

FACTORS AFFECTED BY ENVIRONMENT PERFORMANCE

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Abstract:

This study aims to determine the effect of environmental performance on total sales and Price Earning Ratio. Sample based on purposive sampling collected from companies that have ISO 14001 certificate and entered in the list of PROPER listed on the Indonesia Stock Exchange for the period of 2015 - 2017. From the results of the hypothesis tested using multiple regression analysis, resulting that: 1) Proxy of environmental performance with ISO 14001 and PROPER have a positive and significant effect on Total Sales, 2) Environmental performance which is proxied with ISO 14001 has a positive and significant effect on Price Earning Ratio, while environmental performance which is proxy by PROPER has a negative and significant effect on Market Performance.

Keynote: ISO 14001, PROPER, total sales, price earning ratio

1. Introduction

Based on the regulations of the Ministry of Environment a program was formed that began in 2012, namely the Company Performance Rating Assessment Program in Environmental Management (PROPER). This Proper as a basis for evaluating company performance is assessed by the government with color indicators, starting from the best, namely: gold, green, blue, red and the most laborers are black. The results will be announced annually so that the public can know the level of management (PERMEN Lingkungan Hidup RI No. 6 year 2013).

A measure of environmental performance can be proxied by ISO 14001 which is the company's commitment to environmental management [1]. Environmental performance calculated based on the results of the PROPER rating on return on assets where ISO 14001 as a control variable produces the conclusion that there is no relationship between environmental and financial performance, but ISO 14001 has a positive and significant relationship, because it is proven that ISO 14001 is in line with PROPER [2].

Sales is an activity of selling goods and services carried out by sellers and buyers who are expected to get profit from the results of these transactions to maintain the viability of the company. With an increase in sales, it is also hoped that an increase in operating profit will be

able to cover all production costs. The higher the total value of sales, the better the performance. (Mulyadi, 2008)

Research conducted by Ibrami, Arroyo, & Hocine (2015) titled environment and financial performance: the case of the Canadian oil industry, states that environmental performance has a significant impact on environmental performance.

In the investment process in the form of shares, investors must make an assessment of the said shares. The method most widely used is the price earning ratio, which illustrates the magnitude of the ratio of market prices per sheet to earnings per share. The indicator is if the PER is high, if the price of the stock is expensive or with a certain price, it only makes a small profit [4].

The performance of the economic environment positively has a significant effect on the quality of environmental disclosure, but economic performance has no effect on environmental performance [5]. Research by Paulraj & Jong (2011) shows that ISO 14001 certification has a negative effect on stock performance. Another case was done by Vujicic (2015) which stated that high environmental disclosure tended to get lower stock returns.

Based on this background, the research title is: Factors that are influenced by environmental performance. " Research problems are:

1. Does the environmental performance influence total sales?
2. Does environmental performance affect the price earning ratio?

2. Literature Reviews

2.1 Social Contract Theory

The social contract theory developed by Jhon Locke (1632-1704) says that the basic form and nature of the social environment are apolitical. Where each individual has the responsibility to comply with each applicable law. Jean Jacques Rouseu said that the natural form is not a form of conflict, but is a condition that gives everyone the freedom to be creative [8].

2.2 Total Sales

Sales is one of the important marketing functions for entities in achieving mutual prosperity. Every entity has the same goal which is to increase turnover, because sales that continue to increase will be able to cover production costs, then profits will continue to affect the profitability of the company. Where the variable used is total sales. (Mulyadi, 2008)

2.3 Price Earning Ratio

Price earning ratio can be used as an indicator tool to see the company's prospects in the future in order to get its profit, earning price ratio is calculated by dividing the basic stock market price on a certain date by annual earnings per share. (Reeve, Warren and Duchac, 2013).

This price earning ratio illustrates the magnitude of the ratio between stock prices with earnings per share. So the valuation of these shares is needed in the investment process in the form of shares. [4].

2.4 Environment Performance

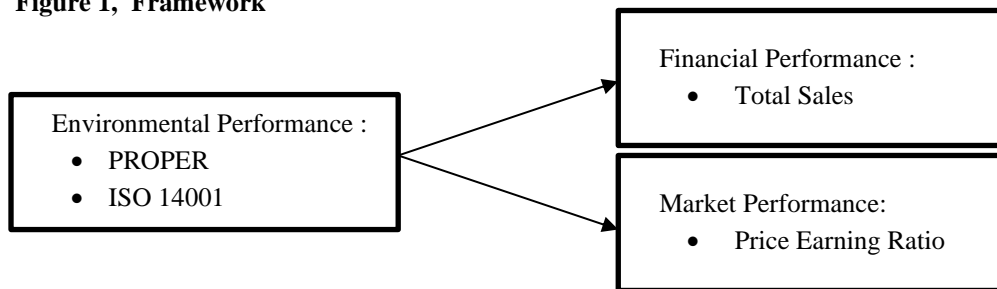
Companies that create a good environment (green) are referred to as corporate environmental performance [9]. The concept of go green which is environmentally friendly is needed in all entities and types of businesses both trading, service and manufacturing companies [10]. There are several indicator standards in the assessment of environmental performance, including the PROPER rating, ISO 14001 for environmental management systems and the disclosure of the global reporting initiative. [5].

3. Research Model, Hypothesis And Methodology

3.1 Research Model

Environmental performance consisting of PROPER and ISO 14001 has a positive effect on Total Sales, and environmental performance has a positive effect on Price Earning Ratio, so it can be described as follows :

Figure 1, Framework



Source: the results of the author's processing

3.2 Hypothesis:

From the formulation of the problem, the hypothesis is as follows:

H₁ = Environmental Performance affects Total Sales

H₂ = Environmental Performance affects Price Earning Ratio

3.3 Methodology

In this study using causal associative research, to find the relationship between one variable with another. (Sanusi, 2011).

Companies listed in the PROPER rating listed on the Indonesia Stock Exchange in 2015 - 2017 are the population of this research. Whose samples are taken based on Purposive Random Sampling based on consideration of certain criteria. (Sugiyono, 2016).

4. Result And Discussion

4.1. Statistika Deskriptif

Descriptive analysis results which include minimum, maximum, mean and standard deviation results are explained as follows:

1. Total Sales Average yield is 12.8322 and the standard deviation is 0.62100
2. Price earning ratio is 20.7882 and the standard deviation is 13.33336
3. ISO 14001 mean 0.6265, while the standard deviation is 0.48667
4. The mean PROPER rating is 0.6863 and the standard deviation is 0.10647

From these results it can be concluded that the mean is less than the standard deviation which means that the data is spread evenly. (Gozhali, 2013).

4.2. Uji Asumsi Klasik

1. Multicollinearity test.

This method aims to test the correlation between independent variables. Multicollinearity Test Results show that tolerance value is less than 0.10 and Variant Inflation Factor is less than 10, so it is stated there is no multicollinearity. (Hair et. al, 2006)

2. Autocorelation test.

This test is carried out to test whether in the regression model there is a correlation between the error of this year's intruder and the error of the previous year. From the Durbin - Watson table, 2,404 for financial performance and 2,030 for market performance are obtained, so there is no autocorrelation in the model. (Suryadi, 2004).

3. Heteroscedasticity test

This study uses the Spearman's Rho test, which produces a significance level of each variable of more than 0.05. so that in this model there is no variance inequality from one observation residual to another. (Priyastama, 2017).

4. Normality test.

A good normality test if the data distribution has a normal distribution. By looking at the normal P-plot graph it can be seen that the points spread around the diagonal line, and the spread follows the direction of the diagonal line. (Rubiyanto, 2009)

5. Determination Coefficient Test (R^2)

This test shows the percentage of the ability of the independent variable in explaining the variation of the dependent variable. Based on the R test results it is known that the Adjusted R Square determination coefficient has a value of 0.085 for total sales and 0.123 for the price earnings ratio. So it is stated that the ability of independent variables, especially PROPER and ISO 14001 in explaining the independent variable is very limited because it is close to 0. (Syaodih, 2013).

6. Test Statistics F

The F test is used to determine whether all independent variables entered in the model have a joint influence on the dependent variable. Significant results of less than 0.05 indicate that ISO 14001 certification and overall PROPER ratings affect financial performance and market performance. (Ghozali, 2013)

7. Multiple Linier Regression Test

In order to be able to state that between variables has a significant relationship to the dependent variable, multiple linear regression analysis is required (duwi, 2010)
Environmental Performance of Total Sales:

$$Y = 11,895 + 0,302 \text{ ISO} + 1,095 \text{ PROPER} + e$$

The explanation of the equation is:

1. A constant of 11,895 means that if the company does not have ISO 14001 and PROPER, the financial performance of the total sales proxy is 11,895.
2. The regression coefficient for ISO 14001 certification of 0.302 means that each 1% increase will be followed by an increase in total sales of 0.302%.
3. The regression coefficient for the PROPER rating of 1.095 means that each 1% increase will be followed by an increase in total sales of 1,095%.

Environmental performance on market performance :

$$Y = 15,696 + 6,336 \text{ ISO} - 11,666 \text{ PROPER} + e$$

1. A constant of 15,696 means that if the company does not have ISO 14001 and PROPER, then the market performance which has a total sales proxy of 16,696 ..
2. Regression coefficient for ISO 14001 certification of 6.336 means that each 1% increase will be followed by an increase in total sales of 6,636%.

3. The regression coefficient for the PROPER rating of -11,666 means that each 1% increase will be followed by a decrease in total sales of 11.666%.

4.3. Effect of Environmental Performance on Total Sales

Results The regression coefficient shows that ISO 14001 certification has a positive result of 0.302 with a probability of 0.0026 and a significance of less than 0.005, meaning that ISO 14001 has a positive and significant effect on total sales. While the PROPER Rating shows a positive t-count result of 1.095 with a significance of 0.050 (less than equal to 0.05), meaning that financial performance proxied by the PROPER rating has a positive and significant effect on total sales. (Ghozali, 2013).

The results of this study are consistent with the results of the study of Ibrami et al., (2015) which states that environmental performance has a significant impact on the financial performance of oil companies, but contradicts the results of [2]. The results of this study indicate that if the company has an ISO 14001 certificate relating to environmental management and a company that has the best PROPER rating, it will improve the company's performance by increasing public trust so that the company's turnover increases.

4.4. Effect of Environmental Performance on Price earning ratio

Based on the results of the regression analysis of the T test shows that the environmental performance which is proxied by ISO 14001 has a positive T count of 6.336 with a significance of 0.001, meaning that ISO 14001 certification provides positive and significant results on the earning price ratio. These results are consistent with the results of research conducted by Jacobs, Singhal, & Subramanian (2010) which states that the announcement of environmental performance has a significant positive effect.

While the PROPER rating shows a negative result of 11.666 with a significance probability of 0.044 (below 0.05), it means that the higher the PROPER rating results, the PER will decrease. This research is in line with what was done by Paulraj & Jong (2011) which states that environmental performance certification has a negative impact on stock performance.

5. Conclusion

Based on the results of research and discussion for environmental performance which is proxied by ISO 14001 certification and PROPER rating has a positive and significant effect on total sales.

ISO 14001 certification has a positive and significant effect on the price earning ratio, while the PROPER Rating shows negative and significant results on the market performance which is proxied by PER.

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