Does Environmental Initiatives Can Improve Financial Performance?

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Abstract. The study aims to examine environmental initiatives on financial performance. Financial performance used in this study is accounting based. Financial performance is proxied by Return On Assets. Environmental Initiatives are measured through the disclosure of the GRI 3.1 standard, environmental disclosure as an indicator. The sample used is 30 companies listed on the Indonesia Stock Exchange for the period 2018–2021, using purposive sampling method. The sample was then analyzed using multiple regression analysis. The results of this analysis indicate that environmental initiatives have a positive significant effect on financial performance.

Keywords: Environmental Initiatives · Financial Performance · GRI 3.1

1 Introduction

A agency does no longer handiest perform for the advantage of shareholders, but additionally inside the shape of interest to interested events (stakeholders) in enterprise practices via the implementation of corporate Social obligation (CSR). CSR activities are based totally on legitimacy idea which states that a organization will keep to perform if it complies with the policies and norms that observe to the social or environmental surroundings the organization operates, wherein the employer tries to make sure that the corporation's running sports are universal "legitimately". CSR disclosures receive more attention from regulators, capital market players, the public and the media. Public companies in Indonesia are now starting to implement CSR, of course with various different initiatives that are emphasized. In Indonesia, the implementation of CSR is regulated in UU PT. Forty of 2007 and law no. 25 of 2007 concerning funding numerous years in advance, specifically in 2010 nearly all groups, particularly PTs, disclosed CSR reviews inside the annual record, that is proof that the enterprise is chargeable for the hobbies of stakeholders according with the triple backside line concept, specifically people, planet and earnings. The motivation of the management of environmentally responsible companies may not pursue financial reporting for their own interests because it will endanger the company's reputation and heighten litigation.

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The implementation of CSR can improve the agency's overall performance thru popularity and development in opposition. Studies on the influence of CSR on corporation overall performance has grown widely. However, there are inconsistent results from the studies that has been finished. Based totally on studies [1], with a pattern of companies indexed at the Malaysian inventory alternate inside the duration 1999–2005, there are effects of research on CSR implementation having a significant positive impact on monetary performance, even as studies [2] With a pattern of manufacturing and creation groups indexed at the Nairobi stock trade in 2007–2011, the effects of empirical evidence from this research are that CSR has no effect on the enterprise's monetary overall performance.

The purpose of this study was to determine whether the existence of environmental initiatives can affect financial performance. Environmental initiatives in this study were measured through the GRI index on the environmental component. Previous research [1, 10] only focuses on the effect of the overall components of CSR (Corporate Social Responsibility) activities on financial performance, however, research is still rare that focuses on one component of CSR, namely environmental initiatives.

The authors limit the research to the environmental component within the scope of CSR by examining how environmental initiatives are related to firm performance. Environmental initiatives are one component of the concept of social responsibility in companies that receive more supervision from stakeholders and the government [11]. The measurement used in the calculation of environmental initiatives uses the 2006 GRI index. The type of industry that is taken in this study is a company related to nature because companies related to nature are predicted to strengthen the influence between the independent and dependent variables in the study. The type of industry in this study consists of the agricultural and mining sectors. The years 2018 and 2021 were chosen because in the year the need for transparency of information regarding corporate environmental initiatives.

2 Review Literature

2.1 Stakeholder Theory

Freeman (1984) concluded that the actual goal of the organisation is to align stakeholder wishes, as it impacts the selections that the organisation makes. Grey et al. (1995) stated that the organization's resilience depends on the aid of stakeholders and that help should be sought so that corporations have to search for ways the way to get that assist. The more potent the stakeholders, the more potent the agency tries to evolve. Stakeholder principle is very vital on this study due to the fact stakeholder idea relates to a collection of people who have an hobby within the enterprise; those stakeholders might be stimulated and affected by the organization's sports, together with duty through management to stakeholders inside the shape of CSR activities and the organization's economic overall performance.

2.2 Environmental Initiatives

The environment is an important element for the company's progress (Litt et al., 2014). The company's success in managing the environment will affect the company's survival in the future. Environmental Initiatives are part of CSR disclosure (Litt et al., 2014) [11]. Some of the things that are disclosed in environmental initiatives include the company's activities in managing the environment in which the company operates.

2.3 Company Performance

Company performance is the achievement or work achieved by a company for a certain period of time. Company performance can be assessed using financial (financial) and non-financial measures. In classical economic theory, company performance is generally measured by the company's ability to maximize shareholder value. However, along with competitive business competition, the orientation of creating prosperity only for shareholders is considered not the only focus of the company to survive (Ismail, 2016). The company's dependence on many parties (stakeholders) in running its business requires the company to give fair attention to all its stakeholders.

2.4 Hypothesis Development

2.4.1 Effect of Environmental Initiatives on Company Performance

IEnvironmental initiatives are a component of the company's CSR disclosures. The GRI (Global Reporting Initiative) guidelines mention three indicators in CSR disclosure. The three indicators include economic performance indicators, environmental performance indicators and social performance indicators. This study examines environmental performance indicators. Litt et al. (2014) [11], in their research, stated that the number of CSR indices measured could cover the effect on other variables. So, the research only examines environmental indicators on company performance. Saleh et al. (2011) [9], with a sample of companies listed on the Malaysia Stock Exchange in the period 1999–2005, there are results of research on CSR implementation having a significant positive effect on financial performance, so the research hypothesis is:

H1: Environmental Initiatives have a positive effect on company performance

3 Research Methodology

The types of data in this study are documentary data, namely financial report data, notes to financial statements, and annual reports of companies listed on the Indonesia Stock Exchange (IDX) other than banking and finance from 2010 to 2014 (Table 1).

3.1 Variable Operations

The dependent variable used in this study is accrual earnings management and real earnings management. For the dependent variable, the environmental initiative variable is used.

Table 1 Descriptioni Research Object

Company	Total
companies related to nature listed on the Indonesia Stock Exchange in 2019–2021	24
Pedelisted companies in 2018–2021	4
Pecompanies that do not issue financial statements in units of Rupiah	2
Companies that do not issue CSR financial reports	2
company loss	**6**
Companies in the sample 2018–2021	**30**

Source: Secondary data, 2020

The first dependent variable used in this research is company performance measuring financial performance using the Return On Asset proxy, namely:

$$ROA = \frac{\mathrm{L}}{TA}$$

ROA = Return On Assets
L= Profit
TA= Total Assets

This study, the environmental initiative variable will be measured using the GRI index. Research conducted by Barri Litt (2014) uses information from the Kinder Lynderburg and Domini (KLD) database, while in this study uses information from the Global Reporting Initiative (GRI) database.

$$\frac{\text{Total Value}}{\text{Number of environmental initiative items on GRI}}$$

4 Analysis and Discussion

4.1 Hypothesis Testing of the First Equation Model

Based on the calculation results above, it can be interpreted that the environmental initiative variable (ENV) has a positive coefficient of 0.000 with a significance level of 7.532 (Table 2).

4.2 Discussion

4.2.1 Impact of Environmental Initiatives on Financial Performance

Testing the hypothesis of this study is to test whether environmental initiatives as measured by the comparison of the number of environmental initiatives reported in the financial statements with the standards set by GRI (ENV). Based on the results of testing hypothesis, it produces a coefficient value of 1 of 1.160 with a significance of 0.000

Table 2 Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,341	,064		-5,342	,000
	IL	1.160	,154	,818	7.532	,000

[a]Dependent Variable: KK
Source: processed secondary data (2016)

($p < 0.05$). Because the p value is below 0.05, the hypothesis has a significant positive effect. This shows that environmental initiatives have a positive effect on financial performance. This significant result is similar to this study by Saleh et al. (2011) which states that there is an influence of CSR on financial performance.

5 Conclusions, Limitations and Suggestions

5.1 Conclusion

This study discusses a model that examines the effect of environmental initiatives on the financial performance of nature-related companies listed on the Indonesia Stock Exchange (IDX) through a comparison proxy between the environmental index reported by the company and the total index through the Global Reporting Index (GRI) standard. The following conclusions can be drawn from the results of this study Environmental initiatives have a positive effect on financial performance. This result shows that the environmental initiatives carried out by the company which are reflected in their disclosures in the annual report affect the company's performance. This could be due to the lack of disclosure indicators presented in the company's CSR financial statements.

5.2 Limitations

From the results of this study, the researcher realizes that there are still many limitations in this study, including:

1. This study does not consider the occurrence of other events that have economic consequences.This study does not consider the occurrence of other events that have economic consequences.
2. This sample size is small compared to previous studies because it is limited to companies related to nature listed on the Indonesia Stock Exchange.This sample size is small compared to previous studies because it is limited to companies related to nature listed on the Indonesia Stock Exchange.
3. The sample of companies that are used as objects of research are only two categories in manufacturing companies, namely agricultural and mining companies, so they cannot cover all findings for all public companies.
4. The research period is short, namely 2018-2021

5.3 Suggestion

Based on the results of the research that has been carried out, with all humility the researcher intends to provide suggestions that can be input for all parties, including:

a. For regulators, it is hoped that this research will serve as a warning signal for policy makers to supervise companies more in terms of financial reporting.
b. For companies, it is expected to increase the availability of information in order to further improve financial reporting, not limited to financial performance reports that look good but reporting on environmental initiatives to be improved.
c. For investors and creditors, it is hoped that they will not only focus on financial information, investors and creditors need to pay attention to non-financial information, namely the implementation of environmental initiatives in companies on CSR reporting in decision making. For further researchers, it is hoped that: Consider events that have economic consequences, such as in times of economic downturn or growth; The sample is not limited to the manufacturing industry in agriculture and mining but in other sectors such as the basic chemical industry listed on the Indonesia Stock Exchange (IDX); Extending the research period so that the research results can be tested for consistency and generalization.

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