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## The Effect of Environmental Performance on Firm Value with Good Corporate Governance as a Moderator

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### **Abstract:**

*Based on the theory of firm, the main purpose of a company is established is to maximize the wealth or value of the company. Changes in perception of corporate obligations have shifted since the advent of the stakeholder theory. The minimization of environmental damage caused by business activities and the protection of the natural environment is a signal of the company's environmental performance, and has received increasing attention from the community so environmental performance factor can affect company value. By understanding the relationship patterns between these two variables, it is hoped that companies can take the right steps in increasing the value of the company by contributing to the environment that is now a concern of the business world. However, the relation between two variables still inconsistent so this study uses good corporate governance as moderating variable. The study conducted on 37 manufacture company in Indonesian Stock Exchange and use Moderated Regression Analysis. The result of this study shows that environmental performance has no significant effect on firm value while good corporate governance that proxied by independent commissioner have no moderating effect. This can be an indication of the lack of environmental awareness owned by capital market investors so it is suggested that the active role of the government to raise awareness of environmental issues that occur at this time.*

**Keywords:** Firm's value, environmental performance, good corporate governance, Stakeholders Theory, legitimacy theory

### **1. Introduction**

Based on the theory of firm, the main purpose of a company is established is to maximize the wealth or value of the company [1]. In line with the theory of firm, [2] also states that the main goal of each company is to maximize the value of shareholders or owners, achieve profitability through business activities, by producing and / or selling goods or services to consumers. The company's goal to maximize shareholder wealth can be achieved through increasing the value of the company [3].

Changes in perception of corporate obligations have shifted since the advent of the stakeholder theory [4]. The approach to stakeholder theory states that the company must not only benefit the company, but also for all interested parties, namely employees, government, customers, the community, the community, creditors, and company owners. So now the company's goal is not only to achieve profit but can also provide benefits for all stakeholders.

Generally, evaluations of company performance are carried out in the context of financial analysis, but with the increasing severity of the global financial crisis and its negative implications for growth and development, the impact of climate change and corporate scandals around the world, stakeholders increase their interest in environmental, social and governance issues. [5] states that the balance of environmental protection and economic development has attracted worldwide attention because the problem of environmental pollution arises constantly.

The minimization of environmental damage caused by business activities and the protection of the natural environment is a signal of the company's environmental performance, and has received increasing attention from the community, which requires companies to reduce their negative impact on the environment, contributing to sustainable development [6]. So now there are several factors that affect company value, one of which is the environmental performance factor [7]. By understanding the relationship patterns between these two variables, it is hoped that companies can take the right steps in increasing the value of the company by contributing to the environment that is now a concern of the business world.

The quality of environmental responsibility carried out by the company can be seen from its environmental performance. Environmental performance in terms of performance measurement is a measurable result of an environmental management system that is related to the control of environmental aspects. Measurement of environmental performance is based on environmental policies, environmental targets and environmental targets (ISO 14000 and ISO 14001). Research [7] found that environmental performance had a positive and significant effect on firm value. This result is supported by research [8] and [9] which found that environmental performance has a positive influence on firm value. However different results were found by [10], [11], and [12] found that environmental performance had no significant effect on firm value.

Research [7] found that environmental performance had a positive and significant effect on firm value. This result

is supported by research [8] and [9]. The inconsistency of the results of previous studies is a consideration to do research again on the effect of environmental performance on company value by using a contingency approach. The contingency approach is carried out by adding moderation variables namely company size and good corporate governance (GCG). Indicators of Good Corporate Governance mechanism used are independent board of commissioners. The independent board of commissioners is expected to be able to carry out more effective supervisory duties and provide added value to a company and be able to ensure that management really works to improve the company's performance so that the company's value will be better [9].

## 2. Literature Review

### 2.1. Stakeholders Theory

The traditional definition of stakeholders is "any group or individual who can influence or be affected by the achievement of organizational goals" [4]. The general idea of the Stakeholder concept is organizational redefinition. The stakeholder approach tries to build a framework that is responsive to managers' concerns that are faced with an unprecedented level of turbulence and environmental change. The first thing about stakeholder theory is that stakeholders are systems that are explicitly based on views about an organization and its environment, regarding the nature of mutual influence between the two that is complex and dynamic.

The basic premise of stakeholder theory is that the stronger the relationship of the corporation, the better the business of the corporation. Strong relationships with stakeholders are based on trust, respect and cooperation. Stakeholder theory is a strategic management concept, the aim of which is to help corporations strengthen relationships with external groups and develop competitive advantage [13].

### 2.2. Legitimacy Theory

Legitimacy theory has advantages over other theories because it provides disclosure of strategies that organizations can adopt to legitimize their existence which might be tested empirically [14]. The legitimacy theory holds that organizations continue to try to ensure that they operate within the boundaries and norms of their respective societies.

Legitimacy theory and stakeholder theory are theoretical perspectives within the framework of political economy theory. The influence of the wider community can determine the allocation of financial resources and other economic sources, companies tend to use environmental-based performance and disclosure of environmental information to justify or legitimize the company's activities in the eyes of the public [15].

### 2.3. Firm's Value

Firm's value is the present value of future free cash flow. The higher the value of the company, the greater the prosperity that will be received by the owner of the company. The indicator for the value of the company, the performance evaluation by calculating the market value of the company. The better performance of the company, then the higher the value of the company. One method in calculating the market value of a company by comparing the value of shares outstanding in the market and book value of the company's capital, known as Tobin's Q method.

### 2.4. Corporate Environmental Performance

The company's environmental performance according to [16] is the company's performance in creating a good environment (green). Thus, environmental performance is the company's performance that focuses on the company's activities in preserving the environment and reducing the environmental impact arising from company activities. One of the information that is often disclosed by companies is information about company policies on the environment, because this is considered as the core of the company's business ethics.

### 2.5. Good Corporate Governance

According to the Report Regarding Standards and Codes [17], corporate governance refers to the structure and process of corporate direction and control. Corporate governance deals with the relationship between management, the board of directors, controlling shareholders, minority shareholders and other stakeholders. Good corporate governance is a process and structure used by corporate organs, both directors, managers, shareholders, and parties related to the development of the company in a particular environment, to improve business success and corporate accountability in order to increase shareholder value in the long term by continuing to pay attention to other stakeholders based on legislation and ethical values [18].

### 2.6. Hypothesis

Stakeholder theory says that companies are not entities that only operate for their own interests but must provide benefits to their stakeholders. Thus, the existence of a company is strongly influenced by the support given by stakeholders to the company. Global attention to environmental damage caused by the company's business operations makes the company involved in various environmental preservation efforts to get support from stakeholders. This can be seen by the increasing number of companies implementing environmentally friendly business practices to preserve the natural environment [19].

Research [7] found that environmental performance had a positive and significant effect on firm value. This result is supported by research [9] which proves that environmental performance has a positive effect on company value. The

better the environmental performance of the company, the better the company's image and public trust will increase.

This positive influence can occur because from a natural resource-based view and instrumental stakeholder theory, the application of environmental practices in core business strategies enables companies to save on production costs by reducing environmental risks, while increasing their relationships with key stakeholders, which contributes to competitive advantage and thereby increasing the value of the company. Thus the first hypothesis is formulated as follows

H1 : Environmental performance has a significant positive effect on firm value

The contingency approach is carried out by adding moderation variables namely company size and good corporate governance (GCG). Indicators of Good Corporate Governance mechanism used are independent board of commissioners. The independent board of commissioners is expected to be able to carry out more effective supervisory duties and provide added value to a company and be able to ensure that management really works to improve the company's performance so that the company's value will be better [9].

Based on the support of research results [20] and [21] which found that the existence of the board of commissioners in the company can provide an effective contribution in the process of preparing quality financial statements so that the second hypothesis is formulated as follows:

H2: Good Corporate Governance moderates the effect of environmental performance on firm value

### 3. Research Methods

The study was conducted on manufacturing companies listed on the Indonesia Stock Exchange in 2017. Sampling was conducted using a purposive sampling method with the criteria: the company follows the PROPER assessment and reports in the rupiah. Company value as the dependent variable is measured using Tobin's Q version of Chung & Pruitt with the following formula:

$$q = \frac{(MVS + D)}{TA}$$

Information:

Q: Firm value

MVS: Market value of shares (closing price x outstanding shares)

D: Market value of Debt

TA: Total Asset

Market value of all outstanding shares (MVS) is the market value of shares obtained by multiplying the closing price of shares with the number of shares outstanding. Debt is the amount of debt market value, where this value can be calculated by the following equation:

$$D = (AVCL - AVCA) + AVL D$$

Information:

AVCL: Accounting value of the firm's Current Liabilities. = Short Term Debt + Taxes Payable.

AVCA: Accounting value of the firm's Long-Term Debt. = Long Term Debt.

AVLD: Accounting value of the firm's Current Asset. = Cash + Account Receivable + Inventories.

Environmental performance is measured based on the results of the PROPER assessment obtained through the website [www.menlh.go.id](http://www.menlh.go.id). In the performance ranking system PROPER includes a company ranking in 5 colors. The approach used to calculate PROPER uses a score in accordance with the PROPER color rating of the company, if the company can rank the highest color that is gold then given a score of 5. A green color rating is given a score of 4, a blue color rating is given a score of 3, a red color rating is given a score of 2 and a rating the lowest black is given a score of 1. Good Corporate Governance is proxied with an independent board of commissioners. The proportion can be calculated by counting the members of the board of independent commissioners who come from outside the company against the entire size of the board of commissioners.

$$ICom = \frac{\sum \text{independent commissioner}}{\sum \text{total commissioner}}$$

The data analysis technique used is Moderated Regression Analysis (MRA). Before a regression is performed, the data are first tested using the classic assumption test.

### 4 Result and Discussion

The study was conducted on 37 samples of manufacturing companies with the following statistical descriptive results:

	N	Minimum	Maximum	Mean	Std. Deviation
Environmental Performance	37	2.00	5.00	3.1892	.61634
Independent Commissioner	37	.14	.80	.3962	.11918
Firm Value	37	.00	22.89	2.1335	4.09992
Valid N (listwise)	37				

Table 1: Descriptive Statistics

From the table it is known that the sample company has a fairly good average environmental performance, and has a high enough corporate value.

#### 4.1. Normality Test Results

This study uses the Kolmogorov-Smirnov test to detect whether or not the normality test is fulfilled with the provision that the Kolmogorov-Smirnov Z value is greater than or equal to 0.05, then the distribution is normal. The results of the normality test can be seen in Table 2 below

		Unstandardized Residual
N		37
Normal Parameters <sup>a,b</sup>	Mean	.0000000
	Std. Deviation	.79941128
Most Extreme Differences	Absolute	.140
	Positive	.140
	Negative	-.089
Test Statistic		.140
Asymp. Sig. (2-tailed)		.065 <sup>c</sup>

Table 2: One-Sample Kolmogorov-Smirnov Test

The table shows the significance value of 0.065 so that it can be concluded that the research data is normally distributed.

#### 4.2. Heterocedacity Test Result

Heteroscedasticity test aims to test whether in the regression model there is variance and residual inequality one observation to another observation. A good regression model is homoscedasticity or heteroscedasticity does not occur. Heteroscedasticity test results are presented in Table 3.

No.	Variable	Sig
1	Environmental performance	0,968
2	Independent commissioner	0,053

Table 3: Heteroscedasticity Test Results

In Table 3, it shows that the independent variables used in this study are free from heteroscedasticity, where the sig value for environmental performance and independent commissioner the rich triaris has a value greater than the significance level which is set at 5 percent or 0.05.

#### 4.3. Classical Assumption Test Results Model Feasibility

This research model was tested by the F test in the ANOVA Table; besides it was also seen in the coefficient of determination (R<sup>2</sup>) presented in Table 4 below.

No.	Information	Value
1	R <sup>2</sup>	0,601
2	Sig ANOVA	0,002

Table 4: ANOVA Dan R<sup>2</sup>

Based on Table 6, it can be seen that the coefficient of determination is R<sup>2</sup> of 0.601 which means environmental performance, independence commissioner, and interaction environmental performance, independence commissioner can influence changes in judgment audit amounted to 60.1%, while the remaining 39.9% were influenced by other variables which were not the focus of this study

#### 4.4. Results of Moderated Regression Analysis (MRA)

Testing of the research hypothesis uses three equation models. The results of the equation regression can be seen in Table 5 below.

No.	Variable	Regression Coef	Sig.t
1	Environmental Performance (X)	0.095	0.553
2	Independent Commissioner (M)	0.610	0.000
3	Interaction of Environmental Performance and Independent Commissioner (X_M)	-0.087	0.526

Table 5: Summary of Regression Results

#### 4.5. Hypothesis Testing

The first hypothesis of this study states that environmental performance has a significant positive effect on firm value. Based on table 5 it can be seen that the influence of environmental performance on firm value has a value of 0.553 which is above the significance value of 0.05. This shows that environmental performance has no significant effect on firm value so the first hypothesis is rejected.

The second hypothesis states that good corporate governance, which is proxied by an independent commissioner, moderates the effect of environmental performance on firm value. Based on table 5, the interaction of environmental performance and independent commissioners has a value of 0.526 which is above the value of 0.05 so it can be concluded that the interaction of environmental performance and good corporate governance has no significant effect on firm value. Based on this, the second hypothesis is rejected.

#### 5 Conclusions

The first hypothesis testing results prove the company has no significant effect on firm value. These results contradict the results of research [7], [8] and [9]. The results of this study support research [10], [11], and [12] which state that environmental performance has no significant effect on firm value.

Research conducted [10] in China on Environmental disclosure found that to some extent high-level Environmental disclosure is related to the relatively low corporate economy, which correlates with an environment that increases corporate value and corporate environmental performance that can be used in China. Meanwhile, companies with higher "low disclosure" have higher economic and corporate value, which shows companies with empty slogans benefit. Research by [22] shows that market in Indonesia did not react on the company's Environmental Performance. There is no effect on firm value in Indonesia because no part of the calculation of company value is the share price.

The results of the second hypothesis testing show that good corporate governance proxied by an independent commissioner is not able to moderate the effect of environmental performance on firm value. This can occur because environmental performance does not affect the company's value as evidenced in this study.

#### 6. Limitation and Recommendations

This study has a limitation that is not all manufacturing companies follow the PROPER rating so the number of samples used in this study is limited. The following research can be carried out using financial performance measurements other than PROPER and can use intervening variables if researcher still want to test the effect of environmental performance on firm value.

The results of the study show that environmental performance does not have a significant effect on firm value because the market does not react to the company's environmental performance. This can be an indication of the lack of environmental awareness owned by capital market investors so it is suggested that the active role of the government to raise awareness of environmental issues that occur at this time.

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