The Effect of Firm Size and Industry Type on Environmental Social Governance Disclosure

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Abstract. This study aims to examine the effects of Firm Size and Industry Type on Environmental Social Governance Disclosure. This research uses a sample of companies registered in Indonesia Stock Exchange. There were 68 companies in this study with a period of 2 years observation. The result of Adjusted R2 8,3% obtained value variation of Environmental Social Governance Disclosure can be explained independently this research indicates variables there are company size and industry type to Environmental Social Governance Disclosure 91,7% can be explained by other variables outside model. The research has the result that firm size have an effect on Environmental Social Governance Disclosure and industry type has no effect on Environmental Social Governance Disclosure.

Keywords: Firm Size, Industry Type, Environmental Social Governance Disclosure

1 Introduction

According to the public's view, companies can provide everything that society needs and as it is means that provides many benefits such as being able to provide daily goods for consumption also provide employment opportunities and many other benefits. With these benefits, sometimes companies do what they want.

Big company, must care about the environment around the company. If the company does not pay attention to its environment, this can trigger more serious problems. But not only paying attention to the environment, companies must also pay attention to social factors and corporate governance. This can make the company's image better and the support and trust given by the community can have a good impact on the company's sustainability [1].

There are several examples of company cases related to the environment such as disposing of factory waste carelessly, on social factors for example such as employing underage children and on governance factors, for example, we can see in the incorrect presentation of financial statements. With these cases, companies need to pay attention to things such as Environmental Social Governance (ESG) disclosures.

It is hoped that the concept of Environmental Social Governance will be formed to be implemented by the private sector in the sustainability of the company. So it can be concluded that Environmental Social Governance is a concept with the aim of being a company

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performance standard that has three criteria such as Environmental, Social, Governance. ESG are the three main things for estimating company sustainability and performance.

2 Literature review

Agency Theory

[2] agree that theory agency defines the relation between agent and principal, between two or more people, and from organizations or groups. Agency theory can be realized by employment contracts which are based on the principal and agent relationship. This theory focuses on determining contracts very efficiently and based on the agent and principal relationship.

Stakeholder Theory

[3] agree that stakeholders are a person or group who is influenced and influences the companies processes in order to achieve the goals. [4] argue that company stakeholders are not only stakeholders but there are also other groups such as customers, employees, creditors, government and society. In company sustainability, stakeholders play an important role because they have the ability to direct the resources needed for the survival of a company. This theory explains that interests are not only for the owner or management of the company, but are owned by other stakeholders while continuing to contribute to the company.

Legitimacy Theory

Theory of legitimacy by [5] by providing an overview of the differences between company values and societal values. This theory explains that it‘s necessary for organizations to consider the behavior and decisions taken in line with the environment and ensure that the organization continues to carry out work and activities in accordance with the norms and limits of society.

The Effect of Firm Size on the Disclosure of Environmental Social Governance in Non-Financial Companies on the Indonesia Stock Exchange.

Stakeholder demands for transparent information will increase along with the size of the company. [6] Large companies can disclose more voluntary information, this is because disclosure requires more costs, but small companies argue that voluntary disclosure can threaten the company's competition. Companies can maintain or increase companies legitimacy in the eyes of stakeholders if they carry out additional information voluntarily. Usually large companies are in the spotlight of government investigations and are monitored by stakeholders [7].

Strict monitoring and investigation allows large companies to be able to present information in an accountable and transparent manner to stakeholders, for example in voluntary disclosure information. [8] shows that a greater increase in voluntary disclosure is needed by companies because have a social contract with public. One of the voluntary disclosures is Environmental Social Governance (ESG).

With ESG implemented by the company, it will be easy for stakeholders to obtain information about the company's concerns regarding Environmental Social Governance. Some of the research results that have been explained, it can be seen that business actors, especially in the financial sector, are expected to not only focus on profit aspects, but can also integrate environmental, social and governance aspects regarding business processes, and be informed in the disclosure of sustainability reports to implement practices responsible and sustainable business. With this explanation, the disclosure of Environmental Social Governance (ESG) will occur more frequently if the company grows in size.

H1: Firm size has a positive effect on Environmental Social Governance disclosure.

The Effect of Industry Type on the Disclosure of Environmental Social Governance in Non-Financial Companies on the Indonesia Stock Exchange.

Indonesia has several industrial sectors such as various industries; agriculture; infrastructure; mining; utilities and transportation; trade, and investment; property and building construction; basic materials; and consumer good industry.

[9] explain that high industries have high political risks and also face high competition. Each industry has its own activities and operational characteristics that can influence disclosure practices.

[10] companies in industries that specifically influence their disclosure practices, with examples that significant differences reporting practices in each industrial sector. [11] believes that high profile industries express more social responsibility than low profile industries. When compared with low profile companies, high profile companies have a greater risk of environmental damage.

H2: Industry Type has a positive effect on Environmental Social Governance disclosure.

3 Methodology and Data Analysis

Samples and Data

This research uses quantitative descriptive, the quantitative data for this study were taken from secondary data in the 2020 & 2021 financial reports of non-financial companies on Indonesia Stock Exchange website (www.idx.co.id) as well as through related company website. This study uses non-financial companies in 2020-2021 on the Indonesian Stock Exchange. The research sample is a non-financial companies that implement Environmental Social Governance.

Hypothesis test

This research tested the hypothesis using descriptive analysis, multiple linear regression test and classical assumption test. The formula for multiple linear regression in this research is as follows:

$$\mathbf{ESG = \alpha + \beta 1FS + \beta 2JS + e}$$

Information:

ESG = Environmental Social Governance

α = Constant
FS = Firm Size
IT = Industry Type
e = error

4 Research Results And Discussion

Table 1. Descriptive Statistics

Variable	N	Min	Max	Std.Dev.
ESG	136	36.67	100.00	13.81779
SIZE	136	20.94	32.82	2.97655
TYPE	136	.00	1.00	.48776
VALID N (listwise)	136			

Based on descriptive statistics table above shows that:
Environmental Social Governance
Descriptive statistical tests for ESG variable produce a minimum value of 36.67 for Tempo Scan companies, a maximum value of 100.00 for Unilever company data. Mean is 75.1225 and standard deviation of ESG is 13.81779.
Firm Size
Descriptive statistical tests for Firm size variable produce a minimum value of 20.94 and 32.82 for maximum value. Mean is 28.4008 and standard deviation of the firm size variable is 2.97655.
Industry Type
Descriptive statistical tests for industry type variable produce a minimum value of 0.00, a maximum value of 1.00, mean is 0.6176 and the standard deviation value of the industry type variable is 0.48776.

Classic Assumption Test

a. Normality Test

Table 2. Normality Test Results

One-Sample Kolmogorov-Smirnov Test	
Asymp. Sig (2-tailed)	0,064[c,d]

One-sample Kolmogrov-Smirnov Test shows a significant value of 0.64 > 0.05. This means that the significant value is greater than the significance level of 0.05 with a significance level of 95 percent (α = 5%), so it is stated that this research is normally distributed.

b. Multikolinearity Test

Table 3. Multicollinearity Test

Variable		Tolerance	VIF
1	(Constant)		
	SIZE	.987	1.014

TYPE	.987	1.014

Multicollinearity test show the variable Firm Size has a tolerance of 0.987 and VIF 1.014. This shows that there‘s no multicollinearity problem in the company size, as is the case with the type of industry which shows a number of 0.987 and a VIF value of 1.014. This means that all variables do not have a multicollinearity problem. The results of the data that have been processed can be seen, all independent variables in this research show a tolerance value of <0.10 and a VIF value of <10, which means that it can be concluded the regression model in this research is free from symptoms of multicollinearity.

c. Autocorrelation Test

Table 4. Autocorrelation Test.

	Adjusted R Square	Std. Error of The estimate	Durbin-Watson
1	.083	13.22899	2.233

The Durbin Watson table show 2.233 which is the autocorrelation test value. This value is compared with the dU and dL values in the Durbin Watson Statistical table of 5% with n = 136 and k = 2, which results in dU = 1.7489 and dL = 1 , 6902 and the value of 4-dU = 2.2502. Basis for decision making: dU < dW < 4-dU = 1.7498 < 2.233 < 2.2502 so there is no autocorrelation in this model.

d. Multiple Linear Regressions Test

Table 5. Multiple Linear Regression.

Variable	B	Std. Error
1 (Constant)	35.886	10.924
SIZE	1.435	.385
TYPE	-2.474	2.350

$$Y = = \alpha + \beta UKP + \beta JS + e \quad (1)$$
$$Y= 35{,}886 + 1{,}435\ UKP – 2{,}474\ JS + e \quad (2)$$

1. Constant (a) has a positive coefficient of 35.886 if the variable independent assumed to be constant and have 0 value, (Y) ESG is 35.886.
2. The coefficient X1 = 1.435 shows the Firm Size (X1) has positive relationship with ESG (Y). Its mean that if Firm Size increases by 1 value, ESG disclosure will increase by 1.435
3. The coefficient X2 = -2.474 shows that Industry Type has a negative relationship with ESG (Y). This means that if the Industry Type increases by 1, ESG disclosure will decrease by -2.474

e. Autocorrelation Test

Table 6. Autocorrelation Test

	R	R Square	Adjusted R Square	Std.Error Of estimate
1	.311	.097	.083	13.22899

Adjusted R Square is 0.083 meaning that the effect of the independent variables Company Size, Type of Industry on dependent variable is 8.3%. There is a remainder of 91.7% which can be influenced by other variables besides the variables used in this research.

Hypothesis Testing

Table 7. Hypothesis Test

Variable		t	Sig.
1	(Constant)	3.285	.001
	SIZE	3.727	.000
	TYPE	-1.053	.294

1. Significant value of 0.000. It can be seen from the sig. = 0.000 <0.050 means the company size has significant effect on Environmental Social Governance. Firm size variable coefficient of 3.727 shows a positive number, meaning firm size has positive relationship to Environmental Social Governance Disclosure. Statistical results for testing first hypothesis show that Firm Size (SIZE) has positive effect to Environmental Social Governance, the first hypothesis is accepted.

2. Industry Type has no effect to Environmental Social Governance Disclosure. Proven by looking at significant value of 0.294 > 0.050. The statistical results for testing the second hypothesis show that the industry type (TYPE) has no positive effect to Environmental Social Governance, the second hypothesis is rejected.

4. Discussion

The Effect of Firm Size on Environmental Social Governance Disclosure
Firm size has positive effect to Environmental Social Governance Disclosure. This is proven by looking at the significant value (t test) of 0.000. This can be seen from the sign value = < 0.050, meaning that firm size has significant effect to Environmental Social Governance. Coefficient for the firm size variable is 3.727, indicating a positive number which means company size positively related to Environmental Social Governance. Based on this analysis the first hypothesis is accepted, proves that firm size and Environmental Social Governance have a positive effect.

This proves that Environmental Social Governance disclosure is influenced by company size and related to agency theory which states that if the company gets bigger, the agency costs will also be bigger. Companies disclose more extensive information to reduce agency costs. In this research, firm size uses the log of total assets for the calculations, because assets are the wealth owned by company. Companies with large total assets, the company's ability to generate funds to carry out activities will be greater including conducting sustainability report.

Generally, large companies receive greater attention from various parties, including stakeholders and public, regarding the activities carried out by company. Therefore, by conducting a sustainability report, the company can show that the company cares about other aspects around it. This research is the same as results conducted by [12] and [13] showing the firm size has positive effect to Environmental Social Governance.

The Effect of Industry Type on Environmental Social Governance Disclosure

Industry type has no influence on Environmental Social Governance. this is evidenced by looking at the significant value (t test) of 0.294. It can be seen from the sig. = 0.294 > 0.050 meaning that industry type has no significant effect to Environmental Social Governance. so based on this analysis the second hypothesis is rejected, proving that there is no positive influence between types of industry on Environmental Social Governance.

Companies must be able to provide benefits to stakeholders because the existence of a company is greatly influenced by the support provided by stakeholders. This can be provided by implementing an Environmental Social Governance (ESG) program so that high and low profile companies can provide transparency regarding ESG in accordance with the needs of society and investors.

Therefore, industry type has no significant to Environmental Social Governance (ESG) disclosure. This research is the same as results conducted by [14] which states that industry type has no effect on environmental disclosure. Because a company's high or low profile is not used as a reference in carrying out environmental disclosure. This is because there are still large/high profile companies that pollute the environment.

5. Conclusion

Firm size has a positive effect on Environmental Social Governance, which means that H1 is accepted. Company size is calculated by the log of total assets because assets are a symbol of the wealth owned by the company. So, the greater the total assets owned by the company, the greater the company's ability to generate funds in carrying out activities, including in carrying out sustainability reports.

Industry type has no effect on Environmental Social Governance, meaning H2 is rejected. This is because when carrying out environmental disclosure, a company does not use a high or low profile as a reference in this matter.

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