EEAJ 1 (1) (2023) 175-181

Economic Education Analysis Journal

SINTA 3 Accredited

https://journal.unnes.ac.id/sju/index.php/eeaj

Financial Performance and PROPER Ratings Impact on Corporate Environmental Responsibility Disclosure

Niswah Baroroh✉, Indah Anisykurlillah, F.R.W. Rizkiana, R. Setiyaningrum

DOI: 10.15294/eeaj.v1i1.78199

Faculty of Economics and Business, Universitas Negeri Semarang, Semarang, Indonesia

Article History

Received: 18 October 2023
Approved: 14 December 2023
Published: 30 December 2023

Keywords

Corporate Environmental Responsibility Disclosure; Financial Performance; PROPER Ratings

Abstract

The corporate disclosure of environmental responsibility for companies is crucial in building transparency, trust and maintaining sustainability, showing their commitment to environmental sustainability. Corporate sustainability is closely related to the company's financial performance and external assessment. This research purposed to analyze the profitability, size and leverage as the corporate financial performance and PROPER rating as the external assessment on environmental evaluation. The population of this study are manufacturing companies listed on the Indonesia Stock Exchange for the 2019-2021. This study uses panel data regression analysis with a regression model in the form of Random Effect Model and Moderating Regression Analysis using E views 12. The results of this study indicate that the average of environmental disclosure in Indonesian companies is still relatively low, and the environmental performance is in moderate condition. Profitability, leverage and company size can't influence the environmental disclosure. And then, the environmental performance variable as a moderating variable cannot strengthen or weaken the effect of profitability, leverage and company size on corporate social responsibility disclosure. Future research is expected to look for other variables that are more closely related to corporate social responsibility disclosure.

How to Cite

Baroroh, N., Anisykurlillah, I., Rizkiana, F.R.W., & Setianingrum, R.(2023). Financial Performance and PROPER Ratings Impact on Corporate Environmental Responsibility Disclosure. *Economic Education Analysis Journal*, 1 (1), 175-181.

✉ Correspondance Address:
Unnes, Sekaran, Kec. Gn. Pati, Kota Semarang, Jawa Tengah 50229
Email: niswahbaroroh@mail.unnes.ac.id

p-ISSN 2252-6544
e-ISSN 2502-356X

INTRODUCTION

Over time, more and more companies were established around the community environment. Companies generally operate to make a profit. Companies' business activities in an effort to generate profits need to carry out operational activities, but this can sometimes have a negative impact on the surrounding environment, especially companies that utilize natural resources Sihombing (2020). Waste that is not handled properly, pollution in the community environment and even a reduction in natural resources are some examples of the negative impacts caused by company operations. If the company does not pay attention to existing environmental problems, this can lead to conflict between the company and the community. In fact, the company and society cannot be separated. Therefore, companies must pay attention to corporate environmental responsibility.

Environmental Disclosure is a form of corporate responsibility towards the environment and society around the company Dewi (2019), Ntimugura (2021). Larger companies tend to have larger and more complex operations. This can provide an opportunity to adopt better practices in terms of environmental performance. For example, large companies may have greater resources and expertise to implement green technologies, waste management programs or other sustainability initiatives. In this case, company size can have a positive impact on environmental performance.

The existence of information disclosure regarding corporate social and environmental responsibility can build good relations between companies and stakeholders. Disclosure of CSR can also provide a good signal for companies which can be interpreted that in the future the company has good prospects and can ensure the creation of sustainable development (Istifaroh, 2017); (Becher,2022). Companies are expected to be guided by the Triple Bottom Line concept, namely the concept of social, economic and environmental issues, not only on the Single Bottom Line concept which focuses on company value only (Jenkins,2004); (Komiasari, 2021). The concept of the triple bottom line relates to corporate social and environmental issues, the company's ability to gain profits, and represents the company's efforts to preserve the environment (Suartana, 2023). This is a complete concept that mixes and matches all elements of the company.

The existence of laws and regulations gives hope that companies can comply with applicable regulations. however, in reality there are still companies that have not carried out their social responsibilities properly and are detrimental to the local community. company PT. Sustainable Toba Pulp. Local residents feel that there is air and water pollution, causing the rice fields to be polluted with waste. Apart from that, there are also several residents affected by skin diseases such as itching (www.news.detik.com). Cases of environmental pollution also occurred in the pharmaceutical company PT. MEF for allegedly polluting paracetamol in Jakarta Bay. Thus, the DKI Jakarta Environmental Service has imposed sanctions on closing all of the sewer installation channels (www.megapolitan.kompas.com). PT. Sinar Logam Indonesia had to be temporarily stopped by the Tangerang Regency Environmental Service, Dinas Lingkungan Hidup Kabupaten (DLHK) due to pollution from toxic and hazardous waste (B3) (www.banten.bisnis.com). The large number of these cases makes it necessary to conduct research on why companies still do not pay more attention to environmental impacts and the company's responsibility to the surrounding environment for the activities carried out by the company.

Various financial conditions determine environmental disclosure for companies. because environmental performance as outlined in company reports is also one of the things that must be financed by the company.

Companies that have high levels of profitability tend to have greater resources to invest in better environmental practices. They can allocate funds to adopt environmentally friendly technologies, implement effective waste management programs, or reduce greenhouse gas emissions. Thus, profitability can improve the company's environmental performance through this investment. High profitability can give companies greater financial ability to comply with strict environmental regulations. The costs of complying with these regulations, such as installing pollution control systems or properly managing waste, can be high. Companies that are more profitable are better able to meet these regulatory requirements without compromising the sustainability of their operations.

From the leverage factor, if companies have high levels of leverage and pay significant interest expenses, they may face financial constraints in allocating resources for better environmental practices. Large interest charges can limit a company's ability to invest in green technology, waste management programs or other sustainability initiatives. In this situation, the company's environmental performance can be hampered.

METHODS

This study uses a hypothesis testing study. The data used annual reports and/or sustainability reports of manufacturing companies listed on the Indonesia Stock Exchange. This study used panel data regression analysis with a regression model in the form of Random Effect Model (REM) and Moderating Regression Analysis (MRA) using Eviews 12. The sampling technique used purposive sampling with the following criteria (Table 1).

RESULTS AND DISCUSSION

The results of the descriptive analysis in this study can be seen in the Table 2. This study uses a panel data regression model in the form of the Random Effect Model, which has been declared fit. The results of Adjust R2 squared in this study amounted to 0.032857, which means that the independent variable can explain its effect on the dependent variable only by 3.28% while 96.72% can be explained by variables outside this study. The results of the hypothesis using REM can be seen in the Table 3.

Table 1. Research Sampling Based on Research Criteria

No.	Sampling Criteria	2019	2020	2021
1	Manufacturing companies listed on the IDX for the period 2019 - 2021	190	202	217
2	Manufacturing companies that do not issue annual reports and/or sustainability reports	(26)	(36)	(42)
3	Manufacturing companies that do not follow the PROPER rating for the period 2019 – 2021	(102)	(101)	(115)
	Unit analyzed	62	65	60
	Total unit analyzed		187	
	Outlier		(15)	
	Data proceeded		172	

Source: Processed secondary data, 2022

Table 2. Descriptive Statistics Analysis

	PROF	LEV	SIZE	EP	CSR
Mean	0.048253	0.212742	26.76082	3.023256	0.264346
Median	0.037668	0.664862	28.12685	3.000000	0.233766
Maximum	0.416320	23.91730	33.53723	4.000000	0.610390
Minimum	-0.213975	-137.4201	16.74061	2.000000	0.077922
Std. Dev.	0.088603	10.75651	4.502955	0.445294	0.118868
Observations	172	172	172	172	172

Source: Processed secondary data, 2022

Table 3. Hypothesis Test Results

Hypothesis	Coefficient	Prob.	Results
H1 = Profitability à Environment Disclosure	– 0.147525	0.9613	Rejected
H2 = Leverage à Environment Disclosure	– 0.133839	0.3023	Rejected
H3 = Company size à Environment Disclosure	– 0.032670	0.6578	Rejected
H4 = Environmental performance can weaken the influence of profitability on the disclosure of Environment Disclosure	0.348982	0.348982	Rejected
H5 = Environmental Performance weakens the effect of leverage on Environment disclosure	0.044763	0.3013	Rejected
H6 = Environmental performance strengthens the effect of company size on disclosure of environment disclosure	0.014484	0.5517	Rejected

Source: Processed secondary data, 2022

The Effect of Profitability on the Environmental Disclosure

The results of the first hypothesis in this study show that there is no significant effect on the effect of disclosure of ED. In some cases, there is a conflict between efforts to increase profitability and achieve better environmental performance. For example, a company may choose to reduce production costs by ignoring better environmental practices, such as using more environmentally friendly raw materials or more effective waste management (Indriyani,2020); (Sapkota,2023). In situations like these, companies may prioritize profitability over environmental performance. On the other hand, sometimes, company management may not have high awareness or concern for environmental issues. They may focus more on achieving short-term financial goals than on long-term sustainability. In such cases, even though the company generates high profits, environmental performance may not be a significant priority. According to Kustina (2020) and Anuardo (2022) explain that high profitability indicates that the company has sufficient funds that can be used to carry out social and environmental activities. However, this is not necessarily done by the company, causing low corporate CSR disclosure. This is because companies that have a high level of profitability tend to be profit-oriented and do not necessarily carry out more social and environmental activities. Companies are more interested in disclosing their financial performance only. This research is in line with Kemalasari (2020).

The Effect of Leverage on the Environmental Disclosure

The result of the second hypothesis in this study is that leverage has no effect on Environmental Disclosure. These results contradict the agency theory which states that the company will maintain a contractual relationship between the company and the creditor (Rivandi,2021). The influence of leverage on a company's environmental disclosure depends on a number of factors, including the company's financial policies (Yurdila,2019). The demands of debt holders or investors, the industrial sector, and market conditions. It is important for companies to consider the environmental implications when managing leverage levels and to use borrowed funds wisely. In practice, a company's environmental policy is usually determined by long-term strategic considerations, corporate social responsibility, and awareness of environmental impacts. Although leverage can affect a company's ability to invest in better environmental practices, decisions regarding environmental policy are more often based on a company's business strategy and commitment to sustainability. leverage does not have a direct influence on the company's environmental policy, its influence on environmental performance usually occurs through other factors related to finance, stakeholder demands, or reputational impacts and credit risk. These results are in line with Susilowati(2018) and Sapkota (2023) which states that leverage has no effect on ED.

The Effect of Company Size on the Environmental Disclosure

The result of the third hypothesis in this study is that company size has no effect on Environmental Disclosure. These results contradict the agency theory which states that the company will maintain a contractual relationship between the company and the consumer (Irawan,2021). Firm size is not the main determining factor in environmental performance. Small or medium-sized companies can also achieve good environmental performance through strong commitment, sustainable initiatives or collaboration with business partners or local communities. Environmental performance is more influenced by concrete actions and a company's commitment to sustainability than the size of the company itself Kartika (2020). These results are in line with Yuanita (2019) which states that company size has no effect on ED.

Environmental Performance Strengthens the Effect of Profitability on Environmental Disclosure

The result of the fourth hypothesis in this study is that environmental performance cannot moderate the effect of profitability on ED disclosure. Thus, the fourth hypothesis is rejected. Whether or not the PROPER rating category is good or bad cannot affect how much the company's environmental disclosures are disclosed. This is because the company's management is more concerned with disclosures related to the company's financial condition in order to attract the attention of investors to invest in the company, so that investors think that the company's management is able to manage profits well. This can be an excuse for company management not to disclose detailed social and environmental information. The company's management also thinks that there is no need to disclose corporate social responsibility in detail if the PROPER rating obtained by the company gets good results, because a high PROPER rating results in a good rating and proves that the company complies with applicable regulations. These findings are not in line with legitimacy theory, in which this theory states that there is a social contract between the company and the surrounding community and the company requires legitimacy from the community in order to maintain the company's Sarra(2020).

Environmental Performance Weakens the Effect of Leverage on Environmental Disclosure

The result of the fifth hypothesis in this study is that environmental performance cannot moderate the influence of leverage on corporate environmental disclosure. This is due to the high or low leverage cannot affect the ED. Companies that have high leverage will be more selective in issuing funds that will be used so that the company's finances do not get worse. Companies with good environmental performance will assume that the company's image is good enough, so the company does not need to pay for ED. This research is not in line with the legitimacy theory which states that companies can only survive if the company has operated based on the value system applied by society (Sonia, 2020).

Environmental Performance Weakens the Effect of Leverage on Environmental Disclosure

The result of the fifth hypothesis in this study is that environmental performance cannot moderate the influence of leverage on corporate environmental disclosure. This is due to the high or low leverage cannot affect the ED. Companies that have high leverage will be more selective in issuing funds that will be used so that the company's finances do not get worse. Companies with good environmental performance will assume that the company's image is good enough, so the company does not need to pay for ED. This research is not in line with the legitimacy theory which states that companies can only survive if the company has operated based on the value system applied by society (Liao,2020).

CONCLUSION

Based on the results of the research that has been done in this study, it can be concluded that profitability, leverage and company size cannot influence corporate social responsibility disclosure. Likewise, environmental performance cannot moderate the influence of profitability, leverage and company size on disclosure of corporate social responsibility. Thus, further research is advised to add variables outside the variables used in this study because the adjusted R-Squared value is only 3.28%, which means that there are many other variables that can affect the disclosure of corporate social responsibility.

REFERENCES

Anuardo, R. G., Espuny, M., Costa, A. C. F., & Oliveira, O. J. (2022). Toward a cleaner and more. *Bisnis dan Ekonomi*, 6(1), 1559–1568. https://doi.org/10.33197/jabe.vol6.iss1.2020.466

Becher, E. (2022). Shared value creation through integrated reporting in the Fast-Moving Consumer Goods (FMCG) Industry: an analysis of the effect of Corporate Social Performance (CSP) on the Corporate Financial Performance (CFP) of multinational companies *(Doctoral dissertation).*

Dewi, and I. Sendana, "Pengaruh Profitabilitas, Ukuran Perusahaan dan Leverage Terhadap Pengungkapan Corporate Social Responsibility". *E-Jurnal Manajemen,* vol. 8, no. 11, pp. 6618– 6637. 2019. https://doi.org/10.24843/EJMUNUD.2019.v08.i11.p12

Ghozali, I., & Chariri, A. (2014). Teori Akuntansi: International Financial Reporting System (IFRS) (4th ed.). Semarang : Badan Penerbit Universitas Diponegoro.

Indriyani, A. D., & Yuliandhari, W. S. (2020). Pengaruh Profitabilitas, Ukuran Perusahaan dan Umur Perusahaan Terhadap Pengungkapan Corporate Social Responsibility. *Jurnal Akuntansi Bisnis Dan Ekonomi,* 6(1), 1559–1568. https://doi.org/10.33197/jabe.vol6.iss1.2020.466

Irawan, A. (2021). Pengaruh Profitabilitas , Likuiditas , Dan Leverage Terhadap Pengungkapan Corporate Social Responsibility (CSR) Pada Perusahaan Manufaktur Yang Terdaftar di Bursa Efek Indonesia. *Jurnal Ilmiah Core It*, *9*(3), 1–10.

Istifaroh, A., & Subardjo, A. (2017). Faktor - Faktor Yang Mempengaruhi Pengungkapan Corporate Social Responsibility. *Jurnal Ilmu dan Riset Akuntansi,* 6(6), 1–19.

Jenkins, H. (2004). A critique of conventional CSR theory: An SME perspective. *Journal of general Management,* 29(4), 37-57.

Kartika, A. S., Nur, E., & Yuyetta, A. (2020). Pengaruh Kinerja Lingkungan, Dewan Komisaris, Leverage dan Political Visibility Terhadap Pengungkapan Corporate Social Responsibility di Indonesia. *Diponegoro Journal of Accounting*, 10(9), 1–13.

Kemalasari, A. F., & Sapariyah, R. A. (2020). Pengaruh Profitabilitas, Leverage dan Ukuran Perusahaan Pada Perusahaan Properti Terhadap Pengungkapan Corporate Social Responsibility (Studi ksus pada perusahaan properti yang terdaftar di BEI). *Jurnal Akuntansi Dan Keuangan*, 5(2), 159–169.

Kustina, K. T., & Hasanah, T. A. (2020). Pengaruh Kinerja Lingkungan, Sensivitas Industri, Dan Ukuran Perusahaan Terhadap Social Responsibility Di Perusahaan Manufaktur Yang. *Krisna Kumpulan Riset Akuntansi,* 12(1), 190–196.

Liao, Z., & Zhang, M. (2020). The influence of responsible leadership on environmental innovation and environmental performance: The moderating role of managerial discretion. *Corporate Social Responsibility and Environmental Management,* 27(5), 2016-2027.

Ntimugura, F., Vinai, R., Harper, A. B., & Walker, P. (2021). Environmental performance of miscanthus-lime lightweight concrete using life cycle assessment: Application in external wall assemblies. *Sustainable Materials and Technologies*, 28, e00253

Rivandi, M., & Putra, R. J. (2021). Pengaruh Ukuran Perusahaan, Profitabilitas dan Komite Audit Terhadap Pengungkapan Corporate Social Responsibility. *Owner*, 5(2), 513–524. https://doi.org/10.33395/owner.v5i2.468.

Sapkota, B., & Pariatamby, A. (2023). Pharmaceutical waste management system–Are the current techniques sustainable, eco-friendly and circular? A review. *Waste Management,* 168, 83-97.

Sarra, H. D., & Alamsyah, S. (2020). Pengaruh Kinerja Lingkungan , Citra Perusahaan dan Media Exposure Terhadap Pengungkapan CSR. *Prosiding Simposium Nasional Multidisiplin*, 2, 410– 417.

Sihombing, H. Banjarnahor, W. Alfionita, and D. A. Auran, "Pengaruh Kepemilikan Institusional, Ukuran Perusahaan dan Ukuran Komite Audit Terhadap Pengungkapan CSR". *J. Edu. (Ekonomi, Pendidikan dan Akuntansi),* vol. 8, no. 2, pp. 59-68, Nov. 2020. https://doi.org/10.25157/je.v8i2.4030

Sonia, D., & Khafid, M. (2020). The Effect of liquidity, leverage, and audit committee on sustainability report disclosure with profitability as a mediating variable. *Accounting Analysis Journal,* 9(2), 95-102.

Suartana, I. W. (2010). Akuntansi Lingkungan Dan Triple Bottom Line Accounting: Paradigma Baru Akuntansi Bernilai Tambah. *Jurnal Bumi Lestari,* 10(1), 105–112.

Susilowati, F., Zulfa, K., & Hartono, A. (2018). Pengaruh Ukuran Perusahaan, Leverage, Tipe Industri dan Ukuran Dewan Komisaris Terhadap Corporate Social Responsibility Disclosure (Studi Empiris Pada Perusahaan Sektor Industri Barang Konsumsi Yang Terdaftar Di Bursa Efek Indonesia Perio. *ISOQUANT : Jurnal Ekonomi, Manajemen Dan Akuntansi,* 2(1), 15–25. https://doi.org/10.24269/iso.v2i2.186

Yuanita, R., & Muslih, M. (2019). Pengaruh Profitabilitas, Leverage Dan Slack Resources Terhadap Pengungkapan Corporate Social Responsibility (CSR) (Studi Kasus Pada Perusahaan Sektor Pertambangan yang terdaftar di Bursa Efek Indonesia Periode 2013-2017). *E-Proceeding of Management,* 6(3), 5784–5792.

Yurdila, M., Mukhzarudfa, H., & Wiralestari. (2019). Pengaruh Profitabilitas, Ukuran Perusahaan, Dewan Komisaris dan Pengungkapan Media terhadapPengungkapan Corporate Social Responsibility Pada Perusahaan Go Public dan Listing di Bursa Efek Indonesia (BEI). *Jurnal Akuntansi Dan Keuangan Unja*, 4(4), 11–25.