

# Effect of Environmental Performance and Environmental Costs on Financial Performance with CSR Disclosure as Intervening Variables

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## Abstract

*This research is a conceptual paper that aims to determine the effect of researchers will examine the effect of Environmental Performance and Environmental Costs on Financial Performance with CSR as an Intervening variable on mining companies listed on the Exchange Indonesian Securities and participated in the 2015-2018 PROPER. This research is expected to be used as a material consideration in making policies concerning environmental performance and as a tool to measure financial performance for the progress of the company. In addition to being taken into consideration, researchers hope that this research can be used to help in making investment decisions in the company as an evaluation material.*

**Keywords:** environmental performance, environmental costs, CSR and financial performance.

## Introduction

One way to assess the performance of a company is by looking at the company's financial performance. The achievement of the company's activities is illustrated by the profits generated. This is in agreement with Pujiasih (2013), namely the ability of a company to generate profits is the main thing in evaluating the company's financial performance. The use of earnings as a parameter in measuring financial performance is based on the fact that profits are needed by the company for the survival of the company (Jayati, 2012). The ever-increasing rate of profit reaching maximum profit is a good indicator of a company's financial performance. Wijadjaja (1996) said that companies with good financial performance will be able to continue to live and survive. Companies with poor performance will experience shaking and will die slowly. Therefore, companies are competing to create a perfect financial performance. The company's financial performance can be measured from periodic financial statements that provide an overview of the company's financial position (Sudaryanto, 2011). The principle of profit maximization in achieving good financial performance now has an impact that is not necessarily good for the community. The impact of the company's activities is the emergence of environmental damage, global warming, damage to the ecosystem, increased waste increases both air and soil pollution. According to McWilliams and Siegel (2001) in Fitriani (2013), *corporate sustainability* will be guaranteed if the company pays attention to social and environmental dimensions. Corporate responsibility is not only on the *single bottom line*, the *corporate value* reflected in financial aspects, but must be *triple bottom lines*, namely financial, social and environmental aspects. Financial condition is not enough to guarantee the value of the company grow sustainably (*sustainable*), but also must pay attention to social and environmental dimensions to avoid

resistance from the local community (Untung, 2008). Also, the community is now aware of the social impact of companies that want to achieve maximum profit, so the community demands that companies pay attention to and overcome the social impacts caused (Rahmawati, 2012). This is by the Government Regulation of the Republic of Indonesia Number 47 of 2012 concerning the Social and Environmental Responsibility of Limited Liability Companies. This social responsibility is often called *Corporate Social Responsibility*. *CSR* according to Susanto (2009) is as a corporate responsibility both inward-directed to shareholders and friends in the form of profitability and company progress, as well as outward responsibilities associated as taxpayers and employment providers, increasing the welfare and competence of the community and preserve the environment for future generations. Thus, the company can benefit not only its business but also benefit other parties. Companies need to do *CSR Disclosure* in their annual report. So that it can increase attractiveness *stakeholder* and consumer loyalty will continue to increase. *CSR Disclosure* contains all activities related to the company's social and environment. This can be used as a promotional event for the company so that environmental performance, environmental costs, and the company's financial performance are viewed well by *stakeholders*. This is believed to give an *image of good* the company and the impact on selling increasing and can guarantee the sustainability (*Sustainability*) company.

## Issues

One important aspect of social performance as a reflection of social responsibility is the company's environmental performance. Environmental Performance is a mechanism for companies to voluntarily integrate environmental concerns into their operations and interactions with *stakeholders*, which exceeds organizational responsibility in the legal field. Minister of the Environment, Siti Nurbaya said that the level of company compliance with the environment in 2016-2017 reached 92%, up 7% from last year's achievement. From that assessment, 19 companies received gold ratings, 150 companies ranked green, 1,486 ratings in blue, 130 ratings in red and 1 company ranked in black (bisnis.com). This indicates that 130 companies have not yet carried out environmental management in accordance with the requirements, in addition, there is also 1 company that intentionally or neglected to carry out operations that cause environmental damage, so that regulations are still needed, improvement of human resources and improvement of facilities environmental management to support companies that are still in the red and black ranks to be better in managing the environment. The efforts of the regulatory authorities to preserve and develop harmonious, harmonious and balanced environmental capabilities have been carried out by stipulating Law of the Republic of Indonesia Number 32 2009 concerning Environmental Protection and Management (UUPPLH) is a systematic and integrated effort undertaken to preserve environmental functions and prevent environmental pollution and/or damage which includes pollution, utilization, control e, supervision, and law enforcement. The government through the Ministry of Environment has even established a program called PROPER as a form of environmental compliance for companies in Indonesia. This is done in terms of assessing the company's environmental performance and spurring so that the company is getting better at trying to care for the environment. Good response to the PROPER program as an assessment of the company's environmental performance continues to increase ([www.mnlh.go.id](http://www.mnlh.go.id))

## Literature Review

### Legitimacy Theory

the theory is a theory that assumes that companies are constantly trying to ensure that the operations they run are under the rules and existing social norms (Deegan, 2004). *Legitimacy theory* is essentially a system-oriented theory, in this case, an organization or company is seen as one component of a larger social environment. The legitimacy theory states that organizations operate based on a value system that is commensurate with the value system owned by the community (Zaenuddin, 2007). Legitimacy theory is a strategic factor for companies to develop the company going forward. It can be used as a vehicle to construct a corporate strategy, especially about efforts to position themselves in the midst of increasingly advanced community environments. Thus, legitimacy is a potential benefit or resource for a company to survive (*going concern*). This definition implies that legitimacy is a company management system oriented towards alignment with the community (society), the Government, individuals, and community groups.

### Stakeholder Theory

theory *stakeholder* states that the company has a social responsibility that requires them to consider the interests of all parties affected by their actions. This theory emphasizes to consider the interests, needs, and influence of parties related to company policies and operations, especially in corporate decision making. The company needs to maintain legitimacy *stakeholders* and put it within the framework of policy and decision making so that it can support the achievement of company goals, namely business and guarantee *going concern* Adam's(in Hadi, 2011).

### Financial Performance

Understanding financial performance is a picture of the achievement of the implementation/program/policy in realizing the goals, objectives, mission, and vision of an organization (Bastian, 2006). According to Fahmi, (2012) financial performance is an analysis tool that is carried out to see the extent to which the company has implemented the rules of financial implementation properly and correctly, such as by making a financial report that has met the standards in SAK (Financial Accounting Standards) or GAAP (*General Accepted Accounting Principle*).

### Environmental Performance Environmental

Performance is the company's performance in creating a good environment *green* (Suratno, 2008). In Indonesia, the application of corporate environmental performance is facilitated by the existence of a Company Work Rating Rating Program in Environmental Management (PROPER). PROPER is an instrument used by the Ministry of Environment to assess and rank company compliance in carrying out its environmental performance. The awareness of the company that determines good environmental performance is a manifestation of the company's accountability to the community and the environment.

### Environmental Costs Environmental

Costs are costs incurred by companies related to environmental damage caused and protection carried out (Susenohaji, 2003). *The environmental cost* is the cost of *corporate social responsibility disclosure activities*. The environmental costs to companies can be seen in the allocation of funds for environmental development programs. According to Shohilin, 2004 environmental costs are costs incurred due to the presence or possibility of poor environmental quality.

### **Effect of Environmental Performance on Financial Performance**

Disclosure of environmental performance is very important for companies to demonstrate their existence and participation in handling environmental problems. The company needs to show its existence and participation in handling environmental problems as a form of morally responsible corporate responsibility to the environment in which the company operates by the stated legislation theory. Djuitaningsih and Ristiawati (2011), stated that environmental performance has a positive and significant effect on financial performance because companies with good environmental performance will also get a good response from *stakeholders* and have an impact on increasing corporate income in the long run. Adhima (2011) also states the same thing that *Environmental performance disclosure* has a positive influence on a company's financial performance.

**Ha<sub>1</sub>**: Environmental Performance positive effect on Financial Performance.

### **Effect of Environmental Costs on Financial Performance**

These environmental costs can be seen through the allocation of environmental development program funds in the company's financial statements and annual reports (Camelia, 2016). According to the research of Al Sharairi (2005), environmental costs have a positive effect on competitive advantage because the environmental costs incurred by companies can increase the company's reputation that has a positive effect on competitive advantage. This study is in line with Septiadi (2016) who found that environmental costs have a positive and significant effect on the company's financial performance.

**Ha<sub>2</sub>**: Environmental costs have a positive effect on financial performance.

### **The influence of CSR Disclosure on Financial Performance**

Angela (2015) revealed that by implementing CSR, the company's image will be better so that the loyalty of consumers and *stakeholders* is higher. As consumer and loyalty increase *stakeholders* for a long time, company sales will improve, and ultimately with the implementation of CSR, it is expected that the level of profitability of the company will also increase (Satyo, 2005 in Rahmawati, 2012). According to Suryani's research (2012), Rahmawati (2012), and Octavia (2014) showed that the influence of CSR Disclosure on financial performance was stated to be significant

**Ha<sub>3</sub>**: *CSR Disclosure* had a positive effect on Financial Performance.

**Effect of Environmental Performance on Financial Performance with CSR Disclosure as an Intervening Variable.**

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 investors or public trust can be increased in the company. In the end, the company can get additional capital and increase sales which result in increased *profits*. Thus, *Corporate Social Responsibility* can mediate the relationship between environmental performance and financial performance. Rakhimah & Agustia (2009), Suryani (2012), Rahmawati (2012), and Pujiasih (2013) in their research stated that environmental performance and variables *CSR disclosure* together had a significant positive effect on financial performance.

**Ha4:** Environmental Performance has a positive effect on Financial Performance with *CSR Disclosures* an Intervening Variable

**Effect of Environmental Costs on Financial Performance with CSR Disclosure as an Intervening Variable.**

Companies that budget environmental costs show their seriousness in environmental management concerns. Whether it's the costs to prevent environmental pollution or the costs to overcome environmental pollution due to company production activities. In addition to showing the seriousness of the company in managing the environment, the company's budgeted environmental costs support the implementation of *Corporate Social Responsibility*. A high budget *environmental cost* is expected to support CSR, thus giving investors a good view of the *sustainability* company's (Tunggal & Fachrurrozie, 2014).

**Ha5:** Environmental Costs have a positive effect on Financial Performance with *CSR Disclosures* an Intervening Variable

**Discussion**

Company financial performance can be measured from periodic financial statements that provide an overview of the company's financial position (sudaryanto, 2011). Principle of profit maximization in achieving performance good finance now has an impact that is not necessarily good for the community. The impact of the company's activities is the emergence of environmental damage, global warming, damage to the ecosystem, increased waste increases both air and soil pollution. One factor that is consistently related to environmental performance and environmental costs to financial performance is *CSR Disclosure*. This is due to environmental performance and environmental costs are support for *CSR Disclosure*. If the environmental performance disclosed by the Ministry of Environment is good, then *CSR Disclosure* can be confirmed to be good. So this supports the relationship of environmental performance to financial performance.

## Conclusion

This study is a conceptual study that discusses Environmental Performance and Environmental Costs of Financial Performance with CSR as an Intervening variable on mining companies listed on the Indonesia Stock Exchange and participating in the 2015-2018 PROPER. The results of this study are expected to be used as a material consideration in making policies regarding environmental performance and as a tool to measure financial performance for the progress of the company. Then with this research, it is expected that the company can pay attention to the environment and society around the company, so the focus of the company is not only profit-oriented. And for Investors, the results of the research can be used to assist in making investment decisions in the company as an evaluation material.

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