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The impact of institutional ownership on environmental disclosure: evidence form basic material sector in indonesia

Akbar Bayu Saputro[1][1], and *Indah Fajarini Sri* Wahyuningrum[2]

[1]Master Program of Accounting, Department of Accounting, Faculty of Economics and Business, Universitas Negeri Semarang, Semarang, 50229, Indonesia
[2]Accounting Department, Department of Accounting, Faculty of Economics and Business, Universitas Negeri Semarang, Semarang, 50229, Indonesia

Abstract. Environmental disclosure in Indonesia remains very low because many companies are still in the process of implementing sustainability. This study aims to determine the influence of institutional domestic investors, institutional developed investors, and institutional developing investors on environmental disclosure. A total of 110 companies in the basic materials sector listed on the Indonesia Stock Exchange (IDX) during the period 2019-2023 were included as the population in this study. The sample selection in this study used purposive sampling, resulting in 61 units of analysis. The results of this study indicate that institutional domestic investors and institutional developed investors have an influence on environmental disclosure. However, institutional developing investors do not influence environmental disclosure.

1 Introduction

Global demand for sustainability and corporate social responsibility practices has increased significantly in recent years, especially in industrial sectors with the potential to have a major environmental impact. This aligns with the increasing awareness of the public, investors, and governments regarding the importance of preserving the environment and ecosystem balance for the future. This change requires companies in the industrial sector to not only focus on achieving profits, but also to be committed and environmentally responsible to reduce the negative impacts arising from their business operations. The purpose of environmental disclosure is to conserve and use natural resources wisely so that they can be utilized in the long term [1].

Environmental disclosure is one of the important indicators for disclosing information carried out by companies or organizations about the impact of their activities on the environment. The company's environmental disclosure must be implemented consistently and is committed to promoting social welfare and environmental preservation [2].

[1] Corresponding author: abayu442@students.unnes.ac.id

Environmental disclosure is a mechanism that is carried out as a form of environmental responsibility of the company's operational activities [3]. Environmental disclosure is part of Corporate Social Responsibility (CSR), which not only emphasizes the company's responsibility for economic benefits, but also for the environment and social. Environmental disclosure reveals information related to the company's operational activities on the environment, prevention efforts, and policies in preserving the environment.

In 2022 the Environmental Agency (DLH) team investigated the case of Bara Anugerah Sejahtera Company (BAS) wich had polluted the Oal river by discharging acid mine drainage (AAT) waste. After the investigation, it was found that Bara Anugerah Sejahtera Company did not fulfill its wastewater management obligations. Wastewater generated by the company is reported to flow into the Enim River with a Total Suspended Solid (TSS) content of 1,194.00 mg/L in one of the Waste Management Ponds. The ecological disaster that occurred due to the company's negligence has significantly impacted the lives of people in Pulau Panggung Village. In addition, the same thing also happened as a result of the impact of PT Vale Indonesia's operations in 2022. The community's water sources were also polluted by mud caused by PT Vale Indonesia's nickel mining activities. The same applies to air pollution from nickel mining dust. All parties associated with PT Vale Indonesia should be held responsible for the various impacts caused by their nickel mining activities. Based on the above gap phenomenon, there is a discrepancy between the theory and practice of environmental disclosure in companies in the basic materials sector. Theoretically, companies in the basic materials sector are expected to have a high level of environmental disclosure. However, in practice, companies in the basic materials sector still cause environmental pollution that can worsen the sustainability of the community and the surrounding environment. This is evidenced by the fact that many companies in the basic materials sector disclose little environmental information, and do not even cover all the environmental aspects that should be explained. Some of these companies have been found to be polluting the environment, such as by disposing of waste indiscriminately or damaging the surrounding ecosystem. This lack of disclosure shows that companies are not yet fully accountable for their environmental impact.

The company's environmental disclosure is guided by the Global Reporting Initiative (GRI) which is compiled in a sustainability report [4]. The GRI Standards have been globally recognized as the most widely used sustainability reporting framework. GRI provides specific indicators in relevant environmental disclosures such as reporting on materials (GRI 301), energy (GRI 302), water (GRI 303), biodiversity (GRI 304), emissions (GRI 305), wastewater and waste (GRI 306), environmental compliance (GRI 307), and supplier environmental assessment (GRI 308). GRI provides easy and simple analytical guidelines that allow investors to compare and analyze corporate environmental disclosures easily [5]. Thus, sustainability reports serve not only as a communication tool, but also as a measure of a company's commitment to sustainability and responsibility to society and the environment.

Many researchers have examined factors that may influence environmental disclosure due to the urgency and importance of environmental issues [6]. This study analyzes environmental reporting in the basic materials sector in Indonesia. Companies are required to be more transparent in reporting how they manage the environmental impact of their business operations. The survey shows that one of the main reasons for the low level of reporting on social and environmental responsibility is that environmental issues have not been adequately addressed. However, with increasing demands and scrutiny from shareholders and stakeholders such as the government, local communities, and consumers, companies can no longer avoid this obligation [7].

Awareness of the importance of attention to environmental issues encourages companies to fulfill their obligations in terms of environmental disclosure. In addition, environmental disclosure is carried out as an effort to attract attention and trust from the public and stakeholders, as well as to gain legitimacy for their business activities. Based on stakeholder theory, the main objective of management is not only to maximize profits for the company, but also to consider the interests and welfare of stakeholders within the company. Companies will also conduct their business activities in accordance with the values and norms that apply in society in order to increase legitimacy. This legitimacy indicates that the organization not only considers the rights of investors (shareholders), but also takes into account the rights of the public and society to enhance legitimacy and gain public support [8].

Institutional ownership refers to the ownership of company shares by institutions that can exercise control over a company. This institutional ownership often has a significant influence on company policy, including in terms of transparency and disclosure of environmental information. Such disclosure is carried out to maintain stakeholder trust so that stakeholders continue to hold shares in the company [9]. Additionally, increasing transparent environmental disclosure enhances legitimacy among the public and maintains public trust in social expectations, especially when investors prioritize transparency and social responsibility in company operations. Institutional ownership can serve as a tool to strengthen corporate legitimacy through increased environmental information disclosure. Institutional investors, particularly domestic investors and investors from developed countries, often have a strong focus on environmental and sustainability issues [5]. The research findings [2, 5] provide empirical evidence that institutional ownership originating from domestic and developed countries positively influences environmental disclosure. Institutional domestic investors are institutional investors from that country. Meanwhile, institutional developed investors are investors from developed countries [10]. The proposed hypotheses are: H1: domestic investors have a positive influence on environmental disclosure. H2: developed investors have a positive influence on the environmental disclosure.

This is in contrast to institutional investors from developing countries. Institutional developing investors are investors from developing countries [5]. Shareholders from developing countries pay less attention to environmental disclosure because they tend to be passive and do not actively influence corporate behavior and decisions, including in terms of environmental disclosure practices. Companies do not feel the need to improve environmental disclosure if there is no strong pressure from investors who are an important part of the ownership structure [11]. The proposed hypotheses are: H3: developing countries have a negative influence on environmental disclosure.

2 Research Methodology

2.1 Methodology

The population of this study consists of basic material sector companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. Data were obtained from the companies' annual reports and sustainability reports available on their respective websites. The sample was selected using purposive sampling, resulting in a total of 305 observations for analysis. The following are the sample selection criteria used in this study.

Table 1. Sampel Analysis Criteria of the Study

No	Criteria	Total
1	Basic material sector companies listed on the Indonesia Stock Exchange (IDX) for the period of 2019-2023	110
2	Basic material sector companies that did not publish annual reports and sustainability reports for the period of 2019 - 2023	(36)
3	Basic material sector companies that ceased operations by the year 2023	(8)
4	Company shares not owned by institutional investors	(2)
5	Company annual reports and sustainability reports that are not accessible	(3)
Number of basic material sector companies selected as samples		61
Year of observation		5
Number of research analysis units (61x5)		305

The data were processed using IBM SPSS Statistics 26 with multiple linear regression analysis. The multiple linear regression equation used in this study is represented as follows:

$$ED = \alpha + \beta_1 DOM + \beta_2 DEVLOP - \beta_3 DEVING + \beta_4\ AUDIT + \beta_5\ SIZE + \varepsilon$$

Descriptif:
ED = Environmental Disclosure
α = Constant
β1 – β5 = Regression Coefficients
DOM = Domestic Investor
DEVLOP = Developed Investor
DEVING = Developing Investor
AUDIT = Firm Audit
SIZE = Firm Size
ε = *error*

2.2 Variabel Measurement

This study uses environmental disclosure as the dependent variable, while institutional domestic investors, institutional developed investors, and institutional developing investors are used as independent variables. Control variables are also used in this study namely, firm audit and firm size. Environmental disclosure is measured by summing the GRI Standard index disclosed by the company and then dividing it by the total number of items, which is 32 items in the GRI Standard index.

Tabel 2. Measurement of Research Variables

No	Variable	Code	Measurement
Dependent Variable			
1	Environmental Disclosure	ED	GRI Standard [11]
Independent Variable			
1	Domestic Investor	DOM	$DOM = \frac{\sum total\ domestic\ institutional\ shares}{total\ number\ of\ shares}$ [5]
2	Developed Investor	DEVLOP	$DEVLOP = \frac{\sum total\ shares\ in\ developed\ countries}{total\ number\ of\ shares}$

			[12]
3	Developing Investor	DEVING	DEVING=$\frac{\sum total\ shares\ in\ developing\ countriess}{total\ number\ of\ shares}$ [13]
Control Variable			
1	Firm Audit	AUDIT	Dummy variable with categories: 1: if using Big4; 0: if not using Big4 [5]
2	Firm Size	SIZE	SIZE=Ln (∑Company Assets) [14]

3 Results and Discussion

3.1 Descriptive Statistical Analysis

Factors hypothesized to affect environmental disclosure are represented by descriptive statistical analysis to analyze data distribution, mean, and standard deviation.

Table 3. Descriptive Statistics Results

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ED	305	.000	1.000	.29180	.252469
DOM	305	.000	98.307	53.76445	28.774330
DEVLOP	305	.000	98.277	16.17339	26.730113
DEVING	305	.000	92.500	3.29598	14.156254
AUDIT	305	0	1	.33	.473
SIZE	305	.125	156.701	13.67132	27.726105
Valid N (listwise)	305				

3.2 Results and Discussion of Inferential Analysis

Table 4 presents the results of the parametric statistical test for independent variables, where this study used hypothesis testing (t-test).

Table 4. Regression Analysis Results

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	,042	,054		,782	,435
	DOM	,002	,001	,278	3,365	,001
	DEVLOP	,003	,001	,315	3,872	,000
	DEVING	,002	,001	,102	1,636	,103
	AUDIT	,093	,031	,175	2,975	,003
	SIZE	,002	,001	,265	4,676	,000
a. Dependent Variable: ED						

Hypothesis 1 (H1) is accepted because institutional domestic investors have a positive and significant influence on environmental disclosure. The significance level of H1 is 0.001 (<0.05) and the value is 3.365, indicating that institutional domestic investors have an

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influence on environmental disclosure by companies. This finding is consistent with stakeholder and legitimacy theory, which states that domestic investors as stakeholders have an interest in the sustainability practices implemented by companies. Companies will be more motivated to improve environmental disclosure in order to maintain a positive image in the community and with regulators [10].

Hypothesis 2 (H2) is accepted because institutional developed investors have a positive and significant influence on environmental disclosure. The significance level of H2 is 0.001 (<0.05) and the value is 3.872, indicating that institutional developed investors have an influence on environmental disclosure by companies. This finding can be explained through stakeholder theory, where investors from developed countries often have higher standards regarding corporate sustainability and transparency practices. In line with the legitimacy theory perspective, companies with ownership from developed countries are more likely to disclose environmental information more broadly in order to gain legitimacy at the international level [2].

Hypothesis 3 (H3) was rejected because institutional developing investors did not have a negative and insignificant effect on environmental disclosure. The significance level of H3 was 0.103 (>0.05) and the value was 1.636, indicating that institutional developing investors had a negative effect on environmental disclosure by companies. Based on stakeholder theory, institutional investors from developing countries are still positioned as stakeholders, but the characteristics of investors from developing countries vary greatly, both in terms of investment orientation, level of concern for ESG issues, and strength in the company's ownership structure. Investors from developing countries tend to be passive, particularly in terms of environmental disclosure practices [15].

4 Conclusion

The results of the environmental disclosure study conducted on mining companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2023 show that the environmental disclosure by these companies remains in the low category. Basic material companies in Indonesia are advised to actively update and align their environmental disclosure policies with the latest standards, namely the GRI Standards 2021. The implementation of these standards will not only improve the quality and transparency of sustainability reports, but also serve as a form of corporate accountability to institutional investors, particularly domestic investors and those from developed countries who have been proven to encourage better environmental disclosure practices. Limitations of the research focus solely on the basic materials sector. Furthermore, this study only focuses on companies operating in Indonesia, so it cannot be generalized to other countries with different policies or institutional pressures. Future research can be applied to other sectors, such as services, finance, or technology, which have different governance and institutional ownership characteristics. In addition, future research can use cross-country analysis, especially among ASEAN countries, to examine the regional context. Alternatively, the research could compare multinational companies in Indonesia with local companies to examine differences in environmental disclosure practices. Further research could also explore the role of other governance structures that encourage companies to be more agile and responsive in adopting new regulations related to environmental disclosure.

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