Environmental, Corporate Social Responsibility, Governance, and Sales Growth Effects on Financial Performance

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Abstract. Electronic Financial performance is an analysis conducted by the company to assess the extent to which a company has implemented using financial implementation rules properly and correctly. Financial performance can be described as a form of success of company management in managing company finances. Financial performance can be used as a guideline for taking decisions to be carried out by external parties and can be used in assessing the company's financial performance. This study aims to find empirical evidence and analyze the effect of environmental performance, corporate social responsibility, governance, and sales growth on the company's financial performance (study on the LQ45 index 2017-2021). The sampling method used was the purposive sampling method and obtained 15 companies with a total sample of 75 financial statements that were the object of research. The data analysis method is in the form of quantitative analysis using multiple linear regression analysis and hypothesis testing using the SPSS 25 program with a significance level of 0.05. The test results show that environmental performance has a negative and significant impact on financial performance. Corporate social responsibility and Sales Growth have a positive and significant effect on financial performance, while good corporate governance has a negative and insignificant effect on the company's financial performance.

1 Introduction

Commencement of inseparable and interlinked sustainable development lies in the Sustainable Development Goals (SDGs) for the year 2030 [1]. The SDGs are agreed upon to accommodate development issues more comprehensively. It requires a collective effort involving all stakeholders to incorporate the implementation of Environmental, Social, and Governance (ESG) [2] and integrate them into the goals of Sustainable Development Goals or SDGs in every policy and business activity strategy. In 2022, Every company listed on the Indonesia Stock Exchange must not only present their audited financial condition but also disclose their ESG (Environmental, Social, and Governance) performance as part of the
policy to publish their performance on Environmental [3], Social, Governance, and Economic aspects (www.idx.co.id).

Jorgie Jovancha Appy (2021) in the paper titled "The Influence of Good Corporate Governance, Corporate Social Responsibility, and Environmental Performance on Corporate Financial Performance" indicated that the financial performance of companies is not own positively affected corporate social responsibility [4]. In the research conducted by Time [5], the examination of social performance indicators showed no noteworthy influence financial performance.. as social actions within a company affect reputation differently from financial performance. The study emphasizes that socially responsible activities require significant funding to foster good relationships with both companies and customers, while corporate governance positively affects financial performance [6]. Addition to corporate governance, another variable that influences financial performance is sales growth. Sales growth refers to the upward or downward changes in a company's net sales from year to year [7].

LQ45 Index designed gauge the price movement of 45 stocks characterized by high liquidity, substantial market capitalization, and strong company fundamentals. The objective LQ45 [8] stock index is to complement composite stock index (IHSG) and to serve as a reliable tool for investment managers, financial analysts, investors, and market observers who wish to invest their capital in companies that apply companies that encompass ESG factors are incorporated into the LQ45 index. [9]. Stock instruments included in the LQ45 index are a combination of 45 leading companies' stocks or blue-chip stocks, which are preferred choices for investors to invest in [10].

Given the differences in several research findings, which have led to the identification of research gaps along with the observed phenomenon, the author is interested in conducting a study to reexamine the variables influencing financial performance [11]. Objective of this study to gather empirical evidence under title "The Influence of Environmental, Social, Governance, and Company Sales Growth on Financial Performance (Case Study of LQ45 Index for the Period 2017-2021)".

2 Materials and methods

2.1 Materials

Quantitative research involves exploring topics by testing a theory that comprises variables assessed with numerical data and examined through statistical methods. [12]. Research design descriptive quantitative, aiming to examine and analyze the values of a specific variable. The data utilized in this study are pre-existing secondary data before this study and were deliberately collected by the researcher for data requirements. Data for this study are sourced from the Indonesia Stock Exchange's official website (BEI), www.idx.co.id, the website http://www.indopremier.co.id, and relevant company websites. The study's population comprises 45 companies that were listed on Indonesia Stock Exchange (BEI) in the LQ45 Index from 2017 to 2021.

2.2 Data Collection Procedures

This study sample of 15 companies was selected through the purposive sampling method, as suggested by Sugiyono [13], purposive sampling approach to sampling that involves selecting samples based on specific considerations or criteria predetermined by the researcher. Thus, it can be concluded that purposive sampling is a method that restricts sample selection based on specific characteristics.
The research sampling was carried out through purposive sampling, guided by following criteria: (a) Companies listed included in LQ45 Index released their financial reports on the Indonesia Stock Exchange between 2017 and 2021, specifically their annual financial reports. (b) Firms that consistently maintained their position on LQ45 Index Indonesia Stock Exchange throughout the period from 2017 to 2021. Study utilizes data from annual reports spanning extend 2017 to 2021, encompassing duration 5 years. Therefore, the total data used in this research consists of 75 financial reports.

2.3 Data Analysis

The statistical data processing method used in the data analysis is divided into several steps. The initial step includes performing descriptive statistical analysis to illustrate the distribution of data and present the maximum value, minimum value, mean, and standard deviation for each variable. The second step involves performing Classical Assumption Tests, which include tests for multicollinearity, heteroscedasticity, normality, and autocorrelation.

Third phase encompasses the application of the F-test to assess the adequacy of the regression model in predicting observed values. Fourth stage entails performing t-tests or partial tests to scrutinize the individual impact of each independent variable or proxy variable on dependent variable. Lastly, the fifth step involves conducting the R-square test or determination is executed to assess how effectively the model elucidates the variation in the dependent variable.

3 Result and discussion

In Based on the descriptive statistical results in Table 1, the explanations for the research variables used are as follows: (1). Company Performance (Y) in this study has an average value of 0.0957 with a standard deviation of 0.0871. The minimum value is 0.00, and the maximum value is 0.47. (2). Environmental Performance (X1) has an average value of 3.746 with a standard deviation of 0.552. The minimum value is 3.00, and the maximum value is 5.00. (3). Social Performance (X2) has an average value of 0.545 with a standard deviation of 0.0331. The minimum value is 0.51, and the maximum value is 0.60. (4). Audit Committee (X3) has an average value of 3.706 with a standard deviation of 1.249. The minimum value is 3.00, and the maximum value is 9.00. (5). Sales Growth (X4) has an average value of 0.052 with a standard deviation of 0.216. The minimum value is -0.92, and the maximum value is 0.75.

<table>
<thead>
<tr>
<th>Variabel</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std.Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>X1</td>
<td>75</td>
<td>3.00</td>
<td>5.00</td>
<td>3.7467</td>
<td>0.52230</td>
</tr>
<tr>
<td>X2</td>
<td>75</td>
<td>0.51</td>
<td>0.60</td>
<td>0.5450</td>
<td>0.03318</td>
</tr>
<tr>
<td>X3</td>
<td>75</td>
<td>3.00</td>
<td>9.00</td>
<td>3.7067</td>
<td>1.24958</td>
</tr>
<tr>
<td>X4</td>
<td>75</td>
<td>-0.92</td>
<td>0.75</td>
<td>0.0522</td>
<td>0.21642</td>
</tr>
<tr>
<td>Y</td>
<td>75</td>
<td>0.00</td>
<td>0.47</td>
<td>0.0957</td>
<td>0.08719</td>
</tr>
</tbody>
</table>
This study employs multiple linear regression analysis for the analysis. Broadly speaking, regression analysis investigates dependence of the dependent variable on one or more independent variables (explanatory or predictor variables). The objective is to estimate or predict the population mean or average value of the dependent variable using known values of the independent variables, as explained by Maulana Ghazali [9]. Regression, hence, serves as a tool employed to quantify the degree of impact of independent variables on dependent variable. Outcomes of computed regression equation are presented as follows

\[ Y = -3.493 - 0.500X_1 + 5.181X_2 - 0.046X_3 + 1.019X_4 + 1.482 \]  

(1)

Explanation: \(X_1\): Environmental Performance, \(X_2\): Social Performance, \(X_3\): Audit Committee, \(X_4\): Sales Growth, \(Y\): Return on Assets (ROA)

Table 2. Multiple Linear Regression Analysis.

<table>
<thead>
<tr>
<th>Coefficientsa</th>
<th>Unstandardized Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constanta)</td>
<td>-3.493</td>
<td>1.482</td>
<td>-2.357</td>
<td>0.021</td>
</tr>
<tr>
<td>(X_1)</td>
<td>-0.500</td>
<td>0.167</td>
<td>-0.322</td>
<td>-2.987</td>
</tr>
<tr>
<td>(X_2)</td>
<td>5.181</td>
<td>2.571</td>
<td>0.212</td>
<td>2.015</td>
</tr>
<tr>
<td>(X_3)</td>
<td>-0.046</td>
<td>0.070</td>
<td>-0.071</td>
<td>-0.653</td>
</tr>
<tr>
<td>(X_4)</td>
<td>1.019</td>
<td>0.390</td>
<td>0.272</td>
<td>2.611</td>
</tr>
</tbody>
</table>

3.1 Based on the regression equation, the interpretation is as follows:

1. The coefficient / constant / intercept value of -3.493 indicates that the ROA value is -3.493 when all variables, namely Environmental Performance, Social Performance, Audit Committee, and Sales Growth, are equal to zero.
2. The coefficient value of the Environmental Performance variable \((X_1)\) is -0.500, which means that if Environmental Performance increases by one unit, ROA will tend to decrease, and vice versa, assuming that other variables are constant.
3. The coefficient value of the Social Performance variable \((X_2)\) is 5.181, indicating that if Social Performance increases by one unit, ROA will tend to increase, and vice versa, assuming that other variables are constant.
4. The coefficient value of the Audit Committee variable \((X_3)\) is -0.046, which means that if the Audit Committee increases by one unit, ROA will tend to decrease, and vice versa, assuming that other variables are constant.
5. The coefficient value of the Sales Growth variable \((X_4)\) is 1.019, indicating that if Sales Growth increases by one unit, ROA will tend to increase, and vice versa, assuming that other variables are constant.

The F-statistic test shows whether all independent variables included in the model collectively have an influence on the dependent variable. From the table above, it can be seen that at a 5% level of significance, the obtained F-value is 5.980 with a significance level of 0.000. Meanwhile, using a significance level \((\alpha)\) of 0.05 and the degrees of freedom \((df)\) for the numerator = 4 and the denominator = 70 (calculated from \(n-k-1\), where \(n = 75\), \(k = 4\)), the
critical F-table value is 2.50. Therefore, it can be concluded that the calculated F-value of 5.980 > the critical F-table value of 2.50, with a significance level of 0.000, which is smaller than the significance level (α) of 0.05. This means that collectively, the variables of Environmental Performance, Social Performance, Audit Committee, and Sales Growth have a significant influence on company performance.

**Table 3. The Simultaneous Significance Test (F-test).**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>12,360</td>
<td>4</td>
<td>3,090</td>
<td>5,980</td>
<td>0,000&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Residual</td>
<td>36,172</td>
<td>70</td>
<td>0,517</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>48,532</td>
<td>74</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The test of the Coefficient of Determination essentially measures how well the model explains the variation in the dependent variable. The Coefficient of Determination in the first regression model is used to determine the extent to which Environmental Performance, Social Performance, Audit Committee, and Sales Growth explain their influence on company performance (ROA). Based on the calculation results, the value of the coefficient of determination (Adjusted R Square) is 0.212. This means that 21.2% of the variation in company performance can be explained by the variations in Environmental Performance, Social Performance, Audit Committee, and Sales Growth, while the remaining 78.8% is explained by other variables outside the research model.

**Table 4. The test of the Coefficient of Determination (R-squared).**

<table>
<thead>
<tr>
<th>Model Summary&lt;sup&gt;b&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
</tr>
<tr>
<td>-------</td>
</tr>
<tr>
<td>1</td>
</tr>
</tbody>
</table>

Predictors: (Constant), X4, X1, X2, X3

b. Dependent Variable: LnY

T-statistic test performed to assess magnitude impact an individual independent variable on the dependent variable, assuming other independent variables remain constant. Put differently, its objective ascertain whether every independent variable incorporated in model exerts an impact dependent variable. Unstandardized coefficients are employed used to interpret the parameter coefficients of independent variables.

Furthermore, t-statistic test is utilized to establish the direction of the impact of each independent on variable dependent variable. Guidelines for making conclusions based on test outcomes involve assessing the probability value (sig)-t. Probability value (sig)-t is below 5%, indicates independent variable significantly influences the dependent variable. Consequently, the research hypothesis is accepted or corroborated by the data. Conversely, when probability value (sig)-t exceeds 5%, deduced that the independent variable lacks a significant impact on the dependent variable. Result, the research hypothesis is't accepted or substantiated by data.
Table 5. Partial Hypothesis Testing (t-test).

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constanta)</td>
<td>-3,493</td>
<td>1,482</td>
<td>-2,357</td>
<td>0,021</td>
</tr>
<tr>
<td>X1</td>
<td>-0,500</td>
<td>0,167</td>
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</tr>
<tr>
<td>X4</td>
<td>1,019</td>
<td>0,390</td>
<td>0,272</td>
<td>2,611</td>
</tr>
</tbody>
</table>

Based on the conducted tests, the researcher will now explain the results of the hypothesis testing. The discussions are as follows:

1. Influence Environmental Performance on Corporate Financial Performance: The results of this study are inconsistent with the legitimacy theory, which suggests companies establish social contract with communities where they operate and utilize economic resources. Legitimacy theory suggests that companies that demonstrate a concern for their surrounding environment are perceived positively by the public. The presence of environmentally responsible companies that do not harm the community and the environment is well-received by society. Nevertheless, the findings from this research indicate that the Environmental Performance variable (X1) possesses a t-value of -2.987, surpassing the critical t-table value of 1.665. Having a significance value 0.004, which below significance level 0.005, it's concluded Environmental Performance (X1) has a significant negative effect company financial performance (ROA). Hence, the hypothesis H1 is rejected, suggesting that ROA is significantly negatively influenced by environmental performance. This suggests that managing the environment may not directly influence a company's financial performance, even when companies implement environmentally responsible practices according to PROPER assessment criteria. This could be attributed to PROPER assessments not directly affecting public perception, thus not resulting in positive public image. Environmental performance can be seen as an indicator of a company's commitment to the environment. If a company's environment and surrounding resources are well-maintained, it is likely that the company's environmental performance will also be favorable [14]. The significant negative influence of environmental performance on the financial performance of the company could be ascribed to costs associated with environmental improvement programs, commonly known as environmental costs. These costs represent expenses incurred by a company related to environmental improvement programs aimed at mitigating environmental pollution caused either intentionally or unintentionally by the company. In a company's financial or annual reports, these environmental costs are allocated to the corporate social responsibility account, specifically under environmental development programs. Such programs may involve disaster relief, education or training, health, public facilities and infrastructure, and a focus on implementing social and environmental responsibilities. Sometimes, companies may overlook the environmental costs,
leading to a lack of visibility of their impact on the company's annual financial reports. If a company continues to neglect these costs, their impact on financial reports may worsen, as these expenses inflate and may lead to decreased company profitability, ultimately affecting the company's financial performance. These research findings are consistent with the results of Nababan [15] and Wardati [16], which all indicate that environmental performance exerts considerable adverse impact the financial performance of the company.

2. The Influence of Social Performance on Company Financial Performance:
   In the data analysis, the variable Social Performance (X2) shows a t-value of 2.015, which is greater than the t-table value of 1.665. With a significance value of 0.048, which is smaller than the significance level of 0.005, it is concluded that Social Performance (X2) has a significant positive effect on company financial performance (ROA). Hence, the hypothesis H2 is accepted.

   According to stakeholder theory, stakeholders possess entitlements data and information regarding the company's operational activities for a specific period. The social responsibility theory emphasizes the company's social responsibility in integrating social concerns into business operations and interactions with stakeholders.

   The legitimacy theory highlights the importance of adhering to norms, values, beliefs, and regulations within the societal system when conducting business operations. Transparent disclosure in annual reports helps companies gain legitimacy and support from stakeholders [17]. Investors and stakeholders are more likely to trust companies that transparently disclose all activities related to finances, as well as the company's social and environmental responsibilities. When a company demonstrates a high level of social responsibility, investors are attracted to invest in the company, leading to increased capital, higher sales, and profits, resulting in a positive financial performance for the company.

   This is because the social performance of a company reflects a positive image in the eyes of society. The existence of a company is greatly influenced by society, and both entities mutually impact each other. Social disclosure is important for companies that care about the environment, as it helps create a positive image in the eyes of the public. With a positive image regarding their environmental efforts, companies are perceived as contributing to achieving Sustainable Development Goals (SDGs), and society believes that the company's presence does not harm the community and the environment.

   These research findings are consistent with the studies of Kristiani & Weraastuti [18] and Adil [19] which indicate that corporate social responsibility has a positive influence on company financial performance. Companies that report their social responsibilities in their annual reports receive positive responses from stakeholders. Social responsibility is one of the ways companies can sustain their existence and longevity. Companies that fulfill social responsibilities receive positive responses, which can contribute to improving the company's financial performance.

3. The Influence of Good Corporate Governance on Company Financial Performance:
   The results of this research are not in line with the agency theory, which suggests that based on the relationship in agency theory, the audit committee, as an agent appointed by the principal to oversee the company, will encourage improvement, control, and monitoring in the company's performance. This study aligns with the research by Indra [20] and Hastawati Saputra [21], the findings of this research suggest that the number of members in the audit committee has no impact on the firm's performance, as evaluated by Return on Assets (ROA). This study highlights that audit committees, regardless of their size, share identical responsibilities such
as scrutinizing the company's accounting practices, evaluating internal control systems, inspecting external reporting mechanisms, and ensuring adherence to legal standards.

During the analysis of the data, it was observed that the audit committee variable (X3) presented a t-value of -0.653. This value is less than the t-table threshold of 1.665. Additionally, its significance value stands at 0.516, exceeding the critical significance level of 0.005. Consequently, this leads to the rejection of the null hypothesis (H0) and the acceptance of the alternative hypothesis (Ha). Therefore, it can be concluded that the audit committee exerts a negative and insignificant effect on the financial performance of the company, thereby contradicting the assertion made in hypothesis H3. It appears that the size of the audit committee does not guarantee an improvement in financial performance, possibly due to the suboptimal performance of the oversight function performed by the audit committee.

The results align with the studies by Maulana Ghazali[9] and Kumalasari [22], both of which conclude that the audit committee exerts a negative and insignificant impact on the financial performance of companies.

4. The Influence of Sales Growth on Company Financial Performance:

The concept of sales growth is underpinned by signaling theory, as detailed by Brigham and Houston in 2001. This theory revolves around the idea that management actions serve as indicators to investors about management's perspective on the company's future prospects. It suggests that the insights management gains from information about the company's operational activities, ranging from production to sales, are crucial for preparing financial reports that are suitable for external stakeholders. Signaling theory elaborates on how management's views on the company's potential growth can shape potential investors' reactions. These signals, primarily conveyed through the company's financial reports, offer valuable insights into its financial health.

In analysis, the sales growth variable (X4) exhibited a t-value of 2.611, surpassing the t-table threshold of 1.665. It also presented a significance value of 0.011, which falls below the set significance level of 0.005. As a result, the null hypothesis (H0) is discarded, and the alternative hypothesis (Ha) is embraced. Consequently, it can be inferred that sales growth positively and significantly impacts the financial performance of a company. This acceptance of Statement H4 suggests that the extent of sales growth influences the company's financial outcomes. Firms experiencing higher sales are likely to attain greater profits, thereby enhancing their overall financial performance.

The relationship between sales growth and financial performance clearly demonstrates that sales growth can significantly affect a company's financial outcomes. This is supported by research conducted by Hasanah & Enggariyanto [23], Kumalasari [22], Hidayati [24] and Ritawati [25], which show that sales growth has a positive influence on company financial performance. Positive sales growth reflects good financial performance, leading to higher sales in subsequent years compared to previous years. As sales growth increases, so do the profits earned.

4 Conclusion

This study aims to investigate the stock prices of companies in the LQ45 sector on the Indonesia Stock Exchange. From the empirical analysis of the research findings, the following specific conclusions (t-test) can be drawn: Environmental Performance shows a negative and significant effect on financial performance. Corporate Social Responsibility
displays a positive and significant influence on financial performance. Governance exhibits a negative and insignificant effect on financial performance. Additionally, Sales growth has a positive and significant impact on financial performance.

5 Acknowledgment

I wish to extend my sincere thanks and appreciation to everyone who played a role in the successful completion of this final research project. I am thankful for the chance to have been guided by the faculty of the accounting department, particularly Ms. Niken Savitri Primasari, and for the valuable knowledge I have acquired during this research. This journey has been transformative and rewarding, and I hope that the findings of this study will make a meaningful contribution to the academic community.

6 Conflict of interest

By acknowledging and disclosing potential conflicts of interest, authors with mentors Ms. Niken to uphold the principles of academic integrity, promote transparency in research, and foster trust within the scientific community and among readers. This practice is essential for maintaining the credibility and validity of academic publications and ensuring that research is conducted with the highest ethical standards.

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