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ENHANCING FINANCIAL PERFORMANCE THROUGH ENVIRONMENT PERFORMANCE AND CORPORATE SOCIAL RESPONSIBILITY

Maya Indriastuti
maya@unissula.ac.id
Naila Najihah
Sultan Agung Islamic University
Jl. Kaligawe Raya No.KM, RW.4, Semarang, Jawa Tengah 50112

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Abstract

This study examined the effect of environmental performance on financial performance with corporate social responsibility as a mediating variable for 234 manufacturing companies listed on the Indonesia Stock Exchange in 2013-2018. Multiple linier regression was used to examine for the effect of environmental performance on financial performance. Sobel test was used to examine for the role of corporate social responsibility as a mediating variable. Results indicate that that environmental performance and corporate social responsibility have a positive effect on financial performance. In addition, corporate social responsibility is able to mediate the effect of environmental performance on financial performance.

***Keywords**: financial performance; environmental performance; corporate social responsibility; manufacturing companies; multiple linier regression*

INTRODUCTION

Company performance is a picture of the financial condition of a company that is analyzed by financial analysis tools, so that it can be known about the good and bad financial condition of a company that reflects work performance in a certain period. This is very important so that resources are used optimally in the face of environmental changes. Financial performance appraisal is one of the ways that can be carried out by management in order to fulfill its obligations to funders and also to achieve the goals set by the company. Financial performance is described by profit as an indicator of measuring the company's success in financial terms. This indicator of success measurement is able to make the company conduct a review and evaluation of the results obtained, so that the company can see the prospects of the company in the next period and efforts to maintain the company's sustainability. One of the factors that can improve a company's financial performance includes environmental performance and corporate social responsibility.

The company's environmental performance assessment is carried out through the Company Performance Rating Program in Environmental Management (PROPER), where the public can assess which companies have a good reputation in environmental management and which companies have a less good reputation in environmental management. The 2017 proper award was set for 19 Gold companies, 150 Green companies, Blue 1,486 companies, 130 Red companies, and 1 Black company. In addition, there were 33 companies whose ranks were not announced because 22 of them were being directed to law enforcement, while 11 were no longer operating. In general, the company's level of adherence to the environment in 2016-2017 reached 92%, up 7% from the achievement of the previous year (www.menlh.com).

The 2018 proper awards were set for 20 gold-ranking companies, 155 green-property companies, 1,454 blue-property companies, 241 companies and 2 black companies, and 16 companies were subjected to law enforcement and 18 were not operating. The results of the 2018 proper assessment showed an 87% compliance rate and an energy saving effort of 273.61 million Giga Joule, a water-lasting effort of 306.94 million m3, resistant to conventional emissions with a total emission reduction of 18.7 million tons, resistant to GHG emissions by 306 , 94 million tons of CO2e, reduction and utilization of B3 waste and non-B3 solid waste by 16.34 million tons and 6.83 million tons, as well as reducing the burden of waste water pollution reaching 31.72 million tons. The company continues to innovate in management environment through this proper program Innovations which in 2015 only recorded 151 increased to 542 in 2018. Cost savings made by the company reached IDR 925,241 Trillions increased 16 times compared to the previous year of IDR 53,076 Trillions (www.menlh.com).

Cohen and Robbins (2011) said that good environmental management can avoid the claims of the community and the government and improve the quality of products which will ultimately be able to increase the company's financial benefits. Al-Tuwaijri, et al., (2004); Turcsanyi and Sisaye (2013) find that environmental performance has a positive relationship with financial performance. Manrique and Carmen (2017) show that the adoption of environmental practices significantly and positively affects the corporate financial performance in developed and developing countries. However, this effect is stronger for firms located in developing countries than those located in developed countries. Qian (2012) show that carbon performance and financial performance are significantly negatively related in public listed companies.

Corporate Social Responsibility is a form of corporate responsibility both to internal parties (shareholders and employees) in the form of profitability and company progress, as well as external responsibilities (taxpayers and employment providers), improving the welfare and competence of the community, and preserving the environment for generation future (Commission, 2013; Friedman, 1970). Thus, a company can benefit not only its business but also other parties. Gangi, et al., (2019); Ho, et al., (2019); Ling, (2019) demonstrate that the positive relationship between CSR and financial performance. Agyemang and Ansong (2017) said that Ghanaian SMEs with improved corporate social responsibility practices are better positioned to achieve enhanced reputation, then improved financial performance. Chtourou and Triki (2017) argue that CSR has a positive impact on the financial performance in the chemical sector. (Lee, et al., (2011) found that companies have better organizational performance than non-CSR award-winning companies. But, different from the findings Rutledge, et al., 2014); Mukherjee and Nuñez (2019) said that there is no significant relationship found between GRI reporting and financial performance at an aggregate level.

Based on the description above, this study wants to analyze and test empirically the influence of environmental performance on financial performance and whether corporate social responsibility is able to mediate the influence between environmental performance and financial performance?

There are have been many studies on financial performance, but the novelty of this research is to examines the role of corporate social responsibility in mediating the influence between environmental performance and financial performance, especially in manufacturing companies in Indonesia.

This research is expected to be able to contribute both theoretically and practically. Theoretically, this research is expected to be a reference for future research. This research can support legitimation theory. This is because environmental performance and corporate social responsibility is able to reduce the legitimacy gap, companies can increase the optimal pareto by carrying out social contracts in the form of increasing social responsibility and also broadening their disclosure. Corporate social activity is a form of compliance and responsibility of the company owner for the trust of stakeholders, in order to maintain and share with the surroundings.

Practically, this research can contribute (1) for manufacturing companies to implement corporate social responsibility consistently; (2) For regulators providing empirical facts about the effectiveness of policies issued by FSA regarding the importance of corporate social responsibility. So that it improves environmental performance and corporate social responsibility practices in Indonesia. In addition, it is expected to be able to fix existing policies; and (3) for investors giving predictions about the annual financial statements so that they can be used as a reference for investment considerations.

The legitimacy theory states that companies continuously try to convince the activities/activities carried out in accordance with the boundaries and norms of the communities where the company operates or is located (Gray, et al., 1995). On the other hand there are also companies that cannot meet stakeholder expectations of the company's attention to the community and its environment. This indicates that the company has not been legitimized. This situation is called the legitimacy gap. Deegan (2002) states that high legitimacy gaps can lead to pressure from stakeholders. Of course if the continuity of the company wants to continue the company must take steps. To reduce the legitimacy gap, companies can increase the optimal pareto by carrying out social contracts in the form of increasing social responsibility and also broadening their disclosure Deegan (2002).

The company feels its existence and activities will get status from the community or the environment if the company conducts social disclosure, so the company operates or can be said to be legitimate (O'Donovan, 2002). With a company that can be said to have been legitimized, the company's image or good name will be good in the eyes of the community, further making stakeholder confidence in the company can be increased. Legitimacy can also be used as a vehicle to construct themselves in the midst of an increasingly developed society (Dowling and Pfeffer, 1975). Company legitimacy in the eyes of stakeholders can be done with business ethics integrity and increase corporate social responsibility (Lindblom, 1994). Thus, a company that carries out corporate social responsibility and preserves the surrounding environment that can benefit the community is also one of the company's efforts to be legitimized.

Companies that disclose environmental performance in financial statements or in other reports such as PROPER will increase the value of the company. Disclosure of the company's environmental performance will add to the completeness and reliability of the financial statements so that it will have an impact on improving financial performance, where investors will respond positively to fluctuations in higher stock market prices, and vice versa (Al-Tuwaijri, et al., 2004). In addition, Al-Tuwaijri, et al., (2004) states that disclosure of financial information related to the environment will be more attractive to users of financial statements so that it will improve the economic performance of the company concerned. Cohen and Robbins, (2011) said that good environmental management can avoid the claims of the community and the government and improve the quality of products which will ultimately be able to increase the company's financial benefits. Turcsanyi and Sisaye (2013) find that environmental performance has a positive relationship with financial performance. Manrique and Carmen (2017) show that the adoption of environmental practices significantly and positively affects the corporate financial performance in developed and developing countries.

Companies that disclose Corporate Social Responsibility indicate that the company has carried out its social responsibilities in accordance with Government Regulation of the Republic of Indonesia Number 47 of 2012. Al-Tuwaijri, et al., (2004) revealed that transparency of CSR disclosures in financial statements is important for users of financial statements or stakeholders to analyze the extent of attention and responsibility responsible for the company in running the business. Corporate Social Responsibility disclosed in the annual report should also be taken into consideration by investors. Not only financial information is considered, but other supporting information such as Corporate Social Responsibility can also be used as a reference material in making decisions by investors.

Oware and Mallikarjunappa (2019) shows that CSR has a positive association with financial performance. Devie, et al., (2018); Mahrani and Soewarno (2018); (Nyeadi, et al., (2018); Salehi, et al., (2018) find that CSR has significantly and positively associated with firm financial performance as proxied by changes in return on assets. Agyemang and Ansong (2017) said that Ghanaian SMEs with improved corporate social responsibility practices are better positioned to achieve enhanced reputation, then improved financial performance. Chtourou and Triki (2017) argue that CSR has a positive impact on the financial performance in the chemical sector. Akisik and Gal, 2017); Feng, et al., (2017); Kabir and Thai (2017); Lee and Jung (2016) find that there is the positive association between the overall CSR activities and firm performance. Lee, et al., 2011) found that companies have better organizational performance than non-CSR award-winning companies. Saleh et al., (2011); Sun (2012) find that there is a significant and positive association between CSR and financial performance. Turcsanyi and Sisaye (2013) said that CSR has a positive effect to financial performance.

Environmental performance is one of the indicators expressed in corporate social responsibility. Therefore, if the environmental performance is good, the corporate social responsibility of the company will be good too. Good corporate social responsibility can be good news and add to the company's image, so that investor or public trust can be increased in the company. In the end the company can get additional capital and increase sales which results in increased profits. Thus, corporate social responsibility can mediate the relationship between environmental performance and financial performance. This is confirmed by the existence of previous research. Research conducted by Al-Tuwaijri, et al., (2004); Yao, et al., (2011); Qi, et al., (2014) said that there are significant positive effect between environmental performance on financial performance mediated by corporate social responsibility.

METHODS

Population in this study uses all manufacturing companies listed at Indonesia Stock Exchange in 2013-2018. The sample selection method uses a purposive sampling method, with the following criteria: (1) manufacturing companies which publish annual financial reports in rupiahs; (2) manufacturing companies which publish reports on the implementation of environmental performance and corporate social responsibility; (3) manufacturing companies that participated in the PROPER programme; (4) manufacturing companies that have profit. Based on these criteria, this research sample as many as 234 manufacturing companies (39 manufacturing companies x 6 years). Environmental performance assessment uses the PROPER report which was officially published by the Ministry of Environment. Assessment of environmental performance through this PROPER by giving a score of the ranking proxied by the number 5-1. Score 5 is Gold, 4 Green, 3 Blue, 2 red, and 1 black. Corporate social responsibility is a comparison between items disclosed and total items disclosure. Financial performance uses a proxy return on asset. Return on assets obtained from a comparison between net profit with total asset.

RESULT

Table 1 shows the descriptive statistical data of each variable. The amount of environmental performance ranged from 2 to 5 which means that the companies that were sampled in this study no one received a black PROPER rating. This is indicated that the environmental performance of manufacturing companies listed on the Indonesia Stock Exchange in 2013-2018 is in the sufficient or blue ranking category. Corporate Social Responsibility in manufacturing companies listed on the Indonesia Stock Exchange in 2013-2018 is in the medium category. This indicates that manufacturing companies are aware of the impact of production waste on the surrounding environment.

Table 2 shows the results of testing the classic assumptions for each variable. Kolmogorov Smirnov value shows a figure of 0,772 with a significance value of 0,305, meaning that the data is normally distributed. Muticollinearity test results showed that all variables had met the multicollinearity criteria with a Tolerance value criterion higher than the default standard value set of 0.10 and the VIF value showed a number lower than 10. Therefore it can be said that all independent variables (environmental performance and CSR) of financial performance meets the requirements, meaning that there is no multicollinearity problem between the independent variables to the dependent variable. Heteroscedasticity test results show a significance value above 5%, it can be interpreted that the influence of independent variables (environmental performance and CSR) on financial performance do not occur heterocedasticity problems. The autocorrelation test results show the Durbin Watson value of 1.879. This means that the independent variables (environmental performance and CSR) on financial performance does not occur autocorrelation problems.

The results of the regression test in Table 3 indicate that the coefficient of environmental performance variable is 4.779 with a significant level of 0.013, and the coefficient of CSR variable is 8.931 with a significant level equal to 0.001. Therefore, environmental performance and CSR have positive effects to financial performance. Thus, the first and second hypothesis are accepted.

DISCUSSION

Environmental performance has a significant positive effect on financial performance. These results indicate that 234 data processed by manufacturing companies have received a blue rating, which means that manufacturing companies have sought environmental management in accordance with the law. Stakeholders or the community feel that the results are in accordance with their expectations, where companies use resources efficiently and implement 3R (Reuse, Reduce, Recycle). The environmental performance of the PROPER rating is able to attract stakeholder interest to invest. The capital intake can be used by companies both for operational and production activities intended to increase profits.

The results of this study are consistent with the findings of Cohen and Robbins (2011); Al-Tuwaijri, et al., (2004); Turcsanyi and Sisaye (2013) find that environmental performance has a positive relationship with financial performance. Manrique and Carmen (2017) show that the adoption of environmental practices significantly and positively affects the corporate financial performance in developed and developing countries. Inconsistent with Qian (2012) show that carbon performance and financial performance are significantly negatively related in public listed companies.

Corporate social responsibility has a significant positive effect on financial performance. This means that the implementation of corporate social responsibility in 234 manufacturing companies is already good. This indicates that manufacturing companies have a concern for the community and the surrounding environment, as well as concern for the quality of the products produced. Corporate awareness can improve the image and good name of the company, which has an impact on customer and stakeholder loyalty that is getting higher and ultimately the company's profitability (financial performance) has increased Al-Tuwaijri, et al., (2004).

Oware and Mallikarjunappa (2019) shows that CSR has a positive association with financial performance. Devie, et al., 2018); Mahrani and Soewarno (2018); Nyeadi, et al., 2018); Salehi, et al., (2018) find that CSR has significantly and positively associated with firm financial performance as proxied by changes in return on assets. Agyemang and Ansong (2017) said that Ghanaian SMEs with improved corporate social responsibility practices are better positioned to achieve enhanced reputation, then improved financial performance. Chtourou and Triki (2017) argue that CSR has a positive impact on the financial performance in the chemical sector. Akisik and Gal, 2017); Feng, et al., (2017); Kabir and Thai (2017); Lee and Jung (2016) find that there is the positive association between the overall CSR activities and firm performance. Lee, et al., (2011) found that companies have better organizational performance than non-CSR award-winning companies. Saleh et al., (2011); Sun (2012) find that there is a significant and positive association between CSR and financial performance. Turcsanyi and Sisaye (2013) said that CSR has a positive effect to financial performance. But, different from the findings Rutledge, et al., (2014); Mukherjee and Nuñez, 2019) said that there is no significant relationship found between GRI reporting and financial performance at an aggregate level. Babalola (2012) argue that CSR has an insignificant negative effect to financial performance.

Corporate Social Responsibility as an intervening variable or intermediary for environmental performance and financial performance reinforces the influence that already exists. Concluded that the mediation relationship is positive and significant, meaning that environmental performance cannot be separated with the existence of corporate social responsibility. This is because one of the implementations of corporate social responsibility disclosed is environmental performance. This corporate social responsibility activity is able to increase the legitimacy of many parties so as to improve the company's positive image which will also affect the company's sustainability in the form of increased sales and increased profits and even an increase in additional capital. Al-Tuwaijri, et al., (2004); Yao, et al., (2011); Qi, et al., (2014) said that there are significant positive effect between environmental performance on financial performance mediated by corporate social responsibility.

CONCLUSION

Environmental performance and corporate social responsibility have a positive and significant effect on financial performance. Thus, this proves that the better the environmental performance and corporate social responsibility activities carried out by the company, the better the company's financial performance. This corporate social responsibility activity is able to mediate influence on environmental performance to financial performance. This indicates that manufacturing companies have a concern for their environment. Limitations of this study (1) there is an assessment that tends to be subjective when conducting a checklist in assessing corporate social responsibility due to language and format differences in the Global Reporting Initiative with annual reports, resulting in differences in understanding and results of corporate social responsibility assessments; (2) not all companies publish sustainability reports, resulting in a significant difference in value between companies that issue sustainability reports and companies that do not publish; (3) low activity or disclosure of corporate social responsibility related to human rights; (4) acquisition of PROPER ranking, some manufacturing companies are still in blue ranking and even in red ranking; and (5) the low ability of independent variables in explaining the dependent variable that is equal to 35%.

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Table 1. Descriptive Statistic

	N	Minimum	Maximum	Mean	Std. Deviation
	234	.214	.7368	.5638	.1085656
EP	234	2	5	3.121	0.596
CSR	234	.17	0.8	.322	.092
FP	234	.8819	1.000	.9412	.034417

Valid N (listwise) 234

Table 2. Resume of Asumption Classic Test

Dependent Variable	Independent Variable	Normality Test		Multicolinearitas Test		Heteroskedasticitas Test		Autocorrelation Test
		K-S	Sig	Tolerance	VIF	t	Sig	D-W
Financial Performance	Environmental Performance	0.772	.305	.984	1.385	0.376	.883	1.879
	CSR			.932	1.675	0.332	.734	

Table 3. Regression between Environmental Performance, Corporate Social Responsibility, and Financial Performance.

Dependent Variable	Independent Variable	B Unstandardized	t	Sig
Financial Performance	Environmental Performance	3.610	4.799	.013
	CSR	7.104	8.931	.001
F hitung	6.677			.000
Adj. R square	,350			

Source: regression output, 2019