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The Effect Environmental Performance, Environmental Disclosure, Firm Size, and Return on Equity on Economic Performance

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Abstract

This research aimed to examine the effect of environmental performance, environmental disclosure, firm size, and return on equity to the economic performance. The population in this study is a 35 non financial company listed on the Indonesia Stock Exchange. These results indicate that environmental performance (X1), environmental performance (X2), firm size (X3) return on equity (X4) positively influence on economic performance (Y).

Keywords: *economic performance; environmental performance; firm size; return on equity; environmental disclosure.*

1. Introduction

Successful business strategies depend on the quality and comprehensiveness of information available to decision-makers. The practice of generating management information such as cost of sales is well established, and the systems employed to produce conventional management reports generally ensure timely availability of high-quality data to management.However, competitive advantage is gained by generating and capitalizing on business information not generally investigated by one's competitors. Comprehensive management information, including information on environmental costs and opportunities, can yield competitive advantage. Typically, environmental costs and associated opportunities are buried in various overhead accounts. By distorting costing and pricing across the business, this practice can result in poor investment and strategic decisions. The term "*environmental accounting*" is open to interpretation. In this guideline, environmental accounting is the identification, measurement and allocation of environmental costs, the integration of these environmental costs into business decisions, and the subsequent communication of the information to a company's stakeholders(Institute of Management Accountants, 1996). Ikhsan (Ikhsan, 2009) said that environmental issues direct or not, has been included in the economic performance of a business/activity or organization. Environmental Accounting can support national income accounting, ecological accounting at local administration level and at micro level related to financial accounting, cost accounting or internal business managerial accounting. Ferreira (Ferreira, Erasmus, & Groenewald, 2009) stated that the issue of environmental conservation is the duty of every individual, government and company. The company has an important role in creating a good and healthy environment. Similarly, Djajadiningrat (Djajadiningrat, Hendriani, Famiola, & Wisesa, 2011) said that the world business (company) must play an active role in redefining its operations in a sustainable direction, because without the intervention of the world business, the world as a whole will not be able to succeed in creating sustainable conditions. Therefore, the emphasis of the company's participation in realizing a healthy social and environmental conditions is good.

2. Overview Theory

2.1. The Effect of Environmental Performance on Economic Performance

The relationship between environmental and economic performance of firms is an important issue for environmental policy making. In the current discussion about this relationship, it is often argued that there is a conflict between competitiveness of firms and their environmental performance (Walley & Whitehead, 1994). For example, at the level of a specific industry, the share of environmental costs in total manufacturing costs might be considerably higher than average (Stavropoulos, Wall, & Xu, 2018). Particularly, this might be the case for industries upstream in the production chain (such as primary resource extraction or primary manufacturing), which have been shown to give rise to environmental impacts disproportionate to the value added associated with their production activities (Clift & Wright, 2000). Only recently, the notion emerged that improved environmental performance is a potential source for competitive advantage as it can lead to more efficient processes, improvements in productivity, lower costs of compliance and new market opportunities (Porter, 1991; Porter & Linde, 1995), although this often refers to other aspects of environmental performance than those addressed and measured traditionally (Wehrmeyer & Tyteca, 1998). Therefore, the preceding arguments lead to the first hypothesis:

H1 = The environmental performance has influence on economic performance

2.2. The Effect of Environmental Diclosure on Economic Performance

Corporate Environmental Disclosure (CED) refers to "accountability to society as a whole with respect to matters of public interest such as community welfare, public safety, and the environment" (Mahmes, 2016; Radebaugh, Gray, & Black, 2006). To justify its continued existence, a company should be held accountable for its performance and actions that impact upon people, their communities and their environment(Arevalo & Aravind, 2011); to create a communication channel with

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