Original Article

The Effect of A Good Environmental Image on Improving Company Financial Performance

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Abstract: The stakeholder expectations on the company's environmental disclosure imply sustainability that the company must meet. The aim of this study is to investigate how industry type, ISO 14001 certification, and environmental performance affect the financial performance of businesses. This research uses secondary data from company annual reports and the Ministry of Environment's PROPER ranking database. Companies in the basic and chemical sectors that were listed on the Indonesia Stock Exchange between 2021 and 2023 made up the study's population. 51 samples were acquired by using a purposive sampling strategy to select samples from 17 companies between 2021 and 2023. This research uses the SPSS 26 application for multiple linear regression analysis. The results of this research show that the PROPER rating does not influence financial performance, while ISO 14001 certification and industry type have a significant influence on the company's financial performance.

Keywords: Environmental Performance, Financial Performance, Industrial Type, ISO 14001.

I. INTRODUCTION

In an increasingly competitive business world, companies often face many challenges and problems in maintaining business performance. As with previous world economic scandals (Enron in 2001, Bernard L. Madoff Investment Securities in 2008, Lehman Brothers in 2012, and others), company management tried to mitigate the impact of the crisis (Riyadh et al., 2019). Every company strives to optimize its performance, particularly its financial performance, as it is fundamental to sustaining the business. Not only does it reflect economic health, but for large companies, strong financial performance can increase investor interest in making investment decisions.

However, now many investors are paying attention to other important components that determine their investment decisions, one of which is non-financial aspects such as the company's concern for environmental issues. This is based on the fact that to increase profits, every business can exploit and distort the surrounding environment. Companies that do not care about the environment can cause serious impacts on surrounding life, such as damage to the ecosystem and environmental pollution. Concrete examples of previous cases of natural damage that have already occurred in Indonesia are PT Lapindo Brantas, PT Newmont in Buyat Bay, PT Freeport Indonesia, and others (Lestari, 2017). This incident is a reminder of the importance of environmental sustainability in running a business in order to maintain business continuity. For this reason, companies should not only make profits a priority but also pay attention to the surrounding environment, especially for large companies that have a large impact on the environment.

Issues regarding the environment are becoming increasingly attractive to the government and society, giving rise to encouragement for companies to carry out operational activities responsibly and disclose their environmental performance, including by participating in the PROPER program and ISO 14001 certification. PROPER is a policy issued by the Indonesian Ministry of Environment regarding company environment management performance by statutory regulations, while ISO 14001 is an internationally recognized standard regarding company environmental management. This disclosure is believed to be able to create a good image of the company so that it can increase shareholder trust and loyalty (Nuryaningrum & Andhaniwati, 2021). Not only that, this form of corporate environmental responsibility can also increase consumer purchases. Similar to investors, consumers will also consider their purchasing decisions based on the image they have built, especially for people who care about the environment. By disclosing environmental performance, business sustainability in the region is maintained over time and the company's image can improve.

Many previous studies have examined how a company's environmental performance can enhance its financial performance, including a study by (Nuryaningrum et al., 2021), which suggests that there is a significant positive influence of environmental performance on profitability. The findings produced by (Putri, Hidayati, and Amin, 2019) also prove that environmental performance and green accounting have a significant influence on the ROA and ROE profitability ratios. The

better the PROPER level and Green Accounting disclosure, the better the company's profitability. Paulus Tahu (2019), in his research, also found that environmental performance influences financial performance. However, apart from that, this statement is refuted by other research arguments which found that there is no discernible relationship between environmental performance and financial results (Asjuwita & Agustin, 2020; Puji Astuti et al., 2014; Vivianita & Nafasati, 2018). Even though its environmental performance is poor, the company continues to expand its market share so that financial performance is maintained (Vivianita et al., 2019). So, there are still contradictions that the differences in findings have not resolved. A company's ability to disclose its environmental performance is closely correlated with its ISO 14001 accreditation. ISO 14001 is an internationally recognized guideline that regulates environmental management systems (ISO ORG, 2015). Companies that have received this certification have gone through a process of gap analysis, implementation of environmental management standards, manager reviews and internal audits. So it becomes an achievement in itself for companies that successfully obtain this certification, and can increase investor confidence. Research conducted by Evita and Syafruddin (2019) demonstrates the relationship between environmental performance, environmental expenses, and ISO 14001 certification. Certification in ISO 14001 has a favorable impact on achieving financial performance (Fitriaty, Solikhin, & Srikandi, 2021). ROE will increase along with the implementation of ISO 14001 certification in the company. However, in contrast, Setiawan Budi and Pranaditya (2018) obtained different findings where ISO 14001, which is a measure of environmental performance variables, was proven to have no significant influence on company financial performance.

Apart from the influence of environmental performance and ISO 14001 certification, industry type is also a variable that influences financial performance. In order to form a positive image of a business, industry type is also believed to influence a company's performance and disclosure because it has different characteristics between types. The effect of industry type is still controversial because the results are inconsistent. In dividing industry types into high-profile and low-profile, previous researchers found that high-profile industry types made more disclosures than low-profile types (Arisandi & Mimba, 2021). These differences in disclosure tendencies can influence stakeholder responses. Other researchers obtained results that industry type did not affect company value, which is part of financial performance (Beriwisnu & Priyadi, 2017). However, there is still little research that links industry type to company financial performance through profitability.

Previous research was limited in the scope of the company sector, which only focused on testing one non-manufacturing sector and did not add other variables, such as ISO 14001 as an assessment of environmental performance (Ningtyas & Triyanto, 2019; Asuti, Anisykurillah, & Murtini, 2014). This research aims to address gaps and limitations in previous studies by investigating how environmental performance, ISO 14001 certification, and industry type affect the financial performance of basic and chemical companies listed on the Indonesian Stock Exchange from 2021 to 2023. The basic and chemical sectors were chosen because they are one of the manufacturing sectors that contribute to the largest economy in Indonesia, which consists of various fields. Based on (Kemenpan.go.id, 2024), throughout 2023, basic metal companies will be the number one contributor to national manufacturing industry exports, while the chemical industry will be the eighth largest.

II. LITERATURE REVIEW
A) *Theoretical Framework and Hypothesis Development*
a. Stakeholder Theory
Stakeholder theory emphasizes that companies should consider the interests of all their stakeholders by generating social benefits and promoting welfare. Agoes and Ardana (2011) in their book used a classification of stakeholders which had divided into two, namely the primary group consisting of customers, suppliers, shareholders, lenders, and employees and a secondary group that consists of stakeholders outside the primary group who indirectly have the potential to influence the existence of the company. In protecting the interests of its stakeholders, companies must not ignore the environmental conditions because this will have an impact on their relationship with the company's stakeholders. Therefore, apart from striving for good financial performance, companies need to be able to express the sustainability of their business through their environmental performance.

b. Legitimacy Theory
This research is also based on legitimacy theory, which believes that companies want to gain legitimacy or recognition from the public that they have carried out operations without crossing the boundaries of the rules and norms applied (Vivianita et al., 2016). Companies receive social demands from stakeholders to run their businesses by improving the welfare of the surrounding environment. In other words, companies are expected to be able to be responsible for the surrounding environment to gain legitimacy from the community; for instance, do not throw waste carelessly. So, disclosing environmental responsibility is a way that can be implemented to gain public recognition (Widiastuti, Utami & Handoko, 2018).

c. The influence of environmental performance on financial performance

Environmental issues are a factor that influences stakeholders' decisions to purchase, finance, or invest in companies. Companies that have a good image of caring for the environment will create a boost of interest among investors. This shows that the company has a long-term sustainability vision for the surrounding environment. Companies that pay more attention to the environment and company stakeholders will encourage improved financial performance (Vivianita et al. 2016). The influence of environmental performance can also be explained by legitimacy theory, where disclosure of environmental performance by a company will gain recognition from its stakeholders because it has operated responsibly.

The findings of previous studies show that ecological sustainability has a major impact on financial performance (Nuryaningrum et al., 2021; Putri et al., 2019; Tahu, 2019). Drawing on the aforementioned description, the following hypothesis is put forth:
h2: Environmental performance positively influences a company's financial performance

d. The effect of ISO 14001 certification on financial performance

As a form of the company's seriousness towards environmental sustainability, ISO 14001 certification is one of the trusted certifications disclosed in the company's annual report or sustainability report. Setiawan, Budi and Pranaditya (2018) used the ISO 14001 variable as a measurement instrument of company environmental performance. It is hoped that this disclosure can provide a positive picture of the environmental practices that the company has implemented. With certification that is internationally recognized and not often found in other companies, of course, ISO 14001 certification can improve the company's image, especially for consumers and shareholders.

This statement is strengthened by the findings of a study conducted by Fitriaty et al. (2021), which proves the positive influence of ISO 14001 certification on financial performance. Thus, the following hypothesis is proposed:
**h2**: ISO 14001 positively influences a company's financial performance

e. The influence of industry type on financial performance

Industry types define companies based on the scope of operations, company risks, and ability to face business challenges (Anindita, 2015). Robert (1992) in Urmila and Mertha (2017) divides companies separated into two categories: low-profile and high-profile. Companies with a high profile tend to receive greater attention from the public because they have characteristics such as high levels of competition, high political risk, and also high environmental sensitivity, while low-profile companies have inversely proportional characteristics.

In this way, the public will pay more attention to the activities of high-profile companies compared to low-profile companies. This tendency has resulted in encouragement for high-profile companies to continue to improve the quality of their reporting to become better. Companies that fall into the high-profile industry classification have extensive experience in social and environmental responsibility (Frista & Fernando, 2020). There are differences in the motivation for disclosure low-profile and high-profile companies can produce different responses by stakeholders. So, based on stakeholder theory, the differences in the types of industry can influence company performance. Through the description above, the following hypothesis is created:
h3: Industry type positively influences a company's financial performance.

Figure 1: Conceptual Framework
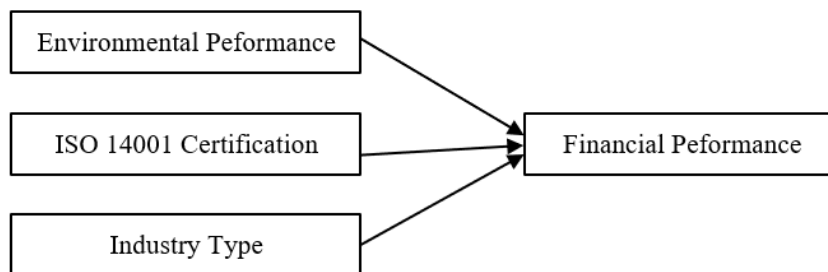
B) Research Methodology

The Ministry of the Environment's PROPER ranking system for 2021–2023 and the yearly filings of businesses registered on the Indonesia Stock Exchange are the secondary data sources used in this study. The population used is the basic and chemical company sectors listed on the IDX in 2021-2023. The sample in this research was taken using a purposive sampling technique using several criteria provisions, namely: (1) Companies that participated in the PROPER program and received rankings by the Ministry of the Environment from 2021-2023, (2) Basic and chemical industries that have published

annual reports from 2021 until 2023, and (3) Companies that have received ISO 14001 certification at least in 2023. Company annual report data was acquired from the official websites of the organization and the Indonesian Stock Exchange. After conducting the sampling process, 17 companies were obtained over three years, thus obtaining 51 samples. Data sample selection can be seen in Table 1.

Table 1: Sample Selection Process

Basic industrial and chemical companies listed on the IDX	87
The company just had an IPO (Initial Public Offering) in mid to late 2021	(8)
Companies that are not registered with the KLH PROPER program in 2021, 2022 and 2023	(52)
Companies that receive the label "PROPER suspended."	(1)
Companies that have not yet published their 2023 annual reports	(4)
Companies that do not receive ISO 14001 certification in 2023	(5)
Total Company	17
Year of Research	3
Number of samples (17 x 3)	51

Source: Data Processed by Researchers (2024)

This research uses 2 types of variables, namely dependent and independent variables. Financial performance, which refers to Return on Assets (ROA), is the dependent variable for the research. Meanwhile, the independent variables used are environmental performance, certification of environment, and industry type.

Financial performance variables are used to measure company success. This research calculates the profitability ratio as a measure of business performance, namely Return on Assets (ROA), to measure the company's overall performance. Nuryaningrum et al. (2021) and Urmila et al. (2017) use ROA to measure a company's financial performance because of the ability to describe the company's profit capability. The ROA measurement is calculated using the following formula:

ROA: $\frac{\text{Net Income}}{\text{Total Asset}} \times 100\%$

Suratno (2006) in Astuti et al (2014) define company environmental performance as business performance in realizing environmental sustainability, namely green environmental quality (green economy). In this research, the PROPER assessment is categorized into five color categories. Gold represents the highest environmental performance, followed by green for excellent performance, then blue, yellow, and red, with black symbolizing the lowest performance. The measurement of environmental performance variables using categorization according to Astuti (2014) and Andriana & Panggabean (2017) is presented in Table 2 below.

Table 2: PROPER ranking

Score	Ranking
1	Black
2	Red
3	Blue
4	Green
5	Gold

Source: Astuti (2014); Andriana & Panggabean (2017)

The ISO 14001 certification variable is an environmental management certification that can be a benchmark for a company's environmental assessment. Aulia & Hadinata (2019) in Nuryaningrum et al. (2021) use the number 1 for companies that have received ISO 14001 certification and the number 0 for companies that have not received ISO 14001 certification.

This research sample is divided into two different types of industry, which are low-profile and high-profile. Several researchers, including Frista et al. (2020), Fitriani and Rosdiana (2022), and Widiastuti et al. (2018), use a nominal scale to classify low-profile and high-profile industries. With a dummy variable, the number 1 is given to high-profile industries, and the number 0 is given to low-profile industries. The table below illustrates the classification of company industries.

Table 3: Industry type

High-Profile	Petroleum, Mining, Chemical, Forestry, Paper, Metal, Cement, Automotive, Aviation, Agribusiness, Tobacco and Cigarettes, Food and Beverage Products. Media and Communication, Energy, Engineering, Health, Transportation, and Tourism.
Low-Profile	Buildings, Finance and Banking, Medical Equipment Suppliers, Property, Trade and Investment, Textiles and Textile Products, Personal Products, Household Products, Containers and Packaging.

Source: Fitriani dan Rosdiana (2022); Widiastuti, Utami & Handoko (2018)

In testing the influence of environmental performance, ISO 14001 certification, and industry type on company financial performance, a multiple linear regression model was carried out.

$$ROA = \alpha + b_1 PRO + b_2\ ISO +\ b_3 TYPE + e$$

Information:

ROA	= Financial Performance (ROA)
α	= Constanta
b	= Regression Coefficient
PRO	= Environmental Performance (PROPER)
ISO	= ISO 14001 Certification
TYPE	= Industry Type
e	= Error

The collected data is analyzed using the multiple linear regression method in the SPSS 26 application to test the influence between variables (independent and dependent). To find out the overall summary of the data collected, descriptive analysis is presented in the research. Then, the classical assumption test is carried out before conducting the multiple linear regression test, namely the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test.

III. RESULTS AND DISCUSSION

A) Descriptive Statistic

By processing the data using the SPSS 26 application on 51 samples, descriptive statistical results were obtained for each variable presented in Table 4, which is presented below.

Table 4: Statistic Descriptive Result.

N		Min.	Max.	Mean	Std. Deviation
PRO	51	2,00	5,00	3,1961	0,66392
ISO	51	0,00	1,00	0,9804	0,14003
TYPE	51	0,00	1,00	0,8824	0,32540
ROA	51	-0,0402	0,1983	0,047465	0,0448332
Valid N (listwise)	51				

Source: Data Processed by Researchers (2024)

Through the data in Table 4, it is evident that the lowest value for the environmental performance variable (X1) is 2 (Red Rank), owned by PT Unggul Indah Cahaya in 2021, PT Perusahaan Kertas Tjiwi Kimia in 2023, and PT Lion Metal Works from 2021 to 2023. Meanwhile, the highest score for the environmental performance variable is 5 (Gold Rank), obtained by PT Semen Indonesia and PT Chandra Asri Petrochemical in 2023. The overall average PROPER (environmental performance) score is worth 3.1961 or is ranked Blue with a standard deviation of 0.66392.

In the ISO 14001 (X2) certification variable, PT Gunawan Dianjaya Steel obtained a minimum value of 0 in 2021. Meanwhile, a maximum value of 1 was obtained by PT Indocement Tunggal Prakarsa, PT Semen Baturaja, PT Holcim Indonesia, PT Semen Indonesia, PT Surya Toto Indonesia, PT Steel Pipe Industry of Indonesia, PT Lion Metal Works, PT Pelat Timah Nusantara, PT Chandra Asri Petrochemical, PT Unggul Indah Cahaya, PT Lotte Chemical Titan, PT Indopoly Swakarsa Industry, PT Japfa Comfeed Indonesia, PT Indah Kiat Pulp & Paper, PT Suparma, PT Tjiwi Kimia Paper Factory in 2021 to 2023, and PT Gunawan Dianjaya Steel in 2022 and 2023. The mean (average) value was 0.9804 with a standard deviation of 0.14003. Through the data in Table 4, it can be seen that the lowest value for the environmental performance variable (X1) is 2 (Red Rank), owned by PT Unggul Indah Cahaya in 2021, PT Perusahaan Kertas Tjiwi Kimia. in 2023, and PT Lion Metal Works from 2021 to 2023. Meanwhile, the highest score for the environmental performance variable is 5 (Gold Rank), obtained by PT Semen Indonesia and PT Chandra Asri Petrochemical in 2023. The overall average PROPER (environmental performance) score is worth 3.1961 or is ranked Blue with a standard deviation of 0.66392.

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The dependent variable (Y) financial performance got the lowest ROA value of - 0.0402 from PT Gunawan Dianjaya Steel in 2021, while the highest value of the financial performance variable was 0.1983, which was obtained by PT Unggul Indah Cahaya in 2021. The mean value of the variable Y The value obtained is 0.047465 with a standard deviation of 0.0448332.

Through descriptive statistical data, it can be concluded that there are still companies that have a low level of environmental responsibility, namely, 5 samples received Red PROPER. Then, it was found that in 3 years, more and more companies were seeking ISO 14001 certification. Apart from that, it was also found that the type of industry in the sample was dominated by high-profile.

B) Hypothesis Test

The classic assumption tests are performed before conducting multiple linear regression analyses. From testing the classical assumptions, the results were obtained: (1) By testing normality using the Kolmogorov Smirnov test, the results obtained were that the data was distributed with Asym. Sig. of 0.200 (Normal), which is greater than 0.05. (2) There are no symptoms of multicollinearity in the research variables with a Tolerance value higher than 0.100 (0.986; 0.995; 0.985) and a VIF value lower than 10.00 (1.014; 1.005, 1.015). (3) This research also passed the heteroscedasticity test stage using the Spearman Rho method with a Sig value. (2- tailed) X1(0.751), X2(0.841), X3(0.954) which is greater than 0.05. (4) Lastly, the autocorrelation test in this research uses a Runs Test with Asymp values. Sig. (2-tailed) 0.204 which is greater than 0.05, which means there are no symptoms of autocorrelation.

Table 5: Coefficient Determinant Test Result
Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error ofthe Estimate
1	0,44[a]	0,194	0,143	0,0415027

    a. Predictors: (Constant), TYPE, ISO, PRO
    b. Dependent Variable: ROA

Source: Data Processed by Researchers (2024)

A determination test was also carried out (performed in Table 5) to understand how big the independent variable is in predicting the dependent variable. The results from Table 5 include an Adjusted R Square component of 0.143, indicating a 14.3% variance explained by the variables in the model. So, it is concluded that all variables are able to explain the dependent variable worth 14.3%. After that, the multiple linear analysis test can be seen in the table below.

Tabel 6: T Test Result
Coefficients [a]

	Model	UnstandardizedB	CoefficientsStd. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-0,031	0,052		-0,611	0,544
	PRO	-0,016	0,009	-0,232	-1,760	0,085
	ISO	0,097	0,042	0,303	2,312	0,025
	TYPE	0,038	0,018	0,278	2,107	0,040

a. Dependent Variable: ROA

Source: Data Processed by Researchers (2024)

From the table, it can be seen that the PRO (Environmental Performance) variable has a negative effect on the dependent variable, with a regression coefficient of -0.016 and a significance value of 0.85. Meanwhile, the ISO variable (ISO 14001 Certification) has a positive effect with a regression coefficient of 0.097 and a significance value of 0.025. The TYPE (Industry Type) variable also produces a positive coefficient on the ROA (Financial Performance) variable, namely 0.038, with a significance value of 0.040. The regression equation formulated is:

ROA = -0,031 + -0,016PRO + 0,097ISO + 0,038TYPE + e

Based on the results of the linear regression test above, the first hypothesis is rejected. The regression coefficient for PROPER is -0.016 with a significance of 0.085, indicating that the level of PROPER attained by the company does not significantly influence its ROA (Return on Assets), suggesting no positive effect on financial performance. Researchers also found that there are still many basic and chemical companies that have not registered with the PROPER program, and several companies have not operated in accordance with the maximum PROPER environmental management standards, resulting in low rankings (Red ranking).

These results are similar to previous research, which stated that environmental performance does not influence environmental performance (Asjuwita et al., 2020; Astuti et al., 2014; Vivianita et al., 2018). Manufacturing companies in Indonesia will experience an increase in the value of industrial output from 2020 to 2023, which is also marked by an increase in domestic and foreign investment as well as an increase in the export market (Irso, 2023). This proves that even though its environmental performance is poor, companies can still carry out expansion and better economic development. The demands from society and the government regarding the implementation of environmental responsibility do not make companies aware enough to carry it out in accordance with applicable norms and standards.

In contrast, the test results support the second hypothesis with a significance value of 0.025 and have a positive effect on financial performance (regression coefficient of 0.097). So, the presence of ISO 14001 certification in a company's annual report has a significant influence on a business's financial performance if assessed through the company's ROA. ISO 14001 certification is an internationally recognized certification and has proven to improve a company's image. This finding aligns with previous research (Evita et al., 2019; Fitriaty et al., 2021). It was also found that a sample of companies that have received ISO 14001 certification since 2021 consistently maintain this certification and have a history of certificate renewal.

The third hypothesis is accepted with a significance value of 0.040 so that industry type is proven to have a positive influence on the company's financial performance. This proves that the division of companies based on low-profile and high-profile industry types influences the financial performance produced by the company. High-profile industries that are more likely to gain public sentiment make better disclosures. Apart from that, it was found that there were more high-profile companies in the basic and chemical sectors than low-profile companies based on companies registered in PROPER. This also proves that high-profile companies are more aggressive in improving environmental performance by participating in the PROPER program. These results are in line with Stakeholder theory, which makes companies try to maintain good relations with their stakeholders.

Table 7: F Test Result
ANOVA [a]

	Model	Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0,020	3	0,007	3,782	0,016[b]
	Residual	0,081	47	0,002		
	Total	0,101	50			

a. Dependent Variable: ROA
b. Predictors: (Constant), TYPE, ISO, PRO

Source: *Data Processed by Researchers (2024)*

This research also carries out simultaneous tests to find out how the independent variables together or simultaneously can influence Financial Performance (ROA). Through the simultaneous test results in Table 7, an F value of 3.782 is obtained with a significance of 0.016. Based on these results, 0.016 significance defines that the three variables have a simultaneous influence on the financial performance variable. With an F value of 3.782, which exceeds the F Table value (2.802), the conclusion can be drawn that the independent variables environmental performance, ISO 14001 certification, and industry type influence a company's financial performance.

IV. CONCLUSION

A) Conclusion

The research's findings and analysis lead to the conclusion that the PROPER ratings' measure of environmental sustainability has little bearing on financial performance (ROA). This is due to the company's focus on company expansion and expanding market share without placing too much emphasis on environmental management standards. Meanwhile, it is found that ISO 14001 certification and industry type positively influence the company's financial performance. ISO 14001 has proven to be an effective certification that improves the image of the business environment and increases legitimacy from stakeholders. Industry type has an impact on strengthening financial performance because high-profile companies pay more attention to the stakeholder needs. Environmental performance variables, ISO 14001 certification, and industry type simultaneously have a positive influence on financial performance.

Apart from that, there are still several companies that have not implemented PROPER EMS optimally, as evidenced by the 5 samples that were labeled as Red. Results were also obtained if more basic and chemical companies which were of the high-profile type participated in the PROPER program than low-profile companies.

B) Recommendation

The study conducted has implications for the community as company stakeholders to pay more attention to the environmental responsibilities carried out by companies before making purchasing decisions. The government can also obligate the implementation of environmental management standards such as PROPER and ISO 14001 in large companies, especially for high-profiles.

This research is limited in the number of samples (17 companies in 3 years); thus testing the industry type variable is still not optimal because it only relies on the basic and chemical company sector. Apart from that, the coefficient of determination in this study is still not large enough (Adjusted R Square 14.3%). Therefore, future researchers can add samples with the same proportion of industry types between low-profile and high-profile or involve more samples from different sectors. Future research can add other variable components, such as CSR disclosure.

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