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Analysis Of The Influence Of Financial, Environmental Performance And Corporate Governance On Performance Of Corporate Social Responsibility Of Energy And Mineral Companies Listed In Indonesian Stock Exchange

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Abstract:

The purpose of this study is to determine how company governance, financial performance, and environmental performance affect the disclosure of corporate social responsibility. With secondary data from all energy businesses that have released annual reports, this study employs quantitative methodologies. All companies in the energy sector listed on the Indonesian Stock Exchange comprise the population considered in this study. Purposive sampling was used as the technique for selecting the sample. The partial least squares (PLS) approach is the data analysis technique employed in this study. Microsoft Excel was utilized by researchers to do descriptive statistical computations. The evaluation of the PLS model, which consists of two models, the outer model and the inner model, comes next once descriptive statistics have been completed. Disclosure of corporate social responsibility is positively and significantly impacted by corporate governance using KP, DKI, and KA indices. This demonstrates that a company's corporate social responsibility disclosure is more widely disclosed the better its governance. Disclosure of corporate social responsibility is positively and significantly impacted by environmental performance as measured by the PROPER indicator. This demonstrates that greater corporate social responsibility disclosure corresponds with improved environmental performance. The relationship between financial performance as measured by NPM, ROA, and ROE and corporate social responsibility disclosure is nonexistent. This demonstrates that a company's level of corporate social responsibility disclosure is not always influenced by its financial performance.

Keywords: corporate governance, environmental performance, financial performance, corporate social.

Introduction

Companies and society are two inseparable entities. Companies are very dependent on the community for their survival. The community is not only members of the environment where the company is established but also customers and the company's workforce. The community needs companies to meet their needs for clothing, food, and shelter. Therefore, there is an interaction between the two. A harmonious relationship between companies and society makes a significant contribution to the development of the country. There are two key aspects that need to be considered to create synergistic conditions between companies and society. The first aspect is the economic aspect. In other words, companies must be profit-oriented. The second aspect is the social aspect, where companies must make a direct contribution to society and the environment. One way to create synergistic conditions between companies and society is to implement corporate social responsibility. Environmental performance has an impact on corporate social responsibility (CSR) disclosure, according to prior studies on the subject. Studies examining the relationship between financial performance and corporate social responsibility indicate that the three metrics of financial performance ROA, ROE, and NPM do not significantly affect CSR. NPM has little bearing on corporate social responsibility disclosure, according to research on the topic. CSRD disclosure is adversely and significantly impacted by ROA and ROE. The factors of ROA and ROE impact the disclosure of corporate social responsibility (Damayanty et al., 2021).

There are various problems in energy sector companies. An energy sector company is a business activity that produces products and services related to the exploration and extraction of new and non-renewable energy whose profits are directly influenced by world commodities such as energy, oil, natural gas, and coal. The energy sector is one of the most important industries in the global economy. The dominant contribution is made by companies in the energy sector to economic development in developed and developing countries, including Indonesia. This makes the energy sector able to attract national and international investors. Various problems arise in energy sector companies, such as excessive exploitation of nature, which is not balanced with efforts to restore the environment, and the presence of waste or factory pollution in industrial environments, causing natural damage. The main problem with national energy providers is the high level of dependence on fossil energy sources, namely coal, oil, and natural gas. It can be seen that the total energy consumption in 2019 was 990 million oil barrel equivalents (SBM). The national primary energy provider in 2019 was dominated by fuel oil (avgas, aviation fuel, petrol, kerosene, diesel oil, and fuel oil). The need for coal is in second place, namely 17%; the need for electricity is in third place with a percentage of 16%; and the need for gas is in fourth place with a percentage of 10%. Other energy consumption is needed for LPG, biodiesel, and biomass (Nugraha et al., 2021).

As much as 42% of the energy needs required by the transportation sector are met by the use of fuel oil (BBM), especially gasoline. The second average percentage of energy use is 39% in the industrial sector, with the need for coal as a fuel used by almost all boiler technology. The third order of energy consumption is household activities that require electrical energy, and the need for LPG as kerosene conversion in the household sector is quite high. In the commercial sector, the use of electrical energy dominates, and in other sectors such as agriculture, construction, and mining, more diesel is used. From this percentage, fuel use is the most widely used. However, the use of this fuel results in an increase in GHG due to the burning of hydrocarbons originating from fossil energy sources. It turns out that many companies that operate with fossil energy sources such as coal, oil, and natural gas have not disclosed their social responsibility. Coal sub-sector companies are one of the main industries in the country's economic development. Companies should pay more attention to corporate social responsibility activities because the activities of coal sub-sector companies are closely related to waste, natural damage, and pollution. This is the result of exploiting natural resources. Mining activities involve a high level of industrial and environmental risk because they cannot restore 100% of the previous mining environment to the original environmental conditions before mining activities were carried out (Kartini et al., 2019). Previous studies obtained mixed results when measuring corporate social responsibility disclosure.

iterature Review

A balance between business, social, and environmental activities must be maintained for the continuity of the company, especially in the energy generation industry. Corporate social responsibility is a commitment made by a company as a form of responsibility for its business operations that have a social and environmental impact. Programs must be well designed to reap as many benefits as possible for the affected communities and environment. Businesses related to generating energy from fossil fuels are at serious risk of causing changes in ecological quality and social change (Sutagana et al., 2022). Energy generation using fossil fuels can cause environmental impacts such as global warming and acid rain. Air pollutants originating from emissions from the energy generation process are the main cause of environmental change. The social impacts caused by the activities of energy-generating companies include public health problems (heart, lungs, and skin), community discomfort due to noise, social deviation, and the emergence of social jealousy between residents who benefit and those who do not. Negative impacts on the continuity of the company can occur if the negative impacts resulting from energy generation activities are not mitigated. Protests and legal action can be carried out by people who are negatively impacted by the company, causing huge losses to the company. It is important that the CSR program be implemented effectively by providing corporate social responsibility funds. Companies can work together with the community and non-governmental organizations to minimize social and environmental impacts (Koloay et al., 2018).

Corporate governance and the execution of social responsibility initiatives are tightly intertwined. One of the tenets of corporate governance, accountability, is connected to the application of social responsibility. In this instance, the business must take accountability for any choices that have the potential to impact the social environment of the business. Independent commissioners are one aspect of corporate governance that is frequently linked to the disclosure of corporate social responsibility (CSRD). The company's financial success can also be used as a gauge for corporate responsibility (Kurniawati, 2013). The company's accomplishments and operational methods are reflected in its financial performance. Investors compare the current period with the prior period in order to assess a company's financial success. Investor capital will be invested if the study demonstrates the company's strong financial performance. As a result, financial performance is crucial for businesses to secure funding. Regretfully, some businesses still disregard the social and environmental effects of their operations in an effort to increase profits and get funding. Many companies violate the principle of maximizing profits to achieve maximum profits. Disclosure of social and environmental responsibility will become mandatory to ensure more complete and accurate CSR reporting. However, this law still has weaknesses, namely which sectors are required to carry out CSR, what sanctions will be imposed if violations occur, what the minimum budget is, and also a good CSR reporting format, generally called good corporate governance (Rizky et al., 2019).

Corporate governance has been shown to have a positive and considerable impact on corporate social responsibility (CSR) reporting in a number of prior research papers examining this link. CSR disclosure is positively impacted by corporate governance (audit committee, ownership concentration, and public ownership). In contrast to corporate governance (commissioner size and foreign ownership), which has no effect on CSR disclosure, corporate governance, the independent commissioner variable, has a negative impact on CSR disclosure (Susanti, 2013). While only the size of the board of commissioners has a significant impact on CSR disclosure, corporate governance (size of the board, independent directors, female directors, ownership concentration, and independent commissioners) has a significant impact on CSR disclosure simultaneously. CSR disclosure is greatly benefited by corporate governance elements including audit committees, foreign ownership, and family ownership. CSR disclosure is negatively impacted by public ownership. CSR disclosure is unaffected by the number of directors or independent commissioners (Sembiring, 2020).

Methodology

With secondary data from all energy businesses that have released annual reports, this study employs quantitative methodologies. All companies in the energy sector registered on the Indonesian Stock Exchange (BEI) comprise the population considered in this study. A purposive sampling strategy was used to determine the sample, which consisted of 100 firms. The partial least squares (PLS) approach is the data analysis technique employed in this study. The PLS approach was selected by the author above other SEM methods due to its better fit with the author's goals. Microsoft Excel was utilized by researchers to do descriptive statistical computations. The evaluation of the PLS model, which consists of two models, the outer model and the inner model, comes next once descriptive statistics have been completed. The relationship between each indicator block and the latent variable is displayed by the measurement model, also known as the outer model. Composite reliability is used to evaluate the indicator blocks, and convergent and discriminant validity indicators can be used to assess the reflective indicators in the measurement model (outer model). The relationship or strength of estimates between latent variables or constructs based on substantive theory is displayed by the structural model, also known as the inner model. The R-squares (R2), model fit test, and path coefficient can all be used to assess the structural model, or inner model, with PLS. The R-Squares value for each endogenous latent variable can be used as a starting point for testing to determine the model's predictive potential.

Case studies

Three factors make up the corporate governance variable in this study: the audit committee (KA), the independent board of commissioners (DKI), and public ownership (KP). When analyzing the data from the measurement model (outer model), only the DKI and KA indicators satisfy the convergence validity requirements. With a loading factor of less than 0.50, the KP indicator fails to meet the convergent validity criteria and so is unable to support the corporate governance variable's construct. It is known from the research findings that the latent variable is positively and significantly influenced by the two corporate governance indicators, KA and DKI. CSR disclosure is evaluated using the CSR index, which is derived from the GRI G4 standard. The structural model measurement makes this evident: the initial sample has a positive value of 0.3, with t-statistics values > 1.96, indicating 3.2, and p-values < 0.05, indicating 0.001. This indicates that the corporate governance-related hypothesis 1 has a favorable and noteworthy impact on the disclosure of corporate social responsibility. Previous studies on the independent board of commissioners' indicators have shown that corporate social responsibility disclosure is positively impacted by the independent board of commissioners' assessment of the corporate governance variable. He thinks that because the independent board of commissioners is composed of non-company parties, they will oversee the company's operations with greater objectivity to ensure that they comply with the law, which will encourage the business to keep a better balance in its social activities. The audit committee's beneficial impact on corporate social responsibility disclosure is corroborated by this study's earlier findings. This research has shown that when an organization's audit committee membership grows, so does oversight, control over management, and disclosure of corporate social responsibility.

In this study, one indicator, the public disclosure program for environmental compliance, measures the environmental performance (EP) variable. In the data processing process using a measurement model, the PROPER indicators are in accordance with the convergent validity criteria. Corporate social responsibility disclosure, as determined by the CSR index using the GRI G4 reporting standard, is known to be positively and significantly impacted by the PROPER indicator for the environmental performance variable, according to the research findings. The original sample, which had a positive value of 0.3, a p-value of 0.004, and t-statistics values more than 1.96, or 2.9, was used to test the structural model (inner model) and obtain these results. In light of this, it can be said that hypothesis 2, according to which environmental performance significantly and favorably influences corporate social responsibility disclosure, is accepted. in keeping with earlier studies' findings that environmental performance significantly improved corporate social responsibility disclosure. From this research, it is known that companies that have good environmental performance have greater social concern for their workforce, surrounding communities, and the environment. From here, the company will reveal its performance and will reveal more information regarding its corporate social responsibility.

In order to assess financial performance, this study used three indicators: net profit margin (NPM), return on equity (ROE), and return on assets (ROA). We employ an outer model (measurement model) for the ROA, ROE, and NPM indicators during the data processing phase in compliance with converging validity requirements. The findings of the study indicate that the three financial performance variable indicators have no discernible impact on corporate social responsibility disclosure, as determined by the CSR index using the GRI G4 reporting standard. The original sample had a positive value of 0.07, p-values greater than 0.05, which was 0.16, and t-statistics less than 1.96, which was 1.4, according to the testing of the structural model (inner model). Therefore, hypothesis 3, which states that financial performance has a positive and significant effect on corporate social responsibility disclosure, is rejected if it can be determined that financial performance has no effect. This study supports earlier studies that found no discernible relationship between corporate governance factors and disclosure of corporate social responsibility. The terms ROA, ROE, and NPM describe how profitable the company is able to make its operations. The company's equity shows the ROE indicator's ability to generate profits, the company's sales show the NPM indicator's, and the company's assets show the ability to generate profits for the ROA indicator. Thus, the higher the ROA, ROE, and NPM ratios, which reflect a company's stronger financial performance, the more the company will be able to generate profits; however, this will not translate to a higher degree of corporate social responsibility disclosure.

Conclusion

Corporate social responsibility disclosure is favorably and significantly impacted by corporate governance using KP, DKI, and KA indicators. This demonstrates that greater corporate social responsibility disclosure corresponds with improved corporate governance. Corporate social responsibility disclosure is significantly and favorably impacted by environmental performance as measured by the PROPER indicator. This demonstrates that a company's corporate social responsibility disclosure increases with its environmental performance. Corporate social responsibility disclosure is unaffected by financial performance as measured by ROA, ROE, and NPM indicators. This demonstrates that a company's financial performance has a decreasing impact on the level of corporate social responsibility disclosure. The research variables—corporate governance, environmental performance, and financial performance—are the only ones on which the author focuses. The author neglected to consider additional factors during the research process that might have an impact on how much corporate social responsibility is disclosed. When conducting research, the author only looked at the energy industry. The author can make the following recommendations in light of the findings of the conducted research: The variables utilized in this study include financial performance variables with ROA, ROE, and NPM in understanding corporate social responsibility disclosures; corporate governance variables with indicators of public ownership; the independent board of commissioners and audit committee; and environmental performance variables with PROPER indicators. Future researchers should be able to include more variables that affect CSR disclosure, as this study's R-Square test indicated that there are still more factors that affect CSR disclosure that were not examined. In order to improve upon these findings, it is hoped that subsequent researchers will extend the duration of the study and utilize samples from companies outside the energy sector. Future researchers are advised to employ methodologies other than partial least squares. Eviews or SPSS can be used.

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