

CHAPTER II

LITERATURE REVIEW

A. THEORETICAL FRAMEWORK

1. Agency Theory

Agency theory is a theory that discusses the relationship between the principal's interest and the agent. Principal is the owner of the company that is authorized to give orders to an agent, while the agent is a manager who received orders from the principal to manage the company based on the existence of control of the company, the separation of insurer risks, separation of ownership and control of the company, as well as decision-making and control functions. Management of the activities must comply with the orders of the principal, but usually, the manager has his own goals to enhance Firm Value. The agency problem may arise because of differences of interest between principal and agent (Jensen and Meckling, 1976).

Managers who have a high stake in a company would be aligning its interests and the interests of shareholders. Therefore, he will work more productively to improve the corporate image for the survival of the company and for the benefit of shareholders. This encourages managers to provide relevant information to stakeholders in greater numbers and more widely included in the disclosure of environmental information.

Thus, the company can have a good image from the public on proper management of the environment (Raharjo, 2007).

Based on agency theory, to enhance the company's reputation in the eyes of the principal. The company gives attention to the principal as a form of accountability, where the manager as the agent will try to fulfill all the wishes from the principal, one of them with corporate environmental disclosures.

2. Legitimacy Theory

Legitimacy theory is derived from the concept of organizational legitimacy that defined by Dowling and Pfeffer in 1975. Based on the theory of legitimacy, organizations and companies will try to convince the public that their activities have been comply with the norms in the society. According to Chariri and Ghozali (2000), basically the theory of legitimacy is concerned with the social contract that takes place between the companies with communities, which companies explain about their uses of economic resources. The social contract is stated explicitly or implicitly in which the survival and growth of the company based on the company's contribution to the wider community, including the distribution of benefits of economic, social or political to various groups according to the power they have. Thus, based on the theory of legitimacy, the disclosure of environmental responsibility undertaken by the company is actually the company's efforts to gain legitimacy from the surrounding community.

3. Signalling Theory

The originator of signalling theory is Spence who conducted the research with the title Job Market Signaling in 1973. Spence (1973) states that asymmetric information occurs in the labor market. Therefore, Spence makes a signal criterion for add strength to decision making. Signaling theory is come from pragmatic accounting theory that focuses on the influence of information on changes in user of behavior information (Suwardjono, 2005). Thus, based on the signaling theory, the disclosure of environment information by companies is the company's efforts to provide a signal to external parties especially investors about the condition of the company.

4. Feminist Ethical Theory

Wickens *et al.* (1994) stated that feminist ethical theory emphasizes the relationship (socialist) in carrying out the task. Therefore, the presence of women on the board of management will provide a better work atmosphere. The presence of women in the boards also indicates increasing diversity in the perspectives of board members is able to influence corporate decision making. Machold *et al.* (2008) argued that women directors have expertise in taking decisions, controlling and monitoring a policy that will affect the outcome of the company, the lack of ethics in doing business raises the concept of good governance, the presence of women directors is able to make a significant contribution to the company

performance. Thus, the presence of women directors will improve the environmental disclosures level in the company.

5. Nature Theory

Based on Nature theory, actually the difference between men and woman is a nature that must be accepted. This biological difference affects the different roles and tasks between the two in daily life. However, in daily life, there are roles and tasks that can be exchanged between men and women (Ministry of Women's Empowerment, BKKBN & UNFPA, 2005). The presence of women in the top management is tend to have carefulness and likely to avoid the risk than man. In addition, women more concerned about the environmental condition. Thus, the presence of women director will improve the environmental disclosures level in a company.

6. Environmental Disclosures

Disclosures provide several information needed by companies for optimizing the operation of the capital market efficiently. Conceptually, disclosure is an integral part of financial reporting (Suwardjono, 2005). Technically, disclosure is the final step in the accounting process especially in the form of information presentation in the annual report. The huge disclosures are required by the investors and creditors, but not all corporate information is disclosed in detail and transparent.

The role of accounting is to control all activities of the company's operations. Management should notice the effects from the company's operations related to the environment. If management does not notice the

impact on the environment then it will rise conflicts in a group and other groups. Therefore, to reduce the conflict the companies must provide disclosure of information that covers all operating activities of the company. The regulation that describes Voluntary Disclosures (Environmental Disclosures) in Indonesia is *Ikatan Akuntan Indonesia* (IAI) through the statements contained in *Pernyataan Standar Akuntansi Keuangan* (PSAK) Number 1 (2012) paragraph 9 and in Malaysia is regulated in Malaysia Accounting Standard Board (MASB) 1 and 20.

Measuring environmental disclosures requires a checklist of items or indicators disclosures which are matched with the disclosures contained in the annual report of companies. Environmental disclosure in this research is using environmental indicators in the Global Reporting Initiative's (GRI) Standards, which effectively use in July 2018. This framework can be used by a variety of different types of organizations, in terms of size, sector, or location. GRI suggests some aspects related to the environment that must be disclosed in the annual report.

GRI Standards is a generally accepted framework for reporting on economic performance, environmental, and social organization. GRI Standards that used is GRI 300 (Environmental) that consists of 8 sub topic there are materials, energy, water, biodiversity, emissions, effluents and waste, environmental compliance and supplier environmental assessment with 32 indicators (Global Reporting Initiative, 2016).

7. Corporate Governance Mechanism

The mechanism of corporate governance is the system that regulates the company's operations. It consists of the company's management, shareholders, regulators, employees, and other stakeholders that come from company itself or outside the company. This system aims to provide added value to the company and contribute to the company goals (Restuningdiah, 2010). According to Ujiyantho and Pramuka (2007), corporate governance issues are related to the agency which has a function to give confidence to the principal or shareholder. Corporate Governance Principles are required to achieve sustainability by considering the stakeholders, Corporate Governance Principles consists of several points as follows:

a. Transparency

The Provision of adequate information (materials) will determine the objectivity of a company in conducting business activities. In addition, the relevant information needed to expect stakeholders to be able to be understood easily by all forms of information submitted by the parties concerned.

b. Accountability

The implementation of the company should proceed with the responsibility related to the performance of the company, so it is referred to as a process that has continuity between the process and the results. Including whether in the implementation of activities had

been carried out in a proper manner, measurable, and in accordance with the interests of the stakeholders.

c. To be responsible

Adhere to the rule of law is essential in the implementation of the company as it relates to social responsibility to the community in preserving the environment especially those who are around the company. This condition can be done with proper planning and systematic management of the environment.

d. Independent

In carrying out the principles of corporate governance, corporate management should be carried out in an independent manner, which means that the management carried out without any interference from the parties concerned so that it can reduce the dominance of certain parties who want to smooth interests in the firm.

e. Fairness and Equality

It is important to provide an assessment related to the fair and equal treatment carried out by the company.

Several corporate governance mechanisms in this study are Proportion of Independent Commissioners on Board, Audit Committee, Board of Commissioners Size, Board of Gender, Political Visibility, and Foreign Ownership, the descriptions are as follows;

a. The Proportion of Independent Commissioners on Board

An Independent Commissioners on Board is a member that is not included in the part of management, officer, majority shareholders, nor communicate directly or indirectly with the majority shareholders of a company (Restu *et al.*, 2017). In addition, according to a research conducted by Prasetianti (2014) and Sanjaya (2013) the Independent Board has positive effect on environmental disclosure.

Komite Nasional Kebijakan Governance (KNKKG) sets out some criteria to be independent directors. The criteria are listed as follows;

- b. It does not have any affiliation with the controlling shareholder of the company concerned.
- c. It does not have any affiliation with the director and/or other Commissioners in their respective companies.

b. Audit Committee

The Audit Committee is a component in the control system of companies that is considered as a link between the shareholders and the board of commissioners with the management in managing control issues. FCGI (2002) states that the audit committee should consist of individuals who are independent and not involved with the management in the conduct of its operations, and must have experience in effectively accomplish their supervisory functions.

This is to maintain the integrity and objective view in the report and the preparation of recommendations made by the Audit Committee. The existence of the Audit Committee in the company is expected to improve the quality of corporate governance.

c. Board of Commissioners Size

Restuningdiah (2010) finds that the Board of Commissioners has a significant role in firm governance because it has oversight of the board of directors in making decisions and regulations that will be taken by the company. The number of commissioners in the company can affect the activity of each business unit of the company, with the number of commissioners that is greater than it can minimize the problem of information asymmetry in the company.

Sanjaya (2013) argue that in conducting its business activities the company needs to perform the functions of the supervisory controller. The function of management is useful for the company's operations and more easily control and monitor the Chief Executives Officer (CEO). In the company the number of commissioners should be larger, it is associated with the disclosure of social and environmental responsibility. Thus, the management will get pressure from Board Commissioners and they will tend to make the environmental disclosures.

d. Board Gender (Percentage of Female Directors)

One of the issues of corporate governance mechanism developed in the last few years is the issue of gender-based diversity board. The diversity of the Board of Directors is a diversity that exists within the membership of the Board of Directors. The diversity of the Board of Directors is biased based on a variety of things; ethnicity, expertise, gender, religion, age, education background and other kinds of diversity in the Board of Directors. As the development of the emancipation of women, one of the developing issues in board diversity is gender-based. Board of gender-based diversity is defined as the existing gender diversity on Boards of Directors (Prasista, 2016).

Today, the presence of women on the Board of Directors sufficiently increases. This is because the presence of women rated a positive impact on the company. According Kusumastuti and Sastra (2007), women have a cautious attitude, tend to avoid risks, and tend to be more conscientious than men. Therefore, the presence of women on the Board of Directors, the decision considered more precise and have a lower risk. In addition Krishnan and Park (2005) state that women are considered to have cognitive feelings. Cognitive feelings of woman are considered to be a positive influence on the values and harmony in organization to encourage transparency of

information and resources, providing a more democratic leadership, as well as to minimize conflicts.

e. Political Visibility

Political Visibility is basically about how the public and government attention to the companies. Political Visibility is measured by the size of the company. This is because large companies will tend to get higher attention from the public and the government. The amount of Political Visibility will result in increased costs related to political and tighter regulation. In general, larger companies conduct environmental disclosures in larger scale. Company that has greater assets will perform their social responsibility activities on the environment greater than small companies (Oktafianti and Rizki, 2015).

According to Suhendah and Haryanto (2014), if a company faces greater political visibility, then the manager will tend to choose accounting procedures that can generate lower profit in recent year than the profit in the future. This is done in order to reduce the political visibility of the company. One way that can be done is by disclosing various information.

f. Foreign Ownership

One of the factors that can influence environmental disclosures is foreign ownership because foreign shareholders are one of the stakeholders of the company who are targeted by the

intensity of environmental disclosure. From the stakeholder theory, high foreign ownership in a company makes managers try to carry out high intensity of environmental disclosure because foreign parties are more concerned with corporate social and environmental activities. The results of previous studies conducted by Sissandhy (2014); Suaryana and Dewi (2015) state that foreign ownership factors have a positive influence on CSR disclosure, where the intensity of CSR disclosure increases with the increasing foreign ownership.

8. Firm Value

The value of the company describes the management of companies conducted by manager. Whether a management undertaken by manager is good or bad, it will impact on the value of the company. One of the most important how the management is able to manage the company's assets, can be seen from the stock prices (Yuliariskha, 2012).

Mardiyati *et al.* (2012) states that the value of the company is the price that the potential buyers are willing to pay when the company is sold. Wealth value shown in the balance sheet has no relation to the market value of the company. This condition is because the company has a wealth that cannot be reported on the balance sheet as good management, good reputation, and a bright prospect. The company's value is also defined as the market value because the value of the company

can deliver maximum shareholder wealth when the company's stock price to rise.

A. HYPOTHESES DEVELOPMENT

1. The Influence of Proportion of Independent Commissioners on Boards towards Environmental Disclosures

An Independent Commissioners on Board is a member that is not included in the part of management, officer, majority shareholders, nor communicate directly or indirectly with the majority shareholders of a company (Restu *et al.*, 2017). In addition, according to a research conducted by Prasetianti (2014) and Sanjaya (2013) the independent board has positive effect on environmental disclosures. Thus result supported agency theory that stated the more proportion of independent commissioners on board will improve the environmental disclosures level.

The research undertaken by Sari *et al.* (2019) states that the proportion of Independent Commissioners on Boards have negative significant effect on environmental disclosure. An independent board is a party that does not have a business relationship and familiarity with the controlling shareholders, directors, and commissioners, as well as by the company itself. More broadly, the task of independent commissioners on board is to oversee the board of directors of the company in achieving performance in business planning.

Rahmi (2014) illustrates that the presence of an Independent Commissioners on Boards is expected to be neutral to all policies made by the board of directors. Because the independent directors are not affected by the management, they tend to encourage companies to disclose more extensive information to stakeholders. Research conducted by Effendi *et al.* (2012) states that the Proportion of Independent Commissioners on Boards has no effect on the company's environmental disclosure.

Based on the previous research that investigate about the effect of Proportion of Independent Commissioners on Boards towards environmental disclosures, it can be concluded that the greater the Proportion of Independent Board to the Board of Commissioners is, the bigger the amount of environmental information disclosure in the annual report will be. This indicates that the role of the members of independent directors is important in determining the level of environmental disclosure. Several empirical studies such as Prasetianti (2014) and Sanjaya (2013) found that proportion of independent commissioners on board has positive significant effect towards environmental disclosures. Based on the explanation above, the first hypothesis proposed is as follows:

H_{1a}: The Proportion of Independent Commissioners on Boards has a positive significant effect towards Environmental Disclosures in Indonesia.

H_{1b}: The Proportion of Independent Commissioners on Boards has a positive significant effect towards environmental disclosure in Malaysia.

2. The Influence of Audit Committee towards Environmental Disclosures

The number of audit committees is essential for monitoring and controlling the company, so that with the audit committee of a company will increase the effectiveness of supervision including disclosure practices and social responsibility. Based on the agency theory, if the size of the Audit Committee is larger, it is expected that it can maintain the performance better.

The Audit Committee is a component in the control system of companies that is considered as a link between the shareholders and the board of commissioners with the management in managing about control issues. FCGI (2002) states that the audit committee should consist of individuals who are independent and not involved with the management in the conduct of its operations and must have experience in effectively accomplishing their supervisory functions. This is to maintain the integrity and objective view in the report and the preparation of recommendations made by the Audit Committee. The existence of the Audit Committee in the company is expected to improve the quality of corporate governance.

The research undertaken by Sari *et al.* (2019) found that the Audit Committee have significant positive effect on environmental disclosures. The audit committee is an auxiliary organ that is required in the

implementation of Good Corporate Governance. The audit committee is in charge of examination and research deemed necessary to the execution of the function of directors in managing the company and carry out important tasks related to the financial reporting system.

The study is in line with the research conducted by Said *et al.* (2009) that found a positive relationship between audit committee and the disclosures of the corporate environment, the results of the same research is also revealed by Handajani *et al.* (2008), but the result of a different study presented by Tarzeghi (2012), states that the audit committee does not significantly affect the disclosure of corporate social responsibility.

Based on the previous research that investigates the effect of Audit Committee towards environmental disclosures, it can be concluded that the greater the Audit Committee of a company is, the more effective the effectiveness supervision including disclosure practices and social responsibility especially in environmental disclosures will be. Several empirical study such as Sari *et al.* (2019); Said *et al.* (2009) and Handajani *et al.* (2008) found that there is positive significant effect between audit committee and environmental disclosures. Based on the explanation above, the second hypothesis proposed is as follows:

H_{2a}: The Audit Committee has a positive significant effect towards Environmental Disclosures in Indonesia.

H_{2b}: The Audit Committee has a positive significant effect towards Environmental Disclosures in Malaysia.

3. The Influence of Board of Commissioners Size towards Environmental Disclosures

Restuningdiah (2010) finds that the board has a significant role in firm governance because it has oversight of the board of directors in making decisions and regulations that will be taken by the company. The number of commissioners in the company can affect the activity of each business unit of the company. Agency theory stated that if the number of commissioners is greater, it can minimize the problem of information asymmetry in the company. Furthermore, it's also supporting the legitimacy theory that explain the company has social contract with the society. If the company would like to get legitimacy from the society they must responsible about the effect of the company operations can be through environmental disclosures.

According to Haniffa and Cooke (2002) Board of Commissioners Size does not affect the environmental disclosures. No matter how big the number of the Board of Commissioners is will not pay attention towards Environmental Disclosures. So that the commissioners have no business or interests related to environmental disclosure. The results from Frendy and Kusuma (2011) found that Board of Commissioners Size has a positive influence on environmental disclosures.

Lagasio and Cucari (2019) state that Board of Commissioners Size has positive significant affect to the environmental social governance disclosure. Arta *et al.* (2015) found that Board of Commissioners Size has a

positive influence on environmental disclosure. This is because the greater the number of commissioners, the easier it is to control the Chief Executives Officer (CEO) and monitoring carried out more effectively. Therefore, the pressure exerted in conducting the greater disclosure of environmental information.

Based on the previous research that investigate about the effect of Board of Commissioners Size towards environmental disclosures, it can be concluded that, if a company has bigger Board of Commissioners Size it will have a strong oversight function so that the business activity of the company is more transparent in providing information to stakeholders and shareholders. Besides that, the management can improve the oversight function which is getting stronger. The pressure that the company faces can encourage the company to issue environmental disclosures. Based on the explanation above, the third hypothesis proposed is as follows:

H_{3a}: The Board of Commissioners Size has a positive significant effect towards Environmental Disclosures in Indonesia.

H_{3b}: The Board of Commissioners Size has a positive significant effect towards Environmental Disclosures in Malaysia.

4. The Influence of Board Gender (Percentage of Female Directors) towards Environmental Disclosures

Kusumastuti and Sastra (2007) found that women have high carefulness and will tend to avoid risk and more conscientious than men. Positive attitudes that women have such a positive impact on the decision-

making board of directors. Decisions and measures taken by female director's care considered more appropriate and contain a lower risk. In addition, according to Krishnan and Park (2005) women are considered to have cognitive feelings. Cognitive feelings of women are considered to be a positive influence on the values and harmony in organization which encourage the disclosure of information and resources, providing a more democratic leadership, and can minimizing conflicts. Lagasio and Cucari (2019) also found that Board Gender has positive significant effect to the environmental social governance disclosure.

Research conducted by Feijoo *et al* (2012) in Japan, Australia and the UK indicates that the higher the number of women directors is, the higher the voluntary disclosures will be. The research on the effect of the presence of women directors on the voluntary disclosure would try to be made analogous to the environmental disclosure. The existence of female directors with all the benefits considered to increase disclosure of the information. This is because the voluntary disclosure of the information is very effective to enhance the corporate image that will ultimately lead to a positive impact for the company. Based on feminist ethical theory the presence of women director will influence the decision making in the making including the practice of environmental disclosures.

Based on the previous research that investigate about the effect of board gender towards environmental disclosures, it can be concluded that the existence of female directors is considered to increase the level of

disclosure about environmental in company. This is because female director has high carefulness and will tend to avoid risk and are more conscientious than men. Based on the explanation above, the fourth hypothesis proposed is as follows:

H_{4a}: The Board Gender (Percentage of Female Directors) has a positive significant effect towards Environmental Disclosures in Indonesia.

H_{4b}: The Board Gender (Percentage of Female Directors) has a positive significant effect towards Environmental Disclosures in Malaysia.

5. The Influence of Political Visibility towards Environmental Disclosures

Political Visibility is basically about how the public and government pay attention to the companies. Political Visibility is measured by the size of the company. This is because large companies will tend to get higher attention from the public and the government. The amount of Political Visibility will result in increased costs related to political and tighter regulation. In general, larger companies conduct environmental disclosures in larger scale. Company that has greater assets will perform their social responsibility activities on the environment greater than small companies (Oktafianti and Rizki, 2015).

Suhendah and Haryanto (2014) argue that, if company faces greater political visibility, then the manager will tend to choose accounting procedures that can generate lower profit in recent year than the profit in the future. This is done in order to reduce the political visibility of the company. One way that can be done is by disclosing various information.

The above explanation is very relevant to the results of a research conducted by Sembiring (2009); Agusti (2010); and Suhendah and Haryanto (2014) indicate that company size has a positive influence on CSR disclosure (environmental disclosure). Then, the research conducted by Paramitha and Rohman (2014); Oktafianti and Rizki (2015) state that the size of the company's positive effect on environmental disclosure. Legitimacy theory stated that the more size of the company are, the more attention from the society are. That way, it will improve the environmental disclosure practice in companies.

Based on the previous research that investigate about the effect of Political Visibility towards Environmental Disclosures, it can be concluded that if company face bigger political visibility it will encourage the manager to focus in social and environmental aspect, one of them is environmental disclosure. The political visibility will be measured by firm size. Based on the explanation above, the fifth hypothesis proposed is as follows:

H_{5a}: The Political Visibility has a positive significant effect towards Environmental Disclosures in Indonesia.

H_{5b}: The Political Visibility has a positive significant effect towards Environmental Disclosures in Malaysia.

6. The Influence of Foreign Ownership towards Environmental Disclosures

One of factors that can influence environmental disclosures is foreign ownership because foreign shareholders are one of the stakeholders of the

company who are targeted by the intensity of environmental disclosure. From the stakeholder theory, high foreign ownership in a company makes managers try to carry out high intensity of environmental disclosure because foreign parties are more concerned with corporate social and environmental activities. The results of previous studies conducted by Sissandhy (2014); Suaryana and Dewi (2015) state that foreign ownership factors have a positive influence on CSR disclosure, where the intensity of CSR disclosure will increase with the increasing foreign ownership. On the other hand, Hassan (2013) found a significant negative relation between the foreign ownership and environmental disclosures level.

There are several studies which have investigated the relation between foreign ownership and environmental disclosures level. According to Abdul (2002); Haniffa and Cooke (2002); Barako *et al.* (2006); Akra and Ali (2010); Qu *et al.* (2013); and Sartiwi *et al.* (2014) found a significant positive relation between the effect of foreign ownership and the environmental disclosure of company exists. It supported Signalling theory that state if company disclose the environmental information it will be give positive signal to foreign investors.

Based on the previous research that investigate about the effect of Political Visibility towards environmental disclosures, it can be concluded that high foreign ownership in a company makes managers try to carry out high intensity of environmental disclosure because foreign parties are more

concerned with corporate social and environmental activities. Based on the explanation above, the sixth hypothesis proposed is as follows:

H_{6a}: The Foreign ownership has a positive significant effect towards Environmental Disclosures in Indonesia.

H_{6b}: The Foreign ownership has a positive significant effect towards Environmental Disclosures in Malaysia.

7. The Influence of Environmental Disclosures towards Firm Value

The value of the company describes the management of companies conducted by manager. Whether a company undertaken by a manager is good or bad it will impact on the value of the company. One of the most important this is how the management is able to manage the company's assets, it can be seen from the stock prices (Yuliariskha, 2012).

The higher a company's disclosure in the field of corporate social responsibility disclosures, including disclosure of the environment, will affect how the value of a company. Previous studies were examining the relationship between environmental disclosures and firm value that focus on the associations between specific environmental issues and stock price or stock price changes (Plumlee *et al.*, 2015). Companies that have good environmental performance will certainly increase the confidence of investors to invest in the company (Nurdin and Cahnyandito, 2006). Its supported the signaling theory.

In addition, besides the increase of the investor's trust, people's views on the company's activities would be better. With the increasing

corporate image in the eyes of investors and the public, this will impact the increased value of the company (Kurniawan, 2019). The study is in line with a research by Natalia and Subekti (2014) which states that environmental performance could affect the company's increased profitability. In contrast Hassan (2013) found that environmental disclosure does not affect the firm's current value.

Based on the previous research that investigate about the effect of environmental disclosures towards Firm Value, it can be concluded that, if a company has higher a company's disclosures in the field of environmental disclosure, it will affect the value of a company. Several empirical study such as Nurdin and Cahnyandito (2006); Kurniawan (2019); Natalia and Subekti (2014) found that there is positive significant effect between environmental disclosures and firm value. Based on the explanation above, the seventh proposed hypothesis is as follows:

H_{7a}: The Environmental Disclosures has a positive significant effect towards Firm Value in Indonesia.

H_{7b}: The Environmental Disclosures has a positive significant effect towards Firm Value in Malaysia.

8. Environmental disclosure level in Indonesia and Malaysia

The impact of environmental damage caused by the activities of companies is increasingly out of control. From these events Indonesia itself has determined that a company must have responsibility to the surrounding environment where the company carries out its activities. The responsibility

transparency program in the company is a corporate environmental disclosure program.

Indonesia and The Malaysia are developing countries that are in the same region namely Southeast Asia where the ASEAN Economic Community has been implemented. The enactment of the ASEAN Economic Community aims to improve the economy countries in Southeast Asia. The amount of hope and effort for advancing the economy must be balanced with an increase in environmental responsibility. If it is not balanced with an increase in environmental responsibility, it will have the potential to cause environmental damage. Therefore, in addition to economic problems, the issue of environmental responsibility in both countries is also very important to consider.

The previous research by Fadillah *et al.* (2017) and Fashikhah *et al.* (2018) find that there is a difference about environmental disclosure level in Indonesia and The Malaysia. The result from that research shows that Indonesia has thirteen point of disclosure while Malaysia has fifteen point, the difference is quite far away. Based on the explanation above, the seventh proposed hypothesis is as follows:

H₈: There is a difference between Environmental Disclosures level in Indonesia and The Malaysia.

2) Research Model

Research Model 1

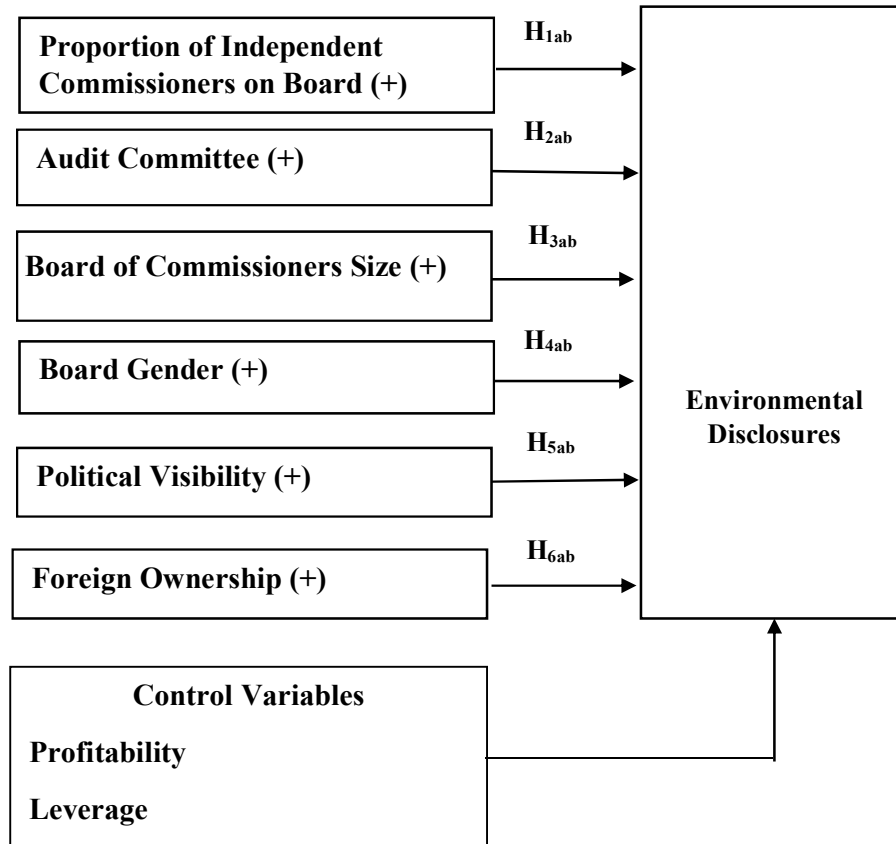
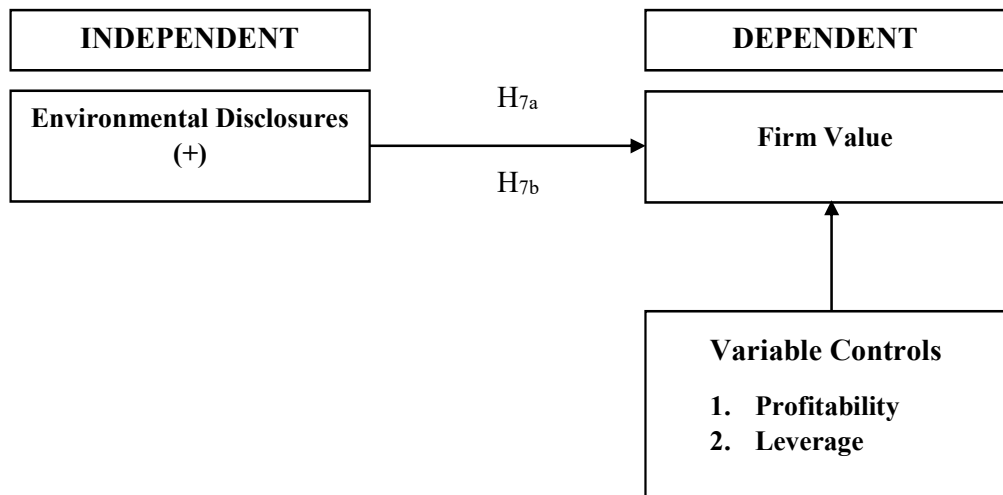
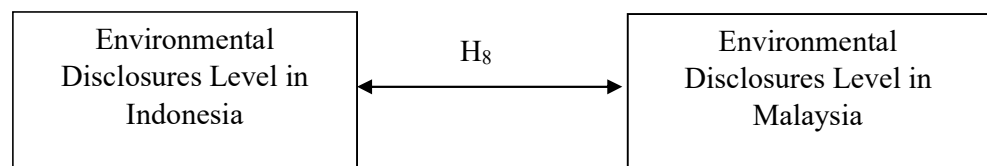


Figure 2.1 , Hypothesis 1 – Hypothesis 6 (a,b)
The Effect of Corporate Governance Mechanism Towards
Environmental Disclosures

Research Model 2**Figure 2.2, Hypothesis 7 (a,b)****The Effect of Environmental Disclosures Towards Firm Value****Research Model 3**

Examines the difference of mean between two sample (The Difference of environmental disclosure levels in Indonesia and Malaysia)

**Figure 2.3, Hypothesis 8**

