ANALYSIS RESULT AND DISCUSSION

Table 2 shows the result of descriptive statistic analysis on Indonesian and Malaysian companies, which consists of mean score, minimum score, maximum score, and standard deviation. The result of descriptive analysis shows that the level of

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environmental disclosure in Indonesia and Malaysia has mean value of 13.22%. This shows that the level of environmental disclosure is still low.

Table 2
Descriptive Statistic for Collective Data

	N	Minimum	Maximum	*Mean*	*Std. Dev*
ED	97	2.94	100.00	13.22	14.80
SIZE (trillion)	97	0.13	91.83	8.45	14.77
PROF	97	-13.23	75.40	5.85	10.75
CIND	97	25.00	100.00	61.64	25.04
ACIND	97	33.33	100.00	74.01	19.74
CERT	97	0	1	0.31	0.47
Valid N	97				

Notes: ED = Environmental Disclosure; SIZE = Company Size; PROF = Profitability; CIND = Proportion of Independent Commissioners; ACIND = Proportion of Independent Audit Committee; CERT = International Certification.

Table 3 shows the result of multiple linear regression analysis using enter method. The adjusted R^2 value is 0.304, thus we can conclude that company size, profitability, the proportion of independent commissioners, the proportion of independent audit committee, and international certification, explain 30% of variation in the dependent variable, while the rest 70% is caused by other variables that are not included in the model.

Table 3
Hasil Regresi Linear Berganda untuk Data Gabungan

Variabel	**Coefficient**	**T**	***Sig.***
(Constant)	-4.32	-2.67	0.01
Company Size	0.22	4.15	0.00
Profitability	0.02	2.29	0.00
Proportion of Independent Commissioners	0.01	1.37	0.17
Proportion of Independent Audit Committee	-0.01	-1.18	0.24
International Certification	0.41	2.38	0.02
R Square	0.34		
Adjusted R Square	0.30		
F	9.38		
Sig	0.00		

Note**:** significant at alpha = 0.05

F-test statistic shows a score of 9.38 with significance level of 0.00. The significance level is lower than 0.05, thus can be concluded that the independent variables (company size, profitability, the proportion of independent commissioners, the proportion of independent audit committee, and international certification) simultaneously affect the dependent variable, environmental disclosure. Besides, the model for linear regression testing is fit.

The result of hypothesis testing shows that company size, profitability, and international certification has positive and significant effect on the level of environmental disclosure, while the proportion of independent commissioners and the proportions of independent audit committee have no effect on the level of

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environmental disclosure.

Based on the result of data analysis, the significance level for company size is 0.00, which indicates that company size in Indonesia and Malaysia affects environmental disclosure in company annual report. The coefficient is 0.22 which shows that company size has positive effect on environmental disclosure. Thus, we can conclude that the second hypothesis is supported. Larger company will disclose more environmental information. Large company has wider economic activities, thus it will affect environment more than smaller company. This is why; larger company has bigger responsibility to provide information for its stakeholders, because they have significant influence toward the society. This study is in line with the study conducted by Chandok and Singh (2017); Nurhayati *et al.* (2015); Hackston and Milne (1996); and Cowen *et al.* (1987), which find that company size affects company environmental disclosure.

On the testing of composite data from Indonesia and Malaysia, the result of t-test shows the result of 0.00 (lower than 0.05). This indicates that profitability affects the level of environmental disclosure in company annual report in both countries. The coefficient is 0.02 which means that profitability has positive influence on the level of environmental disclosure. Thus, we can conclude that the hypothesis on the positive effect of profitability on environmental disclosure is supported. This result is in line with the result obtained by Nurhayati *et al.* (2015) and Sulaiman (2014) in their study concerning the disclosure of social responsibility and company environment. Their study reveals that profitability has positive and significant effect on the level of social responsibility and environmental disclosure. However, the current finding contrasting the result from Hackston and Milne (1996) research, which find that profitability does not affect social and environmental disclosure, as well as Chandok and Singh (2017) research which find that profitability has negative effect on environmental disclosure. Higher profitability let managers to be more free and flexible to disclose social responsibility to stockholders. Company with low profitability will be very careful in performing environmental disclosure due to a fear that it will disturb company activities. Besides that, company with high profitability tend to be more daring in disclosing environmental information to convince public that management success in managing the company do not damage the environment.

The third independent variable is the proportion of independent commissioners. The result of t-test analysis on the composite data shows the significance level of 0.17 or higher than 0.05. This indicates that the proportion of independent commissioner does not significantly affect the environmental disclosure in agricultural and consumer goods industry in Indonesia and Malaysia. Thus, we can conclude that the fourth hypothesis is not supported. This finding is not in line with the result of Chen and Jaggi (2000) research, but support their study conducted by Eng and Mak (2003) and Suhardjanto and Permatasari (2010) who find that independent commissioners do not affect environmental disclosure. This shows that independent commissioner has no important and significant role in determining the level of environmental disclosure. It seems like independent commissioners establishment is merely to fulfill the regulation from authority, such as Otoritas Jasa Keuangan (OJK), however the real function of independent commissioner is not effective.

The analysis on the proportion of independent audit committee in the composite data resulted in significance value of 0.24. This score is higher than 0.05, which means that the proportion of independent audit committee does not affect environmental disclosure in company annual report. Thus, we can conclude that the fifth hypothesis,

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which states that the proportion of independent audit committee positively affects environmental disclosure is not supported. This finding is contrasting the research conducted by Jo and Harjoto (2011) and Yuen (2009), but supporting Nurhayati *et al.* (2016) and Suhardjanto and Permatasari (2010) study which find that the proportion of independent audit committee does not affect environmental disclosure. The result of this study reflects that independent audit committee does not have direct pressure regarding environmental disclosure, but more concerned to another matters. Similar to the proportion of independent commissioner that does not affect environmental disclosure, the establishment of independent audit committee is likely only to fulfill the requirement from the authority, Otoritas Jasa Keuangan (OJK) for example.

In table 3 we can see that the significance value is 0.02 (less than alpha 0.05), thus we can conclude that international certification has significant effect on environmental disclosure. This means, the sixth hypothesis is supported. This finding is in line with the study conducted by Nurhayati *et al.* (2015); Corbett *et al.* (2015); and Yusoff and Lehman (2005) on the effect of ISO 14001 certificate ownership on the practice of social and environmental disclosure. International certification as an indicator in environmental disclosure in Indonesia and Malaysia reflects that companies are aware about the role of ISO 14001 certification as company strategy to win the market and gain higher legitimacy from the society.

6. CONCLUSION, SUGGESTION, AND LIMITATION

6.1 Conclusion

This study is conducted by testing the comparison between the level of environmental disclosure in annual report of agricultural and consumer goods companies in Indonesia and Malaysia. Besides comparison test, this study also test the effect of company size, profitability, the proportion of independent commissioner, the proportion of independent audit committee, and international certification on environmental disclosure in agricultural and consumer goods companies listed in Indonesia Stock Exchange and Malaysia Stock Exchange. Based on the result of comparison and regression testing, we can draw the following conclusions:

1. The first hypothesis is not supported; there is no significant difference in the level of environmental disclosure in Indonesia and Malaysia, especially in agricultural and consumer goods companies. Overall the level of environmental disclosure score is 13.2188 (13%), mean value of the data. This indicates that the level of environmental disclosure in the annual report from the companies listed in Indonesia Stock Exchange and Malaysia Stock Exchange is still low.
2. The result of hypothesis testing shows that in general, company size, profitability, and international certification affect environmental disclosure. However, the other two variables, the proportion of independent commissioners and the proportion of independent audit committee have no effect on environmental disclosure.

6.2 Suggestion

Several suggestions offered by the researchers are:

1. Based on the research that has been done, the result shows that the level of environmental disclosure in agricultural and consumer goods companies in

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Indonesia and Malaysia is still low. Thus, we suggest standard maker to make a regulation that oversee the environmental disclosure in company annual report.
2. The role of independent commissioners and independent audit committee in a company must be optimized to increase the quantity of environmental information in company annual report.

6.3 Limitation

The limitations of this study are, among others:

1. There is subjectivity in the justification of environmental disclosure because there is no specific provision that can be used as reference; therefore, the justification for an indicator in GRI can be different in each company. In the current study, the determination of environmental disclosure is based on researcher's knowledge.
2. The observation only last for a year, thus the observed environmental disclosure practice does not fully represent the real condition.
3. This study only draws information from annual report in describing the practice of environmental disclosure.
4. The independent variables in this study are company size profitability, the proportion of independent commissioners, the proportion of independent audit committee, and international certification, which is relatively small in term of number.

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2.1 - Envoronmental

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Environmental Disclosure in Agricultural Sector and Consumer Goods Annual Report (Comparison between Indonesia and Malaysia)

Review of Integrative Business & Economics Research

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ABSTRACT

This study aims to find the difference in environmental disclosure level in Indonesia and Malaysia and the effect of company characteristics, corporate governance, and international certification on environmental disclosure. Company characteristic is proxied using company size and profitability, while corporate governance is proxied using the proportion of independent commissioners and the proportion of independent audit committee. Environmental disclosure by company is measured using GRI G4 index. The samples are selected using purposive sampling method; there are 41 Indonesian companies selected and 56 Malaysian companies. The combination samples show that there are 13.22% of sampled companies that disclosed environmental information. The result of t-test shows that there is no difference of disclosure level between Indonesian and Malaysian companies and the result of regression analysis shows that company size, profitability and international certification have significant effect on environmental disclosure.

Keywords: environmental disclosure, company characteristics, corporate governance, international certification

1. INTRODUCTION

This study aims to find the effect of company size, profitability, the proportion of independent commissioners, the proportion of independent audit committee, and international certification, on the level of environmental disclosure. Environmental disclosure is voluntary disclosure and has just emerged in the last few decades, both in Indonesia and Malaysia (Buniamin, 2010; Dianawati, 2012). However, there are several guiding regulations, formulated by standard arranger authorities in Indonesia and Malaysia.

Even though there are regulations on environmental disclosure, agricultural and consumer goods are still become two causes of environmental damage. Flash flood in Garut district in 2016 is caused by the expansion of agricultural, tourism, and mining sectors (www.voaindonesia.com). Another environmental problem is industrial waste pollution in Cikalapa River in Karawang industrial area (www.nasional.tempo.co). Besides, there is another problem arising from agricultural sector. IOI Corporation

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Berhad performs deforestation of primary forest, development of plantation in peat area, and forest fires in Papua and Borneo during 2014 to 2015 (www.greenpeace.org).

The result of previous studies shows that the environmental disclosure level in the developing countries is low (Djajadikerta and Trireksani, 2012; Jo and Harjoto, 2012). Study on environmental disclosure mostly are conducted in the developed countries (Ahmad and Haraf, 2013; Thomson and Bebbington, 2005; Snider *et al.*, 2003). This condition accentuates the need of study on environmental disclosure practice in the developing countries because the result from developed countries cannot be generalized into developing countries (Djadjadikerta and Trireksani, 2012; Tsang, 1998).

This study is significant to be conducted because of the following reasons. Firstly, environmental disclosure becomes a hot topic for research. Secondly, this study includes Indonesia and Malaysia as developing countries and is expected to add more studies in environmental disclosure in both countries. Thirdly, this study tests the differences in the level of environmental disclosure in both countries.

Study in environmental disclosure has been conducted before. Chandok and Singh (2017) show that company size has positive effect, while profitability has negative effect on the level of environmental disclosure. Nurhayati *et al.* (2016) state that company size and the size of audit committee have positive and significant effect, while the number of independent commissioner and profitability do not affect environmental disclosure. Yuen (2009) mentions that company size and non-executive independent director affect the level of company voluntary disclosure. Contrary, profitability and audit committee do not affect voluntary disclosure. Trireksani and Djadjadikerta (2016) show that environmental disclosure is in moderate level. Ahmad and Haraf (2013) state that environmental disclosure is still low and declarative in nature.

This study is different from previous ones. The current study focuses on agricultural and consumer goods companies in Indonesia and Malaysia because both companies have significant influence to the environment (Gunawan *et al.,* 2009; Yusoff *et al.,* 2006). Another novelty of the current study is that it compares the level of environmental disclosure in Indonesia and Malaysia.

This study contributes to the science by showing that companies have to consider the effect from variables that might affect the level of environmental disclosure. The variables that have significant statistic effect can be used as indicator that management needs to change their company strategy in improving environmental disclosure to fulfill stakeholder demands, especially in gaining legitimacy from the community as well as fulfilling the prevailing regulation.

Based on the background above, we formulate research question; is there any difference in the level of environmental disclosure in agricultural and consumer good companies from Indonesia and Malaysia? Does company size, profitability, proportion of independent commissioner, proportion of independent audit committee, and international certification affect environmental disclosure?

2. THEORETICAL FRAMEWORK

2.1 Legitimacy Theory

Legitimacy is a process in synchronize perception or assumption that an action performed by an entity obeys norms, values, beliefs, and definitions in social context

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(Suchman, 1995). Nasi *et al.* (1997) mention that legitimacy theory is recognition from the public for the company regarding company's corporate social responsibility. Legitimacy will be threatened if there is gap between public's expectation and company's ability to meet the expectation. Company must provide prompt reaction to solve this condition by increasing environmental disclosure in order to save the company legitimacy (Brown and Deegan, 1998).

2.2 Environmental Disclosure

O'Donovan (2002) states that environmental disclosure is the information presented by the company concerning organization relation with its environment, both favorable and unfavorable information. The information can be delivered in monetary and non-monetary unit. Suratno *et al.* (2006) state that environmental disclosure is disclosure of information related with environment in company annual report. Environmental disclosure is voluntary disclosure as a mean to explain the effect of company activities on the environment (Said *et al.*, 2013).

Study conducted by Ahmad and Haraf (2013) reveal that legitimacy theory is used to state that natural disaster has caused significant threat of legitimacy for companies in property business. Thus, these companies will react to the legitimacy theories by performing environmental disclosure in their annual report to avoid public anxiety and restore company reputation.

This study uses the standard released by Global Reporting Initiative (GRI) to measure environmental disclosure. GRI is selected due to the widespread use of this index in the studies of social and environmental disclosure (Nor *et al.,* 2016; Nurhayati *et al.,* 2016; Supriyono *et al.,* 2015; Nurkhin, 2010).

2.3 Company Size

Legitimacy theory argues that company with larger size gets higher pressure to disclose information further to the society in order to get a support and preserve company sustainability (Guthrie and Parker, 1989) . Larger companies have higher responsibility to provide information for stakeholders (Cooke, 1991), because they have significant influence to the community (Hackston and Milne, 1996). The larger the size of the company, the scope of information disclosure will get wider (Sembring, 2005).

2.4 Profitability

Profitability is a managerial factor that provides flexibility in performing social responsibility disclosure for stockholders. Hence, the higher the profitability of a company, the higher is their social information disclosure (Sulaiman, 2014). The higher disclosure is provided mainly because company wants to get trust from their investors (Hackston and Milne, 1996). Besides, the higher the profit of a company, the more complete is the information presented for external parties (Pahuja, 2009).

2.5 The Proportion of Independent Commissioners

Board of Commissioner consists of independent commissioners and non-independent commissioners. Nurhayati *et al.* (2015) mention that independent commissioner will encourage management to disclosure voluntary information. Community perception on company legitimacy can be strengthened if a company has higher percentage of independent commissioners in the board (Nurhayati *et al.*, 2006). Independent commissioners is more effective in overseeing management and has

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stronger power to make management disclosure voluntary information to the stakeholders (Nurhayati *et al.,* 2015).

2.6 The Proportion of Independent Audit Committee

Audit committee is a committee that has a duty to assist board of commissioner to ensure that financial report has been prepared reasonably and has comply with general accounting principle. Besides, audit committee also has a duty to ascertain that internal control has been conducted correctly, audit has been performed according to the standard, and board of committee has been following up audit findings (KNKG, 2006).

Higher proportion of independent audit committee has a potency of stronger power to ensure management to better communicate more voluntary information due to its role that can improve supervision on company activities (Jo and Harjoto, 2011; Forker 1992).

2.7 International Certification

One of international certifications on environmental management is ISO 14001 certificate (Dianawati, 2012). ISO 14001 is an international certification concerning environmental management, which is granted to companies that meet the standard set by ISO. This certification applies Environment Management System (EMS).

ISO 14001 certificate will create trust that the company capable of controlling their operational activities without damaging the environment (Dianawati, 2012). This statement is supported by previous study that ISO 14001 certification affect company commitment in applying environmental management (Ann *et al.*, 2006) and ISO 14001 certificate is found to be able to control and affect environmental performance in a company (Nor *et al*., 2016).

3. HYPOTHESIS DEVELOPMENT

3.1 Comparison of Environmental Disclosure in Indonesia and Malaysia

Kolk *et al.* (2001) state that there is a difference in disclosure in each country. The difference is caused by various factors, among others economic condition and the implementation of national regulation by a company. Adams *et al.* (1998) state that each country has different economic, cultural, and political environment. That is why the level of environmental disclosure in each country will be different, depends on each country condition.

Djajadikerta and Trireksani (2012) conduct a study on the practice of social and environmental disclosure in the companies that sensitive to environmental issues in Indonesia. The result of their study shows that company environmental disclosure is at 20% level, while the implementation of environmental disclosure in environmentally sensitive industry is at 24.80% level (Sulaiman, 2014). Based on the description, we proposed the following hypothesis:

H1: There is a difference in the level of environmental disclosure in Indonesia and Malaysia.

3.2 The Effect of Company Size on Environmental Disclosure

Companies with larger assets will disclosure more environmental information (Hackston and Milne, 1996). This phenomenon take place because larger companies tend to get more attention from public, thus they get stronger pressures to take social responsibility (Cowen *et al.*, 1987).

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Previous study states that there is positive relationship between company size and company voluntary disclosure (Nurhayati *et al*., 2015; Hackston and Milne, 1996). This is in line with the statement from Chandok and Singh (2017) who state that company size, assessed from market capitalization may affect environmental disclosure. This becomes the underlying rationale of the following hypothesis:

H2: Company size positively affects environmental disclosure.

3.3 The Effect of Profitability on Environmental Disclosure

Profitability is managerial factor that can provide flexibility in implementing social responsibility disclosure to stockholders. Thus, the higher the profitability of a company, the higher is the level of social information disclosure (Sulaiman, 2014).

Nurhayati *et al.* (2015) state that profitability has significant and positive effect on social and environmental disclosure. According to Sulaiman (2014) statement and supported with the result of study conducted by Nurhayati *et al.* (2015), the next proposed hypothesis is as follows:

H3: Profitability positively affects environmental disclosure.

3.4 The Effect of Independent Commissioner Proportion on Environmental Disclosure

Several previous studies report positive relationship between independent commissioners in board and the level of disclosure (Chen and Jaggi, 2000), however, there are studies that report negative relationship between the two (Eng and Mak, 2003). Even though previous studies show inconsistent relationship between the variables, the literature in corporate governance mentions that there is positive relation between the existences of independent commissioners in the board with disclosure level (Nurhayati *et al.*, 2015). Thus, the following hypothesis is formulated:

H4: The proportion of independent commissioners positively affects environmental disclosure.

3.5 The Effect of Independent Audit Committee Proportion on Environmental Disclosure

Several previous studies show that the proportion of independent audit committee affects environmental disclosure. Yuen (2009) states that independent audit committee has significant and positive effect on the level of voluntary disclosure. Besides that, Djuminah *et al.* (2017) and Suhardjanto and Permatasari (2010), state that independent audit committee has no effect on social and environmental disclosure. However, higher proportion of independent audit committee has stronger power to encourage management in communicating voluntary information better (Jo and Harjoto, 2011; Forker *et al.,* 1992). Thus, the following hypothesis is proposed:

H5: The proportion of independent audit committee has positive effect on environmental disclosure.

3.6 The Effect of International Certification on Environmental Disclosure

Study by Corbett (2003) in 15 countries shows that one of the main motivations to achieve ISO 14001 certificate is to gain positive image from the society and to perform environmental improvement. The finding is in line with Yusoff and Lehman (2005) study in two countries, Malaysia and Australia, who conclude that one of the factors that affect environmental disclosure is the ownership of ISO 14000 certificate.

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Study conducted by Nurhayati *et al.* (2015) also reveals that international certification has positive and significant effect on social and environmental disclosure performed by company. Thus, the proposed hypothesis is as follows:

H6: International certification has positive effect on environmental disclosure.

4. RESEARCH METHOD

4.1 Population, Sample, and Sampling Technique

The studied population in this research is all agricultural and consumer goods industry listed in Indonesia Stock Exchange and Malaysia Stock Exchange. The result of Slovin Theory computation shows that the appropriate numbers of sample from agricultural and consumer goods industry from Indonesia is 41 companies and from Malaysia 56 companies.

This study employs purposive sampling method. The criteria for selecting the samples are: companies in agricultural and consumer goods production listed in Indonesia Stock Exchange and Malaysia Stock Exchange, publish annual report in 2015, present financial statement in Rupiah (Rp) or Ringgit Malaysia (RM), and perform environmental disclosure in their annual report.

The data analyzed in this study is secondary data collected from company annual report for the period of 2015. The period is selected because companies in Indonesia and Malaysia experienced environmental problem in the selected period. Besides, the time period is selected to represents current condition. Annual report is selected as a source of data because it is deemed as having high credibility. Annual report also used by several stakeholders as the main source of information (Deegan and Rankin, 1996).

4.2 Operational Definition and Variable Measures

Dependent variable is measured using disclosure scoring. This technique identifies environmental issues and then analyzes environmental disclosure on each issue with 1 or 0 scoring system. After these steps, the total disclosure items are divided with the number of reporting criteria (34 items). The independent variables are measured using the instruments listed in the following table.

Table 1
Measurement for Independent Variables

Variable	Measurement
Company Size	Natural logarithm of total assets
Profitability	The percentage of net income from total assets
Proportion of Independent Commissioners	The percentage of commissioners from external parties from total board of commissioners
Proportion of Independent Audit Committee	The percentage of external audit committee from total audit committee
International Certification	1= have ISO 14001 certification, 0= others

5. ANALYSIS RESULT AND DISCUSSION

Table 2 shows the result of descriptive statistic analysis on Indonesian and Malaysian companies, which consists of mean score, minimum score, maximum score, and standard deviation. The result of descriptive analysis shows that the level of

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environmental disclosure in Indonesia and Malaysia has mean value of 13.22%. This shows that the level of environmental disclosure is still low.

Table 2
Descriptive Statistic for Collective Data

	N	Minimum	Maximum	*Mean*	*Std. Dev*
ED	97	2.94	100.00	13.22	14.80
SIZE (trillion)	97	0.13	91.83	8.45	14.77
PROF	97	-13.23	75.40	5.85	10.75
CIND	97	25.00	100.00	61.64	25.04
ACIND	97	33.33	100.00	74.01	19.74
CERT	97	0	1	0.31	0.47
Valid N	97				

Notes: ED = Environmental Disclosure; SIZE = Company Size; PROF = Profitability; CIND = Proportion of Independent Commissioners; ACIND = Proportion of Independent Audit Committee; CERT = International Certification.

Table 3 shows the result of multiple linear regression analysis using enter method. The adjusted R^2 value is 0.304, thus we can conclude that company size, profitability, the proportion of independent commissioners, the proportion of independent audit committee, and international certification, explain 30% of variation in the dependent variable, while the rest 70% is caused by other variables that are not included in the model.

Table 3
Hasil Regresi Linear Berganda untuk Data Gabungan

Variabel	**Coefficient**	**T**	***Sig.***
(Constant)	-4.32	-2.67	0.01
Company Size	0.22	4.15	0.00
Profitability	0.02	2.29	0.00
Proportion of Independent Commissioners	0.01	1.37	0.17
Proportion of Independent Audit Committee	-0.01	-1.18	0.24
International Certification	0.41	2.38	0.02
R Square	0.34		
Adjusted R Square	0.30		
F	9.38		
Sig	0.00		

Note**:** significant at alpha = 0.05

F-test statistic shows a score of 9.38 with significance level of 0.00. The significance level is lower than 0.05, thus can be concluded that the independent variables (company size, profitability, the proportion of independent commissioners, the proportion of independent audit committee, and international certification) simultaneously affect the dependent variable, environmental disclosure. Besides, the model for linear regression testing is fit.

The result of hypothesis testing shows that company size, profitability, and international certification has positive and significant effect on the level of environmental disclosure, while the proportion of independent commissioners and the proportions of independent audit committee have no effect on the level of

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environmental disclosure.

Based on the result of data analysis, the significance level for company size is 0.00, which indicates that company size in Indonesia and Malaysia affects environmental disclosure in company annual report. The coefficient is 0.22 which shows that company size has positive effect on environmental disclosure. Thus, we can conclude that the second hypothesis is supported. Larger company will disclose more environmental information. Large company has wider economic activities, thus it will affect environment more than smaller company. This is why; larger company has bigger responsibility to provide information for its stakeholders, because they have significant influence toward the society. This study is in line with the study conducted by Chandok and Singh (2017); Nurhayati *et al.* (2015); Hackston and Milne (1996); and Cowen *et al.* (1987), which find that company size affects company environmental disclosure.

On the testing of composite data from Indonesia and Malaysia, the result of t-test shows the result of 0.00 (lower than 0.05). This indicates that profitability affects the level of environmental disclosure in company annual report in both countries. The coefficient is 0.02 which means that profitability has positive influence on the level of environmental disclosure. Thus, we can conclude that the hypothesis on the positive effect of profitability on environmental disclosure is supported. This result is in line with the result obtained by Nurhayati *et al.* (2015) and Sulaiman (2014) in their study concerning the disclosure of social responsibility and company environment. Their study reveals that profitability has positive and significant effect on the level of social responsibility and environmental disclosure. However, the current finding contrasting the result from Hackston and Milne (1996) research, which find that profitability does not affect social and environmental disclosure, as well as Chandok and Singh (2017) research which find that profitability has negative effect on environmental disclosure. Higher profitability let managers to be more free and flexible to disclose social responsibility to stockholders. Company with low profitability will be very careful in performing environmental disclosure due to a fear that it will disturb company activities. Besides that, company with high profitability tend to be more daring in disclosing environmental information to convince public that management success in managing the company do not damage the environment.

The third independent variable is the proportion of independent commissioners. The result of t- test analysis on the composite data shows the significance level of 0.17 or higher than 0.05. This indicates that the proportion of independent commissioner does not significantly affect the environmental disclosure in agricultural and consumer goods industry in Indonesia and Malaysia. Thus, we can conclude that the fourth hypothesis is not supported. This finding is not in line with the result of Chen and Jaggi (2000) research, but support their study conducted by Eng and Mak (2003) and Suhardjanto and Permatasari (2010) who find that independent commissioners do not affect environmental disclosure. This shows that independent commissioner has no important and significant role in determining the level of environmental disclosure. It seems like independent commissioners establishment is merely to fulfill the regulation from authority, such as Otoritas Jasa Keuangan (OJK), however the real function of independent commissioner is not effective.

The analysis on the proportion of independent audit committee in the composite data resulted in significance value of 0.24. This score is higher than 0.05, which means that the proportion of independent audit committee does not affect environmental disclosure in company annual report. Thus, we can conclude that the fifth hypothesis,

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which states that the proportion of independent audit committee positively affects environmental disclosure is not supported. This finding is contrasting the research conducted by Jo and Harjoto (2011) and Yuen (2009), but supporting Nurhayati *et al.* (2016) and Suhardjanto and Permatasari (2010) study which find that the proportion of independent audit committee does not affect environmental disclosure. The result of this study reflects that independent audit committee does not have direct pressure regarding environmental disclosure, but more concerned to another matters. Similar to the proportion of independent commissioner that does not affect environmental disclosure, the establishment of independent audit committee is likely only to fulfill the requirement from the authority, Otoritas Jasa Keuangan (OJK) for example.

In table 3 we can see that the significance value is 0.02 (less than alpha 0.05), thus we can conclude that international certification has significant effect on environmental disclosure. This means, the sixth hypothesis is supported. This finding is in line with the study conducted by Nurhayati *et al.* (2015); Corbett *et al.* (2015); and Yusoff and Lehman (2005) on the effect of ISO 14001 certificate ownership on the practice of social and environmental disclosure. International certification as an indicator in environmental disclosure in Indonesia and Malaysia reflects that companies are aware about the role of ISO 14001 certification as company strategy to win the market and gain higher legitimacy from the society.

6. CONCLUSION, SUGGESTION, AND LIMITATION 6.1 Conclusion

This study is conducted by testing the comparison between the level of environmental disclosure in annual report of agricultural and consumer goods companies in Indonesia and Malaysia. Besides comparison test, this study also test the effect of company size, profitability, the proportion of independent commissioner, the proportion of independent audit committee, and international certification on environmental disclosure in agricultural and consumer goods companies listed in Indonesia Stock Exchange and Malaysia Stock Exchange. Based on the result of comparison and regression testing, we can draw the following conclusions:

1. The first hypothesis is not supported; there is no significant difference in the level of environmental disclosure in Indonesia and Malaysia, especially in agricultural and consumer goods companies. Overall the level of environmental disclosure score is 13.2188 (13%), mean value of the data. This indicates that the level of environmental disclosure in the annual report from the companies listed in Indonesia Stock Exchange and Malaysia Stock Exchange is still low.
2. The result of hypothesis testing shows that in general, company size, profitability, and international certification affect environmental disclosure. However, the other two variables, the proportion of independent commissioners and the proportion of independent audit committee have no effect on environmental disclosure.

6.2 Suggestion

Several suggestions offered by the researchers are:

1. Based on the research that has been done, the result shows that the level of environmental disclosure in agricultural and consumer goods companies in

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Indonesia and Malaysia is still low. Thus, we suggest standard maker to make a regulation that oversee the environmental disclosure in company annual report.
2. The role of independent commissioners and independent audit committee in a company must be optimized to increase the quantity of environmental information in company annual report.

6.3 Limitation

The limitations of this study are, among others:

1. There is subjectivity in the justification of environmental disclosure because there is no specific provision that can be used as reference; therefore, the justification for an indicator in GRI can be different in each company. In the current study, the determination of environmental disclosure is based on researcher's knowledge.
2. The observation only last for a year, thus the observed environmental disclosure practice does not fully represent the real condition.
3. This study only draws information from annual report in describing the practice of environmental disclosure.
4. The independent variables in this study are company size profitability, the proportion of independent commissioners, the proportion of independent audit committee, and international certification, which is relatively small in term of number.

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