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ENVIRONMENTAL DISCLOSURE URGENCY: A LITERATURE REVIEW

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Abstract

The increase of public attention to environmental issues makes the companies need to be more responsible at those matters. Environmental disclosure is a tool to meassure that responsibility. Based on the economic perpective, prior studies tried to find out the relationship beetwen voluntary environmental disclosure (VED) and economic performance, and they found various results. Another studies captured there are many enviromental disclosure-performance gap phenomenon. Therefore, this study attemps to analyze whether VED is neccesary or not and find out the cause of environmental disclosure-performance gap. The results shows that companies with bad environmental performance are recommended to release VED for creating a good image in order to defend its self from the third parties assesment, and companies with good environmental performance are recommended to release VED only if it is possible to increase economic performance. The result also shows that common causes of environmental disclosure-performance gap are getting economic benefit as the concequences of being a environmental-friendly company without doing any good environmental performance, besides, the company might minimize cost because environmental disclosure is predicited can't give any economic benefit and avoiding loss from the accuse of the third parties who might doubt the credibility of data and look for the company's environmental violation that caused by producing environmental disclosure too extensively and self-serving.

Keywords: *Voluntary environmental disclosure, environmental performance, economic performance, environmental disclosure-performance gap*

Introduction

"When the last tree is cut, the last river poisoned, and the last fish dead, we will find out that we cannot eat money" (Greenpeace). The slogan is an example of how an environmental issue is increasingly highlighted by the public. Environmental accounting term that describes the business sector concern for the environment is even more often heard. However, the WALHI (Indonesian Environmental Forum) report in the last few years still showed many cases of environmental damage as a result of the company's business operations.

Fitriasari (2012) stated that accounting role adjustments related to the demands of the of environmental accountability were: the needs of accountants in terms of environmental performance reporting transparency, the need for accountants as information providers on company's operations impact for environmental, and the need for accountants as information providers on economic impact of the company's activities were related to the environment. The

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attention of accounting world to the environmental issues can also be seen from the increasing number of studies on environmental disclosure. According to Rupley et al. (2012), although the main focus of shareholders was the company's financial performance, there were also non-shareholder stakeholders who paid attention to issues that were not directly related to the financial performance such as environmental issues.

For the companies in Indonesia, environmental disclosure includes in the voluntary disclosure category except for companies in the field of natural resources (Law No.40 of 2002 on Limited Liability Company). Most other countries also do not perform mandatory environmental disclosure, only a few developed countries, among others: the United States, Denmark, Sweden, and Japan which have set environmental disclosure as a mandatory disclosure.

In Indonesian context, voluntary environmental disclosure means that companies have the option to disclose environmental information or not, while in other countries which have been requiring environmental disclosure, voluntary environmental disclosure means a wider disclosure of environmental information than have been required by the relevant authorities.

In general, the basis theories of voluntary environmental disclosure can be grouped into two categories those are theories in social perspective that emphasizes the importance of environmental disclosure as company social obligation to the public and theory in the economic perspective which believes that environmental disclosure will provide economic benefit to the company (Susi, 2007). According to economic based voluntary disclosure theory, environmental disclosure is positively related to economic performance (Clarkson et al., 2006), then, companies with good environmental performance will expand environmental disclosure to differentiate themselves with other companies with poor environmental performance (Dye, 1985; Verrecchia, 1983 in Clarkson et al., 2006).

In addition to the environmental disclosure conducted by the company, the assessment of environmental performance can also be observed through public disclosure programs, such as the publication of environmental performance assessment results conducted by the third party. In Indonesia, the assessment is carried out by the Ministry of Environment through PROPER (Performance Rating Assessment Program). In abroad, there are EPA (Environmental Protection Agency) and CERES (Coalition for Environmentally Responsible Economic).

The previous studies have discussed the factors underlying environmental disclosure and environmental performance, cost and benefit of the two policies, as well as the implications of these policies on economic performance.

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Diverse research results led to a debate about the relevance of environmental issues for the business sector that is still not over. Some parties considered that the environment accountability that is not mandatory is very costly but not certainly bring economic benefits. In addition, the study results also showed environmental disclosure, which is ideally aligned with environmental performance, could not describe the actual environmental performance of the companies.

Urgency in this study means whether the voluntary environmental disclosure practice needs to be performed or not by economic perspective. Furthermore, when some parties encourage the environmental disclosure, such disclosure does not precisely describe the actual environmental performance. Therefore, the cause of this phenomenon needs to be observed.

Based on the realities above, this study will attempt to answer the following two issues:

1. Based on an economic perspective, is voluntary environmental disclosure recommended to be performed?
2. Why environmental disclosure-performance gap might happen?

By answering both issues, this study aims to determine the conditions that cause environmental disclosure is recommended to do or not, according to the economic perspective. In addition, this study tries to analyze the causes of disclosure-performance gap. The results of this study are expected to provide a holistic explanation for the company, stakeholders and academics in using and understanding the environmental disclosure practices.

Research Methods

This research was conducted by literature study method, which means to make the writings, both from textbooks, journal articles, media articles, texts Internet, as well as unpublished writings as the references in analyzing the main points covered in the study (EF of SWCU, 2005).

The analysis steps in this study are:

1. Explain the concept of environmental disclosure and environmental performance and their respective costs and benefits in order to provide a full view of the two policies
2. Explain the relationship between environmental performance and environmental disclosure both based on the theories and according to the results of previous studies, with the aim of showing that environmental disclosure conditions which is ideal to describe environmental performance in theory is not always happen in reality.
3. Explain the comparison between environmental disclosure policy background from the economic perspective and social perspective to give an explanation the basis of

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recommendations formulation and explain the disclosure-performance gap that could potentially come from such different perspectives.

4. Describe the comparison between environmental performance and environmental disclosure influences on economic performance of the companies in the developed and developing countries based on the results of previous studies to show that differences of the stakeholders' characteristics in developed and developing countries will have implications on market response difference.
5. Describe the economic consequences for poor environmental performers in order to give consideration due to the recommendations formulation especially for companies with poor environmental performance.
6. Analyze the conditions that cause environmental disclosure to be recommended or not to be performed by the companies according to the economic perspective by describing the comparison between the cost of environmental disclosure by the economic benefit as the market response to the company environment disclosure with good or bad performance, then compare those recommendations with the environmental disclosure background theoretically.
7. Analyze the causes of environmental disclosure-performance gap by combining it with differences in company background or motivation and the cost-benefit difference for each policy.

Environmental Disclosure

Environmental disclosure is the disclosure of information related to environmental management and performance of the companies in the past, present, and future, including the economic impact of each environmental policy (Berthelot et al, 2003 in Ling 2007). Environmental disclosure can be found on the sustainability report, the CSR report, or the notes to financial statements in annual reports of the company. Many companies use environmental disclosure format of GRI version (Global Reporting Initiative), or their own standard which is published by the relevant authorities in their countries.

For the companies in Indonesia, environmental disclosure is included in the voluntary disclosure category except for the companies in the field of natural resources (Law No.40 of 2002 on Limited Liability Company). Thus, in the context of Indonesia, voluntary environmental disclosure means that the company has the option to disclose environmental information or not, while in other countries that have mandatory environmental disclosure, voluntary environmental disclosure means wider disclosure of environment or items more than the required standard by the relevant authorities.

Japan Ministry of Environment (2005) in Ikhsan (2008) describes that in general there are three things that need to be disclosed related to the environment accounting:

The process and the results of environmental activities include the collection of overall results of the environmental accounting implementation and the presentation of the summary of main environmental conservation activities results. The reasons for the increase or decrease in environmental conservation activities from the previous period as well as environmental conservation policies in the present and the future are also presented.

Basic items of environmental accounting composer, including status (the target period and the scope of environmental activities collection), index and the calculation of environmental conservation standard fees, the details of environmental conservation activities benefits and the standard calculations, the details of the economic benefits associated to the environmental conservation activities, collection standard to consolidate the environmental accounting, and the revisions of important environment accounting policies .

Results collected from environmental accounting, matters related to environmental accounting results include: environmental conservation costs, economic and non-economic gains associated to environmental conservation activities.

Here is a comparison of the environmental disclosure costs and benefits (Beierle, 2003):

Environmental Disclosure Costs	Environmental Disclosure Benefits
Cost of collecting and reporting information, the cost in this category is the highest compared to other costs. Chemical Manufacturers Association estimates the average cost of collecting and reporting environmental data may reach $1.5 million for the first year and $800,000 for the following years and spent 150,000 hours of employees for one reporting period (EPA, 1995 in Beierle, 2003)	**Normative benefits**: Benefits at the normative level from environmental disclosure is to provide information and education to the community about the company on the environmental risks they face related to the company's operations. Public view that they have a right to know the risks.
Cost of dealing with public reaction, when the disclosure shows excellent environmental performance, the public may doubt the credibility of this information and accused it as self-serving. When disclosure is not maximally performed, there will be the possibility of public misinterpretation. However, when full disclosure is done, NGOs, governments, and the competitors might use it as a loophole to find the	**Substantive benefits:** There are two components of the benefits in this type. First, environmental disclosure will help companies to be able to target, understand, and evaluate the environmental impact and also how to overcome them. Second, the arising public courage to dialogue and cooperate with the company in order to minimize the environmental impact from the company's operations.

company faults.	
Cost of unintended use of the data, the potential for environmental information misuse by spies and terrorists. When the number, content, and chemical production processes are disclosed, there is the possibility of the competitors to know the company's production secrets. Meanwhile, the chemical facility in one location may also cause a terrorist attack.	**Instrumental benefits**: environmental disclosure will encourage improved environmental performance which will further help the company to meet the regulations related to the environment and reduce environment-related public pressure.

Environmental Performance

Environmental performance includes all efforts made by the company in order to create a good or green environment (Suratno et al, 2007). The Company is considered responsible for the environment because company operations may worsen the environmental quality (Ikhsan, 2008). In Indonesia, environmental performance assessment is conducted by the Ministry of Environment through PROPER (Performance Assessment Program). This program is expected to increase the environmental performance since investors' assessment may be influenced by PROPER rating. Here is the comparison between costs and benefits related to environmental performance:

Environmental Costs (Hansen and Mowen, 2007)	Environmental Benefits (Ikhsan, 2009)
Environmental prevention cost: the cost for prevention activities of producted waste that can harm the environment. Example: supplier evaluation and selection, evaluation and selection of tools for pollution reduction, and environmental risk audits.	**Environmental benefits** are benefits of environmental accounting implementation, which can be either cost savings or environment revenue. Actual environment revenue may include a subsidy and external awards in the form of cash receipts, or income from the sale of waste recycling. Meanwhile, the environmental cost savings can be in the form of tax exemptions related to the environmental management projects, as well as greater cost avoidance due to failure to comply with environmental regulations, such as compensation to the public if the company is proven to do pollution that harm the public.
Environmental detection cost: the cost for the activities in order to determine whether the product, process, and other activities in the company have met the applicable environmental standards or not. Example: the development of environmental performance measurement, pollution test, and contamination level measurement.	
Environmental internal failure costs: costs in order to remove and treat waste in manufacture. Internal failure activities has one of the following two objectives: (1) ensure that the produced waste is not discharged into the environment, or (2) reduce the level of waste that is disposed so	

that the numbers do not over the standard.	
Environmental external failure cost: The cost for the activities undertaken after releasing waste into the environment. Realized external failure costs are the costs borne by the company, for example the cost for contaminated soil cleaning. Meanwhile, the unrealized external failure costs are due to the company operation but experienced and paid by external parties, such as medical care because of air pollution.	

Environmental Disclosure Background: Economic Perspective VS Social Perspective

Social Perspective	Economic Perspective
Stakeholder theory focuses that the survival of the company will depend on the stakeholders' support, such as customers, employees, shareholders, government, and other social elements around the company, which will pay attention to environmental issues. Environmental disclosure is one way to create the stakeholders' perception (Clarkson, 1995 in Susi, 2009)	**Proprietary Cost of Environmental Disclosure** focuses that the company will conduct environmental disclosure only if the benefit gained exceeds the cost to perform it, then the company will disclose only good news, to differentiate themselves from other companies with poor environmental performance, which will minimally reveal fact because theri bad news are potentially create proprietary cost (lowering future cash flows) (Verrechia, 1983; Dye, 1985; Watts & Zimmerman, 1986, in Susi 2009).
Accountability theory focuses that on ethics name, the company should disclose liabilities that must be performed and has been performed related to the environment as a form of responsibility over the its operations that have an impact on the environment (Susi, 2009)	**Political Theory of Environmental Cost Disclosure** focuses that concern for the environment to minimize costs in the form of political pressure in running business operations from government and non-government agencies may occur when companies do not care about environmental issues (Watts and Zimmerman, 1978 in Susi, 2009)
Legitimacy theory focuses that legitimacy gap (when the company only pursue profits regardless to social norms and values) may cause social communities to look at the company and it must respond in order to get social legitimacy, one way is through environmental disclosure (Oliver 1991; Goodstein, 1994, in Susi , 2009)	

In general there are two perspectives that can explain the company background in doing environmental disclosure. First, social perspectives, which contains theories based on ethical or normative approach (stakeholder theory, legitimacy theory, accountability theory). Second, the economic perspective, which contains pure theories based on cost-benefit considerations (theory of discretionary costs, theory of political cost) (Susi, 2009).

Economic perspective itself has undergone a paradigm shift, because the traditional economic perspective which believes that environmental concerns will only reduce the competitiveness of the company because it raises the a large cost (Blanco et al, 2009) appears to have been argued by many empirical facts which state that the company's concern for environmental issues may improve the economic performance of the company.

Cornier and Magnan (2003) argue that economic incentives are the factors that influence environmental disclosure policy. The more extensive information disclosed will minimize the information asymmetry between management and stakeholders so as to lower the information cost. The lower information cost will be profitable for the company, because: it will boost the company's image in the investors' view, improve stock liquidity, improve stock valuation multiplies and lowering the cost of capital. On the other hand the company should remember that environmental disclosure has potential cost, because when the disclosed information is too self-serving, then there will be a gap to criticize the credibility of the information.

Relationship between Environmental Disclosure and Environmental Performance

Theoretically, environmental disclosure will be positively related to the environmental performance because based on discretionary disclosure theory (Al Tuwaijri et al., 2004) and voluntary disclosure theory (Dye, 1985; Verecchia, 1983 in Patten 2002) good environmental performance agents would express their performance, because it is a good news for market participants and will be able to differentiate themselves from bad environmental performance agents, who will perform minimal or no disclosure; so the better environmental performance the more extensive environmental disclosure is.

In fact, Greenpeace highlighted the number of green washing phenomenon, it means the efforts to establish a public image as a company, including through disclosure, when in fact the company's environmental performance is different from the imaged condition. The phenomenon is called symbolic corporate compliance by Marquis and Toffel (2012), as the company efforts to demonstrate compliance with environmental regulations through environmental disclosure alone, without wishing to improve their actual environmental performance.

On the other hand, good environmental performers may choose to minimalize or negate the disclosure because there is a third party with a particular social or political objectives that could

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potentially use the environmental disclosure as a gap to find faults of the company related to the environment. (Li et al., 1997 in Al-Tuwaijri et al, 2004).

So no wonder that one of the unresolved issues related to environmental accounting is how to achieve consistency between environmental disclosure with environmental performance (Chen and Metcalf, 1980; Hughes et al., 2001, Al Tuwaijri et. Al., 2004 in Clarkson, 2006). Font 2012 called the phenomenon as disclosure-performance gap. Here are some environmental performance-disclosure gap cases:

Researcher Name and Year	Title	Research Results
Font (2012)	Corporate Social Responsibility: The Disclosure-Performance Gap	CSR Aspects which have the biggest disclosure-performance gap is environmental information
Graf and Kock (2011)	Do Directors With A Political Background Firms Make Greener?	Companies with the directors of the politicians perform environmental disclosure in order to establish the image itself, not really committed to the environment
Patten (2002)	The relation between environmental performance and environmental disclosure: a research note	There is a negative relationship between environmental disclosure and performance, the company with more waste even more widely disclosed, and vice versa.
Hora and Subramanian (2013)	Relationship Between Environmental Performance and Enviornmental Disclosure	Companies with a large environmental effort had lower levels of environmental disclosure

Research conducted by Cho et al. (2012) in the United States found that the companies listed on the Dow Jones Sustainability Index (DJSI) conducted more extensive environmental disclosure to establish a reputation as a "green company", whereas the environmental performance of these companies was not as good as they expressed. The cause of this phenomenon was that market paid more attention to the environmental disclosure than the company's environmental performance rating.

Relationship Between Environmental Performance and Environmental Disclosure with the Economic Performance

Economic performance is the macro financial performance of the companies in similar industries (Suratno et al, 2006). Economic performance measurement can be performed with capital market based (profitability, price earnings ratio, etc.) as well as accounting based meassure (ratios in the balance sheet and income-loss statement) (Nuraini, 2010).

Although the results varied, based on previous studies it can be concluded that in general, studies in developing countries showed an insignificant influence and negative relationship between environmental performance and evironmental disclosure with economic performance, while in general studies in developed countries showed significant impact or positive relationship.

Study Results in Developed Countries

Researcher Name and Year	Location	Title	Study Results
Widodo, Janice, and Verhoeven (2002)	Australia	The Economic Consequences of Voluntary Environmental Information Disclosure	Positive environmental disclosure had positive impact on the performance of companies in the capital market
Yusoff and Lehman (2005)	Australia and Malaysia	International Differences On Corporate Environmental Disclosure Practices: A Comparison Between Malaysia And Australia	Environmental disclosure significantly influence the economic performance of companies in Australia
Al-Tuwaijri, Christensen, and Hughes (2004)	United States	The Relations Among Environmental Disclosure, Environmental Performance, and Economic Performance: A Simultaneous Equations Approach	Environmental performance and environmental disclosure is positively associated with profitability
Ling (2007)	United States	Voluntary Environmental Disclosure Strategy and Environmental Disclosure Quality	Environmental disclosure increased investment in terms of brand image and the research and development program
Clarkson, Yue Li, Richardson, and Vasvari (2006)	United States	Revisiting the Relation Between Environmental Performance and Environmental Disclosure: An Empirical Analysis	Environmental performance is positively related to economic performance
King, A. and Lenox M. (2001)	United States	Does it Really Pay to Be Green? An Empirical Study of Firm Environmental and Financial Performance	Environmental performance is positively related to economic performance

Beatty and Shimshack (2010)	United States	"The Impact of Climate Change Information: New Evidence from the Stock Market	Performance information related to climate change had significant impact on capital market returns
Lyon and Shimshack (2011)	United States	Environmental Disclosure: Evidence from Newsweek's Green Companies Rankings	Good environmental performance increased abnormal return
Konar and Cohen (2001)	United States	Does Market Value Environmental Performance?	Environmental performance had a positive impact on the of market value
Plumlee, Brown, Hayes, and Marshall (2011)	United States	Voluntary environmental disclosure quality and firm value: Further evidence	Environmental disclosure was inversely proportional to the cost of capital

Research in Developing Countries

Researcher Name and Year	Location	Title	Study Results
Nuraini (2011)	Indonesia	Environmental Performance Influence and Environmental Disclosure Impact on Economic Performance (Study on Listed Companies in Indonesia Stock Exchange)	Environmental performance and environmental disclosure had no significant impact on economic performance
Almilia and Vitello (2007)	Indonesia	Environmental Performance and Environmental Disclosure Effects towards Economic Performance	Environmental Disclosure had significant negative effect on economic performance
Handayani (2010)	Indonesia	The Impact of Environmental Performance towards Environmental Disclosure and Economic Performance And Environmental Disclosure towards Economic Performance	Environmental performance and environmental disclosure had no significant impact towards economic performance
Susi (2009)	Indonesia	The Occurance of Environmental Disclosures In The Annual Report	There is no correlation between environmental

			disclosure and profitability
Yusoff and Lehman (2005)	Australia and Malaysia	International Differences On Environmental Corporate Disclosure Practices: A Comparison Between Malaysia And Australia	Environmental disclosure had no effect on the economic performance of the companies in Malaysia
Sarumpaet (2005)	Indonesia	The Relation Between Environmental Performance and Financial Performance of Indonesian Companies	Environmental performance did not significantly influence the financial performance
Elijido-Ten (2004)	Malaysia	Determinants of Environmental Disclosure In a Developing Country: An Application of Stakeholder Theory	Environmental disclosure did not affect the economic performance
Smith, Yahya, and Amarudin (2007)	Malaysia	Evironmental Disclosure and Performance Reporting in Malaysia	Environmental disclosure was negatively related to economic performance
Suratno, Darsono, and Mutmainah (2006)	Indonesia	The Impact of Environmental Performance towards Environmental Disclosure and Economic Performance: Empirical Study on Manufacturing Companies Listed on the Jakarta Stock Exchange Period 2001-2004	Environmental performance had significant positive impact on economic performance

In general, studies in developing countries (Indonesia and Malaysia) showed that environmental performance and disclosure had no significant impact or negatively related to the economic performance of the companies. The reality is in accordance with a study conducted by Nuswantara (2008) that showed the market pressure on environmental issues was relatively low and there were no standards regarding the environment accounting which caused environmental accountability in Indonesia was lower than companies in developed countries with higher public attention to environmental issues.

Studies in developed countries generally showed that environmental performance and disclosure had significant impact or positively related to the economic performance of the companies. Ganzi et al. (2004) stated that great economic influence of the socially responsible investment community was the main cause. Socially responsible investment itself is an investment perspective that not only concern in returns, but also cares for the environment sustainability (www.forbes.com). On the other hand, although some parties encourage companies to perform environmental disclosure, Commission for Environmental Cooperation (CEC) (2006) stated that environmental information disclosed was often incompatible with the market needs, so that environmental information was not a significant consideration in the company assessment.

Economic Consequences for Poor Environmental Performers

Based on the observations, studies of the economic impact for companies with poor environmental performance have not been widely conducted, but based on the data obtained, in general, the market negatively responded poor environmental performance.

Researcher Name and Year	Location	Title	Study Results
Gupta and Goldar (2004)	India	Do Stock Markets Penalize Unfriendly Environment-Behaviour? Evidence From India	Poor environmental performance caused negative abnormal returns in the capital market.
Tagle (2006)	Chile	How Do Capital Markets Respond To Environmental News?	Bad environmental news revealed by the national media caused the stock price fell significantly
Romi and Sam (2008)	United States	Determinants of Environmental Sanction Disclosure: Firm Fears of Impairment to Reputation and Legitimacy	Poor performance of environmental caused negative abnormal returns in the capital market.
Dasgupta, Laplante, Mamingi (1997)	Argentina, Chile, the Philippines, Mexico	Capital Market Responses To Environmental Performance In Developing Countries	Negative environmental events caused a decline in the market value
Heal	United States	Do Principal Pay?	Poor environmental performance negatively affected the firm performance

Do Environmental Disclosure Is Recommended to Do?

The question whether or not it pays to be green can not have an unconditional answer (Reindhart, 1999 in Blanco et al, 2009).

In the context that a company has a poor environmental performance, theoretically (discretionary theory, propierty cost of voluntary disclosure) the company will narrow or will not perform environmental voluntary disclosure to cover up the bad news. This study did not recommend it because even though the company did not perform a voluntary environmental disclosure, it will often persisted environmental performance assessment conducted by third parties (government, media and NGOs) which results were published. The facts showed that the market did not always respond positively when a company had a good environmental performance, but the market often reacts negatively to companies with poor environmental performance, including capital markets in India and Chile as a developing country with a relatively low public attention to environmental issues.

Based on this reality, companies with poor environmental performance should undertake voluntary environmental disclosure in order to establish a reputation as a friendly-environmental company as defense effort to minimize the negative response of the market. This results showed that companies with bad environmental performance could not base environmental disclosure decisions on the economic perspective (proprietary cost of voluntary disclosure) that stated it was no need to reveal a poor environmental performance to avoid any cost due to bad news as it was not fully applied when public attention to environmental issues was high in present because there would be a third party to assess the company's environmental performance, and facts showed that poor judgment from the third party would reduce the company's economic performance.

Nowadays, it seems that companies with poor environment performance should base the environmental disclosure practices on social perspective (legitimacy theory, stakeholder theory) that when the environment is not addressed, then the legitimacy of stakeholders will go down (as evidenced by the negative response of the market) and the companies can change the perception of stakeholders through environmental disclosure (stakeholder theory).

The recommendation was supported by the study conducted by Cho et al. (2012) which declared that the worst environmental performers was succeed using a voluntary disclosure to avoid the negative impact of their poor performance which showed that the market more trusted the environmental disclosure that environmental performance rating according to the third party.

In the context that a company has a good environmental performance, the recommended voluntary environmental disclosure if the characteristics of the stakeholders have a high attention to environmental issues, because it is exactly cause environmental disclosure is able to improve the economic performance of the company. If this condition is met, the company should also compare the economic benefits to the cost of environmental disclosure, among others: the cost of collection and reporting, cost of dealing with public reaction, the cost of unintended use of the data (Beierle, 2003), based on economic perspective (propriety cost of disclosure theory). If environmental disclosures are not potentially bring economic benefit, the company do not need to do so, but because of cost-benefit considerations, the third party will not assess the environmental performance as negative so that the possibility of negative response of the market should not be feared.

Studies in developed countries generally showed that environmental disclosure related positively or had significant influence to improve the economic performance of companies. On the other hand, studies in developing countries indicated that environmental disclosure negatively related or no significant effect on the economic performance of companies.

Why Environmental Disclosure-Performance Gap is Possible?

Reality showed that environmental disclosure conditions which ideally described the environmental performance of companies were not happen. Font et al. (2012) called it as disclosure-performance gap.

Companies with environmental disclosure that looked much better than the actual environmental performance wished to take advantage of the potential for increased economic performance because of the high attention of stakeholders on environmental issues, without having to improve its environmental performance. This was done because "beautify" the environment disclosure with self-serving information as a strategy for creating the environmental-friendly image was cheaper than actually improving environmental performance which would cause a great cost (the cost of prevention, appraisal, internal failure, external failure). Ironically this condition was also occurred in companies with politicians directors, who often claim to care about environmental issues (Graf and Kock, 2011).

The above reality is supported by the studies that showed that market preferred to trust or assess companies based on environmental disclosure rather than environmental performance (Cho et al, 2012). So, not surprisingly, Marquais and Toffel (2012) stated:

"Under Increased environmental pressure to report Impacts, some firms selectively Impacts are relatively benign disclose, creating an impression of transparency while masking their true performance."

Conversely, when the level of company's environmental disclosure was lower than the environmental performance, the company felt that environmental disclosures made had no positive impact on the economic performance of the company, because the characteristics of the companies stakeholder had not been overly concerned about environmental issues (usually in developing countries). Thus, the company felt pretty good to do environmental performance in order to minimize the occurrence of future greater costs as a result of failure to comply with environmental regulations (Ikhsan, 2009) (eg, public pressure and compensation to the public due to environmental pollution) as a main destination of the company.

The company did not feel the need to do a lot of disclosure on environmental performance due to environmental disclosure raises costs, but not potentially bring economic benefits. The reality indicated that the company still focused on the economic benefit in carrying out its commitment to the environment (economic perspective theory), because the company put definite environmental disclosure aside benefits which were generally more social (social persepective theory), such as the provision of education to the public related to environment risks and preservation of the environment, as well as continuous monitoring of environmental performance of the company itself (normative benefit, substantive benefit, instrumental benefit; Beierle, 2003).

The possibility that too extensive and self-serving environment disclosures would open up a gap for third party to criticize the credibility of the information and look for company errors related to environment (environmental disclosure cost) were also considerations for the companies to perform a lot of voluntary environmental disclosure (Beierle, 2003, Li 1997 in Al-Tuwaijri, 2004).

Conclusion

1. Companies with poor environmental performance is recommended to conduct voluntary environmental disclosure because even though theoretically the company does not need to do in order to minimize costs due to bad news (poor environmental performance), high public attention to environmental issues in the present cause often environmental performance assessments by third parties and the results will be published. Reality showed that even though the market did not always respond positively to good environmental disclosure and performance, but the market usually reacts negatively to poor environmental performance. Voluntary environmental disclosure becomes a means of image formation as a defense against third party assessment in order to minimize the negative response because it is more believed by the market than third party assessment.

In the context that a company has a good environmental performance, voluntary environmental disclosure is recommended to be conducted only if environmental disclosure is considered potentially has positive influence on economic performance, and the economic benefits is higher than the costs of environmental disclosure. Studies in developed countries indicated that voluntary environmental disclosure generally had positive impact on the economic performance of the company. In contrast, studies in developing countries indicated that environmental disclosure generally had negative or neutral impact on economic performance of the company.

2. When environmental disclosure displays much better information than the company's environmental performance, it means that the company wants to establish environmental-friendly company image without having to increase the actual environmental performance. Such efforts are chosen because it is cheaper than to increase actual environmental performance and more reliable for the market. However, the policy will only be made if the company sees the potential that the qualified environment information disclosure will have a positive influence on economic performance.

When a company with good environmental performance does voluntary environmental disclosure narrowly, even not at all, it means that the company feels that environmental disclosure is not potential to improve economic performance. Thus, environmental performance is done only in order to minimize the occurrence of greater costs due to failure to meet environmental regulations. These conditions indicate that the company ignores the social benefits of environmental disclosure and still profit-oriented related to environmental concern. Another consideration is the potential that too extensive and self-serving environment disclosures may be used by third parties as a mean to criticize the credibility of the information and to find company error gap related to environment.

Practical Implications

Previous studies discussed relationship between voluntary disclosure and environmental performance and the economic performance, it means that those studies were conducted in the economic perspective sphere, and so did the research.

More than just recommended when voluntary disclosure could be recommended or not, the authors also wished to recommend to the regulators to raise the status of voluntary environmental disclosure from voluntary to mandatory, since the company is ethically responsible to the environment. The company’s concern on environmental issues is an urgent thing to be performed regardless to the presence of economic benefits, because the public has a right to know the risks of environmental damage caused by the business operations, as well as to control the company's efforts to overcome them. Natural disasters and extreme climate change are current phenomenon both inside, and outside the country, as the results of business operations without any concerns to environmental aspects.

Limitations and Suggestions

Limitation of this study is the inadequate number of literatures about two things, those are: environmental disclosure practices in developing countries and the effects of poor environmental performance towards the company's economic performance. It may cause the reliability level reduction of the recommendations given in this study.

Future studies could attempt to prove whether the recommendations according to the current study results can be applied to all conditions or whether there are exceptations of the recommendations and try to analyze whether it is time for the regulator to establish a mandatory environmental disclosure for all companies in Indonesia.

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