Finance, Accounting and Business Analysis
Volume 3 Issue 1, 2021
http://faba.bg

Environmental Performance and Company Size on the Financial Performance of Sharia Companies in Indonesia

Nur Wahyu Ningsih, Rego Putrawan, Evi Ekawati, Ahmad Isnaeni

Department of Sharia Accounting, Universitas Islam Negeri Raden Intan, Bandar Lampung, Indonesia

Info Articles

History Article:
Submitted 14 January 2021
Revised 9 March 2021
Accepted 21 April 2021

Keywords:
Environmental Performance, Company size, Financial Performance

Abstract

Measuring financial performance is important to do. It aims to evaluate the efficiency and effectiveness of the company in generating profits. Basically, there are many factors that affect financial performance, but in this study it is only limited to the influence of environmental performance and company size on financial performance. This type of research is a causal associative quantitative research using secondary data sourced from the annual reports of mining sector companies listed on the Indonesian Sharia Stock Index (ISSI) for the 2014-2019 period. The population in this study was all mining companies registered on the ISSI. The sampling technique used purposive sampling technique and obtained a sample of 72. The data analysis method uses panel data regression with Eviews 10. The results of this study indicate that environmental performance has no effect on financial performance, while firm size has an effect on financial performance. Simultaneously environmental performance and company size affect financial performance.

*Address Correspondence:
E-mail: nurwahyu@radenintan.ac.id

INTRODUCTION

Measuring financial performance is important to do. This aims to evaluate the efficiency and effectiveness of the company in generating profits. By measuring financial performance, it can be seen the prospects for growth and financial development of the company. A company is said to be successful if the company has achieved a certain predetermined performance. The company's financial performance can be used as a means or indicator in order to improve the company's operational activities. With the improvement in operational performance, it is hoped that the company can experience better financial growth and be able to compete with other companies. Many factors can affect the company's financial performance. Therefore the company should be able to optimize these factors in order to further improve its financial performance. By knowing what factors affect financial performance, the company can establish an accurate strategy so that the targeted financial performance will be easier to achieve. However, this research is limited to examining the effect of environmental performance and company size on financial performance.

Environmental performance can be interpreted as steps to provide protection to the environment or ecosystem. The environment is one part of the company that cannot be ignored and must be an integral part of the company's business activities. Therefore, the environment should be treated as any other stakeholder in the company. The survival of the company is very dependent on the safety and preservation of the environment. For now, the company's concern for the environment is one aspect that needs attention. This is in accordance with the Minister of Environment Regulation Number 03 of 2014 concerning the Company Performance Rating Program in Environmental Management or known as PROPER. One of the studies linking environmental performance with financial performance is research conducted by (Ikhsan & Muharam, 2016). The results of this study indicate that environmental performance partially and simultaneously has a significant effect on financial performance. This is different from research conducted by (Putra, 2017) which states that environmental performance has no effect on financial performance.

The next factor is the size of the company, while what is meant by company size is a scale where the size of the company can be categorized based on total assets, sales and so on. Large-scale companies are generally better known by the wider community when compared to companies that are small in size and are usually able to survive for a long time. In addition, because it is better known, there is more information about large companies than small companies. If a lot of information is in the hands of investors, then the level of investor uncertainty about the future of the company can be known. The research that links company size to financial performance is research conducted by (Tambunan & Prabawani, 2018). The results of this study indicate that company size has no effect on financial performance. This is different from research conducted by Wufron in 2017 which stated that company size has an influence on financial performance.

In this research, it focuses on mining sector companies listed in ISSI since mining sector companies are more appropriate to use and more representative of the independent variables in this study, namely environmental performance and company size. The mining industry is an unsustainable industry because it depends on non-renewable resources. Environmental management in mining operations should cover all phases of the mining activity, from the exploration phase to the production phase to post mine closure. The phenomenon that occurs in the mining industry in Indonesia is that mining companies have the immunity to disobey environmental regulations and can pollute freely without fear of sanctions, such as violations committed by several mining companies that do not comply with environmental regulations, namely PT. . Barisan Tropical Mining (owned by Laverton Gold Auatralia) in South Sumatra, PT. Indo Moro Kencana (owned by Aurora Gold Australia), PT. Newmont Minahasa Raya (owned by Newmont USA). And PT. Kelian Equatorial Mining (owned by British-Australian Rio Tinto). Global issues such as environmental protection, responsible supply of materials and the welfare of communities around mining areas will be of particular concern to the government in the future. The government will seriously push for these agendas, while non-governmental organizations will be more critical of all forms of environmental damage. The government has a big task to reposition the mining industry as a lever of the local and regional economy, not just as an object of activity that generates state revenue. For this reason, the government will encourage mining and mineral companies to play a more strategic role in maximizing the development and empowerment of communities around the operating area. There are 27 mining sector companies listed on the Indonesian Sharia Stock Index (ISSI) consecutively in the 2014-2019 period. The companies are as follows:

Table 1. Mining Companies Listed on ISSI 2014-2019

Name of Company	Code
Adro Energy Tbk	ADRO
Aneka Tambang Tbk	ANTM
Atlas Resources Tbk	ARII
Ratu Prabu Energy Tbk	ARTI
Bumi Resources Minerals Tbk	BRMS
Barmulti Sukses Sarana Tbk	BSSR
Bayan Resources Tbk	BYAN
Citatah Tbk	CTTH
Darma Henwa Tbk	DEWA
Dian Swastatika Sentosa Tbk	DSSA
Elnusa Tbk	ELSA
Alfa Energi Investama Tbk	FIRE
Golden Energi Mines Tbk	GEMS
Garda Tujuh Buana Tbk	GTBO
Harum Energi Tbk	HRUM
Vale Indonesia Tbk	INCO
Indo Tambang Raya Megah Tbk	ITMG
Resource Alam Indonesia Tbk	KKGI
Mitrabara Adiperdana Tbk	MBAP
Samindo Resources Tbk	MYOH
Bukit Asam Tbk	PTBA
Petrosea Tbk	PTRO
Radiant Utama Interinsco Tbk	RUIS
Golden Eagle Energy Tbk	SMMT
SMR Utama Tbk	SMRU
Toba Bara Sejahtra Tbk	TOBA
Kapuas Prima Coal Tbk	ZINC

Source: processed data, 2021

The formulation of the problems in this study are: 1). Does environmental performance affect financial performance?, 2). Does company size affect financial performance? 3). Do environmental performance and company size jointly affect financial performance? Based on the formulation of the problem, the objectives of this study are: 1). To determine the effect of environmental performance on financial performance, 2). To determine the effect of company size on financial performance, 3). To determine the effect of environmental performance and company size together on financial performance.

Stakeholder Theory

According to (Kriyantono, 2014) *Stakeholder* theory pays attention to the concept of who is at risk of being influenced or potentially influencing organizational activities. Stakeholders can be defined as individuals, groups, or organizations, directly or indirectly, who have the potential or possibility to influence the activities of the organization. This stakeholder theory reminds managers to pay attention to all people and groups who can be influenced or influence the goals of the company.

Legitimacy Theory

In accordance with (Utomo, 2019), Legitimacy theory is a theory that focuses more on the interaction of relationships between organizations and society. Legitimacy is a management system that is oriented on taking the side of the company towards the community. Legitimacy theory explains the social contract relationship between the company and the community, where the company must have integrity in implementing ethics in doing business and increase social and environmental responsibility, so that the company can be accepted by its existence in the community. Legitimacy is considered important for the company because the community's legitimacy to the company is a strategic factor for the company's future development.

Sharia Enteprise Theory

Sharia Enterprise Theory states that accountability is carried out not only to the company, but also to wider stakeholders. Sharia Enterprise Theory includes Allah, humans and nature, where Allah is the highest and the only goal of human life. Humans are required to be responsible for all activities to Allah vertically, then continue in the form of horizontal accountability to other humans and the natural environment.

The Indonesian Sharia Stock Index

The Indonesian Sharia Stock Index (ISSI), which was launched on 12 May 2011, is a composite index of Islamic stocks listed on the IDX. ISSI is an indicator of the performance of the Indonesian Islamic stock market. ISSI constituents are all Islamic shares listed on the IDX and included in the List of Sharia Securities (DES) issued by the OJK. This means that the IDX does not select sharia stocks that are included in ISSI. The ISSI constituents are reselected twice a year, every May and November, following the DES review schedule. Therefore, every selection period there are always sharia stocks that leave or enter into ISSI constituents. The ISSI calculation method follows other IDX stock index calculation methods, namely the weighted average of market capitalization using December 2017 as the base year for calculating the ISSI

Environmental Performance

Based on (Parmawati, 2018) the company's environmental performance is a company's performance in creating a good environment. The number of environmental issues that have developed has prompted the creation of a standard that regulates environmental disclosure issues, with the hope that companies have an obligation to convey more accurate information about their environmental performance. This standard has been applied in several countries in the world such as America and Australia. Meanwhile in Indonesia, the Indonesian Accounting Association has prepared a disclosure standard for environmental accounting in the Statement of Financial Accounting Standards (PSAK) No. 32 (Forestry Accounting) and 33 (General Mining Accounting), this will help as a basis and guidance in preparing environmental accounting reports. With the result that every company is required to have concern for the environment.

H_1 : There is a significant influence between environmental performance and financial performance

Company Size

By (Sawir, 2004) the size of the company can determine the level of ease with which the company obtains funds from the capital market. Small companies generally lack access to an organized capital market, for both bonds and stocks. If the issuance of securities can be made, the securities of small companies may not be marketable and require pricing in such a way as to allow investors to obtain higher returns. So basically the bigger a company is, the easier it will be for the company to get funding.

H_2: There is a significant influence between company size and financial performance

Financial Performance

In (Kawatu, 2004), Basically, financial performance can be interpreted as the ability of a company to earn a profit. Financial performance can be reflected in the balance sheet financial statements, budget realization reports and cash flow reports. Financial reports need to be analyzed in order to provide an overview of financial performance. Financial statement analysis is an activity to interpret the numbers in financial statements in order to assess financial performance, where the results of the analysis will be used as a basis for economic, social or political decision making. Financial statement analysis requires certain techniques so that the analysis is useful for decision making. There are several financial statement analysis techniques, including financial ratio analysis.

METHODS

Research Design

Return on Asset

Measurement of the company's financial performance in this study uses the Return on Asset (ROA) ratio. What is meant by return on assets is the comparison between net income and total assets. This ratio shows how much net profit the company gets when measured from the value of its assets. The return on asset ratio can be formulated as follows :

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

Environmental Performance

An environmentally friendly economy is a positive thing that can be felt by all parties or generations. So far there have been many criticisms stating that the existing economy is still not in favor of the environment. Even the production process has led to a lot of degradation of land in nature. This is because at first the economy did not talk about environmental problems because the environment was considered an external factor and as a free good. So that in the process we need an institution and an instrument that can maximize the use of natural resources in the economic process without destroying and reducing its quality for future generations. The environment is so important for now that the government issued a regulation, namely Law no. 03 of 2014 concerning the Company Performance Rating Program in Environmental Management or what is known as PROPER. In this study, environmental performance is measured based on the PROPER assessment conducted by the Ministry of Environment. The environmental performance measurement in this study is according to the PROPER rating, which is as follows:

Tabel 2. Rate of PROPER

Color	Note	Score
Gold	Excellent	5
Green	Very Good	4
Blue	Good	3
Red	Poor	2
Black	Very Poor	1

Source: processed data, 2021

Company Size

Basically, the size of the company can be divided into three, namely small companies, medium companies and large companies. Company size can be seen from total assets, total sales, total employees, and so on. The greater the total assets or total net sales, the greater the size of the company. The bigger the asset, the greater the invested capital. Meanwhile in this study, to measure the size of the company seen from the total assets owned. The formula is as follows:

$$\text{Company Size} = \text{LN(Total Asset)}$$

Sample Selection

The population of this research is the mining sector companies listed on the Indonesian Sharia Stock Index (ISSI) consecutively in the 2014-2019 period, totaling 27 companies. The research sample consisted of 12 companies in the 2014-2019 period.

Data Analysis Method

This research uses normality test, classic assumption test, Eviews 10 panel data regression test, and T test.

RESULT AND DISCUSSION

First Hypothesis Testing

The results of the normality test are presented in table 3 below:

Table 3. Result of Normality Test

Normality Test	
Sample	2014-2019
Observations	72
Probability	0.361141

Source: Data processed by Eviews 10, 2021

Based on table 3 above, it can be seen that the probability value is 0.361141. So based on these data it can be concluded that the model in this study is normally distributed, as the probability value of 0.361141 is greater than 0.05. The results of the normality test are presented in table 4:

Table 4. Result of Partial Test Model *Fixed Effect*

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-79.86317	30.28824	-2.636772	0.0107
LOGKL	0.330017	0.822056	0.401453	0.6896
LOGUP	26.07535	10.37895	2.512332	0.0148

Source: Data processed by Eviews 10, 2021

Based on the results of testing the first hypothesis (H1), it states that environmental performance variables have no influence on the financial performance of mining sector companies listed on the Indonesian Sharia Stock Index (ISSI) for the 2014-2019 period. This is indicated by the probability value of environmental performance amounting to 0.6896 with a t-statistic value of 0.401453. For the probability value is 0.6896> 0.05, the first hypothesis in this study is rejected, which means that the environmental performance of a mining sector company has no influence on its financial performance.

Second Hypothesis Testing

Based on the results of testing the second hypothesis (H_2), it states that the company size variable has a positive and significant effect on the financial performance of mining sector companies listed on the Indonesian Sharia Stock Index (ISSI) for the 2014-2019 period. This is indicated by the probability value of the Company Size of 0.0148 with a t-statistic value of 2.512332. From these data, it can be concluded that the company size variable has a positive and significant effect on the financial performance of mining sector companies listed on the ISSI since the probability value is 0.0148 <0.05.

First Hypothesis Discussion

The relationship between the theory of legitimacy and environmental performance is that the company's operations must be in accordance with the expectations of the community and the environment so that there is no shift and mismatch between the company and the surrounding environment. The rationale for legitimacy theory is that companies will continue to exist if society realizes that the organization operates for a value system that is commensurate with the community's own value system. Legitimacy theory suggests companies to ensure that their activities and performance can be accepted by society. Companies can use their annual reports to illustrate the impression of environmental responsibility, so that they are accepted by the community. That way, even though the environmental performance of a company in the mining sector is getting better, it does not have an impact on its financial performance. The measurement used in assessing environmental performance in this study is to use proper ranking by giving a score according to the ranking obtained. Based on the results of this study, although the company has the best proper rating, this does not have an impact on its financial performance.

The results of this study are in line with previous research conducted by (Setyaningsih, 2016), the results of this study also state that environmental performance has no influence on the company's financial performance. In addition, the results of this study are also in line with research conducted by (Meiyana & Aisyah, 2019), this study also states that environmental performance has no influence on financial performance.

Second Hypothesis Discussion

Stakeholder theory states that a company is systematically responsible for all parties involved in the company. Based on this, it can be concluded that the bigger the company, the more parties involved in the company. Companies with large sizes are more easily recognized by the public and relatively easier to obtain funding from the public compared to small-scale companies. Therefore, the bigger the company, the greater the company's responsibility to the parties concerned. So based on these results it can be said that the bigger a company, the better its financial performance will be. When a company is categorized as a large company, its financial performance can also be said to be good, since basically the bigger a company is, the easier it will be for the company to obtain capital and trust from other parties such as investors and so on so that it can improve financial performance of a company.

The results of this study are in line with previous research conducted by (Castelia et al., 2013), the results of this study state that company size has an influence on financial performance. In addition, previous research which is also in line with the results of this study is research conducted by (Setiawan, 2018), the results of this study state that company size has an influence on the company's financial performance.

CONCLUSION

Based on the results of the analysis, the conclusions of this study are as follows: Environmental performance has no effect on the financial performance of mining companies listed on the Indonesian Sharia Stock Index (ISSI) for the 2014-2019 period and company size has a positive and significant impact on the financial performance of mining companies listed on the Indonesian Sharia Stock Index (ISSI) for the 2014-2019 period.

REFERENCES

Castelia, Y., Arisadi, & Djazuli, A. (2013). Pengaruh Ukuran Perusahaan, Umur Perusahaan, *Current Ratio, Debt to Equity Ratio*, dan *Fixed Asset to Total Asset Ratio* Terhadap Kinerja Keuangan Pada Perusahaan Manufaktur di Bursa Efek Indonesia. *Jurnal Aplikasi Manajemen*, *11*(4), 567–740.

Ikhsan, A. A. N., & Muharam, H. (2016). Pengaruh Kinerja Lingkungan Terhadap Kinerja Keuangan: Studi Pada Perusahaan Yang Terdaftar di Kementerian Lingkungan Hidup dan Listing di BEI. *Diponegoro Journal Of Management*, *5*(3), 11.

Kawatu, F. S. (2004). *Analisis Laporan Keuangan Sektor Publik*. Deepublish.

Kriyantono, R. (2014). *Teori-Teori Public Relations Perspektif Barat dan Lokal: Aplikasi Penelitian dan Praktik*. Kencana.

Meiyana, A., & Aisyah, M. N. (2019). Pengaruh Kinerja Lingkungan, Biaya Lingkungan dan Ukuran Perusahaan Terhadap Kinerja Keuangan Dengan *Corporate Social Responsibility* Sebagai Variabel Intervening (Studi Empiris Pada Perusahaan Manufaktur Yang Terdaftar di Bursa Efek Indonesia Tahun 2014 -. *Jurnal Nominal*, *7*(1), 1–18.

Parmawati, R. (2018). *Ecology, Economy, Equity (Sebuah Upaya Penyeimbang Ekologi dan Ekonomi)*. UB Press.

Putra, Y. P. (2017). Pengaruh Kinerja Lingkungan Terhadap Kinerja Keuangan Dengan Pengungkapan Corporate Social Responsibility (CSR) Sebagai Variabel Intervening. *Jurnal Ekonomi Dan Bisnis Universitas Muhammadiyah Bengkulu*, *2*(2), 228.

Sawir, A. (2004). *Kebijakan Pendanaan dan Restrukturasi Perusahaan*. PT. Gramedia Pustaka.

Setiawan, W. (2018). Pengaruh Kinerja Lingkungan, Biaya Lingkungan dan Ukuran Perusahaan Terhadap Kinerja Keuangan Dengan *Corporate Social Responsibility* (CSR) Sebagai Variabel Intervening (Studi Kasus Pada Perusahaan Manufaktur Yang Terdaftar di Bursa Efek Indonesia Tahun 20. *Journal Of Accounting*, *1*(1), 1–12.

Setyaningsih, R. D. (2016). Pengaruh Kinerja Lingkungan Terhadap Kinerja Keuangan Dengan *Corporate Social Responsibility* Sebagai Pemoderasi. *Jurnal Ilmu Dan Riset Akuntansi*, *5*(4), 1–15.

Tambunan, J. T. A., & Prabawani, B. (2018). Pengaruh Ukuran Perusahaan, *Leverage* dan Struktur Modal Terhadap Kinerja Keuangan Perusahaan (Studi Pada Perusahaan Manufaktur Sektor Aneka Industri Tahun 2012-2016). *Diponegoro Journal of Social and Politic*, *2*(2), 8.

Utomo, M. N. (2019). *Ramah Lingkungan dan Nilai Perusahaan*. CV. Jakad Publishing.