THE EFFECT OF CORPORATE GOVERNANCE ON COMPANY FINANCIAL PERFORMANCE THROUGH CARBON EMISSION DISCLOSURE

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ABSTRACT

This study aims to determine the effect of corporate governance on the company's financial performance through carbon emission disclosure (CED). The independent variable in this study is corporate governance as measured by the proportion of PKA and the proportion of PKD with the indicators used by Hapsoro (2018). The company's financial performance is measured using the ratio of return on assets (ROA) and carbon emission disclosure (CED) measured by the ratio of total items disclosed from the total items from eighteen items according to Choi., et al (2013). The sample selection method uses a purposive sampling method in mining, manufacturing, agriculture and trade, services & investment companies listed on the Indonesia Stock Exchange from 2013 to 2017. The number of sample in this study were 17 companies that met the criteria. Hypothesis testing techniques are carried out using the SPSS Program Version 22. The results showed that the proportion of PKA had no effect on carbon emission disclosure (CED), while the proportion of PKD had a positive effect on carbon emission disclosure (CED). The proportion of PKA has a positive effect on ROA, while the proportion of PKD has no effect on ROA. The variable of carbon emission disclosure (CED) do not affect ROA. Carbon emission disclosure (CED) has not been able to mediate in the relationship between the proportion of PKA to ROA. However, carbon emission disclosure (CED) is able to mediate the relationship between the proportion of PKD to ROA.

Keywords: Proportion of PKA, proportion of PKD, carbon emission disclosure, ROA

1. INTRODUCTION

One of the cases of environmental pollution as happened in the village / district Malinau, North Borneo, in July 2017 that originated from mining activities were disturbing residents around the village. Various mining companies such as PT. Baradinamika Muda Sukses (BDMS), PT. Mitrabara Adiperdana (MA), PT. Kayan Putra Pratama Coal (KPUC) and PT. Atha Mart Naho Kramo (AMNK). The four mining companies take action to pollute the surrounding environment by disposing of waste generated from their production activities into the Malinau river and where the river is a source of water used by the village community (www.kompasiana.com). The impact of pollution by mining companies in North Kalimantan has not only stopped at river pollution. In November 2017, villagers from Malinau reported to the coordinator of the Kaltara mining advocacy network (Jatam), Theodorus GEB, with reports that Malinau villagers discovered that the rice fields were damaged due to diesel fuel flowing in the irrigation channel. Of course this has an impact on the plants that have been planted turned yellow and residents also hold the mining company responsible with compensation and

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requests to restore the environment for damaged agricultural land. According to data from Warta Kompas, around 70 percent of environmental damage in Indonesia is caused by mining operations and of course violates Law No. 32 of 2009 concerning Management and Environmental Protection (PPLH).

As a result of the emergence of some of these phenomena, companies must be able to take responsibility in minimizing the negative impacts of environmental pollution. The more forms of responsibility undertaken by companies for environmental factors, it can be concluded that the better the company's image from the view of the public. This form of corporate social responsibility certainly has to do with good business governance where it is the authority and responsibility of management in a company. If the company moved to take remedial action for the damage he has done may indicate that companies should provide information that is transparent and accountable about activism in the annual report *(annual report)* in the form of environmental disclosure *(environmental disclosure)* (Salomone , et al , 2001).

Research conducted by Sukasih and Sugiyanto (2017) states that partially, managerial ownership and institutional ownership affect the disclosure of *corporate social responsibility* with a negative number. While the audit committee, the size of the board of commissioners and environmental performance do not affect *corporate social responsibility*. In a study conducted by Nofianti, Uzliawati and Sarka (2015) stated that, *corporate governance* mechanisms had a significant positive effect on the implementation of *environmental disclosure*. Of course the results of this study can show that the better or higher the control carried out by parties included in the *corporate governance* mechanism , the better the

implementation of economic, social and environmental responsibilities carried out by companies in the form of *environmental disclosure* . This is supported by research statements from Ioannou and Sarafeim (2017) that the increase in *voluntary disclosure is* driven by the existence of relevant regulations that develop in the company as a form of good business governance and there is an increase in corporate valuation, in addition it is evidence that current efforts This is to increase transparency to the community and can improve the quality and quantity of disclosure and company value.

Carbon emission disclosure in Indonesia is included in the category of *voluntary disclosure* and its practice is still rarely done by business entities that contribute to the disposal of carbon gas emissions from operational activities. Companies or entities that disclose carbon emissions have several forms of consideration including to get legitimacy from *stakeholders* , as a form of anticipatory action to avoid threats from the community around the company standing, especially for companies that produce greenhouse gases *(greenhouse gas)* with the form of threats which can be in the form of increasing *operating costs* , reducing demand *(reduced demand)* , reputation risk *(reputational risk)* , legal proceedings *(legal proceedings)* , and fines and penalties (Berthelot et al., 2011) in (Cahya, 2016).

Choi et al. (2013) and Luo et al. (2013) in their study said that the basis for measuring carbon emissions disclosure is the information request sheet provided by the *carbon disclosure project* (CDP). In addition, the factors affecting the disclosure of carbon emissions according to the two researchers above have differences. Luo *et al.* (2013) revealed that these factors consisted of *developing countries*, ROA, *leverage*, *growth*

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opportunities, *carbon emissions*, *size*, *legal systems*, ETS, and *newer assets*. Meanwhile, according to Choi et al, (2013) the factors that influence the disclosure of carbon emissions in a company are company size, profitability, carbon emission levels, type of industry, and the quality of *Corporate Governance*. Previous research conducted in Indonesia by Bayu Cahya (2016) uses independent variables

which are factors that can affect carbon emissions disclosure in terms of sharia-based *go public* companies in Indonesia in *the* form of *media exposure*, industry type, and company size with results, only Industry type variables that have a significant negative effect on *Carbon Emission Disclosure* (CED) disclosures, while *media exposure* and company size do not affect the *carbon emission disclosure disclosure*.

2. LITERATURE REVIEW
Framework
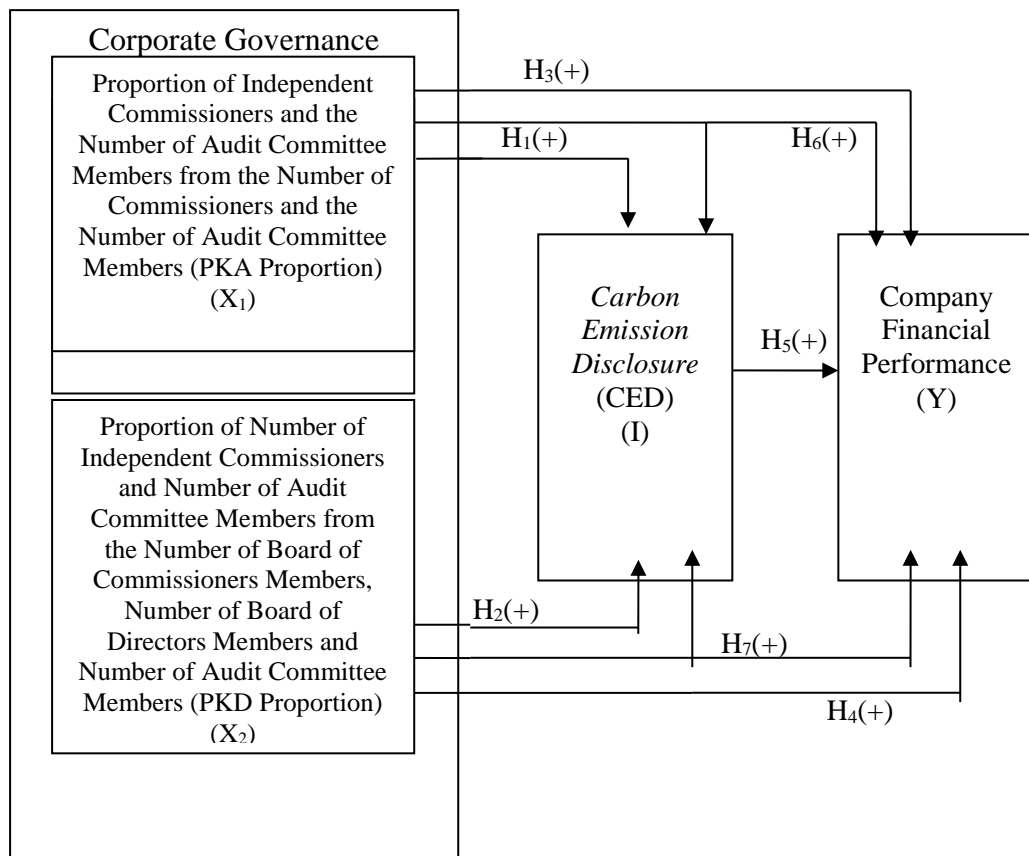
Picture 1 Framework Diagram

Hypothesis

H1: The proportion of the number of independent commissioners and the number of audit committee members from the number of commissioners and the number of audit committee members has a significant positive

effect on *carbon emission disclosure* (CED).

H2: The proportion of independent directors and audit committee member of a number of the number of commissioners, the number of members of the board of directors and

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audit committee members the number of significant positive effect on *carbon emission disclosure* (CED).

H3 : The proportion of the number of independent commissioners and the number of audit committee members from the number of commissioners and the number of audit committee members has a significant positive effect on the company's financial performance.

H4: The proportion of the number of independent commissioners and the number of audit committee members from the number of commissioners, the number of members of the board of directors and the number of audit committee members has a significant positive effect on the company's financial performance.

H5 : *carbon emission disclosure* (CED) has a significant positive effect on the company's financial performance.

H6: *Carbon emission disclosure* (CED) can mediate the proportion of the number of independent commissioners and the number of audit committee members from the number of commissioners and the number of audit committee members to the company's financial performance.

H7: *Carbon emission disclosure* (CED) can mediate the proportion of the number of independent commissioners and the number of members of the audit committee from the number of members of the board of commissioners, the number of members of the board of directors and the number of audit committee members on the company's financial performance.

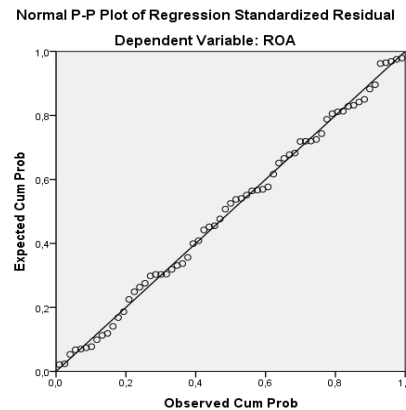## 3. RESULT AND DISCUSSION
Normality Test Result

Table 1 *One-Sample* Kolmogorov-Smirnov

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		65
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,06401795
Most Extreme Differences	Absolute	,043
	Positive	,041
	Negative	-,043
Test Statistic		,043
Asymp. Sig. (2-tailed)		,200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Based on the test results of *the One-Sample* Kolmogorov-Smirnov (KS) in Table 1 above shows a significant probability level of all variables on the dependent variable *(Asymp. Sig.)* Of 0.200. Because the value of *Asymp. Sig. (2-tailed)* in the results of this study is greater than the standard significance level of 0, 05 , it can be concluded that the residual data in the regression model of this study are normally distributed. In other words the regression model used meets the assumption of normality. These results are reinforced by using the analysis on the *P-Plot* normality chart below.

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Picture 2 P-Plot Graphic

Based on the results of the normal *P-plot* graph in Figure 2 above shows a normal data distribution pattern. As can be seen from the graph, the points spread close to the diagonal line. So it can be said that the regression model used in this study is feasible. With the results of this graph further strengthens the picture of the results of the normal distribution of data contained in the Kolmogorov-Smirnov (KS) *one-sample* test results.

Multicollinearity Test Results

Table 2 Multicollinearity Test Results

						Coefficientsᵃ	
	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
(Constant)	-,248	,066		-3,741	,000		
PKA	,732	,105	,775	6,972	,000	,652	1,535
PKD	-,396	,236	-,199	-1,676	,099	,569	1,758
CED	,083	,083	,104	1,000	,321	,751	1,332

a. Dependent Variable: ROA

Based on the multicollinearity test results in table 2 above, it can be seen that all variables have a *tolerance* value above 0,10 with a VIF value below 10. So it can be concluded that there is no multicollinearity between variables in the regression model in this study.

Autocorrelation Test Result

Table 3 Autocorrelation Test Result

Model Summaryᵇ

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,641ᵃ	,411	,381	,05390	1,989

a. Predictors: (Constant), CED, PKA, PKD
b. Dependent Variable: ROA

Based on the results of the autocorrelation test by looking at the Durbin-Watson (DW) values in table 3 above, it appears that a DW value of 1,989 was obtained. A regression model that does not have autocorrelation, if it meets the requirements (DU <DW <4-DU). In this study the number of samples (N) amounted to 65 and K (variables) consisted of 4 variables, obtained the value of DU = 1.7311. So that the data this time passed the autocorrelation test because it was in accordance with the criteria namely (DU <DW <4-DU) (1,7311 <1,989 <(4-

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1,7311)). This value is between -2 to 2 which means there is no autocorrelation or free from autocorrelation.

Heteroscedasticity Test Result

Table 4 Glejser Test Result

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,017	,036		-,490	,626
	PKA	,107	,057	,275	1,898	,062
	PKD	,196	,127	,238	1,535	,130
	CED	-,076	,045	-,230	-1,703	,094

a. Dependent Variable: Absut

Based on the results in table 4 above, it can be concluded that the value of Sig. of each independent variable has a value above 0 , 05 (> 0.05) so that the regression model in this study does not occur heteroscedasticity or in other words the regression model data of this study is homoscedasticity.

Multiple Linear Regression Analysis

Table 5 Multiple Linear Regression Analysis Result

Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,248	,066		-3,741	,000
	PKA	,732	,105	,775	6,972	,000
	PKD	-,396	,236	-,199	-1,676	,099
	CED	,083	,083	,104	1,000	,321

a. Dependent Variable: ROA

Based on table 5 above, the regression equation can be formulated as follows:

$$KKPit = -0,248 + 0,732PKA - 0,396PKD + 0,083CED + 0,066$$

Coefficient of Determination (R^2) Test Result

Table 6 Coefficient of Determination (R^2) Test Result

Model Summary^b

Model	R	R Square	Adjusted R Square
1	,713^a	,509	,485

a. Predictors: (Constant), CED, PKA, PKD
b. Dependent Variable: ROA

Based on the test results koef isien determination in Table 6 above, the value of the determinant coefficient R^2 in regression models this study was 0.485 or by 48 , 5 %. From these calculations it can be seen that the influence of the *corporate governance* mechanism which is proxied by the proportion of PKA, *corporate governance* mechanism which is proxied by the proportion of PKD and *carbon emission disclosure* (CED) on the company's financial performance which is proxied by *return on assets* (ROA) has a percentage of 48.5 % While the remaining 51,5 % are other factors not examined in this study.

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Simultaneous Significance Test Result (F Test)

Table 7 F Test Result

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	,272	3	,091	21,051	,000^b
	Residual	,262	61	,004		
	Total	,534	64			

a. Dependent Variable: ROA
b. Predictors: (Constant), CED, PKA, PKD

Based on the results of the simultaneous test (F Test) or a joint test of all variables on the regression *model* of this study, it can be obtained that the sig value is 0,000, the value of sig. smaller than the probability value according to Ghozali's theory (2016) which is equal to 0.005 or 0,000 <0.005. The $_{calculated}$ F value is 21,051 and the F $_{table}$ {(df $_1$ = 4-1) (df $_2$ = 65-4)} is 2.76 or 21.051>

2.76. Because the $_{calculated}$ F value > F $_{table}$, it can be concluded that *corporate governance* is proxied by the proportion of PKA, the proportion of PKD and *carbon emission disclosure* has a positive and significant effect simultaneously (together) on the company's financial performance.

Partial Significance Test Result (t test)

Table 8 t Test Result

	Model	Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-,248	,066		-3,741	,000
	PKA	,732	,105	,775	6,972	,000
	PKD	-,396	,236	-,199	-1,676	,099
	CED	,083	,083	,104	1,000	,321

a. Dependent Variable: ROA

Based on the results of testing the effect of all independent variables partially on the dependent variable (T-Test) above, it can be concluded that:

1. Proportion of PKA to Company Financial Performance

Based on the results in table 4.11 it can be explained that for *corporate governance* variables which are proxied by the proportion of PKA can be obtained *sig.* of 0,000. *Sig* value smaller than the reference probability value that is equal to 0.05 or 0,000 <0.05 and the $_{calculated}$ t value of 6.972 with t $_{table}$ (df = 65-4) with a 5% significance level of 1.67022. Positive t value so that it can explain that *corporate governance* that is proxied by the proportion of PKA has a direct

relationship with the company's financial performance. So it can be concluded that the proportion of PKA has a positive effect on the company's financial performance.

2. Proportion of PKD to Company Financial Performance

Based on the results in table 4.11 it can be explained that for *corporate governance* variables which are proxied by the proportion of PKD can be obtained *sig.* amounted to 0.099. *Sig* value greater than the reference probability value of 0.05 or 0.099> 0.05 and the t-value of -1.667 with ttable (df = 65-4) with a 5% significance level of 1.67022. The value of t is negative so that it can explain that *corporate governance* that is proxied by the proportion of PKD has an opposite

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relationship with the company's financial performance. So it can be concluded that the proportion of PKD does not affect the company's financial performance.

3. *Carbon Emission Disclosure* (CED) on Company Financial Performance

Based on the results in table 4.11 it can be explained that for the *carbon emission disclosure* variable *sig* can be obtained amounted to 0.321. *Sig* value greater than the reference probability value of 0.05 or 0.321> 0.05 and the $_{calculated}$ t value of 1,000 with t $_{table}$ (df = 65-4) with a 5% significance level of 1.67022. Positive t value so that it can explain that *carbon emission disclosure* has a direct relationship with the company's financial performance. So it can be concluded that *carbon emission disclosure* does not have a positive effect on the company's financial performance.

4. CONCLUSION

1. Variable proportion of the number of independent commissioners and the number of audit committee members from the number of commissioners and the number of audit committee members does not affect the *carbon emission disclosure* (CED).

2. Variable proportion of the number of independent commissioners and the number of members of the audit committee from the number of members of the board of commissioners, the number of members of the board of directors and the number of members of the audit committee have a significant positive effect on *carbon emission disclosure* (CED).

3. Variable proportion of the number of independent commissioners and the number of audit committee members from the number of commissioners and the number of audit committee members has a significant positive effect on the company's financial performance.

4. Variable proportion of the number of independent commissioners and the number of members of the audit committee from the number of members of the board of commissioners, the number of members of the board of directors and the number of members of the audit committee does not affect the company's financial performance.

5. Variable *carbon emission disclosure* (CED) does not affect the company's financial performance.

6. Variable proportion of the number of independent commissioners and the number of audit committee members from the number of commissioners and the number of audit committee members cannot be mediated by *carbon emission disclosure* (CED) on the company's financial performance.

7. Variable proportion of the number of independent commissioners and the number of audit committee members from the number of commissioners, the number of members of the board of directors and the number of audit committee members can be mediated by *carbon emission disclosure* (CED) on the company's financial performance.

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