

Analysis of Economic Performance of Manufacturing Companies in Indonesia

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Abstract

This research aimed to analyze the influence of Environmental Performance, Profit Margin, and Environmental Disclosure on the Economic Performance partially, and the influence of the Environmental Performance on Economic Performance through the Environmental Disclosure as an intervening variable. The research sample included the manufacturing companies that listed in Indonesia Stock Exchange in 2012-2014 and joined the PROPER program by the Ministry of the Environment (MOE), which were composed of 39 companies from the total 141 companies. This research used secondary data from the annual reports of each company obtained from the website of the Stock Exchange (www.idx.co.id) and PROPER report by KLH (www.menlh.go.id). Hypothesis testing in this study used path analysis, t test, and Sobel test. The results of this research indicated that the Environmental Performance and Profit Margin partially has significant influence on the Economic Performance, while the Environmental Disclosure does not have a significant influence toward the Economic Performance, and Environmental Performance has no significant influence on the Economic Performance through the Environmental Disclosure as an intervening variable.

Keywords: Economic Performance; Environmental Performance; Profit Margin; Environmental Disclosure; PROPER

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INTRODUCTION

A company is regarded as an organization that is able to provide substantial benefits to the parties involved and the social community. This makes the company has the power to move freely in running its business. In economic terms, the main objective of the company is to obtain profit as optimal as possible. However, this has resulted in adverse impacts on the environment and surrounding communities. Many companies seek only benefits without providing the ways how to manage the negative impacts arising from their business activities. Over time, people are getting aware of the social impacts the companies have on their operations to achieve maximum profit. Therefore, it is required a good planning system that can predict a company's economic performance.

The company's economic performance is a relative corporate performance in a similar

industrial group marked by its annual return (Almilia & Wijayanto, 2007). Good economic performance can describe the success of a company. One way to measure the economic performance is to conduct an analysis of the corporate financial conditions as reflected in its financial ratios.

Nowadays, the companies are required not only to focus on profit side, but they should also look at non-financial terms (additional information). As Al-Tuwaijri, Christensen & Hughes (2004) noted that investors are interested in additional information reported in the annual report. Unlike the social, political, and economic impacts that directly affect the company, the environmental ones have no direct influence on the company. Especially for the companies that deal directly with surrounding nature, more environmental performance is required than those that are not directly related to surrounding environment (Cho & Patten, 2007; Gery Djajadikerta & Trireksani, 2012; Semenova & Hassel, 2016).

We can take a look at the case of PT. Semen Indonesia whose plant construction was strongly protested by the people of Rembang Regency who considered that the the construction would threaten the environment and the life of farmers in Rembang. Finally, the Supreme Court (MA) granted the petition for judicial review (PK) proposed by the farmers with the decision to revoke the permit for the construction of the cement plant issued by the Governor of Central Java (Saputra, 2016). The purpose of environmental accounting is to increase the amount of relevant information created for those who need or use it (Belal & Owen, 2015; Mahoney, 2012; Mahoney, Thorne, Cecil, & LaGore, 2013; Cho, Michelon, Patten, & Roberts, 2015; Michelon, Pilonato, & Ricceri, 2015; Patten, 1992).

This study aims to find the influence of environmental performance, profit margin, and environmental disclosure toward the economic performance, and the influence of environmental performance on the economic performance with environmental disclosure as the intervening variable. The researcher is motivated to conduct a re-research related to the influence of Environmental Performance on the Economic Performance, because the results of previous studies have not yet given conclusive results. Some previous research results show that Environmental Performance has positive effect on the Economic Performance with low coefficient value, and even many studies have found that the Environmental Performance has no effect on the Economic Performance. Some theories that support this research are legitimacy, stakeholder, and signaling theories.

Verrecchia (1983) and Suratno, Darsono, & Mutmainah (2007) stated that good environmentalists believed that disclosing the performance illustrates good news for market participants. Therefore, the companies with good environmental performance need to disclose more quantity and quality of environmental information than those with poor environmental performance. The environmental performance management aims to meet all environmental laws and requirements completely and thoroughly. These activities are expected to reduce the negative impacts to achieve the quality standards required by the relevant regulations. The environmental performance management is also an effort in preventing environmental pollution that is managed by applying "Green Industry" policies. The objective is to direct the impacts on the environmental aspects to "Zero Impact" (minimal impact).

As Rohmah & Wahyudin (2015) and Fitriyani (2012) argued that the companies that have good news will be able to increase their performance disclosure in the annual report. The good news is expected to be responded positively by the investors who will have positive impacts on the financial performance, because the better the environmental performance of a company, then the better also its financial performance. The first hypothesis proposed is:

H₁: The Environmental Performance significantly influences the Economic Performance.

The company that has high profit margin indicate that it has a good economic performance. Those having good economic performance will get positive responses from capital market players. This is in accordance with stakeholder theory which states that the stakeholders are entitled to obtain information related to the corporate activities that can be used as an important

consideration in decision making process. Those having high profit margins indicate that they are able to obtain high profit. The investors will respond this as a positive signal and be interested in investing in the companies that are able to generate high profits. The results of Al-Tuwaijri et al., (2004); and Almilia & Wijayanto (2007) stated that profit margin has a positive effect on the economic performance. The second hypothesis proposed is:

H₂: Profit Margin significantly influences the value of the company

Based on the environmental disclosure, one which assessed as a high-risk environmental company is that whose production processes directly utilize natural resources. The companies with high environmental disclosures in their financial statements will be more reliable, and these reliable financial statements will positively affect their economic performance, where the investors will respond it positively with higher fluctuations in stock prices, but if the environmental disclosure is low, the investors will respond it negatively with declining stock prices from year to year.

Suratno et al. (2007) found a positive and significant correlation between environmental disclosure toward the economic performance calculated from the stock return minus industrila median return, so that stock return can be used to measure the economic performance. These results are supported by Almilia & Wijayanto (2007) who also found significant environmental disclosure effect on the economic performance. Similarly, the results of research from Rohmah & Wahyudin (2015) also stated there is a positive and significant relationship between the environmental disclosure and the economic performance. The third hypothesis proposed is:

H₃: Environmental Disclosure significantly influences the Economic Performance

The environmental performance will affect the environmental disclosure. The greater the role of the company in the environmental activities, the greater their environmental disclosure stated in the financial statements. By improving the environmental performance, it will be a good news for the company. With the good environmental performance stated in the annual report, it will attract more investors, because the investors will surely see how the performance of the company where they will invest or in deciding cooperation with the company. Rohmah & Wahyudin (2015); Suratno et al., (2007); and Handayani, (2010), found significant influence between the environmental performance and the environmental disclosure. The fourth hypothesis proposed is:

H₄: Environmental Performance significantly influences Environmental Disclosure

The company with high environmental disclosures in its financial statements will be more reliable, and this reliable financial statements will positively affect the economic performance, where the investors will respond positively resulted in higher fluctuations of stock prices, but, if the environmental disclosure is low, the investors will respond it negatively with declining stock prices from year to year. The more disclosures made by the company, it will be more attractive for the investors, so that it will get better position in the eyes of investors and increase its stock prices. Furthermore, the increase of the stock price can serve as a benchmark for improving the corporate economic performance. Basically, a good environmental performance will encourage the company to disclose its environmental performance (environmental disclosure). The fifth hypothesis proposed is:

H₅: Environmental Performance significantly influences Economic Performance with the Environmental Disclosure as an intervening variabel

METHODS

The population in this study was the manufacturing companies listed on the Indonesia Stock Exchange between 2012-2014 with the total number of 141 companies. The sample selection was done using purposive sampling method. The sample criteria were: (1) the manufacturing companies listed on the Indonesia Stock Exchange and published annual report in 2012-2014, and (2) the manufacturing companies following the PROPER program from the Ministry of

Environment from 2012-2014. These two criteria resulted in a sample of 39 companies with a total of 117 analysis units. The data collection techniques used secondary data, while the data analysis technique used was path analysis using IBM SPSS 21 software.

$$\text{ROA} = \frac{\text{Net Income After Tax}}{\text{Total Asset}}$$

Economic Performance(Y)

The economic performance was the corporate management performance (in this case, financial management), which was marked by its annual return. This research used return on asset (ROA) method to measure the economic performance variable. ROA was used because it was the expected rate of return on assets that could represent the economic performance of a company. In a study conducted by Rohmah & Wahyudin (2015), ROA was formulated as follows:

Environmental Performance (X₁)

The corporate Environmental Performance was measured by the corporate achievement in following the PROPER program. The assessment of its structuring performance, according to PROPER, was divided into five rating colors: gold, green, blue, red, and black (Syahadah, 2017). PROPER’s performance ranking system included a five-color corporate rating with seven consecutive scoring categories.

Profit Margin(X₂)

Profit Margin was the ratio of net income toward net sales to disclose the profitability and competitive market presence. The profit margin ratio showed the company’s ability to generate profits from each particular sales level. The profit margin formula was as follows:

$$\text{Profit Margin} = \frac{\text{net income after tax}}{\text{net sales}} \times 100\%$$

(Tristianasari, 2014)

Environmental Disclosure(X₃)

The intervening variable in this research was the environmental disclosure which was also an independent one. The environmental disclosure was measured using 9 items of disclosure which referred to Handayani (2010). The assessment was seen from the presence or absence of each item of disclosure. The lowest score was 0 for the companies that did not perform the disclosure, while 9 was for those who disclosed all disclosure items.

RESULTS AND DISCUSSIONS

The descriptive statistical studies provide descriptions of data that can be seen from the mean, standard deviation, variant, maximum, minimum, sum, range, kurtosis, and skewness (Ghazali, 2013). The analysis of this data experiences problems, so that there should be any detections to the data outlier in order to produce a model that is free from any problems. The detection is done by determining the boundary value that is categorized as the outlier data by converting the data value into standardized score (z-score) (Ghazali, 2013). After the detection, the result of the outlier data is 23 analysis units. Therefore, in this study, the number of samples used are 94 analysis units.

Table 1 explains that the economic performance as a dependent variable has a minimum value of -6.57 and the maximum one of 21.43. The mean value of the economic performance is 4.6344, meaning that some companies have low return on assets because they have lower ROA value than the average value with standard deviation 5.95788.

Table 1. descriptions of research Variables

	N	Min	Max	Mean	Std. Dev
Economic Performance(Y)	94	-6,57	21,43	4,6344	5,95788
Environmental Performance (X ₁)	94	2,00	5,00	3,0851	0,63347
Profit Margin (X ₂)	94	-11,46	27,55	4,4061	5,74448
Environmental Disclosure (X ₃)	94	1,00	9,00	4,6489	1,41958
Valid N (listwise)	94				

Source: Analysis of Research Data (2016)

Based on Table 1, the minimum value of the environmental performance is 2, classified as red PROPER, and the maximum value of 5, categorized as gold PROPER. The mean of environmental performance is 3.0851, which means that the companies listed in the Ministry of the Environment in 2012-2014 have good environmental performance because most of them get blue PROPER rating with the standard deviation of 0.63347.

The statistical result of table 1 shows that the profit margin has a minimum value of -11.46 and the maximum one of 27.55. The mean of the profit margin is 4.4061. With the standard deviation of 5.74448, it means some companies do not perform well in obtaining profits from certain particular sales level.

The statistical result of table 1 shows that the environmental disclosure has a standard deviation of 1.41958, and the minimum value is 1, meaning that the company that performs only one disclosure about the environment, and the maximum value of 9 which means the company performs all disclosures in accordance with the required disclosure items. Most of the sampled companies in this study have done good environmental performance. This can be seen from the average environmental disclosure variable of 4.6489.

From the results from the Normality Test 1, the K-S value is 1.014 and its significance is 0.255. Meanwhile, in the Normality test 2, the value of K-S is 1.351 with the significance value of 0,052. The result is eligible to $\alpha = 5\%$, because the value is above 0.05, thus the data is normally distributed. The result of multicollinearity test shows that all independent variables (environmental performance, profit margin, and environmental disclosure) have VIF number less than 10, and the tolerance is more than 0.10. This indicates that the regression model used in this study does not have any multicollinearity problems.

From the autocorrelation test 1, it is obtained the dl value of 1,599. DW value is 1.922, lower than 4 - dl i.e. $4 - 1,599 = 2.401$, then it can be concluded that there is no autocorrelation in the research data. Meanwhile, from the autocorrelation test 2, it is obtained the dl value of 1.642. The DW value is 1,953, lower than 4 - dl i.e. $4 - 1,642 = 2,358$, therefore it can be concluded that there is no autocorrelation in the research data. In Heteroskedasticity Test 1, the explanatory variable is not statistically significant toward the residuals indicated by the significance value of explanatory variable respectively for 0,892, 0,59, and 0,110. In Heteroskedasticity Test 2, the result shows that the explanatory variable has a significance level of 0.640. So, it can be concluded that the model used in this study does not have any heteroskedasticity problems.

Path Analysis

The equation models of the path analysis are written as follows:

$$Y = \rho YX_1 + \rho YX_2 + \rho YX_3 + \epsilon_1 \text{ Sub-structural 1}$$

$$X_3 = \rho X_1 X_3 + \epsilon_2 \text{ Sub-structural 2}$$

The results of data output processed using SPSS generate the following sub-structural equations:

$$Y = 0,917X_1 + 1,025X_2 + 0,231X_3 + \epsilon_1 \text{Sub-structural 1}$$

$$X_3 = \rho 0,722 + \epsilon_2 \text{Sub-structural 2}$$

In a diagram form, the equations of sub-structural 1 and 2 can be drawn as follows:

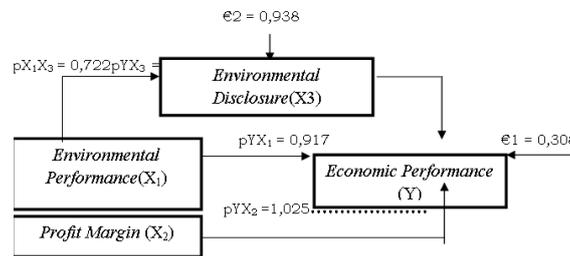


Figure 1. Research Framework

To test the fifth hypothesis, the Sobel calculation will be used using following formula developed by Imam Ghozali (2013):

$$Sp2p3 = \sqrt{p3^2Sp^2 + p2^2Sp3^2 + Sp2^2Sp3^2}$$

$$Sp2p3 = \sqrt{(0,231)^2 (0,219)^2 + (0,772)^2 (0,146)^2 + (0,219)^2 (0,146)^2}$$

$$= \sqrt{0,00256+0,00127+0,00102}$$

$$= \sqrt{0,00485}$$

$$= 0,069642$$

$$t_{count} = \frac{0,094952}{0,069642}$$

Because the value of t-count < t-table, then there is no significant influence between the independent and the dependent ones through mediation. The calculation result of the values of t are then compared with the t-table value with the number n = 94 and α 0.05, it is then obtained t-table value of 1,662. It turns out that the t-count is lower than the t-table, 1.36 < 1.662. So, it can be concluded that the fifth hypothesis in this study is rejected. The intervening variable has no contribution in the model.

Table 2. Results of Hypothesis testing

Hypothesis	T _{count}	t _{table}	Result
X ₁ → Y	2,571	1,662	H1 accepted
X ₂ → Y	27,646	1,662	H2 accepted
X ₃ → Y	-1,586	1,662	H3 rejected
X ₁ → X ₃	3,519	1,662	H4 accepted
X ₁ → X ₃ → Y	1,32	1,662	H5 rejected

Influence of Environmental Performance toward Economic Performance

Based on the results of this study, the environmental performance significantly influences the economic performance. This indicates that the ROA is influenced by the company's PROPER rating. The higher the rating, the higher the ROA of the company. This result is in line with the research conducted by Al-Tuwaijri et al., (2004); Mahoney et al., (2013); Rohmah & Wahyudin, (2015); Semenova & Hassel, (2016); Suratno et al., (2007); Tristianasari & Fachrurrozie, (2014) stating that there is a significant relationship between the environmental performance and economic performance. Unlike Esita (2016), however, there is no influence between environmental performance and the corporate value. Fitriyani, (2012) argued that a company with good news will improve its performance disclosure in its annual report. Good news is expected to be responded positively by the investors which later positively impacts on the corporate financial performance because the better the environmental performance of a company, then the better its financial

performance.

Environmental performance is the performance of the company to create a good environment, or when a company expenses related to the environmental matters, and it will automatically build a good image in the eyes of the stakeholders, so that the company will get positive responses by the market because it has shown its social responsibility and care for surrounding environment (Patten, 2015). Besides, the investors will also respond through higher stock price fluctuations. Increased stock price reflects the financial performance. Verrecchia (1983) and Suratno et al. (2007) argued that good environmentalists believe that the performance disclosure portrays good news for market participants. Therefore, the companies with good environmental performance need to disclose more information about the quantity and quality information of the environment compared to those with low environmental performance.

In line with Fitriyani (2012) who argued that the companies that have good news will improve their performance disclosure in the annual report. Good news is expected to be responded positively by the investors, which later have a positive impact on the corporate financial performance, because the better the environmental performance of a company, the better the financial performance. In addition, the more the companies improve the quality of their performance on the environment and then disclose their performance into their annual report, the better they will also be in the eyes of investors and the public. This will reflect the companies' transparency and show that they are strongly concerned and responsible for what they have done, so that people will also know how much their contribution to the environment.

Influence of Profit Margin toward Economic Performance

Based on the results of this study, the profit margin significant impacts the economic performance. This indicates that the value of ROA is influenced by the size of the profit margin obtained by the company. Al-Tuwaijri et al., (2004) and Almilia & Wijayanto, (2007) stated that the profit margin significantly influences the economic performance. High profit margins indicate that the company is able to generate high profits at certain level of sales due to increased sales levels which are greater than its operational costs. The companies that have high profit margin indicate that they have good economic performance.

The companies with high profit margins are able to generate high profits also. This will positively impact the companies themselves. Those which have a high profit margin indicate that they have good economic performance. The companies with good economic performance will get positive responses from capital market players. Many investors will be interested to invest in the companies that are able to generate high profits. This is in line with stakeholder theory. The stakeholders will use certain information obtained from the companies for the decision-making process. The investors may use the information obtained from the company for consideration in determining their investment.

Al-Tuwaijri et al. (2004) stated that the companies with high profit margins indicate that they are able to control their operational expenses properly. Those that can reduce their operational costs and increase their sales income can generate high profit margins. High profit margin is an indicator that a company has a good economic performance.

Meanwhile, Almilia & Wijayanto (2007) stated that profit margin has an effect on the economic performance. High profit margins indicate that the company is able to generate high profits at a certain level of sales due to increased sales levels, greater than the operational costs. The companies that have high profit margin indicate that they have good economic performance.

Influence of Environmental Disclosure toward Economic Performance

Based on the results of this study, the environmental disclosure has no significant effect on the economic performance. This indicates the size of the ROA obtained by the company is not affected by the disclosure made by the company. The results of this study are in accordance with the research conducted by Handayani (2010) who found no significant positive relationship

between the environmental disclosure and the economic performance. Similarly, Wibisono (2011) found a negative but not significant relationship between the environmental disclosure and economic performance. This is because the economic conditions of a company are not seen through its disclosure but mostly seen through the profits obtained.

In contrast, Hassan, Hassan, Guo, & Guo, (2017) and Thorne, S. Mahoney, & Manetti (2014) found a positive influence between environmental disclosure and economic performance. The environmental disclosure tends to provide higher level of environmental information than those that incorporate the financial and environmental disclosures in their annual reports, enabling this environmental disclosure to strengthen the corporate economic performance.

The companies inside and outside the company are not much considered by market reactions. The market players in Indonesia tend to only see and respond to the information that occur in the market and do not concern much about the economic performance of a company. What the company discloses about its environment does not significantly affect its economic performance, because the market does not see what the company says about its corporate environment, but they only see the returns the company makes each year. By only looking at the annual return, the investors will respond that if the return is high, then what will be generated is also more profitable for the investment.

The results of this study are fit with the results of the research conducted Handayani (2010) who found no significant positive relationship between the environmental disclosure and the economic performance. Likewise, Wibisono (2011) found a negative but not significant relationship between the environmental disclosure and the economic performance.

Influence of Environmental Performance toward Environmental Disclosure

Based on the results of this study, the environmental performance significantly influences the environmental disclosure. This indicates that the high level of environmental disclosure is influenced by the PROPER rating obtained by the company. The higher the PROPER rating, the greater the company's desire to hold some disclosures. The results of this research are supported by research conducted by Rohmah & Wahyudin, (2015); Suratno et al., (2007), Handayani (2010), who found a significant influence of the environmental performance toward the environmental disclosure. Good environmental performance will encourage the companies to conduct more disclosures to obtain high value and prevent rejection from the community so that they will remain *going concern*.

This result is in accordance with legitimacy theory which states that the operational activities of the company can be run well if the implementation is based on the norms that exist in the society. The company must obtain legitimacy in carrying out its business activities in order to keep the business sustainable, and to gain legitimacy, the company must have good programs and activities, not harmful, or even profitable for the community. The stakeholders and the community can exactly know the activities undertaken by the company by looking at its annual reports issued by BEI. They can assess the corporate performance by looking at the information reported in the annual report. Therefore, the company must perform well in order to obtain a good assessment from both stakeholders and the community.

For example, *PT. Holcim Indonesia Tbk* was awarded with gold PROPER due to its high disclosure based on the disclosure items required in this study. Besides, *PT Indocemet Tunggal Prakarsa Tbk*, which obtain gold PROPER also performed high disclosure. It reveals that good environmental performance would encourage the companies to hold high disclosures.

The results of this study are supported by research conducted Rohmah & Wahyudin, (2015); Suratno et al., (2007), and Handayani (2010) who found significant influence between the environmental performance toward the environmental disclosure. The environmental performance means the company's effort to gain legitimacy from the society and corporate responsibility for the negative impacts arising from its business activities. The environmental performance should be carried out according to the public wishes. A good environmental

performance will encourage the companies to engage in high disclosure with the objective of obtaining high value and preventing rejection from the society to keep them *going concern*.

Influence of Environmental Performance toward Economic Performance with Environmental Disclosure as the intervening variable

Based on the results of this study, the environmental performance has no significant effect on the economic performance with the environmental disclosure as an intervening variable. The results of this study do not support Rohmah & Wahyudin's findings (2015), where there was a significant influence between the environmental performance and the economic performance and the environmental disclosure as the intervening variable. In terms of environmental performance, the government has actually made laws and regulations concerning an obligation to implement environmental performance as stated in the Law of Republic of Indonesia, Article 74 Number 40 Year 2007 (*Undang-Undang Pasal 74 Nomor 40 Tahun 2007*) on Limited Liability Companies. However, the government has not yet determined the disclosure of environmental performance. It is currently only done voluntarily.

Nowadays, many companies are trying to take the attention of the stakeholders and the public, because they realize that legitimacy and stakeholders are crucial for their sustainability. In this case, the environmental performance is considered as something important that needs to be prepared well. According to Al-Tuwaijri et al. (2004), the environmental performance is the performance of the company to create a good environment, or when a company expends its resources related to the environment, it will automatically build a good image in the eyes of the stakeholders, so that it will get positive responses by the market because it has fulfilled its social responsibility and care about the environment. Besides, the investors will also respond in form of higher stock price fluctuations.

The increased stock price reflects good financial performance. However, not all investors have the same opinion. There are still many who have not paid attention to corporate ratings in the environmental performance. Most of them only see the profits obtained by a company. So, what the company does inside and outside will not be considered much by the market reaction. The market players in Indonesia tend to only see and respond to the information provided that occurs in the market and do not see from the economic performance.

In terms of environmental performance, the government has actually made laws and regulations concerning the obligation to implement environmental performance as stated in the Law of Republic of Indonesia, Article 74 Number 40 Year 2007 (*Undang-Undang Pasal 74 Nomor 40 Tahun 2007*) on Limited Liability Company. However, the government has not yet determined the disclosure of environmental performance. It is only done voluntarily. That is why, until now, not all companies hold the environmental disclosure. In addition, many of them do not conduct and disclose the environmental performance optimally. They tend to disclose good things only and retain their environmental information that adversely affects their reputation because it may be able to diminish the investors' confidence and can reduce their economic performance.

CONCLUSIONS

Based on the results and discussion in this study, there is significant influence of the environmental performance and profit margin toward the economic performance. The results also prove that there the environmental disclosure has no significant effect on the economic performance. However, the environmental performance significantly influences the environmental disclosure. Besides, the environmental disclosure is not significant as an intervening variable in the influence of environmental performance on the economic performance.

The writers suggest the companies to always improve their environmental performance, so that their consumers will also increase their loyalty. In addition, the consumers are also expected to buy products that are environmentally friendly, so that the humans can live longer on this

earth. For the next researchers, they should compare the results between developing or poor countries and developed ones.

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