

## **EFFECT SOCIAL AND ENVIRONMENTAL ON FINANCIAL PERFORMANCE**

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### **ABSTRACT**

*Profit is one aspect of determining financial performance, but sometimes to maximize profits the company does not pay attention to environmental and social aspects that will have an impact on environmental damage such as pollution, waste and no relationship with social community. Therefore, this study aims to determine the effect of disclosure of social and environmental performance on the financial performance of PT. Indonesia Power. The data used are financial, social and environmental performance from 2007-2016. The results showed that disclosure of social and environmental has a positive and significant effect on the financial performance of PT Indonesia Power at 94.5%. The company has revealed social and environmental responsibilities that increase public trust. The study would contribute to the management of PT Indonesia Power to maintain and further improve the environmental and social performance that has been carried out so far because it has been proven to improve its financial performance.*

**Keywords:** social, environmental, financial performance

### **INTRODUCTION**

Profit growth is one aspect of determining a company's performance. However, the principle of maximizing company profits to gain profits sometimes overrides environmental management, environmental performance, or even environmental conservation of a company. This is due to exploitative behavior that is shown in use of natural resources and lack of responsibility for the environment (physical and social) which sometimes causes a lack of social relations with the community

(Mardikanto, 2014). The existence of a company has a positive and negative impact on the community and the surrounding environment, especially in conducting production activities that often damage the surrounding environment and harm the community, such as the presence of waste from production.

The Global Reporting Initiative (GRI) is a network of non-governmental organizations that make conceptual, principles, guidelines and indicators aimed at encouraging corporate sustainability and reporting on integrated

social, governance, economic and environmental performance. The main components of performance from GRI indicators are economic, environmental and social. The company's social performance is an assessment of a company's performance seen from its social role in the Corporate Social Responsibility community. The more companies implement CSR well, the better the social performance of the company (Septiadini,2010). Expected results, community support for the company in the form of public support and strengthening of social factors towards the management and sustainable development of the community towards the company concerned. Furthermore, disclosure of environmental performance as a corporate social responsibility can affect the company's financial performance.

Companies that do good environmental performance will make high disclosures with the consideration of investors not only looking at financial performance but also environmental performance. This shows that companies that implement Corporate Social Responsibility (CSR) get positive attention from market participants (Bahri and Cahyani, 2016). Study conducted by

Nurhasimah Md Nor et al (2016) in Malaysia shows there is a relationship between environmental disclosure and profit margin, but the variables ROA, ROE and EPS show no relationship with environmental performance. Similarity the research have conducted by Vazquez et al (2019) in Spain, result shows there is an insignificant relationship between social performance and financial performance based on search results from 90 articles. Also, the results of the study show that environmental performance and disclosure has a significant positive effect on financial performance of company listed in Indonesia Stock Exchange 2010-2014 (Haninun et al, 2018).

This study aims to determine the effect of social performance and environmental performance on the financial performance of PT Indonesia Power during the period 2006-2016..

## **LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT**

Theories that emphasize the importance of companies implementing social and environmental responsibilities appropriately and consistently that have the same perspective as the company's accountability theory are legitimacy theory, and corporate social

responsibility. Legitimacy theory in organizations not only pay attention to the rights of investors, but generally also public rights (Deegan and Rankin, 1997). In an effort to gain legitimacy, companies carry out social and environmental activities that have accounting implications for reporting and disclosure in the company's annual report through published social and environmental reporting. Also, corporate social responsibility is the commitment of companies to contribute to sustainable economic development by paying attention to corporate social responsibility and focusing on the balance between attention to economic, social and environmental aspects (Orlitzky, 2003).

### **Hypothesis**

Social performance is an activities of companies in carrying out a social responsibility is a part of company's operations (Zubaidah, 2003). Investors and stakeholder may anticipate an increase in company costs owing to lack of social responsibility. Perceptions of low social responsibility may also decrease a company's ability to obtain capital at consistent rates. Viva verse, a high level of social responsibility would permit a company to have relatively low

financial risk as the result of more stable regarding with the investor and stakeholders (Mc Guere et al, 1988). Study conducted Adhima (2012) states that increase in disclosure of social performance has a negative and significant effect on the profitability of manufacturing companies listed on the IDX. Contrarely, Wijaya (2014) show that social performance has a positive and significant effect on financial performance.

### **H<sub>1</sub>. Social disclosure significantly affect to financial performance of PT Indonesia Power**

According to Haninun et al. (2018), environmental management system in Indonesia can be measured environmental performance, which based on environmental of policy, objective and target, and one of the instruments that can be used in measuring environmental performance is PROPER. which announced regularly to society, and the company will receive reputation incentives and disincentives depending on the level of obedience. Financial statements have information contained will be used by investors to estimation regarding profit and dividends in the future, also valuation of risk (Brigham and Houston, 2006). Therefore, financial

statement can be measurement financial performance and used by shareholders and investors as wealth growth tool. Companies with good performance will get the attention of stakeholders. However, the performance of the corporate environment is good then it will get the legitimacy of the society which is a strategy for the development of the company. Several previous studies showed different results regarding the effect of environmental performance on the company's financial performance, some of them are Adhima (2012), Astuti et al (2013) and Khitam (2014) show the result that there is a significant effect of environmental performance on financial performance. Meanwhile, Setyaningsih (2016), and Reski (2017) concludes there is no relation between environmental performance and financial performance.

### **H<sub>2</sub>. Environmental disclosure significantly affect to financial performance of PT Indonesia Power**

Corporate social responsibility is an element integral of company's business which related from employees, suppliers, community groups, NGOs, and government that's why the corporate must aware to increase their involvement in CSR (McWilliam et al, 2005). According to Mickey et al (2015) an environment

with high social responsibility will create a high corporate value in investing with CSR activities. This means increasing the performance of social responsibility will be increase the value of company. Rosyid (2016) and Astuti et al (2013) concluded their study that environmental performance and social performance have significant effect on financial performance.

### **H<sub>3</sub>. Social and environmental performance significantly affect to financial performance of PT Indonesia Power**

## **RESEARCH METHOD**

### **Sample, Variable and measurement of variables.**

In this study used the financial statement from PT Indonesia Power in January to December starting 2007-2016. The dependent variable is financial performance that proxied by current ratio equity (ROE), and asset turnover (ATO). The independent variables are social performance and environmental performance. The social dan environmental performance measured using GRI (Global Reporting Initiative) standard, which is value 1 for disclosure and value 0 if not disclosure (Haniffa and Cooke, 2005).

### Data analysis

The study using the descriptive statistical analysis to description of the variables of social, environmental performance, and financial performance. Also, using the classic assumption test to data normality, multicollinearity, autocorrelation, and heteroscedasticity test. According Jogiyanto (2010) normality test aims to test whether variables have a normal distribution or not. Kolmogorov Smirnov use to test of the difference between the data normality with significance value  $> 0.05$ , indicates normal data distribution and significance value  $< 0.05$ , indicating the distribution of data is not normal. Multicollinearity test aims to test whether in the equation regression found a correlation between independent / independent variables. Determine multicollinearity at the value of the variance inflation factor (VIF). If tolerance  $\geq 0.10$  and VIF value  $< 10$ , then in the regression equation no multicollinearity between variables. Also, heteroscedasticity aims to test whether the regression model occurs in variance inequality from residual one observation to other observations. Indicate of heteroscedasticity determine is Glejser test (Ghozali, 2011).

### Hypothesis testing

Hypothesis testing is to test which one of independent variables (social and environmental performance) have affect to dependent (financial performance). Hypothesis model is regression analysis with equation:  $Y = \alpha + \beta_1.X_1 + \beta_2.X_2$ , which Y is financial performance as dependent variable, X1 is social performance as independent variable and X2 is environmental performance as independent variable.,  $\alpha$  is constant, and  $\beta$  is variable regression coefficient.

## RESULT AND ANALYSIS

### Descriptive Analysis

Table 1 describe that financial performance as dependent variable has a minimum ratio value of 170.50 and maximum value of 881.67 mean value of 478.90 and standard deviation value of 240.83. The meaning companies have quite high financial performance. As seen from the social performance as independent variable has a minimum ratio value of 13 and maximum value of 38, mean value of 25.10 and standard deviation value of 9.32 value. The environmental performance variables has a minimum ratio value of 11 and maximum value of 35, mean value of 23.40 and standard deviation value of

7,24. The value of social performance higher than environmental performance but overall independent variable shows has mean value high than standard deviation, which mean is company has disclosure and maintenance of social and environmental activities.

**Table 1**  
**Descriptive Analysis**

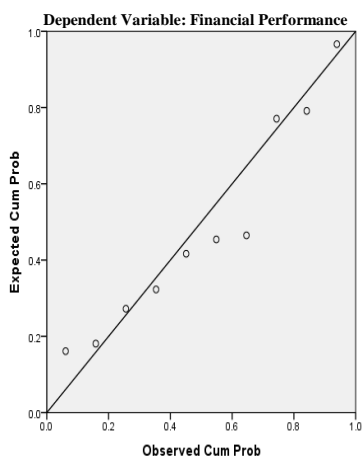
	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Std. Deviation</i>
Social	10	13.00	38.00	25.10	9.32
Environmental	10	11.00	35.00	23.40	7.27
Financial Performance	10	170.50	881.67	478.90	240.83
Valid N (List wise)	10				

Source: Output SPSS

**Classical Assumptin Test**

**Normality Test**

The figure 1 shows all data used close to the diagonal line so that it can be assumed that all data used in the study are normally distributed.



**Figure 1.**  
**Normality Test**  
Source: SPSS result

**Multicollenearity Test**

Table 2, show tha the VIF value of social performance (x1) is  $0.424 > 0.10$  and  $VIF\ 2.360 < 10$  means that there is no multicollinearity on the variable. VIF value of environmental performance (X2)  $0.424 > 0.10$  and  $VIF\ 2.360 < 10$  means that there is no multicollinearity on the variable.

**Table 2**  
**Multicollenerity Test**

Model	Collinearity Statistics	
	Tolerance	VIF
1 (Constant)		
Social	.424	2.360
Environmental	.424	2.360

a. Dependent Variable: Fncial Performance

**Heteroscedasticity Test** is 0.206 > 0.05. This explains there is no heteroscedasticity problem in the regression model between social and environmental performance. Table 3. describe the significance value of the social performance variable is 0.747 > 0.05. Environmental performance variable

**Table 3.**  
**Heteroscedasticity Test**

Model	Sig
(Constant)	.335
Social	.747
Environmental	.206

Source: Output SPSS

**Correlation Analysis** performance with the constant value - 230.414. In the meaning there was positive correlations between social and environmental performance has correlation with financial performance (17.850) and environmental performance (11.152) with financial performance.

**Table 4**  
**Correlations Between Social and Environmental Performance**

Model	Unstandardized Coefficients	
	B	Std. Error
1 Constant)	-230.414	72.062
Social Performance	17.850	3.517
Environmental Performance	11.152	4.508

## Hypotheses Test

Table 5 describe hypotheses H1, H2 and H3 accepted which mean is social and environmental performance (sig= 0.001 and 0.043, respectively) as partial has a significant and positive affect on financial performance. Also, social performance and environmental

performance (0.000) as simultaneous has a significant and positive affect on financial performance. On the other word, social and environmental performance as partial and/or simultaneous has a significant and positive affect on financial performance of PT Indonesia Power during the period of study

**Table 5**  
**Hypotheses test**

<i>Hypotheses</i>	<i>Independent</i>	<i>Dependent</i>	<i>T</i>	<i>Sig*</i>	<i>Conclusion</i>
H1	Social Performance	Financial Performance	5.076	0.01	Sig. positive
H2	Environmental Performance	Financial Performance	2.474	0.043	Sig. positive
<i>Hypotheses</i>			<i>F</i>	<i>Sig</i>	<i>Conclusion</i>
H3	Social & Environmental Performance	Financial Performance	60.116	0.000	Sig. Positive

\*level Sig. 0.05%

Source: output SPSS

This is similarity research conducted by Adhima (2012) which states that increased disclosure of environmental performance as measured by the GRI-G3 Guidelines environmental dimensions have a positive and significant effect on company profitability. Based on the theory of discretionary disclosure which states that good social stakeholders believe that disclosure their performance it means describing good news for market. Therefore, a company that implements CSR as well a social performance will increase., then public

support and strengthen social factors for sustainable development and management from the community towards the company concerned. The results stated that the empirical evidence of PT Indonesia Power's social performance in 2007 - 2016 continued to experience positive changes as indicated by an increase in financial performance in the same year.

Companies with good environmental performance need to disclose information on environmental quantity and quality more than companies

with worse environmental performance. The environmental performance per month of PT Indonesia Power in 2007 - 2016 continues to experience positive changes, that can improve financial performance in the same year.

Furthermore, social performance and environmental performance simultaneously have a significant influence on financial performance. Improving the performance of corporate social responsibility through CSR disclosure or Sustainability Reports. It will have a positive influence on company profits and increase financial performance on the future. With an increase in the company's financial performance, investors will be interested in investing in stocks because investors assume that the company has good future prospects. The result of study supporting and similarity studies Adhima (2012), Astuti et al (2013), Wijaya and Juniarti (2014), Rasyid (2016), Haninun et al (2018) has evidence social and environmental performance positive and significant effect on financial performance, but contrarily the result studies Setyaningsih (2016), Rezki (2017) and Vazquez et al (2019) there is no correlation and insignificant affect between social and environmental performance with financial performance

## CONCLUSION

This study aims to determine the effect of social and environmental disclosure on the financial performance of PT Indonesia Power for the period 2006-2016. The independent variable is social disclosure and environmental disclosure, while the dependent variable is financial performance. Data were analyzed using multiple regression to determine the effect of independent variables on the dependent variable. The research has evidence that social and environmental disclosure either partially or simultaneously shown to affect the financial performance.

This study have some limitation, therefore some suggestion for the future research. First, the future study should investigate the effect of economic, social and environmental performance on financial performance. Also, it consider financial performance as a variable effecting social responsibility than the reverse. The future research suggested to investigated various aspect of company performance in different way due to the inconsistency of the result of prior studies. .

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