Environmental and Financial Performance of Publicly Traded Indonesian Companies

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Abstract. The company not only focuses on achieving maximum profit but also pays attention to its contribution to society and the environment. The issue of environmental preservation has long been a concern of the government, the community and environmental observers, therefore indirectly in its business activities the company will also pay attention to whether it has a responsibility towards environmental sustainability or not. The company's attention to the environment will provide long-term benefits for the company, because if the company is responsible for the community and the environment, then society will give an assessment that the company has carried out its business activities properly. This study aims to analyze the environmental and financial performance of public companies listed in Indonesia during 2018-2022. The research model is quantitative descriptive. Selection of research samples with the purposive sampling method. The research sample is a public company registered in Indonesia that has obtained a PROPER rating for 2018-2022. Companies must not only achieve maximum profit but also pay attention to the impact of their business on society and the environment. The results of the study demonstrate that the financial success of publicly traded firms in Indonesia is unaffected by their environmental performance. Investors ought to be more concerned with the company's sustainability. A company's ability to manage and protect its surrounding society and environment is a key component of sustainability, which extends beyond financial considerations. Corporate environmental responsibility is crucial and will affect how long a firm may remain in operation. It is necessary for the company's financial success to match its environmental performance.

Keywords: Environmental Performance, Financial Performance, Publicly Listed Companies.

1 Introduction

Companies do not only focus on achieving maximum profits but also pay attention to their contribution to society and the environment. Company performance is often associated with the company's concern for the environment.

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Concerning the impact of environmental performance on business financial success, several research have produced conflicting findings (e.g. see Albertini, 2013; Ambec & Lanoie, 2008; Dixon Fowler, Slater, Johnson, Ellstrand, & Romi, 2013; Eva Horváthová, 2010; Nishitani, Kaneko, Fujii, & Komatsu, 2011; M. Orlitzky & Benjamin, 2001). The main argument of studies with positive results is that a company's environmental performance represents innovation and operational efficiency (Aguilera-Caracuel & Ortiz-de-Mandojana, 2013; Porter & van der Linde, 1995), increase the company's competitive advantage (S. L. Hart, 1995; Russo & Fouts, 1997), enhance the reputation of the company's concern for the company and ultimately impact on employee commitment (Dögl & Holtbrügge, 2013), increase the legitimacy of the company (S. L. Hart, 1995), and reflects strong organizational and management capabilities (Aragón-Correa, 1998; Aschehoug, Boks, & Storen, 2012).

Eva Horvathova (2010) found that 55% of the studies show a positive effect, 30% find a negative effect, and 15% find no relationship between environmental performance and company performance. This is also influenced by the external circumstances of the business/business environment. During the global financial crisis, it will have an impact on the sustainability of the company's financial performance.

Cheney dan McMillan (1990) consider that corporate behavior becomes more conservative and defensive during economic contractions. Companies are reluctant to invest in sustainable projects, so that the impact cannot meet stakeholder expectations (Karaibrahimoglu, 2010; Rodriguez, 2013).

A study conducted by Njoroge (2009) corporate social responsibility and sustainability initiatives have been significantly impacted by the financial crisis. These projects could be postponed or abandoned due to the financial crisis. Because he believes that businesses need to take on more social and environmental responsibilities amid the financial crisis, Karaibrahimoglu (2010) refers to this occurrence as a conundrum.

In contrast, Rodriguez (2013) found that corporate, environmental and social values did not decrease during a crisis but did increase slightly. The same results were also found in research by Gallego-Alvarez, Garcia-Sanchez, and de Silva Vieira (2013), that companies that have concern for environmental and social initiatives during an economic crisis are doing better, so companies must continue to invest in sustainable projects. to improve relations with relevant stakeholders and generate superior economic benefits.

Environmental performance is the company's performance in creating a good environment (Suratno in Nuryanti et al, 2015). Environmental performance is the business' performance in the area of the environment as it relates to the effects of its operational operations on the environment. The accomplishments of the companies taking part in the Company Performance Rating Programme in Environmental Management (PROPER), a tool used by the Ministry of the Environment to conduct assessments and rank compliance of companies in carrying out their environmental performance, are used to measure the implementation of environmental performance in Indonesia (Fitriani, 2013). The goals of PROPER implementation are as follows: (1) Improve company environmental management; (2) Increase stakeholder commitment to environmental conservation efforts; (3) Improve sustainable environmental management performance;

and (4) Increase business actors' awareness of the need to abide by environmental laws and regulations.

According to the Ministry of the Environment, there are 5 PROPER indicators: gold (very, very good), green (very excellent), blue (good), red (bad), and black (extremely terrible). The gold grade is granted to companies and/or initiatives that continuously exhibit environmental excellence in their production and/or service processes while also operating in a morally and socially acceptable manner. The green rating is given to companies and/or activities that have implemented an environmental management system and gone above and beyond the requirements of the law in terms of environmental management (beyond compliance), resource usage, and social responsibility. Businesses and/or activities that have made environmental management efforts, which are necessary for compliance with applicable laws and regulations, are granted the blue grade. The red rating is awarded to people who have tried to manage the environment but haven't followed the rules and laws that are outlined in them. Those who knowingly broke applicable rules and regulations, committed acts of negligence that resulted in environmental contamination or damage, and/or did not adhere to administrative consequences are given a black rating for their business and/or activities.

The purpose of this study is to analyze (probe) the connection between Indonesian public firms' financial success from 2018 to 2021 and their environmental performance. Additionally, we assess how the business performed in terms of the environment both before and after the COVID-19 epidemic.

2 Methods

Public enterprises that were registered in Indonesia between 2018 and 2021 make up the study's population. A non-probability selection technique called judgement sampling was used to choose the study item. 22 samples satisfy the requirements for the research variables. Table 1 provides a summary of the sample selection procedure.

Table 1. The Result of Sample Selection Process

Description	The number of observation research
Number of companies listed in IDX join PROPER program over period 2018-2021	60
Companies that do not continuously join PROPER program over 2018-2021	(34)
Companies with incomplete data	(4)
Total samples	22

The type of data used in this study is secondary data, namely information from the firm's annual report that was gathered from the websites of the Indonesian Stock Exchange and the company itself. The Indonesian Ministry of Environment and Forestry's database was used to collect information on environmental performance. The company's environmental performance was employed as an independent variable in this study. While the business's financial success is the dependent variable (Table 2).

Table 2. Proper Ranking Criteria

Ranking	Score	Explanation
Gold	5	Environmental excellent is shown consistently in the production process and/or services, implementing ethical business and responsible to the community
Green	4	Environmental management has conducted more than that is required by the regulation (beyond compliance) through the efforts of the 4Rs (Reduce, Reuse, Recycle and Recovery), and the efforts of social responsibility (CSR / ComDev)
Blue	3	Environmental management has made efforts required in accordance with the provisions or regulations
Red	2	There is environmental management efforts, but only partially achieve the appropriate results with the requirements stipulated in legislation
Black	1	There is no environmental management effort, intentionally no attempt of environmental management as required, as well as the potential to pollute environment

Source: Environment Minister Regulation No. 5 Year 2011 about Performance Rating Program Ranking in Environmental Management

The ability of the capital invested in all assets to produce profits is demonstrated by measuring firm performance using ROA. The ratio of net profit to tax, or ROA, is a way to gauge how much a firm is getting back on its investment in its assets.

3 Results and Discussion

3.1 Results

This study aims to examine the effect of environmental performance on company financial performance. Table 3 shows the descriptive statistics of the sample firms.

Table 3. Descriptive Statistics

Variables & Data	N	Min.	Max.	Mean	Standard Deviation
Environmental Performance	88	2	4	3.11	0.491
Financial Performance	88	0.00	4.34	0.3072	0.83582

The lowest, maximum, mean, and standard deviation of each dependent and independent variable in this study were displayed in Table 3 as a result of descriptive statistics. Environmental Performance, an independent variable, ranges in value from 2 to 4. Environmental Performance from the sample firms has an average value of 3.11 and a standard deviation of 0.491.

The range of the dependent variable, Financial Performance, is 0.00 to 4.34. Financial Performance from the sample firms has an average value of 0.3072 and a standard deviation of 0.83582. Table 4 shows that the corrected R^2 value is 0.152. Therefore, the variables affecting environmental performance have an impact on 15.2% of financial performance. Otherwise, factors outside the scope of this study will influence the remaining 84.8%.

Table 4. The Result of Regression Test

Variables	Coefficient	t-value	Significance	F value	Adjusted R^2
Constant (a)	3.124	50.414	0.000	0.365	0.152
Environmental Performance	-0.042	-0.604	0.548		

The regression model may be described as follows based on the coefficient value of the regression analysis test in Table 4.

FP= β0 + β1EP + e

FP= 3.124 – 0.042 EP

The preceding conclusion demonstrates that, using the constant value (a), if Environmental Performance is equal to 0, Financial Performance will be anticipated to be equal to 3.124. The coefficient value of Environmental Performance (EP) = -0.0427 indicates that if EP increases one item, Financial Performance will fall by 0.042. According to the results of the hypothesis test, the significant probability value for EP is 0.548 (higher than = 0.05). This indicates that Environmental Performance has a negative, substantial impact on Corporate Financial Performance, the dependent variable. This disproves the hypothesis that environmental performance has a positive substantial influence on financial performance.

3.2 Discussion

Today's society is becoming more and more concerned about environmental concerns. It is backed by the idea of environmental accounting, which has been developing in Europe since the 1970s (Almilia and Wijayanto, 2007). The Performance Rating Programme in Environmental Management (PROPER) was created by the Indonesian Government through the Ministry of Environment and has been used since 1995 in the area of environmental impact management to enhance the involvement of the enterprise in environmental conservation programmes. The company's environmental management transparency is anticipated to be realised via PROPER, which will serve as a reputation award. The PROPER team analyses the company's environmental conservation efforts objectively on an annual basis to receive an unbiased assessment.

The public routinely receives updates on PROPER results. As a result, the reputation of the evaluated firms will determine whether they get incentives or penalties for their degree of compliance. The firm that receives PROPER rating often notes that accomplishment in its annual report, and the same is true for other environmental honours. This is an element of the business's plan to establish credibility with the public. A company's reputation should improve and investors should get interested in it. As is well known, many people share the opinion that contemporary enterprises have a duty to society that goes beyond their owners or investors.

According to the hypothesis, Financial Performance would benefit from Environmental Performance. According to the outcome of the linear regression test, the relationship between the environmental performance variable and the dependent variable, financial performance, is not statistically significant. From the results of the linear regression test, it can be concluded that corporate financial performance and environmental performance are negatively correlated. This conclusion runs counter to the legitimacy theory now in use, which holds that strong environmental performance is not a reliable predictor of strong financial performance. According to the legitimacy principle, a business with strong environmental performance ought to benefit the community in which it operates as well as its shareholders.

Public opinion and society in emerging nations, like Indonesia, have not yet given consideration to the value of green products or green businesses. Environmental preservation is still not well known. The corporation itself will incur some additional costs as a result of the funding being allocated for environmental conservation. The company's earnings will naturally decrease as a result. The decision-making of investors will then be impacted by the company's decreased earnings.

4 Conclusion

The results of the study demonstrate that Indonesian publicly traded firms' environmental performance has no impact on their financial success. Investors ought to give the company's sustainability greater thought. The sustainability component of a business involves managing and preserving its surrounding society and environment as well as its financial viability.

To ensure that PROPER is not just a reputation-building scheme, the government should show greater boldness in promoting its true goals. The results of this study show that investors did not take into account the PROPER rating that the firm had obtained. This led to the lack of a strong correlation between an organization's financial performance and environmental performance. Corporate environmental responsibility is crucial and will affect how long a firm may remain in operation. The company's environmental performance must be equal to or better than its financial performance.

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