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THE INFLUENCE OF ENVIRONMENTAL PERFORMANCE, ENVIRONMENTAL MANAGEMENT SYSTEMS, AND CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE ON THE FINANCIAL PERFORMANCE

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ABSTRACT

This study aims to examine the effect of Environmental Performance Rating (Proper), Environmental Management System (ISO 14001), and Corporate Social Responsibility Disclosure on a company's financial performance. This study is conducted by quantitative methods using secondary data. The purposive sampling method was used to collect data on manufacturing companies listed on the Indonesia Stock Exchange (IDX) for Period 2017-2019, manufacturing companies that participated in the PROPER program during 2017-2019, and manufacturing companies that provided complete data using complete data Rupiah to measure research variables. Panel Regression with Panel Pooled Data was used to analyze the data with statistical application EViews-10. The regression result shows (1) Environmental Performance Rating positively effect and significant on company's financial performance, (2) Environmental Management System certification positively effect and non-significant on company's financial performance, (3) Corporate Social Responsibility Disclosure negatively effect and non-significant on company's financial performance.

Keywords: Return on Assets, Environmental Performance Rating, Environmental Management System, and Corporate Social Responsibility Disclosure

INTRODUCTION

The business has become an essential part of human existence in this modern era. The business's mission is to make money in the future by inventing and promoting products and services that will be useful to customers. At this moment, some businesses continue to overlook the significance of environmental protection because they believe their products have little impact on the environment. According to Bocken et al. (2014), business innovation can have positive and negative consequences, including effects on the natural environment and society. Environmental issues and their consequences are becoming widely discussed and require solutions.

Environmental pollution is not a new issue, but it remains the world's most significant problem, with human and natural factors as the main environmental causes. The establishment of the industry will undoubtedly have a beneficial or destructive impact on the environment, affecting society, investors, and potential investors. Many companies still intentionally dump factory waste into rivers without permits, causing environmental pollution. As a result, companies must focus more on environmental and natural preservation due to many reports on various environmental difficulties (Kraus et al., 2020).

Nowadays, environmental concerns are important as they have worsened in recent years. In 2017, the Glenmore River in Banyuwangi, East Java, was contaminated by PT Industri Sugar Glenmore due to negligence that pollutes the ecosystem, killing thousands of fish and itching on residents' skin when exposed to river water. In 2018, PT Rayon Utama Makmur in Sukoharjo caused air pollution due to industrial waste in the form of H2S gas, which impacted the population surrounding the company. In 2019, Pertamina Hulu Energi Offshore Northwest Java (ONWJ) contaminated the north coast of Karawang due to gas leaks and oil spills.

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According to a 2011 survey conducted by Cone / Echo Global Corporate Responsibility Opportunity Study (Philip Kotler, David Hessekiel, 2012), most businesses' influence on consumers in ten countries has a social responsibility component and profit generation and influence to change the world. As a result, the company's fundamental concept focused on maximizing profit for growth and defense. Currently, financial objectives are not the only considerations for a business. However, sustainability has changed the traditional approach by maximizing and supporting economic and non-economic factors to maximize corporate profits while creating social, economic, and environmental welfare values for the community (Savitz & Weber, 2014).

Corporate Social Responsibility can exemplify the concept of transparency by requiring companies to disclose their social activities. CSR Disclosure is a crucial element that companies must implement. Several studies have concluded that internal CSR reporting allows companies to assess their weaknesses and improve CSR practices, positively impacting financial performance (Oncioiu et al., 2020).

In running a company, business actors are interested in meeting the community's needs, seeking profit, and having social and environmental responsibility (CSR). The company's existence cannot be separated from the community in its environment. The law regulates business actors' obligations to protect the environment. The Indonesian government has raised awareness about environmental protection by adopting social and environmental responsibility regulations, such as Law of the Republic of Indonesia Law Number 40 Article 74 paragraph 1 of 2007 and Law Number 22 of 2021.

In-Law Number 40 Article 74 paragraph 1 of 2007 concerning Limited Liability Companies states: This regulation requires all companies directly involved in natural resources to practice CSR. On the other hand, environmental management is regulated by Law Number 22 of 2021 (Organization of environmental protection and management), which covers all environmental systems and programs, such as ISO 14001, PROPER, and others. In the future, environmental regulations are expected to motivate businesses to pay closer attention to environmental conditions and improve the management quality and environmental performance to mitigate negative impacts.

The application of ISO 14001 is one method of increasing an Environmental Management System by minimizing environmental impacts and identifying ways to mitigate these impacts. Thus, the application of ISO 14001 increased the efficiency of waste and pollution prevention. The implementation of ISO 14001 increased employee awareness of the importance of adhering to environmental regulations, enhanced the Environmental Management System's ability to resolve issues and established a positive reputation (Turki et al., 2017).

The Company Performance Rating Program (PROPER) can determine whether a company's environmental performance is good or bad based on its accomplishments (Nurputri & Nuzula, 2019). This program is one of the Ministry of Environment's (KLH) flagship national-level environmental assessment programs, revived in 2002. The Proper program aims to strengthen companies' environmental management capabilities and mitigate adverse environmental impacts. A PROPER assessment will provide the company with an image measured and determined in five colors: gold, green, blue, red, and black. The high PROPER rating indicates the company has taken above and beyond what the law requires regarding environmental management.

Previous research on the effect of environmental performance on financial performance shows various results, including research conducted by Putra (2018) and Rokhmawati et al. (2015), which concluded that environmental performance does not affect financial performance. On the other hand, Denziana's (2018) study mentions that environmental performance and disclosure significantly positively affect financial performance. This study aims to re-examine the relationship between environmental performance and financial performance of manufacturing companies in Indonesia. Thus, it can be evident that manufacturing companies in Indonesia that are environmentally aware have better or worse financial performance each year.

The findings of those research are not in line with the findings of Rokhmawati et al. (2015), PROPER has no significant effect on financial performance, Aulia & Hadinata (2019) discovered that ISO 14001 did no effect on financial performance and also Khafa & Laksito (2015), there is a positive effect between CSR and financial performance.

THEORETICAL FRAMEWORK AND HYPOTHESIS DEVELOPMENT

This research is based on legitimacy theory, stakeholder theory, and signaling theory. These three theories are relevant theories used in this research. Legitimacy theory is inextricably linked to the concepts of corporate social responsibility and environmental sustainability. Organizations use the theory of legitimacy by examining the values and norms applied in society (Dowling & Pfeffer, 1975). Legitimacy ensures the company's survival by adhering to applicable standards and boundaries and being accepted by the community. Companies require social licenses to demonstrate that their activities are deemed legitimate by society (Demuijnck & Fasterling, 2016). The license can only be accomplished if the company reaches the community's demands and expectations. Therefore, an implicit relationship between companies, society, and CSR disclosure is expected to increase the legitimacy to do business.

Stakeholder theory is the relationship between a company and the people that influence their actions or decisions. Freeman (1984) defines a stakeholder as any group or individual who may affect or be influenced by the attainment of corporate goals. According to Hummels (1998), stakeholder theory deals with rights, interests, and values influenced by the achievement of certain goals by the organization and participating in the decision-making process. This theory displays a new style in perceiving companies more socially and provides ethical awareness about social responsibility.

In signaling theory, Spence (1973) explained that the sender sends helpful signal information that the recipient may use (investor). The signaling theory proposes how a corporation should send signals to financial statement users. In this theory, we can pay attention to whether the company has a good side or not in the future. This theory also affects decision-making by the company. The company will provide complete information in its financial statements and annual reports to build a better reputation, attracting more investors' attention. Social interactions that occur in life indicate that signals are around us through communication and organizational signals

The Effect of Environmental Performance Rating and Financial Performance

A company's environmental performance can positively impact its long-term investment value, influencing the future behavior of investors and potential investors. Environmental improvements can improve a company's reputation. A company with good environmental performance will increase public confidence in the products produced by the company, which will increase and influence the sales of company profits, which will add important points and a positive image from the community.

The findings of this study are consistent with stakeholder theory and legitimacy. According to the stakeholder theory, a company's activities should no longer focus solely on its profits. Still, they should also benefit all of its stakeholders, including the community and the environment. According to the legitimacy theory, a company must operate within the community's boundaries and values; if the company violates these values and boundaries, the company's legitimacy will be threatened. As shown in that theory, companies are motivated to participate in the PROPER program as a guide to be more responsibility to stakeholders, attract more investors that can develop a positive image that reduces public protests, and strengthen the relationship of trust and loyalty between the organization and its stakeholders.PROPER is considered to encourage companies in Indonesia to pay more attention to environmental sustainability and community empowerment in the company's operational areas and no longer focus solely on profit (Ningsih & Cheisviyanny, 2019).

The PROPER rating is currently considered a significant scale in indicating a company's environmental performance. This is supported by the research findings of Manrique & Martí-Ballester, (2017), which found a positive relationship between PROPER and financial performance. Based on the relationship between environmental performance and financial performance, the first hypothesis is:

H1: Environmental Performance Rating (PROPER) positively effects on Financial Performance

The Effect of the Environmental Management System and Financial Performance

ISO 14001 is an international standard that demonstrates a commitment to minimizing environmental impacts and monitoring and identifying new ways to minimize those impacts in the future. This certification is essential for a business or corporate entity to remain competitive in domestic and international markets. The basic concept of the ISO 14001 standard includes environmental aspects achieved through systematic identification and management of the company to demonstrate good environmental performance (J. X. Wang & Zhao, 2020).

In accordance with the legitimacy theory, the company's development cannot be separated from the community's significant contribution. The presence of an ISO certification demonstrates that the company has complied with community-accepted standards and rules. This will encourage management to be more motivated and believe in disclosing more information about the company's CSR activities.

The study by Sam & Shuqi (2019) and Septiandi et al. (2015) also shows the positive impact of ISO 14001 certification on implementing EMS in their organizations. Thus, the second hypothesis of this study is:

H2: ISO 14001 certification for Environmental Management Systems positively effects on Financial Performance

The Effect of Corporate Social Responsibility Disclosure and Financial Performance

In making decisions, it is hoped that investors will consider the CSR disclosure information in the company's annual report so that the investors not only look at the current earnings information. The increase in the company's economic performance will raise the image and public trust in the company and affect its business sustainability in the future. A company with a bad CSR will have a negative impact on the company's future sustainability and success due to its disregard for social responsibility and failure to comply with government regulations. Sanctions can be given to companies by the government if there are people who protest against their violations.

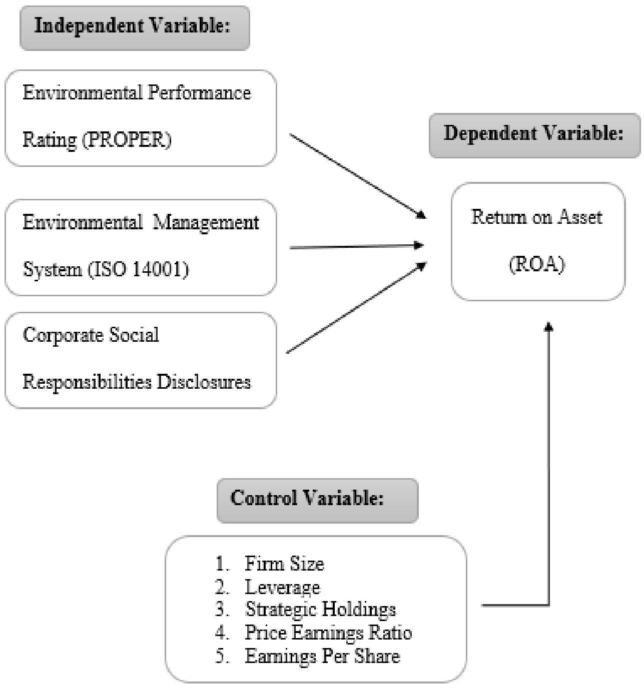
Corporate Social Responsibility Disclosure is in line with signaling, stakeholder, and legitimacy theory. According to signaling theory, companies can use CSR disclosures to communicate to the public how transparent their business practices are. As a result, the published data will serve as a guide for investors in making investment decisions. In stakeholder theory, the role of internal and external stakeholders is interrelated to a company's sustainability. Apart from profit, a company must benefit its stakeholders, including shareholders, consumers, suppliers, the government, society, and others. The legitimacy theory of a company requires adjustments to its operations and community expectations that will be a potential benefit or resource for the company to survive. CSR disclosure can act as a method of communication between companies and the community because of the social contract between them.

The research study discovered a positive effect between corporate social responsibility disclosure and financial performance. According to the research of Yaparto et al. (2013), Yoon & Chung (2018), and Novrianti & Armas (2012), corporate social responsibility and financial performance have a positive effect. Thus, the last hypothesis of this study is as follows:

H3: Corporate Social Responsibility Disclosure positively effects on Financial Performance

The following is the research framework proposed in this study:

Figure 1
Research Model



RESEARCH METHODOLOGY

Research Variable

This study uses three different variables and will be used to test the proposed hypothesis. These variables include the dependent variable, the independent variable, and the control variable.

Dependent Variable

The dependent variable in this research is financial performance measured by Return on Assets (ROA).

Return on Asset (ROA)

ROA is one of profitability that measures revenue. ROA is a widely used and significant indicator of financial performance. This indicator provides managers, investors, and analysts with insight into how productive a company is in profit generation from its invested assets. This ratio indicates a company's ability to generate profits using its total assets. A higher ROA indicates a more effective performance.

$$\mathbf{ROA} = \frac{\mathbf{Net\ Profit}}{\mathbf{Total\ Assets}}$$

The reason researchers use ROA as a calculation indicator of financial performance is that ROA can be obtained from the profit-sharing between net profit and the company's total assets. ROE is more relevant for banks because it considers equity and calculates the company's net worth rather than total assets (Rosikah et al., 2018).

Independent Variable

The independent variable includes environmental performance through PROPER, CSR Index, and ISO 14001.

Environmental Performance Rating (PROPER)

The PROPER program serves as a policy tool, encouraging companies to conduct business responsibly and follow applicable environmental laws and regulations. A high level of performance demonstrates that the business prioritizes profit and the surrounding environment. Managers can manage the environment in various ways, including waste Jensen & Meckling, (1976) and Al-Tuwaijri et al., (2004). Environmental performance information can add value to the company, enticing investors to invest (Clarkson et al., 2008). Environmental performance can be quantified using PROPER ratings, which are classified into five categories by the Ministry of Environment and Forestry:

Category	Rating	Description
Gold	5	Companies that have managed the environment more than the required requirements and are sustainable
Green	4	Companies that have managed the environment more than required
Blue	3	Companies that have made efforts to manage the environment by following the requirements
Red	2	Companies that have made environmental management efforts but have only achieved the same as required
Black	1	Companies that have not made environmental management efforts

Environmental Management System (ISO 14001)

ISO 14001 is an international standard for environmental management systems introduced in September 1996 (Bansal & Bogner, 2002). ISO 14001 establishes guidelines and requirements for companies' implementation, maintenance, and improvement of internal environmental management processes (Johnstone & Hallberg, 2020). The ISO certification variable identifies whether the company has ISO 14001 certificate or not in the Environmental Management System. The measurement is as follows:

ISO: 1 if a company has ISO 14001 certification and 0 otherwise

Corporate Social Responsibility Disclosures (CSRD)

Corporate Social Responsibility (CSR) Disclosure is analyzed using the CSR index, which represents each sample company's current disclosure area for social disclosure. Kareem AL Ani (2021) summarizes the significance of CSRD from a variety of perspectives, including international benefits, and includes pertinent data on investors and interactions between firms and their stakeholders. Basically, in calculating CSRI using a dichotomy, by giving a score. Additionally, the scores for each item are added together to determine a company's total score.

$$\mathbf{CSRI} = \frac{\sum Xj}{nj}$$

CSRI: Corporate Social Responsibility Index

$\sum Xj$: Scoring variable,

Nj: The number of company items

Control Variable

Firm Size

The company's size is commonly used to reflect total assets or wealth owned by the company. The company's size can serve as one of the consideration materials of investors before investing in the company in question. The larger the size of the company, the greater the assets owned by the company, the greater the funds needed to finance operational activities in the company.

The size of the company is measured based on the logarithm of the total book value of the company's assets (LogTA) (Thai & Kabir, 2017); (Lu & Taylor, 2018).

$$\mathbf{SIZE = Ln\ (Total\ Assets)}$$

Leverage

Debt levels can affect the behavior of managers (agents) by forcing them to discipline and motivate managers to make decisions that are in the best interests of the company (Thai & Kabir, 2017); (Lu & Taylor, 2018). Leverage itself is measured by comparing total debt with total assets (Lu & Taylor, 2018); (Deswanto & Siregar, 2018).

$$\mathbf{LEV} = \frac{\mathbf{Total\ Debts}}{\mathbf{Total\ Assets}}$$

Strategic Holdings

Company control over another company can be established if the company's ownership structure owns more than half of the nominal value of shares divided by another company or if the corporation can decide who will serve on the board of directors of a second corporation. In the study of Deswanto & Siregar (2018), the share ownership owned by the major shareholders was at least 5% of the total number of shares outstanding in the company; this constitutes the number of outstanding shares strategically owned by shareholders. In research, Lozano et al. (2016) and B. Wang (2018) measured ownership with the criteria of share ownership held by investors who own 5% or more of the company's outstanding shares.

$$\mathbf{STH} = (\boldsymbol{ownership\ shareholders\ of\ at\ least}\ \mathbf{5}\%)$$

Price to Earnings Ratio (PER)

Price Earnings Ratio to determine a firm value then calculate PER. A comparison of the value of profits is the relationship between the cost of the organization's stock and Earnings per Share (EPS) (Ejiofor et al., 2021). This ratio shows the higher the Price Earnings Ratio of a company and the company's higher value in front of investors because a high Price Earnings Ratio will view that the company is in good health and shows good company growth. The level of this ratio indicates the level of confidence that investors have in the company's future performance (Gitman & Zutter, 2015)

$$\mathbf{PER} = \frac{\mathbf{Price\ per\ Share}}{\mathbf{Earning\ per\ share}}$$

Earnings Per Share

Earnings per Share (EPS) measure a company's ability to generate profits for its shareholders. Each outstanding common Share earns earnings Per Share at the end of the fiscal year. EPS is calculated by dividing the total period of available earnings by the number of common shares outstanding. Gitman & Zutter (2015) explain that getting a large EPS shows that the company's ability is greater in generating a net income from each Share. Therefore, the higher the EPS, the more expensive a stock will be, and vice versa, and the company has succeeded in showing prosperity for investors. Earnings Per Share is a form of financial ratio to assess company performance. The formula used is:

$$\boldsymbol{Earning\ per\ share} = \frac{\boldsymbol{Net\ Profit\ After\ TAx}}{\boldsymbol{Number\ of\ Shares\ Outstanding}}$$

Population and Sampling Determination

Population refers to all individuals who become the subject of research. The data for this study were derived from observations of manufacturing companies' financial statements between 2017 and 2019. This research provides the use of secondary data. The method used is a population-based purposive sampling technique known as judgment sampling. The sample for this study is comprised of companies that meet certain criteria. The following criteria were used to select the sample companies:

1. The company used is a manufacturing company registered in IDX 2017 – 2019.

2. Manufacturer companies included in the research sample have published information on Environmental Performance (PROPER).
3. The company publishes an annual report for the period 2017 -2019.
4. Manufacturing companies issue financial statements and annual reports in Rupiah.

Data Analysis

This research uses the multiple regression method. The regression model is:

ROA = β0 + β1 EP + β2 ISO + β3 CSRI + β4 SIZE + β5 LEV + β6 STH+ β7EPS+ β8 PER+ e

Where:

ROA : Ratio of Return on Assets
EP : Score of PROPER rating (5 for Gold, 4 for Green, 3 for Blue, 2 for Red, and 1 for Black)
ISO : 1 for company that has acquired ISO 14001 certification and otherwise 0
CSRI : Corporate Social Responsibility Index
SIZE : Natural logarithm of total assets
LEV : Leverage ratio (Total Debts divided Total Assets
STH : Strategic Holdings (ownership shareholders of at least 5%)
EPS : Earnings Per Shares (Net Profit after Tax divided Number of Shares Outstanding) per year
PER : Price Earnings Ratio (Price per Share divided EPS) per year
e : Error term

RESULTS AND DISCUSSIONS

Research Objects and Data Description

The object of this study is a manufacturing company listed on the Indonesia Stock Exchange in the period 2017-2019. Here is a table of criteria for ownership of research samples:

Table 1: Research Sample Data

No	Sample Criterion	Total
1	Number of manufacturing companies listed on Indonesia Stock Exchange from 2017-2019	201
2	Number of manufacturing companies that did not get a PROPER rating in the period 2017-2019	(113)
3	Number of manufacturing companies that do not use Rupiah currency in publishing financial statements and annual reports for 2017-2019	(29)
4	Number of manufacturing companies that did not publish the company's annual report for 2017-2019	(12)
Number of companies		**47**
Total Samples (47 Company x 3 Years of Research)		**141**

Source: (Researches, 2021)

The study highlighted 13 companies considered data outliers due to their unusually high or low values compared to other observations.

Descriptive Statistical Analysis

Descriptive statistics are a type of research statistic used to analyze data without attempting conclusions. The mean, minimum, maximum, and standard deviation of the data is used as the basis for analysis in this study. The following table summarizes the findings of descriptive statistical analysis:

Table 2
Descriptive Statistical

Variables	Minimum	Q1	Q3	Maximum	Mean	Median	Std. Deviation
ROA	0.0010	0.0403	0.1167	0.9210	0.1135	0.0645	0.1513
EP	2.0000	3.000	3.000	5.0000	3.0217	3.0000	0.5861
ISO	0.0000	0.000	1.000	1.0000	0.5392	1.0000	0.5009
CSRI	0.0770	0.1978	0.3049	0.9670	0.2652	0.2200	0.1466
SIZE	9.8470	14.186	17.111	21.7870	15.7566	15.355	2.1971
LEV	0.0920	02843	0.5442	0.7440	0.3977	0.3700	0.1684
STH	0.3790	0.5525	0.8429	0.9950	0.7021	0.7010	0.1691
PER	0.0080	0.1855	6.7889	33.3330	4.6739	0.8815	7.7118
EPS	0.0000	45.092	383.46	37424.24	1368.83	135.82	5900.78

***Source: EViews 10, Secondary data* (2021)**

Financial Performance (ROA) it has a minimum value of 0.0010 at Charoen Pokphand Indonesia Tbk (CPIN) in 2017 and 2019. The maximum value is 0.9210 for Merck Tbk. (MERK) in 2017-2018. Additionally, the mean ROA for the research sample data is 11.35 % and 0.1513 for the standard deviation.

Environmental Performance (PROPER) has a minimum value of 2.0000 points and a maximum point value of 5.000 points. The proper mean value of 3.0217, and the standard deviation is less than one (0.5861).

Environmental Management System (ISO 14001) has a minimum value of 0.0000 and a maximum value of 1.0000 points. Additionally, as indicated by the descriptive statistical table, the ISO mean of 0.5392 points and the standard deviation value of 0.5009.

CSR Disclosure (CSRI) indicates that Merck Tbk (MERK) in 2017 and Tunas Baru Lampung Tbk (TBLA) in 2018 have a minimum value of 0.0770 points. In 2019, Charoen Pokphand Indonesia Tbk (CPIN) achieved a maximum of 0.9670 points. The CSRI mean is 0.2652 points, and the standard deviation is 0.1466.

As a control variable, Firm Size had a minimum value of 9,8470 points in 2018 at Astra Otoparts Tbk. (AUTO). Surya Toto Indonesia Tbk (TOTO) had a maximum value of 21.7870 points in 2018. The mean size is 15.7566 points, and the standard deviation is 2.1971.

The leverage ratio (LEV) reveals a minimum and maximum value in 2017 from Kabelindo Murni Tbk. (KBLM) and Trisula Textile Industries Tbk (BELL) was 0.0920 and 0.7440 points. Furthermore, the mean LEV is 39.77 % points, and the standard deviation is 0.1684.

Strategic Holding (STH) had a minimum value of 0.3790 at (TOTO) for 2017-2019. The maximum value of 0.9950 at Astra Otoparts (AUTO) and Trisula Textile Industries Tbk (BELL). Subsequently, the mean STH is 0.7021 points, and the standard deviation, 0.169.

The Price to Earnings Ratio (PER) minimum and maximum values at Gudang Garam Tbk. (GGRM) and PT Semen Baturaja (Persero) Tbk (SMBR) were 0.0080 and 33.3330 points, respectively. The mean PER obtained is 4.6739 points (467.39 %) and standard deviation 7.7118 points.

Earnings Per Share (EPS) has a minimum value of 0.0000 points at PT Phapros Tbk (PEHA) in 2017. In 2018, the PT Siantar Top Tbk (STTP) company achieved a maximum value of 37424.24 points. According to the descriptive statistics table, the mean EPS is 1368.83 points, and the standard deviation, 5900.78.

Results Interpretation, and Discussion

Table 3
Hypothesis Test Results

Variables	Coefficient	T-Statistic	Prob (F-Statistic)	Testing	Description
C	-0.477876	-1.253137	0.2150		
EP	0.048952	2.005139	0.0495*	**H 1**	**Accepted**
ISO	0.018683	0.853134	0.3970	**H 2**	**Rejected**
CSRI	-0.041492	-0.421121	0.6752	**H 3**	**Rejected**
SIZE	0.014647	1.009895	0.3166		
LEV	0.238570	1.997751	0.0503		
STH	0.190915	1.004519	0.3192		
PER	-0.003162	-0.899923	0.3718		
EPS	-3.50E-07	-0.139031	0.8899		
Adj R2	0.6719				
F Statistic	6.0453				
F Prob	0.0000				
Observation	102				

Source: Secondary data, processed (2021)

Table 3 shows that Environmental Performance Rating (PROPER) indicates a T statistic of 2.0051 and a probability of 0.0495 so that the first hypothesis is accepted. ISO 14001 certification for environmental management systems indicates a T statistic of 0.853134 and a probability of 0.3970 so that the second hypothesis is rejected. Corporate Social Responsibility disclosure indicates a T statistic of -0.421121 and a probability of 0.6752 it means the third hypothesis is rejected.

The Effect of Environmental Performance and Financial Performance

The study's findings demonstrate that environmental performance positively impacts financial performance, confirming the first hypothesis. The findings of this study are consistent with those of IFADA et al. (2021) and Tzouvanas et al. (2020), which demonstrate that firms with superior environmental performance are more profitable. The relationship between environmental and financial performance can be characterized as positive and heterogeneous across the conditional distribution; financial and environmental performance are endogenously related only when high profitability firms are examined.

Environmentally conscious companies will exercise caution when making administrative decisions affecting their natural ecosystems. As a result, companies committed to the environment will have a positive reputation among stakeholders, increasing the company's profitability. Thus, this research supports stakeholder theory and demonstrates how good environmental performance can send positive signals to stakeholders about the company's health, not just financially (profit), but also environmentally and socially, as defined by the Triple Bottom Line concept. In this study, the legitimacy theory is defined as a benefit or potential source of survival for the company due to the compatibility of organizational activities and community expectations.

The findings demonstrate that companies in category 3 (blue) for environmental performance have made environmental management efforts following PROPER requirements. Thus, whether or not a company obtains a rating affects the high and low ROA acquired by the company. This will affect the company's performance in terms of environmental management, thereby increasing its value in the eyes of its investors because investors believe that a company's environmental performance affects its employees' performance or productivity in managing company resources to generate profits through their operational activities.

The Effect of Environmental Management System and Financial Performance

The test results indicate that the environmental management system positively affects financial performance but is non-significant, rejecting the second hypothesis. ISO 14001 provides additional credible information about the companies that will make them be perceived as good organizations in the eyes of stakeholders. This shows that information on implementing a sensible environmental management system affected the company's financial performance but was non-significant.

This result is in line with Septiandi et al. (2015) and Toms (2016), which found that the Environmental Management Systems as ISO 14001 affects profitability. This study argued that the ISO 14001 standard provides numerous benefits for companies, including improved reputation and brand awareness and increased sales and investor confidence. The result of this analysis support previous studies done by Neeveditah et al. (2017) and C. L. Voinea et al. (2020), who discovered a non-significant relationship between companies' environmental performance and financial performance. ISO 14001 certification is an expensive and time-consuming process. Most companies that apply for ISO 14001 certification are well-established, well-performing, and experiencing consistent growth. The company's environmental management system, or ISO 14001 certificate, results in low financial performance due to the high costs associated with environmental management and overhead costs.

The Effect of Corporate Social Responsibility and Financial Performance

The study's findings indicate that corporate social responsibility disclosure negatively affects financial performance, rejecting the third hypothesis. This demonstrates that fundamental information in the form of corporate social responsibility disclosure reports has been unable to improve the company's financial performance. CSR disclosure is a report that details a company's commitment to sustainable development on economic, social, and environmental levels. Compared to financial statements that only reveal economic performance, this report provides broader information. CSR reports can demonstrate a company's ability to conduct business while taking social and environmental responsibilities. CSR reports disclose the impact of operational activities, both positively and negatively.

This result is consistent with Yaparto et al. (2013) finding that CSR has a limited effect on a company's financial execution as measured by ROA markers. Additionally, Novrianti & Armas (2012) indicate that CSR factors have little impact on financial execution due to the requirement for CSR disclosure not affecting financial performance. Also, the lack of standardization for the Indonesian government's use of CSR, where CSR is only disclosed voluntarily but not required by companies.

The findings of this study are in direct opposition to Hermawati et al. (2020) and Setiyowati & Mardiana (2020), which indicate that CSR factors have a mixed effect on ROA and ROE, an intermediary for Budgetary Execution. High speculators are interested in influencing salaries or high productivity in terms of money-related executions. The high CSR is not a burden but can be social speculation. In this way, the implementation of CSR can advance the performance of the budget.

CONCLUSIONS AND LIMITATION

This study aims to gather empirical evidence regarding the effect of Environmental Performance Ratings, Environmental Management System certification, and Corporate Social Responsibility Disclosure on the financial performance of companies. Additionally, control variables are used in this study, including Firm Size, Leverage, Strategic Holdings, Price Earnings Ratio, and Earnings per Share. The sample will be drawn from secondary data sources, primarily annual reports of publicly-traded companies on the Indonesian Stock Exchange (IDX), and will be included in PROPER from 2017 to 2019.

The hypothesis results are Environmental Performance Rating (PROPER) positively affect and significant Financial Performance, Environmental Management System certification (ISO 14001) positively affect and non-significant Financial Performance, Corporate Social Responsibility Disclosure negatively affect and non-significant Financial Performance.

According to this study, there are several limitations expected to be improved in future research. The following are the study's limitations and suggestions:

1. This study uses only 141 samples from three years (2017 – 2019), and there are outlier data for 13 companies. Future research should increase the data collection period to get accurate estimates and results.

2. The scope of this research is limited to manufacturing companies that are publicly listed on the Indonesian Stock Exchange and have submitted PROPER reports for the previous three years (2017 – 2019). Additionally, this research should include more companies from other industries to obtain results from a wider variety and scope of research.

3. This study uses one dependent variable, ROA, and three independent variables, PROPER, ISO 14001, and CSRD. Five control variables are firm size, leverage, strategic holdings, price-earnings ratio, and Earnings per Share. Further researchers are encouraged to conduct additional research on other variables besides these research variables that may affect financial performance levels.

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