

# Analysis of the Effects of Environmental Performance and Disclosures Corporate Sustainability Reporting on Earning Response Coefficient

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### Abstract

This study aims to determine whether disclosure of sustainability reporting by the company and also environmental performance affects the earnings response coefficient. The development of a business that is getting faster and wider makes the level of competition between companies higher. This development is followed by the uncontrolled exploitation of natural and human resources. To be able to compete in complex business conditions, companies must be able to do sustainability actions that can be presented through sustainability reports. It also needs to be supported also by a more focused environmental management, where environmental aspects become one of the variables in the ranking of environmental performance issued by the Ministry of Environment through PROPER. The purpose of this study was to determine the effect of disclosure sustainability report and environmental performance on the earnings response coefficient which is proxied by the cumulative abnormal return value. The number of samples in this study was 63 companies from three years of the 2016-2018 observation period. Hypothesis testing is done by using multiple linear regression analysis techniques and paired sample tests.

**Keyword:** Environmental Performance, Sustainability Reporting, Earning Response Coefficient

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## Abstract

*This study aims to determine whether disclosure of sustainability reporting by the company and also environmental performance affects the earnings response coefficient. The development of a business that is getting faster and wider makes the level of competition between companies higher. This development is followed by the uncontrolled exploitation of natural and human resources. To be able to compete in complex business conditions, companies must be able to do sustainability actions that can be presented through sustainability reports. It also needs to be supported also by a more focused environmental management, where environmental aspects become one of the variables in the ranking of environmental performance issued by the Ministry of Environment through PROPER. The purpose of this study was to determine the effect of disclosure sustainability report and environmental performance on the earnings response coefficient which is proxied by the cumulative abnormal return value. The number of samples in this study was 63 companies from three years of the 2016-2018 observation period. Hypothesis testing is done by using multiple linear regression analysis techniques and paired sample tests.*

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## Introduction

Green economic paradigm is a manifestation of the concept of sustainable development (*sustainable development*) which aims to abandon economic practices that are only concerned with short-term profits and have a negative impact on the environment, to become economic practices that are environmentally friendly and can meet the needs of the present generation without having to sacrifice the ability of future generations.

In Indonesia, the Indonesian Accounting Association (IAI) has set up an environmental accounting disclosure standard in Financial Accounting Standard Statements (PSAK) No.32 (forestry accounting) and No.33 (mining and general accounting), where companies are required to report items its environment in the financial statements. Continuous reports (*sustainability report*) increasingly become a trend and the need for companies to inform the economic, social and environmental at the same time to all stakeholders (stakeholders) of the company (Chariri, 2009). *The sustainability report* is one of the ways companies do to emphasize to stakeholders related to risk management and company performance information (Ballou et al, 2006)

The regulations governing environmental management, namely Law Number 32 of 2009 which reads "the company that carries out its business activities in the field and or relating to natural resources are required to carry out social and environmental responsibility". This regulation is supported by Law No. 40 of 2007 Article 66 concerning all social and environmental responsibilities that must be reported by the company in the annual report.

## RISET ISSUE

Still many cases of earnings management carried out by companies (in Indonesia such as the case of Telkom, Lippo, Garuda Indonesia and others), so that investors or the market can consider other reports besides the financial statements.

Continuous reports (*sustainability report*) and the company's position in the PROPER will provide a new discourse for investors and reduce the use of information i profits are also likely biased information (Kurniawan & Nugrahanti, 2012).

One measurement that can measure the reaction of investors to the information accounting profit is the earnings response coefficient (*earning response coefficient*) which is the correlation between *unexpected earnings* with *abnormal returns* stock, *earnings response coefficient* is defined as a measure of the level of *abnormal returns* in response to the component *unexpected earnings* (Scott, 2015).

*Earning Response Coefficient* reflects the level of market participant's confidence in earnings quality announced by the company and represents a perspective of earnings quality based on market performance. If the strong market reaction to earnings information will be reflected in the high *earning response coefficient* which shows the high quality of the company's earnings, and vice versa (Sayekti and Wondabio, 2007). The strong market reaction to earnings information is reflected by the high coefficient of (*earnings response earnings response coefficient*), if reported earnings have a response (*power power of response*) then shows the reported earnings of quality.

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## Literature Review

### Signaling Theory

The signal theory states how a company should give signals to users of financial statements. This signal is in the form of information about what has been done by management to realize the owner's wishes. The signal can be in the form of promotions or other information stating that the company is better than other companies (Ludigdo et al, 1999).

### Stakeholder Theory

Theory stakeholder states that the company is not the only entity that operates for its own sake, but to be able to provide benefits to stakeholders. The stakeholders referred to here are shareholders, creditors, consumers, suppliers, the government, the community and other parties who participate in the process of achieving company goals. Thus the existence of a company is strongly influenced by the support given by the company's stakeholders (Chariri and Ghozali, 2007).

### Legitimacy Theory

According to Dowling and Pfeffer (1975), legitimacy is important for organizations, boundaries emphasized by social norms and values and the reaction to these limits encourages the importance of analyzing organizational behavior with regard to the environment.

Ghozali and Chariri (2007) state that the things that underlie the theory To continue to gain legitimacy, the organization of the company must communicate the activity by making social and environmental disclosure in a sustainability report (*sustainability reporting*).

### Effect of Corporate Sustainability Reporting on ERC

Disclosures disclosure is Corporate sustainability expected to reduce the *earnings response coefficient*. The results of Jones, Frost & Van Der Laan (2007) stated that the disclosure of corporate sustainability reporting in the company's annual report has a negative effect on the *earnings response coefficient*, which in this case is indicated by the value of the *abnormal return*. It is expected that investors consider the disclosure of the information corporate sustainability report that is disclosed in the company's annual report so that in decision making investors are not solely based on profit information. Disclosure of corporate sustainability reporting information is expected to provide additional information to investors other than those already included in accounting income.

### H1. Disclosure of Corporate Sustainability Reporting has a negative effect on the Earnings Response Coefficient.

### Effect of Environmental Performance on Earnings Response Coefficient

The environmental performance will also be achieved at a high level if the company proactively carries out various environmental management measures in a controlled manner. Good environmental performance is a form of corporate concern for the environment (*planet*). Environmental performance is the company's performance in creating a good environment (Suratno et.al., 2007).

### H2. Disclosure of Environmental Performance has a negative effect on ERC.



## Discussion

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Today's business world requires companies to balance the achievement of economic performance (*profit*), social performance (*people*), and environmental performance (*planet*) or so-called *triple-bottom-line performance* (Elkington, 1998). *Triple bottom line performance* shows that besides paying attention to financial performance, companies also need to pay attention to social and environmental responsibility (Pradipta and Purwaningsih, 2011).

Continuous reports (*sustainability report*) and the company's position in the PROPER will provide a new discourse for investors and reduce the use of the information I profits are also likely biased information (Kurniawan & Nugrahanti, 2012).

## Conclusion

This study contributes to accounting research related to factors that influence *earning response coefficient*. One measurement that can measure the reaction of investors to the information accounting profit is the earnings response coefficient (*earning response coefficient*) which is the correlation between *unexpected earnings* with *abnormal returns* stock, *earnings response coefficient* is defined as a measure of the level of *abnormal returns* in response to the component *unexpected earnings* (Scott, 2015).

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