

**The Effect of Environmental Performance and Corporate Social
Responsibility Disclosure on Financial Performance
(Study on Basic Industry and Chemical Companies
listed on Indonesia Stock Exchange)**

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Abstract

The objective of this study is to examine the effect of environmental performance and Corporate Social Responsibility disclosure on financial performance. Environmental performance is measured by the companies' performance in the PROPER rating program by Indonesian State Minister for the Environment, while the disclosure of corporate social responsibility is measured by the index of Global Reporting Initiatives. Corporate financial performance is measured by calculating the company's stocks expected return. This research was conducted by testing the hypothesis, aimed to explain the phenomena of the relationship among variables. The hypothesis one examines the effect of environmental performance on corporate financial performance. Then, the hypothesis two examines the effect of Corporate Social Responsibility disclosure on corporate financial performance. The samples of this study are 55 Basic Industry and Chemical Companies. The data was obtained from annual reports of the companies listed on Indonesia Stock Exchange and joined PROPER program from 2010 to 2012. Hypothesis analysis used in this study is multiple linear regressions. The findings of this study showed that environmental performance, Corporate Social Responsibility disclosure, and predetermined variable that is earnings per share are the significant variables to determine the dependent variable (corporate financial performance).

Keywords: Environmental Performance, Corporate Social Responsibility Disclosure, predetermined variable, Corporate Financial Performance

1. INTRODUCTION

In this globalization and technological advance era, competition among business sectors is being more rigorous. For go-public companies, the competition does not only occur between the same industrial sectors, but also occurs in the inter-industry sectors. During the year of 2013, Indonesian manufacturing industries fell in line with the rising of crude oil prices and the depreciation of rupiah against the U.S. dollar (Tirani, 2013). Economic crisis in Europe and USA also gave negative impacts to Indonesian manufacturing companies. In facing the threat of crisis in Europe and USA, Indonesian Ministry of Industry has set three priority steps to encourage the growth of the national manufacturing industry and one of those steps is maintaining the increase in domestic investment.

Many companies often violate the principles of profit maximization to get funding and attract investors such as low environmental management, poor environmental performance, and lack of interest in social aspects. To date, a company is an organization that is expected to give a lot positive impacts to the society and consideration about surrounding environmental sustainability. The positive impacts that can be given by the companies are opening job opportunities, reducing the number of unemployment, increasing amount of GDP, producing consumer goods or services, and resource relocation. However, people realize that many negative social impacts are caused by companies. Then the public is demanding that company can pay attention and take action to the social impact caused by its production activities.

Public sue the companies on the negative impacts that become worse and uncontrollable such as pollution, poisoning, noise, discrimination, coercion, authoritarianism, and unclean food production. People want the impacts to be controlled because the social impact on people's lives is huge. Based on this phenomenon, accounting science experienced some development. So far, accounting only provide information about the activities of the company to the third parties (stockholders and bondholders) which has direct contribution to the company, while other parties are often neglected. By the existence of these demands, now accounting summarizes information not only about the company's relationship with the third parties, but also with the environment. The concept of environmental accounting is already started to develop since 1970s in Europe (Almilia and Wijayanto, 2007). More recently, there has been a belief held by many people that business exists for more than profits (or economic

goals), with the public expecting something else from business. Not only profits have to be made, but also the social aspect has to be considered.

The environmental issues nowadays are being a concern by the government, consumers, and investors. To complete the rules that are already exist, the government of Indonesia through the Ministry of Environment established Performance Rating Program in Environmental Management (PROPER), which has implemented since 1995 in the field of environmental impact management to improve the company's role in environmental conservation program. Company's environmental performance is measured using colors ranging from the best to the worst; gold; green; blue; red; and black. Then it would be easy for the society to determine how the level of structuring corporate environmental performance is.

The research conducted by Pfleiger et al (2005) showed that the efforts of environmental conservation by the company would bring a number of benefits, including the interest of shareholders and stakeholders of the company's profits due to environmental management that is responsible on the public's perception. Other results indicate that the good environmental management can avoid claims of society and government as well as improve the quality of product which on ultimately will be able to increase the company's financial profit.

Public, as one component of stakeholders also wants to know how big the impact of the company's activities for the society. For that, the company is required to provide information about the performance to the public. Some forms of media can be used by companies to present environmental reports, one of them is Corporate Social Responsibility (CSR) report. The rules about the implementation of CSR have been defined in the UU no. 40 of 2007, which stated that if the company carries on business in the field or in connection with the resources, it required to carry out social or environmental responsibility. If not it will be subjected to sanctions in accordance with laws and regulations. Law no. 25 of 2007 about Investment stated that every investor must carry out Corporate Social Responsibility and obligation to preserve the environment.

Companies consider CSR not only as the form of cost, but also as an investment to improve the image of the company, can ensure the sustainability, and corporate facilities in contribute to the social, economic, and a better environment for communities around the company to be looked legitimate among stakeholders. Current global trend is the inclusion of

the company that began implementing CSR in capital market activity. For example, New York Stock Exchange has the Dow Jones Sustainability Index (DJSI) for the share of a company that has a value of corporate sustainability categorized by one of the criteria is the implementation of CSR.

This study tries to examine the effect of environmental performance and Corporate Social Responsibility (CSR) disclosure on corporate financial performance by using data from basic industry and chemical companies listed in IDX and join PROPER program over the period of 2010 to 2012. Corporate Social Responsibility disclosure is measured using Global Reporting Initiative Index and corporate financial performance using stocks expected return. This study also added some control variables that are earnings per share, book value per share, and cash flow of operating per share.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

2.1. Legitimacy Theory

Organizational legitimacy is a reflection of the relationship between an organization and its environment. Suchman (1995) defined legitimacy theory as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. If there is an unconformity between the social system and the value of the company then the company will lose its legitimacy. Ghozali and Chariri (2007) stated that the basis for the legitimacy theory is the "social contract" between the company and the communities in which the company operates and the uses of economic resources. In an attempt to gain legitimacy, company did social and environmental activities that have accounting implication to the reporting and disclosure in annual report through published social and environmental report.

2.2. Stakeholder Theory

Stakeholder theory is a theory that describe to which parties the company should be responsible for (Freeman, Andrew, and Parmar, 2004). Company should keep the relationship with its stakeholders. Particularly, stakeholders who have a power to the availability of resources that are used for company's activities, for example labor, market for company's products, etc (Ghozali and Chariri, 2007). Stakeholder theory states that the company is not an entity that only operates for its own sake, but also must provide benefits for stakeholders (Ghozali and Chariri, 2007). Thus, the company's existence is really affected by the support from stakeholders to the company.

The two important aspects of stakeholder theory are “rights” and “effect”. The main aspect, “right” requires that the company and its managers should not violate the rights and determine the future of the other parties (stakeholders). While the second, “effect”, requires that companies’ management should be responsible for all actions that have been taken. Stakeholder theory described about what causes the company do social responsibility disclosure to the society where company run its activities. Basically, social responsibility disclosure aims to show the public about what are social activities that already done by the company and its impact to society.

2.3. Signaling Theory

Company’s activities always affect the stakeholders such as employee, investors, suppliers, government, customers, and society. Then, those activities become a concern and interest for stakeholders, especially for investors and prospective investors as the owner and company’s fund investors. Therefore, company has an obligation to give a report as an information to stakeholders. That report disclosed by the company should be at least one set of a financial statement. The company is permitted to disclose supplementary report, or a report that contains more than just financial statements, such as an annual report of company's CSR activities.

The purpose of this supplementary report is to provide additional information regarding to the company’s activities as well as a mean to give signal to stakeholders about other matters, such as providing the signal about the company's concern for the environment. These signals are expected to be positively accepted by the market so it can affect company market performance that is reflected on company stock price. Thus, signaling theory emphasizes that the company will likely present more complete information to gain a better reputation than companies that do not disclose, which eventually will attract investors.

2.4. Environmental Performance

Based on ISO 14001, environmental performance is all about how well an organization manages the environmental aspects of its activities, products, and services and the impact they have on the environment. In Indonesia, environmental performance can be measured by PROPER (Performance Rating Program in Environmental Management). The program aims to encourage companies adhere to environmental regulations and achieve environmental advantages/ excellence through the integration of the principles of sustainable production processes and services development, with the implementation of environmental

management systems, 4R (Reduce, Reuse, Recycle and Recovery), energy efficiency, resource conservation and ethical business conduct and responsible to the community through community development programs. PROPER assessment data sources mainly come from self-monitoring data that are undertaken by the company in accordance with applicable regulations. The self-monitoring data will be verified by the technical team as a function of check-recheck the data with self-monitoring of company. The ranking in the PROPER range in gold, green, blue, red, and black (from the best to the worst).

2.5. Corporate Social Responsibility

Corporate Social Responsibility means that a corporation should be held accountable for any of its actions that affect people, their communities, and their environment (Post, Lawrence, and Weber, 2002). Many of today's corporate executives see themselves as steward, or trustees, who act in the general public interest. Post et al. (2002) also stated that although the companies are privately owned and try to make profits for the stakeholders, business leaders who follow the stewardship principle believe they have an obligation to see that everyone, particularly those in need benefits from their firms actions.

The guideline that most widely used as a foundation in CSR reporting is GRI (Global Reporting Initiative). GRI established in New York in 1997 and now is centered in Amsterdam. It is a network-based organization that has pioneered the development of the world, most use of sustainability reporting framework and is committed to its continuous improvement and application in around the world (www.globalreporting.org). Based on Global Reporting Initiative (2013), the indicators contained in the GRI are economic performance, environmental performance, labor practice performance, human rights performance, social performance, and product responsibility performance indicators.

2.6. Corporate Financial Performance

Company financial performance can be measured from the annual financial report that periodically issued and provides an overview about the company's financial position. The information contained in the financial report is used by investors to obtain prediction of earnings, future dividends, and the risk assessment. The company's performance is very important to be assessed as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation. In this study, the performance measure used is the shares performance of the company as measured by the stock price.

Hypothesis Development

The Effect of Environmental Performance on Corporate Financial Performance

Some researches indicate that environmental performance will affect corporate financial performance. Suratno, et al. (2006) found that there is a significant effect of environmental performance on financial performance. Based on legitimacy theory, the company continues striving to ensure that they operate within framework and norms that exists in the community or environment where the company is, where they are trying to ensure that their activities are accepted by external parties as a “valid” (Deegan, Rankin, and Tobin, 2002). Thus, the constrains imposed by social norms and values, and reaction against the restrictions encourage the importance of organizational behavior analysis with respect to the environment.

In order to show company’s environmental performance to the public, company puts the result of PROPER rating program from Indonesian Minister of Environment in the company’s annual report. Company uses their annual report to describe the impression of environmental and financial responsibility, so they can be accepted by the public. With the acceptance of the public, it is expected to attract more investors that can increase company’s value and profit. This provides an explanation that corporate environmental performance gives an effect on corporate financial performance. Thus, the first research hypothesis in this study is:

H1: Environmental Performance has positive effect on Corporate Financial Performance.

The Effect of Corporate Social Responsibility Disclosure on Corporate Financial Performance

Corporate Social Responsibility Disclosure is defined as a process of providing information that is designed to express issues about social accountability and by this method, the management will be able to interact with the community widely and influence public perception to an organization or company (Deegan, et al., 2002). Company is expected to get social legitimacy and maximize their financial strength in a long-term period by implementing CSR.

Based on stakeholder theory, company is not an entity that only operates for its own sake, but also must provide benefits for the stakeholders (Ghozali and Chariri, 2007). To provide benefits for the stakeholders, company can implement various strategies such as environmental conservations, labor assurance, increasing product quality and safety, etc. All

of those strategies are included in Corporate Social Responsibility elements. The relationship between CSR Disclosure and corporate financial performance also can be linked with signaling theory, which stated that company tends to disclose more complete information to give a signal about company's performance and activities to the society. The information contained in annual report have an important role in the capital market, either for the investors individually or the market as a whole. For the investors, information is important in investment decision-making, while the market utilizes the information to achieve a new equilibrium price.

A research by Bayoud (2012) found that Corporate Social Responsibility activity and disclosure could give positive effect on organizational performance. Thus, the second hypothesis for this study is:

H2: Corporate Social Responsibility Disclosure has positive effect on Corporate Financial Performance

3. RESEARCH METHOD

3.1. Population and Sample

The population in this research is manufacturing companies engaged in basic industry and chemical sector that listed in Indonesia Stock Exchange over 2010-2012. Based on IDX Factbook 2010-2012, basic industry and chemical companies that listed from year 2010 to 2012 are 177 companies. The research object in this research is chosen by using judgment sampling, which is one form of non-probability sampling method. There are 55 samples that fulfill the criteria of variables research. The summary of observation samples are presented below:

Table 3.1
The Result of Sample Selection Process

Description	The number of observation research (firm year)
Number of basic industry and chemical companies listed in IDX over period 2010-2012	177
Criteria:	
- Companies that do not join PROPER program over 2010-2012	(118)
- Companies that do not publish annual report yet	(4)
Total samples	55

3.2. Type and Source of Research Data

Type of data used in this research is secondary data, in the form of company annual report, which is obtained from company's official website. Other data such as stock prices, dividend, earnings per share, book value per share, and cash flow of operating per share were obtained from the official website of IDX (www.idx.co.id), Indonesian Capital Markets Database from IDX Corner (pojok BEI) of Faculty of Economics and Business, University of Brawijaya Malang, and official websites of each sample company. Corporate Social Responsibility disclosure data were obtained from annual report of each company. While environmental performance data were obtained from database from Indonesian Ministry of Environment.

3.3. Operational Definition and Variable Measurement

Variables used in this research are Environmental Performance (EP) and Corporate Social Responsibility Disclosure (CSR) as independent variables. Researcher also use some control variables that are Earnings per Share (EPS), Book Value per Share (BVS), and Cash Flow of Operating per Share (CFOS). While Corporate Financial Performance (CFP) used as dependent variable.

3.3.1. Environmental Performance (EP)

Environmental performance is measured from the achievements of the company that follow the PROPER program. PROPER program is one of the efforts made by Indonesian Ministry of Environment to encourage corporate structuring in environmental management through information instruments. The ranking system also included the rating companies in five colors that are:

Table 3.2
PROPER Ranking Criteria

Ranking	Score	Explanation
Gold	5	Environmental excellent is shown consistently in the production process and/or services, implementing ethical business and responsible to the community.
Green	4	Environmental management has conducted more than that is required by the regulation (beyond compliance) through the efforts of the 4Rs (Reduce, Reuse, Recycle and Recovery), and the efforts of social responsibility (CSR / ComDev).

Blue	3	Environmental management has made efforts required in accordance with the provisions or regulations.
Red	2	There is environmental management efforts, but only partially achieve the appropriate results with the requirements stipulated in legislation.
Black	1	There is no environmental management effort, intentionally no attempt of environmental management as required, as well as the potential to pollute environment.

Source: Environment Minister Regulation No 5 year 2011 about Performance Rating Program Ranking in Environmental Management

3.3.2. Corporate Social Responsibility Disclosure (CSR)

CSR disclosure in this study is the proxy use ICSR (Index Corporate Social Responsibility) based on the Global Reporting Initiatives (GRI) obtained from www.globalreporting.org. Based on GRI 2013, there are three focus of disclosures, that are economic, environmental, and social as a basic for sustainability reporting. The indicators of GRI are economic performance indicator (9 items), environmental performance indicator (34 items), labor performance indicator (16 items), human rights performance indicator (12 items), social performance indicator (11 items), and product performance indicator (9 items). From those 91 items of indicators, a checklist has been made based on Indonesian Capital Market Supervisory Agency (Bapepam) No. VIII.G.2 (1996) to cover certain categories that correspond to data distribution of companies in Indonesia, the total amounted to 79 items of indicators. Thus, Corporate Social Responsibility Index (CSRI) formula is:

$$CSDI_j = \frac{\sum X_{ij}}{n_j}$$

Where:

CSDI : Corporate Social Responsibility Disclosure Index of company j

n_j : number of item to company j, total $n_j = 79$

X_{ij} : 1 = if item i was disclosed; 0 = if item i was not disclosed.

Thus, $0 < CSDI_j < 1$

3.3.3. Corporate Financial Performance (CFP)

In financial performance that measured by the market performance, financial performance can be seen from stock's expected return. Based on the publication of Simon

Fraser University and Swarthmore College Computer Society, financial performance scale that is measured by stock's expected return has a formula as follows:

$$\begin{aligned}
 \text{Financial Performance Scale} &= \text{Capital Gain (Loss) + Dividend Yield} \\
 \text{of year t} &= \frac{(P_1 - P_0)}{P_0} + \frac{\text{Div}}{P_0} \\
 &= \frac{(P_1 - P_0) + \text{Div}}{P_0}
 \end{aligned}$$

Where:

P_1 = stock price at 31 March of year t + 1

P_0 = stock price at 31 March of year t

Div = dividend distributed in year t + 1

According to the efficient market hypothesis, efficient market is a market in which the values of all assets and securities at any instant in time fully reflect all available public information (Keown, Martin, Petty, and Scott, 2002). Company gives publicly information to stakeholders in the form of financial and annual report periodically. The regulation of Indonesian Capital Market Supervisory Agency (Bapepam) No.36/PM/2003 stated that the declaration of financial statements accompanied by an accountant's report to the prevalent opinion must be submitted to Indonesian Capital Market Supervisory Agency (Bapepam) no later than the end of the third month (90 days) after the date of annual financial statements. Therefore, the stock price (P_1) used in this research is derived from the stock price at March 31 on the next one year of calculated CFP. Then, the dividend used is obtained from the value of dividend distributed in year t+1 because it represent how much the company's profit on the previous year (year t).

3.3.4. Control Variables

Control variable is a variable that is used to control, so other variables beside independent variables used in the research will not be influential. Variable of corporate financial performance has a possibility to be determined by various factors. Control variables in this research are as follow:

a. Earnings per Share (EPS)

Earnings per share (EPS) is probably the most widely available and commonly used corporate performance statistic for publicly traded firms (White, Shandi, and Fried, 2003). EPS reflects the portion of a company's profit allocated to each outstanding share of common stock. Growth level of EPS is based on the ability of company to gain profit. Based on White

et al. (2003), there are two types of earnings per share calculation, simple capital structure and complex capital structure. For firms that have only common shares, the computation of EPS is relatively straightforward. Meanwhile, for companies who have capital structures include options and convertible securities (preferred shares and debt) are said to have complex capital structures. These firms must recognize the potential effect on EPS upon conversion of those securities if such a conversion will result in dilution (lowering) of EPS. Not all of sampling companies in this research has capital structures include options or convertible securities. Therefore, the researcher used basic EPS as the measurement of earnings per share. Basic EPS calculation is:

$$\text{Basic EPS} = \frac{\text{Net Income} - \text{Preferred Dividends}}{\text{Weighted Average Common Shares Outstanding}}$$

b. Book Value per Share (BVS)

White et al. (2003) stated that book value per share represents the equity of the firm (common equity less preferred shares at liquidation value) on a per-share basis (number of shares outstanding at balance sheet date) and is sometimes used as a benchmark for comparisons with the market price per share. Book value per share data of this research is obtained from Indonesian Capital Market Directory (ICMD). The calculation of book value per share is:

$$\text{Book Value per Share} = \frac{\text{Total Shareholders Equity} - \text{Preferred Equity}}{\text{Number of Shares Outstanding}}$$

c. Cash Flow of Operating per Share (CFOS)

The statement of cash flows reports cash receipt and cash payments by operating, financing, and investing activities, which are the primary business activities of a company (Subramanyam and Wild, 2009). Operating cash flow refers to the cash flow that results from the firm's day-to-day activities of producing and selling. Operating cash flow is an important number because it can reflect on a very basic level, whether or not a firm's cash inflows from its business operations are sufficient to cover its everyday cash outflows. Calculation of operating cash flow is derived from revenues minus cost. Depreciation is not included because it is not a cash outflow. Interest is also not included because it is a financing expense. Meanwhile, tax is included because tax are paid in cash. Then, it should be divided by the number of shares outstanding to get the value of cash flow operating per share (CFOS). Data of operating cash flow and number of shares outstanding are obtained from company's

annual report and Indonesian Capital Market Directory. Based on Subramanyam et al. (2009), cash flow from operating activities per share is described below:

$$\text{Cash Flow from Operating Activities Per Share (CFOS)} = \frac{\text{cash flow from operating activities}}{\text{number of shares outstanding}}$$

3.4. Data Analysis Method

Software application that is used to analyze data in this research is SPSS version 19. Analysis data technique used in this research is multiple regression analysis. Regression analysis, measuring the strength of the relationship between two or more variables, as well as showing the direction of the relationship between dependent variable and independent variable (Ghozali, 2006). There is one statistic model in this research that will described below:

$$CFP = \beta_0 + \beta_1 EP + \beta_2 CSR D + \beta_3 EPS + \beta_4 BVS + \beta_5 CFOS + e$$

Where:

CFP = Corporate Financial Performance

EP = Environmental Performance (PROPER)

CSR D = Corporate Social Responsibility Disclosure

EPS = Earnings Per Share

BVS = Book Value per Share

CFOS = Cash Flow of Operating per Share

β_0 = Constanta

β_1, \dots, β_5 = Coefficient of each variable

e = Error

4. RESULT AND ANALYSIS

This research is aimed to examine the influence of Environmental Performance (EP) and Corporate Social Responsibility Disclosure (CSR D) to Corporate Financial Performance (CFP).

4.1. Descriptive Statistic Test

The following table presents the descriptive statistics from the company sample.

Table 4.1
Descriptive Statistics

Variables & Data	Minimum	Maximum	Mean	Standard Deviation
Corporate Financial Performance (CFP)	0.09	1.98	0.6988	0.40794
P1	7	153	44.02	37.174
P0	7	137	40.61	32.689
Div	0.90	3.30	2.0266	0.68471
Environmental Performance (EP)	1	5	3.31	0.814
Corporate Social Responsibility Disclosure (CSR D)	0.10	0.42	0.2347	0.08373
Earnings Per Share (EPS)	0.01	35.96	12.3406	10.14351
Book Value per Share (BVS)	5.76	75.24	32.8453	19.89992
Cash Flow of Operating per Share (CFOS)	0.32	3.19	2.1062	0.77607

The result of descriptive statistic on table 4.1 above, showed the minimum, maximum, mean, and standard deviation of each dependent and independent variables in this research. Some variables except Environmental Performance (EP) and Corporate Social Responsibility Disclosure (CSR D) have been transformed because it has not met any of the classic assumption tests.

The independent variable, Corporate Financial Performance (CFP) has a range value from 0.09 to 1.98. Based on the observation of Basic Industry and Chemical Company samples, PT Sumalindo Lestari Jaya in year 2011 has the lowest number of CFP that is 0.09. Meanwhile, the company with the highest number of CFP is PT Surya Toto Indonesia in 2010 with the value of 1.98. The average value of CFP from sample companies is 0.6988 and its standard deviation is 0.40794.

The components of CFP are stock price (P1 and P0) and dividend distributed (Div). The lowest value of P1 is 7, which is owned by PT Kertas Basuki Rahmat in 2012. PT Indocement Tunggal Prakarsa in 2012 has the highest value of P1 which is 153. While the lowest value of P0 is 7 by PT Arwana Keramik in 2010 and the highest value of P0 is owned by PT Indocement Tunggal Prakarsa in 2012. Among the sample companies, PT Suparma in 2011 has the lowest dividend value and the highest dividend value is owned by PT Surya Toto Indonesia in 2011 and 2012.

On Environmental Performance variable, it is showed that the range of value is 1 to 5. The score 1 is given to PROPER companies that got the black ranking, while score 5 is given

to companies that got gold ranking. From descriptive test above, it is showed that the average of EP is 3.31 and it standard deviation is 0.814. It means that most of sample companies got blue ranking in the PROPER rating program.

The variable of Corporate Social Responsibility Disclosure (CSR) showed that the lowest score for CSR Disclosure is 0.10 by PT Citra Tubindo in year 2010, PT Indah Kiat Pulp and Paper in 2011, and PT Fajar Surya Wisesa in 2011. It means that those sample company only implemented 8 out of 79 Corporate Social Responsibility Disclosure Index by Global Reporting Initiatives (GRI). Then, the highest score is 0.42 by PT Holcim Indonesia in year 2010 and 2012. The average score of CSR is 0.2347 with standard deviation of 0.08373. It seems that the disclosure of Corporate Social Responsibility in annual report of Basic Industry and Chemical Company listed in IDX over 2010-2012 is still low. It is because the report of Corporate Social Responsibility is a voluntary action, so those companies do not focus on Corporate Social activities on annual report.

On Earnings per Share (EPS) variable, PT Toba Pulp Lestari in 2011 has the lowest value that is 0.01, while PT Indocement Tunggal Prakarsa in 2012 has the 35.96 that is the highest value for EPS variable. The average value for EPS is 12.3406 and it standard deviation is 0.14351. It seems that the earnings per share value of Basic Industry and Chemical companies in Indonesia over 2010-2012 has a varied range. There are some companies that had relatively small value of earnings per share.

The variable of Book Value per Share (BVS) showed that the lowest value is 5.76 by PT Sumalindo Lestari Jaya in 2011. Otherwise, PT Asahimas Flat Glass in 2012 has the highest score of BVS that is 75.24. Book Value per Share of sampling companies has the average score of 32.8453 and standard deviation of 19.89992. It can be seen that basic industry and chemical companies in Indonesia that joined PROPER program over 2010-2012 have BVS value in quite wide range. Most of sample companies have BVS value that are still much lower than PT Asahimas Flat Glass in 2012.

On Cash Flow of Operating per Share (CFOS) variable, PT Surya Agung Kertas in 2012 had the smallest value that is 0.32 while PT Indocement Tunggal Prakarsa in 2012 had the highest value of CFOS that is 3.19. Otherwise, the sample companies have average CFOS value of 2.1062 with standard deviation of 0.77607. The data above showed that sample companies have CFOS values that are not too low or higher than average value.

4.2. Classical Assumption Test

Classical assumption test is done to ensure that the regression model used is good, unbiased, and can be used to obtain the results of the study. Regression model is expected to meet the assumptions of normality, free from multicollinearity, also has no problem of heteroscedasticity and autocorrelation.

4.2.1 Normality Test

Normality test is a test used to see the normality of the data distribution, which means that residual must be normally distributed. There are several ways to do the test for normality, but the most commonly used are Normal P-Plot and Kolmogorov-Smirnov. Normal P-Plot of Regression Standardized Residual result on appendix 5 showed that the dots spread around the diagonal line and follow the direction of the diagonal line or histogram chart; it shows the pattern of a normal distribution. Then the regression model meets the assumption of normality. Researcher also did Kolmogorov-Smirnov to test the normality of residual. The result of Kolmogorov-Smirnov test can be seen at appendix 5, it showed that Kolmogorov-Smirnov value is 0.754 and significance value is 0.620. Because significance value is 0.620 that is bigger than α value (0.05), so it can be concluded that residual for this regression model has normal distribution and can fulfill the normality test.

4.2.2. Multicollinearity Test

The purpose of multicollinearity test is to test whether in regression model is found a correlation between each independent variables or not (Ghozali, 2011). To detect the existence of multicollinearity on the regression model, it can be seen with analyzing VIF (Variance Inflation Factor) value. Good regression model has Tolerance value more than 0.1 and VIF value less than 10. It should not have correlation between each independent variable. Based on Table 4.2 below, each of independent variables indicates the value of Tolerance that is more than 0.1 and VIF value which are not more than 10. So that, it can be concluded that all independent variables in this study are free from multicollinearity and there are no correlation between each independent variables in this study. The result of multicollinearity test will be described in Table 4.2 below.

Table 4.2

The Result of Multicollinearity Test

Dependent Variable	Independent Variables	Tolerance	VIF	Notes
Corporate Financial	EP	0.688	1.454	Non Multicollinear
	CSRD	0.599	1.669	Non Multicollinear

Performance (CFP)	EPS	0.281	3.558	Non Multicollinear
	BVS	0.429	2.331	Non Multicollinear
	CFOS	0.304	3.285	Non Multicollinear

4.2.3. Autocorrelation Test

Autocorrelation test aims to test whether the model in a linear regression model has no correlation between the confounding in the previous period. These symptoms are consequences confidence interval becomes wider as well as variance and standard error will be interpreted too low. Approach that is often used to test the autocorrelation is the Durbin-Watson test. The multiple linear regression will be able to prove that the research does not have autocorrelation if the calculation in Durbin-Watson test is in the level of no autocorrelation range ($dU < X < 4-dU$).

Durbin-Watson's table value of this research is used for $n=55$ and $k=5$ (number of independent variables), it is showed that $dU= 1.7681$ and $4-dU= 2.2319$. Autocorellation test result is attached in appendix 5. From the result of Autocorrelation test, it can be seen that DW value 2.074 is bigger than dU value (1.7681) and less than $4-dU$ value (2.2319) or $1.7681 < 2.074 < 2.2319$. It can be concluded that there is no autocorrelation problem in this research.

4.2.4. Heteroscedasticity Test

Heteroscedasticity is a condition when there is an existence of dissimilarity of residual variance on regression model. Scatterplot method is a method used to test heteroscedasticity by seeing the pattern of point's distribution on that scattterplot. Based on Priyatno (2013), heteroscedasticity causes the estimators become inefficient and the determinant coefficient value become too high. Heteroscedasticity test is done by seeing the plot graphic between estimators value of dependent variable (ZPRED) with the residual (SRESID).

Based on Ghozali (2011), basic for heteroscedasticity analysis is if there is a certain pattern, for example the points create a tidy pattern (wavy, widened then narrowed), then it can be said that there is a problem of heteroscedasticity. The result of heteroscedasticity test on appendix 5 showed that the points scattered randomly above and under the zero number on Y-axis, then there is no problem of heteroscedasticity.

4.3. Multi Linear Regression and T-Test

Multi linear regression analysis aims to test whether there is a significant effect between two or more independent variables to dependent variable partially or simultaneously.

Before testing the hypothesis, formed multi-linear regression model should be known to describe the effect of independent variables to dependent variable. The coefficients of multi-linear regression variables in this research based on the calculation of SPSS 19 are as follow:

Table 4.3
The Result of Multiple Regression Test

Variables	Coefficient	T value	Significance	F value	Adjusted R ²
Constant (a)	3.043	3.709	.001	5.620	0.328
Environmental Performance (EP)	-0.417	-2.969	.005		
Corporate Social Responsibility Disclosure (CSR)	2.094	2.964	.005		
Earnings Per Share (EPS)	0.039	2.221	.032		
Book Value per Share (BVS)	.000	-1.879	.068		
Cash Flow of Operating per Share (CFOS)	.000	-0.473	.639		

*Significance level (α) = 0.05

Based on the table 4.3 above, it can be known that the adjusted R² value is 0.328. It means that 32.8% of Corporate Financial Performance is affected by the variables of Environmental Performance, Corporate Social Responsibility Disclosure, Earnings per Share, Book Value per Share, and Cash Flow of Operating per Share. Otherwise, the remaining of 67.2% is affected by other variables out of this research.

The coefficient value of regression analysis test on table 4.3 above, can describe the regression model to be as follow:

$$CFP = \beta_0 + \beta_1 EP + \beta_2 CSR + \beta_3 EPS + \beta_4 BVS + \beta_5 CFOS + e$$

$$CFP = 3.043 - 0.417 EP + 2.094 CSR + 0.039 EPS + 0 BVS + 0 CFOS$$

The result above gives the comprehension that if the value of EP, CSR, EPS, BVS, and CFOS are zero, the value of CFP will be predicted as big as 3.043 based on constant value (a).

The coefficient value of Environmental Performance (EP) = -0.417 shows that if EP increases one item, so there will be a decrease of 0.417 in Corporate Financial Performance (with assumption that other independent variables value are zero). Based on hypothesis test result, it can be seen that the significance probability value of EP is 0.005 (smaller than $\alpha = 0.05$). It means that Environmental Performance has negative significant effect to the dependent variable, Corporate Financial Performance. Thus, the Hypothesis one that stated

Environmental Performance has positive significant impact to Corporate Financial Performance is rejected.

Corporate Social Responsibility Disclosure (CSR) coefficient value is 2.094. This result shows that if there is an increase of one item in CSR, there will be an increase of 2.094 in CFP (with assumption that other independent variables value are zero). Statistically, Corporate Social Responsibility Disclosure has significant effect to Corporate Financial Performance. CSR has the significance probability value of 0.005, which is smaller than significance level that was set (0.05). It can be concluded that Corporate Social Responsibility Disclosure (CSR) has positive significant effect on Corporate Financial Performance (CFP). This result is supporting the second hypothesis of this research.

Earnings per Share (EPS) have coefficient value of 0.039, so if the value of EPS is increase for one item, the value of CFP will increase for 0.039 (with assumption that other independent variables values are zero). Earnings per Share has significant effect on Corporate Financial Performance with significance probability value of 0.032 which is smaller than 0.05. It means that the variable of Earnings per Share has a positive significant effect to Corporate Financial Performance.

The coefficient value of Book Value per Share (BVS) is 0. This result shows that an increase in BVS will not give any effect on CFP value (with assumption that other independent variables values are zero). Based on hypothesis test result, the significance probability value of BVS is 0.068 (bigger than 0.05). From that result, it can be concluded that statistically, the variable of Book Value per Share has no effect to the dependent variable, Corporate Financial Performance.

Cash Flow of Operating per Share (CFOS) coefficient value is 0. It means that if there is an increase or decrease of one item in CFOS, it will affect nothing on CFP (with assumption that other independent variables value are zero). The variable of CFOS does not have any significant effect to Corporate Financial Performance (CFP). It can be seen from hypothesis test result, the significance probability value of CFOS is 0.639 (bigger than 0.05). It means that H_0 accepted and H_1 rejected, the variable of Cash Flow of Operating per Share has no effect to the dependent variable, Corporate Financial Performance.

4.4. Hypothesis Test Discussion

Based on the test result that is processed through SPSS 19 software program, results of hypothesis testing analysis are explained below:

4.4.1. The Effect of Environmental Performance to Corporate Financial Performance

The environmental issues nowadays become a concern of our society. It is supported by the concept of environmental accounting that is already started to develop since 1970s in Europe (Almilia and Wijayanto, 2007). Indonesian Government through the Ministry of Environment established Performance Rating Program in Environmental Management (PROPER), which has implemented since 1995 in the field of environmental impact management to improve the company's role in environmental conservation program. PROPER is expected to be a reputation award and actualization of company's transparency in environmental management. To get independent assessment, PROPER team reviews the company's environmental conservation activities independently year by year.

PROPER result is published regularly to public. Therefore, assessed companies will get incentives or disincentives reputation depends on the level of their obedience. The company that gets PROPER ranking usually states that achievement on its annual report, so do other environmental awards. This is a part of the company's strategy to show their legitimacy to the society. Good environmental performance is expected to increase company's reputation and attract investors. As we know, there has been a belief held by many that modern businesses have a responsibility to society that extends beyond the stockholders or investors in the firm.

Hypothesis 1 stated that Environmental Performance (EP) would have a positive effect on Corporate Financial Performance (CFP). Based on the result of multiple regression test, it shows that there is a significant effect from the variable of EP to the dependent variable, Corporate Financial Performance. From multi linear regression test result, it is obtained that environmental performance has a negative correlation with corporate financial performance. This finding is contradictive to the existing legitimacy theory where good environmental performance is not an indicator of good financial performance. Based on the theory of legitimacy, a company with high environmental performance should have a good effect to the surrounding community and the investors.

In developing country, such as Indonesia, public and society have not considered the importance of green product or green company yet. The awareness of environmental preservation is still low. From the perspective of the company itself, the allocation of funds for environmental conservation will bring some additional expenses for the company. It will automatically reduce the company's profit. Then, the reduction of the company's profit will affect the investors' decision-making.

Investors, as one of the most instrumental part of the company, should be more concern about the sustainability aspect of the company. Sustainability aspect is not only come from the financial one, but also about how the company can manage and preserve its surrounding society and environment. Based on this research findings, most investors of manufacturing companies in Indonesia still not consider about this thing. This phenomenon is allegedly because there are other variables that are used by Indonesian market actors or investors in determining the investment portfolio in basic industry and chemical company, for example financial ratio, company size, or the investment category which determine whether the company is investing in domestic or foreign direct investment (FDI).

Government should take more courage to promote the real purpose of PROPER program so it would not be a useless reputation program. From this research finding, it can be seen that the investors did not consider PROPER rating that is acquired by the company. This is resulted in the absence of a significant positive relationship between environmental performance and financial performance of a company. Nowadays, the investors still more concern about how the company can gain profit than its environmental management.

4.4.2. The Effect of Corporate Social Responsibility Disclosure on Corporate Financial Performance

Corporate Social Responsibility is a concept applied by the company as their social responsibility for not only the shareholder but also the stakeholder and related society to emphasize moral and ethic principles. Corporate Social Responsibility becomes a strategy that is used to get positive review from society and get the best result for the company itself. In its development, Corporate Social Responsibility (CSR) is defined as a concept that has roles in the growth of a company. The growth of a company reported on the financial statements that reflect the company's performance.

The annual report gives information about the financial and non-financial performance of a company to show the responsibility and transparency to stakeholders such as investors and shareholders. This disclosure is intended to give a good image of the company's performance to the company's stakeholders. Published information can be used as an announcement to give a signal to investors in investment decisions-making. Based on the signaling theory, the purpose of this supplementary report is to provide additional information regarding to company activities as well as a mean to give signal to stakeholders about other matters, such as provide signal about the company's concern for the society.

Hypothesis 2 stated that Corporate Social Responsibility Disclosure (CSR) would have positive effect on Corporate Financial Performance (CFP). Based on the multiple

regression test, the variable of CSRD has a positive and significant effect to CFP. This finding is supported by signaling theory, which stated that good information of a company could be a good signal to attract investors relating to the investment decision making. That is why the disclosure of corporate social responsibility on annual report can gain company's financial performance.

From the sample companies, it can be seen that all of them have already disclose the report of Corporate Social Responsibility but still in unorganized structure or have not followed by some reporting standard yet. The guideline that most widely used as a foundation in CSR reporting is GRI (Global Reporting Initiative). It is not only explained the environmental activity of the company, but also the indicators of labor, human rights, product safety, social, and economic performance. Thus, it will be better for the company to improve and increase the quality of its CSR disclosure.

The result of hypothesis testing two is not consistent with the previous research of Aras (2009) and Chrisotomo (2011) that found an insignificant correlation between CSR Disclosure and corporate financial performance. On the other hand, the result test of hypothesis testing two is supported the previous research of Bayoud (2012), Suratno (2006), Waal (2010), and Fitriyani (2012) that already found a significant correlation between CSRD and financial performance of a company. Company that is disclosed its Corporate Social Responsibility in its annual report can attract the investors and stakeholders. When the investors read the disclosure of company's CSR activity, it will affect their decision to hold their stocks and it will attract new investors. Thus, the high number of company's profitability will increase the company's financial performance.

4.5. Control Variable Test Result

Control variable is a controlled constant variable, so other variables beside independent variables used in the research will not be influential. Below are the results of control variables influence:

4.5.1. Earnings per Share (EPS)

Earnings per share is one of the most widely available and commonly used corporate performance statistic for publicly traded firms. Based on the test result, EPS has positive and significant effect to Corporate Financial Performance (CFP). It means that an increase of one item in Earning per Share will also increase the value of Corporate Financial Performance significantly. The finding of this study supported the previous research of Ebrahimi and Chadegani (2011) which found that there is a positive correlation between earnings per share, dividend, stock price, and stock return.

Earnings per share is one variable that could affect share price, because the investors often focus on company's earnings in doing analysis. EPS reflects the portion of a company's profit allocated to each outstanding share of common stock. The investors is interested in the number of EPS because the growth level of EPS is based on the ability of company to gain profit, so EPS fluctuations will affect stock demand, which eventually will affect the stock price.

4.5.2. Book Value per Share (BVS)

Book value is conventional terminology referring to the equity of the firm (common equity less preferred shares at liquidation value) on a per-share basis (number of shares outstanding at balance sheet date) and is sometimes used as a benchmark for comparisons with the market price per share. Based on T-test (partial test) result, BVS has no effect to corporate financial performance. The increasing of one item in BVS will not affect any increase or decrease to the corporate financial performance.

It can be concluded that book value per share is not a consideration of investors to their investment decision making. It is allegedly because the investors are more concern about other information in their investment decision making such as company's financial ratio, earnings, or profit. There is no definite size of stock prices as measured by BVS ratio because it really depends on the expectations and performance of the company or the stock. Big number of book value per share is not a measurement for a big number of stock's return.

4.5.3. Cash Flow of Operating per Share (CFOS)

There are three types of cash flow, they are operating, financing, and investing cash flow. Operating cash flow refers to the cash flow that results from the firm's day-to-day activities of producing and selling. Operating cash flow is an important number because it can be reflected on a very basic level, whether or not a firm's cash inflows from its business operations are sufficient to cover its everyday cash outflows.

The findings of this study reveal that cash flow of operating per share has no significant effect to corporate financial performance. This finding shows that an increase/decrease in CFOS will not affect the CFP value. In other word, allegedly the investors do not consider about the score of cash flow of operating per share in their investment decision making. The findings of this study is consistent with the previous research conducted by Daniati and Suhairi(2006) that found insignificant correlation between cash flow from operating activities and stock return. It seemed that investors are more concern about company's ability to gain profit and earnings.

Actually, cash flow from operating per share is a good basis for investment decision making. The operating cash flow shows the results of operations for which funds have been received in cash by the company and are decreased with cash expense that actually been issued by the company. In some cases, income statement could show high number of sales and operating profit but it turned out to be false, because the company has not received the settlement of sales. Liquidity problems resulted in the emergence of many bad debts or accounts with very long-term loans. Many companies are also burdened with non-cash expense, which is not only in the form of depreciation or amortization but also in the interest expense. Although there is no cash outflows resulted from those activities.

5. CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

This study aims to obtain empirical evidence of two hypotheses, hypothesis one stated that environmental performance would give a positive effect on corporate financial performance, and hypothesis two stated that Corporate Social Responsibility disclosure would have a positive effect on corporate financial performance. This study is conducted using 55 samples of Basic Industry and Chemical Companies that listed in Indonesia Stock Exchange (IDX) and join PROPER (environmental assessment) program from 2010-2012.

Based on the multiple regression and T-test analysis, the result showed that environmental performance has a significant correlation with corporate financial performance. However, this study found that the correlation between environmental performance and corporate financial performance is negative. It is not surprising to see that in a developing country, such as Indonesia, environmental performance is not associated with financial performance. More environmental friendly products or services that usually bring higher price are not in favor of most Indonesian consumers. Indonesian investors tend to have a mindset that good corporate environmental performance will not bring direct benefit for them.

From the perspective of the company itself, funds allocation for environmental preservation will generate some additional expenses and not likely to have effect on better financial performance. Then, government should do more courage to promote the importance of environmental performance through PROPER program. What is actually the purpose and benefit of PROPER rating program for the public and the company itself. Thus, the investors will be more consider about the environmental management of the company.

The result of hypothesis testing two shows that Corporate Social Responsibility disclosure already has a positive and significant effect to corporate financial performance. This result is supported by the stakeholder theory stating that social responsibility disclosure aims to show the public about what are social activities that already conducted by the company and its impact on the society. It is also supported by the signaling theory where good information or announcement from the company can be a good signal for the stakeholders especially the investors. When the investors read the disclosure of company's CSR activity, it will affect their decision to hold their stocks and it will attract new investors. Thus, the high number of company's profitability will increase the company's financial performance.

Therefore, it is better for the companies in Indonesia to keep improving the quality of its CSR disclosure. From the sample companies, it can be seen that all of them have already disclose the report of Corporate Social Responsibility but still in unorganized structure or have not followed by some reporting standard yet. The guideline that most widely used as a foundation in CSR reporting is GRI (Global Reporting Initiative), but actually some of GRI's points are not in accordance with the condition of Indonesian company. Then, it will be better if Indonesian Capital Market Supervisory Agency (Bapepam) issued a standard of CSR disclosure completed with some adjustment to Indonesian company.

The result of the control variables shows that among the three control variables used in this research (earnings per share, book value per share, and cash flow of operating per share), earnings per share is the only control variable in this research that have positive and significant effect on corporate financial performance. The other two control variables have no effect on the financial performance of the company. It can be seen that earnings is one of investors' main consideration on their investment decision-making because earnings is a basic for dividend distribution. Investors as one instrumental part of the company should be more consider about how the company can manage and preserve its surrounding environment and society.

5.2. Limitations of the Research

There are several limitations to this research, which need to be disclosed so that similar studies can be better in the future. The limitations are first, this research was conducted by the method of content analysis, which was conducted by reviewing the information contained in the annual report and it greatly affect the level assessment of Corporate Social Responsibility disclosure. The checking of Global Reporting Initiative

(GRI) disclosure items are done manually and allows errors in the performance appraisal process.

The second limitation is Global Reporting Initiative (GRI) Index is actually more suitable for used in sustainability report. Because not all of the sampling companies in Indonesia have already published its sustainability report, this research used Corporate Social Responsibility report that is stated in company's annual report.

5.3. The Directions for Future Research

Based on these research limitations, there are some suggestions can be given by the researcher. It is advisable to use another method that is more detail to avoid the occurrence of bias and do not have high level of subjectivity. This research used a standard index that is not necessarily in accordance with the conditions of extensive disclosures in Indonesia, so it is necessary to use a standard that can represent the broad disclosure of companies in Indonesia.

5.4. Implication of the Study

Empirical evidence found from the results of this study has several implications. First, company should always pay attention to the implementation of social and environmental responsibility as a form of assurance for various stakeholders to meet their expectations. Therefore, meeting the needs of stakeholders means that companies has to maintain its operations in the long-term sustainability. Second, investors and creditors should be more prudent in investing, by not only prioritizes on economical aspects of financial performance but also pay attention to the operational impact on the social and environmental aspects. Third, the government should establish clear regulations regarding the importance and the disclosure of social and environmental practices in the form of CSR and sustainability report so there will be a clear standard and reference of the social and environmental indicators for further research.

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