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The Influence of Environmental Performance and Corporate Reputation on Financial Performance with Corporate Social Responsibility as an Intervening Variable

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ABSTRACT
This study aims to examine the impact of environmental performance and corporate reputation on financial performance, with Corporate Social Responsibility (CSR) serving as an intervening variable. CSR, which reflects a company's social responsibility, is suspected of acting as a bridge that strengthens the relationship between environmental performance, corporate reputation, and financial performance. In the highly competitive business era, environmental performance and corporate reputation, particularly in achieving optimal financial performance, are important factors that influence a company's success. The study uses secondary data from the annual reports of companies listed on the Indonesia Stock Exchange (IDX) and employs path analysis to test the causal relationships between variables. The results show that environmental performance and corporate reputation have a positive influence on financial performance, both directly and through CSR as an intervening variable. These findings provide important implications for company management to pay more attention to environmental and social aspects in their business strategies to sustainably improve financial performance.

Keywords: *Environmental Performance, Corporate Reputation, Financial Performance, Corporate Social Responsibility, Intervening Variable*

INTRODUCTION
Currently, environmental issues are under scrutiny by the government, consumers, and investors. For instance, on September 6, 2024, as reported by detiknews, the Director of Complaints, Supervision, and Administrative Sanctions of the Ministry of Environment and Forestry (KLHK) has set a monitoring target for 230 industrial entities or companies that have the potential to cause pollution and environmental destruction, stating that 51 entities have already been monitored and 11 of them have been sealed. The pollution is not limited to air pollution; there are several examples of air pollution in Tangerang, such as the burning of hazardous aluminum foil and materials in Bunder Village, Cikupa, Tangerang Regency (Ardyanto Nugroho, 2024). This case proves that environmental pollution in Indonesia is worsening due to improper environmental management. Some companies still do not consider the social impacts arising from industrial practices that use advanced technology and hazardous chemicals. This includes when obtaining raw materials, the production process, and the resulting products, which lead to environmental pollution such as air, water, waste, and so on.

The Indonesian government, through the Ministry of Environment, established the Corporate Performance Rating Assessment Program in Environmental Management (PROPER), which has been implemented since 2002 in the field of environmental impact control to enhance the role of companies in environmental programs. The Corporate Performance Rating Assessment Program (PROPER) is a monitoring program for industries aimed at encouraging compliance with environmental regulations. Additionally, it aims to encourage industries to apply green economy principles with performance assessment criteria including environmental management system performance, energy efficiency, water conservation, emission reduction, biodiversity protection, 3R for hazardous and non-hazardous waste, and reducing economic disparities by implementing community empowerment programs.

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Corporate financial performance is an achievement that has been attained by the company's management in managing the company's assets effectively over a certain period. Financial performance is crucial for companies to understand and evaluate the level of success based on the financial activities that have been carried out. Disclosure of environmental performance as a corporate social responsibility can influence financial performance. Companies with good environmental performance indirectly possess good social information, which can enhance the company's value.

In addition to financial performance, corporate reputation is also an important aspect in the development of a company. Corporate reputation is an overall representation of the company's past performance and future prospects, reflecting the company's attractiveness across all its main aspects compared to its competitors (Fombrun, 1996). Reputation is a key component of company value and a primary measure of performance that serves as a mechanism to reduce uncertainty for customers, enhance marketing effectiveness, customer satisfaction, and customer base (Kotha et al., 2001).

Corporate Social Responsibility (CSR) as a new accounting concept is the transparency of social disclosure regarding the social activities or actions undertaken by the company, where the transparency of the information disclosed includes not only the company's financial information but also the expectation that the company discloses information regarding the social and environmental impacts resulting from its activities (Rakhiemah and Agustia, 2009). Many literatures reveal that CSR activities reflected in the company's social disclosure positively influence and have a relationship with the company's performance from various perspectives.

The influence of environmental performance on financial performance in energy sector companies listed on the Indonesia Stock Exchange (IDX). Previous research has shown that companies with good environmental performance, such as efficient waste management and sustainable resource use, tend to experience reduced operational costs and increased efficiency. Eccles et al. (2014) found that companies investing in sustainability practices and good environmental performance show better financial results compared to those that do not.

The influence of corporate reputation on financial performance in energy sector companies listed on the IDX. Previous research indicates that companies with a good reputation tend to have better financial performance. Fombrun and Shanley (1990) found that a good reputation can attract customers and investors, increasing sales and profitability. A solid reputation is often associated with customer trust and loyalty, contributing to increased revenue.

The influence of environmental performance on corporate social responsibility in energy sector companies listed on the IDX. A study by Orlitzky, Schmidt, and Rynes (2003) analyzed the relationship between environmental performance and CSR. They found that good environmental performance positively contributes to CSR initiatives and serves as a driver in developing programs focused on social responsibility.

The influence of corporate reputation on corporate social responsibility in energy sector companies listed on the IDX. Research by Luo and Bhattacharya (2006) analyzed the relationship between corporate reputation and CSR using data from various industries. The results showed that a good reputation positively influences the implementation of CSR, as companies strive to meet higher stakeholder expectations.

The indirect influence of environmental performance on financial performance through corporate social responsibility in energy sector companies listed on the IDX. Several empirical studies, such as those conducted by García de los Salmones et al. (2005), used regression analysis to show the relationship between environmental performance and CSR, as well as its impact on financial performance. The research results indicate that companies that are better at managing environmental performance are more likely to have successful CSR programs, which contribute to improved financial performance.

The indirect influence of corporate reputation on financial performance through corporate social responsibility in energy sector companies listed on the IDX. Research by Eccles, Ioannou, and Serafeim (2014) shows that companies with a strong reputation and commitment to CSR tend to have better financial performance. This study emphasizes that CSR is not only an ethical strategy but also a strategy that can enhance profitability.

This research is conducted to re-examine the factors that have been used in previous studies to determine whether they yield consistent results. This study refers to the research by Maqbool and Badgaiyan (2016), which investigated the impact of CSR on the relationship between corporate reputation and financial performance, and the research by Gao and Zhang (2018), which analyzed the influence of environmental performance on financial performance with CSR as an intervening variable.

This study will test the variables influencing environmental performance and corporate reputation, the influence

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of Corporate Social Responsibility (CSR) on financial performance, and the influence of environmental performance on financial performance through Corporate Social Responsibility Disclosure (CSR) as an intervening variable.

Research Problem

What is the effect of environmental performance and corporate reputation on financial performance with Corporate Social Responsibility as an intervening variable in energy sector companies listed on the Indonesia Stock Exchange (IDX)?

Literature Review

Legitimacy Theory

Legitimacy Theory focuses on the interaction between companies and society. This theory states that organizations are part of society and must pay attention to social norms because alignment with social norms can make a company more legitimate. Community legitimacy is a strategic factor for companies in developing their future. It can serve as a means to construct corporate strategies, especially related to efforts to position themselves in an increasingly advanced societal environment (Hadi, 2011:87). Organizational legitimacy can be seen as something that is desired or sought by companies from society.

Corporate Social Responsibility (CSR) can have a positive impact on companies, as engaging in CSR activities can enhance public trust in the company's products, thereby improving the company's reputation in the eyes of the public. Through legitimacy theory, companies that engage in CSR play a greater role in enhancing legitimacy, which will influence consumer attitudes toward the company's products. The social activities of CSR carried out by companies are disclosed in annual reports. Companies that disclose CSR can increase their value and financial performance as part of their business strategy.

Stakeholder Theory

Stakeholder Theory states that a company is not an entity that operates solely for its own interests, but must also provide benefits to stakeholders, including shareholders, creditors, consumers, suppliers, the government, the community, and other parties (Ghozali and Chariri, 2007:32). This is because the survival of a company depends on the support provided by its stakeholders. The stakeholders of a company consist not only of shareholders (investors and creditors) but also customers, suppliers, employees, the government, regulatory bodies, the community, and the environment as part of social life.

A company with high profits serves as a benchmark that indicates it has good operational performance; with high profits, the company can attract more investors to invest their capital. Currently, stakeholders do not only consider profits as a factor, but investors are beginning to look at the disclosure of corporate social responsibility. This indicates that companies implementing CSR expect a positive response from investors to invest in the company, thereby improving the company's financial performance.

Assessment of Corporate Environmental Performance through PROPER

Environmental performance refers to a company's performance that is concerned with its surrounding environment. This environmental performance is measured using the PROPER score from the Ministry of Environment (KLH). The implementation of PROPER is in accordance with Law No. 32 of 2009 concerning the Protection and Management of the Environment, and thus the PROPER rankings are divided into five categories: GOLD, GREEN, BLUE, RED, and BLACK.

Corporate Reputation

Corporate reputation is viewed as an important asset for a company that can be used as a tool to develop the business (Barney, 1991). Executive managers must be aware of how their decisions will impact the company's reputation. On the other hand, Gray & Balmer (1998) also define corporate reputation as the assessment of a company's attributes made by stakeholders, which almost entirely excludes affective components. Hall Jr. &

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Lee (2014) combine cognitive and affective components by stating that corporate reputation consists of knowledge and emotions controlled by individuals.

Corporate reputation is a valuable asset that must be maintained by every company to ensure it remains valuable in the eyes of stakeholders. A good corporate reputation has a positive impact on stakeholders (Tischer & Hildebrandt, 2014). This certainly brings specific advantages to the company's management, resulting in increased interest and motivation from the public to collaborate and purchase the company's products (Hall Jr. & Lee, 2014). The result of this increased interest and motivation is that the company has value to compete in the market and has business sustainability.

Disclosure of Corporate Social Responsibility

Corporate Social Responsibility (CSR) generally refers to management's support for the obligation to consider profit, customer satisfaction, and community welfare equally when evaluating company performance (Hery, 2012:138). The obligation for companies to implement CSR is regulated in several laws and regulations, such as Law No. 40 of 2007 concerning Limited Liability Companies (UUPT) in Article 74 (1), which states that companies engaged in business activities in and/or related to natural resources are required to carry out social and environmental responsibilities. Additionally, it is also stated in Law No. 25 of 2007 concerning Investment (UUPM) in Article 15 (b), which states that every investor is required to implement corporate social responsibility, and in Article 16, which states that every investor is responsible for maintaining environmental sustainability and creating safety, health, comfort, and welfare for workers.

Financial Performance

The financial performance of a company is an achievement attained by the company's management in effectively managing the company's assets over a certain period. Financial performance is crucial for companies to understand and evaluate the level of success based on the financial activities that have been carried out. Company performance can be divided into two categories: financial performance and market performance. Financial performance, often referred to as operational performance, is the performance of a company using a fundamental approach. The second measure of company performance is market performance, which reflects the company's performance based on its market value. Market performance indicates how well the company's performance is perceived by external parties.

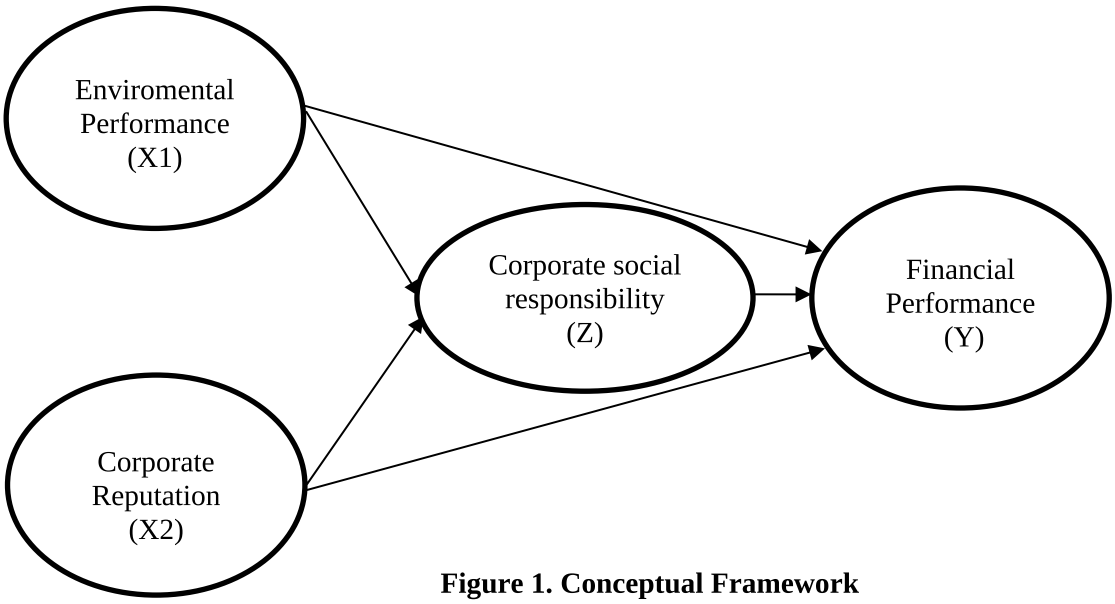

Figure 1. Conceptual Framework

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METHOD

Research Plan

From a research perspective, this study is classified as basic research aimed at reinforcing the studies conducted by previous researchers.

Identification of Variables

The variables to be studied in this research are as follows:

1. Dependent Variable (Y):
   Financial Performance (Y)
2. Independent Variables (X):
   a. Environmental Performance (X1)
   b. Corporate Reputation (X2)
   c. Corporate Social Responsibility (X3) as an intervening variable

Population and Sample

- **Population**: Energy sector companies listed on the Indonesia Stock Exchange during the period of 2022 - 2023.
- **Sample**: Selected using purposive sampling method based on the following criteria:
  1. Energy sector companies listed on the Indonesia Stock Exchange that publish annual reports periodically for the period of 2022-2023.
  2. Energy sector companies that report corporate social responsibility (CSR) for the period of 2022-2023.
  3. Energy sector companies that have participated in the Corporate Performance Rating Assessment Program in Environmental Management (PROPER) for the years 2022-2023.

Type and Source of Data

- **Type of Data**: Documentation data, annual reports from energy sector companies listed on the Indonesia Stock Exchange during the period of 2022-2023 periodically.
- **Source of Data**: Data obtained from annual reports published on www.idx.co.id during the period of 2022 - 2023.

Data Collection Method

The data collection method in this research is documentation technique. The documentation data collected by the researcher includes annual reports published periodically by energy sector companies listed on the Indonesia Stock Exchange for the period of 2022-2023.

Operational Definitions and Measurement of Variables

1. Performance Financial

Financial performance is a depiction of the financial condition of a company that can be analyzed using various analytical tools, allowing stakeholders or report users to understand the financial condition of the company over a certain period. The financial condition of the company can indicate how well or poorly the company manages its various assets. In terms of financial performance, the data used in this study has a time lag of 1 (one) year from the corporate reputation, meaning that the financial performance data used is one year older than the corporate reputation data. The variables in this study are measured based on the measurement tools used by previous researchers such as Blajer-Gołębiewska (2014), Blajer-Gołębiewska & Kozłowski (2016), and Kaur & Singh (2020), which is ROA. The formula used to measure the company's ROA is:

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2. Environmental Performance

Environmental performance is measured by the company's achievements in participating in the PROPER program, which is one of the efforts made by the Ministry of Environment (KLH) to encourage corporate compliance in environmental management through information instruments. The PROPER performance ranking system includes the ranking of companies in five (5) colors:

- Gold: Excellent, score = 5
- Green: Very good, score = 4
- Blue: Good, score = 3
- Red: Poor, score = 2
- Black: Very poor, score = 1

The measurement of environmental performance is determined by the PROPER ranking/achievement score obtained by the company.

3. Corporate Reputation

Corporate reputation is the perception and assessment of stakeholders (such as customers, employees, investors, and the general public) towards the company based on experiences, available information, and the company's performance in various aspects, including ethics, financial performance, social responsibility, and innovation. This reputation reflects the company's image and can influence consumer decisions, loyalty, and investor appeal. Measuring corporate reputation using annual reports can be done by analyzing several key elements, namely:

- Financial Performance: Net profit, revenue, growth, and other financial ratios.
- CSR Initiatives: Expenditures for social activities, sustainability, and environmental programs.
- Transparency and Accountability: The quality of the information presented, clarity, and openness in the reports.

  Reputation Index = (W1.K1 + W2.K2 + W3.K3) / (W1+W2+W3)

Description

- **W1, W2, W3**: Weights assigned to each element (Financial Performance, CSR Initiatives, Transparency).
- **K1, K2, K3**: Scores assigned to each element based on the analysis of the annual reports.

4. Corporate Social Responsibility

Corporate Social Responsibility Disclosure (CSRD) is measured using a Composite CSR Index. In this study, Corporate Social Responsibility Disclosure (CSRD) serves as an intervening variable. Here, the intervening variable, which includes CSR (economic, environmental, labor, human rights, products, and community), is measured both simultaneously and partially for its effects on the dependent variable. According to Bahri (2016), CSR can be measured in the following ways:

Description :

CSRj : index of the extent of corporate social and environmental responsibility disclosuer

∑Xij : value Y = if item i is disclosed

value T = if item i is not disclosed

Nj : number of items of company j, Nj = 91

Source: Global Reporting Initiative G4

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RESEARCH RESULTS AND DISCUSSION

Results

Based on the analysis using the **Smart PLS** approach, here are the main findings:

1. **The Influence of Environmental Performance (X1) on Financial Performance (Y):** The test results indicate that environmental performance (X1) does not have a significant effect on financial performance (Y), either directly or through CSR (Z) as a mediating variable.
2. **The Influence of Corporate Reputation (X2) on Financial Performance (Y):** Corporate reputation (X2) has a significant direct effect on financial performance (Y), with a positive path coefficient and a p-value < 0.05. This indicates that public perception of corporate reputation is a key factor that can enhance financial performance.
3. **Corporate Social Responsibility (Z) as a Mediating Variable:** CSR (Z) does not provide a significant mediating effect on either the relationship between X1 and Y or between X2 and Y. In other words, CSR functions more as a supporting element that does not have a direct or mediating impact in the context of this study.

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
X1 -> Y	-0,046	-0,042	0,071	0,643	**0,520**
X1 -> Z	-0,023	-0,029	0,107	0,211	**0,833**
X2 -> Y	0,845	0,841	0,044	19,251	**0,000**
X2 -> Z	0,013	0,010	0,136	0,094	**0,925**
Z -> Y	-0,075	-0,078	0,070	1,060	**0,290**

Discussion

These findings reinforce the theory that corporate reputation plays a crucial role in influencing financial performance, while CSR and environmental performance are only effective in certain contexts:

1. **Relevance of Corporate Reputation**: A good reputation enhances stakeholder trust, particularly among customers and investors. This is consistent with the research by Rahmawati (2021), which shows that corporate reputation is a primary determinant of financial performance compared to CSR directly.
2. **Environmental Performance and CSR**: Although CSR is often viewed as a strategic step to enhance corporate image, this study indicates that without the support of a strong reputation, CSR and environmental performance cannot directly improve financial performance (Wicaksono, 2020). This may be due to CSR implementation that is not integrated with business strategy or a lack of public awareness regarding these initiatives.
3. **Practical Implications**: Companies need to focus more on reputation management by leveraging CSR initiatives as a supporting tool rather than as the main objective. Additionally, it is important to identify specific industries where environmental performance can be a key factor in enhancing profitability.

CONCLUSION

1. Environmental performance does not have an effect on financial performance, either directly or mediated by CSR.
2. Corporate reputation is found to have an effect on the company's financial performance, but it is not mediated by CSR.

Suggestions

1. The model should be expanded by adding other variables.

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2. The factor of corporate reputation can be further broken down into specific components that can be researched to determine which factors have the most significant influence.

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