THE POWER OF STAKEHOLDERS IN THE MANAGEMENT COMPLIANCE WITH ENVIRONMENTAL RESPONSIBILITY ISSUES: INDONESIA CONTEXT

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ABSTRACT

Some previous studies have found that stakeholder power has successfully pushed managers to comply with environmental responsibility while others documented the opposite. Besides, the study that focuses on the power behind the manager's compliance with the environmental issues is very rare. This provides an opportunity to search which the dominant of stakeholders that effectively oblige the managers to fulfill with the requirement. Thus, the objective of this study is to find which stakeholders that have already success in pushing management to comply to their environmental responsibility. This study adopts Ullman's three-dimensional framework to explain the stakeholder power. Stakeholder power is proxied by a shareholder, government and customer power. Whereas, PROPER's rating measures environmental performance. All Indonesian listed companies in all industrial sectors which are incorporated in the PROPER program are selected as the research sample, resulting in 462 observations in the period of 2002-2017. PROPER is a Company Performance Assessment Program in Environmental Management, which was initiated by the Indonesian Government through the Environment Minister. This study also includes various control variables, i.e., firm size, firm age, level of competitiveness, and leverage. Ordinary Least Square is used to analyze data. The results show that the government power consistently influences the managers to comply with environmental issues, while the customer and shareholder power are not supported. In the case of financial performance, the result supports the prior research that higher rates of environmental performance, as well as shareholder power and customer power, will significantly improve financial performance.

Keywords: environmental, financial, performance, PROPER, stakeholder power

INTRODUCTION

Environmental issues are becoming increasingly important among government, customers, and investors. In Indonesia, environmental issues have become a concern to the government as the Indonesian government initiated PROKASIH program in 1990; then in 1995, it changed to PROPER. The PROPER program was suspended in 1997 – 1998 during Asian financial crisis and revived in 2002. PROPER only evaluates listed companies whose operational impacts are considered significant to the environment, but the government expects to expand coverage over time. PROPER program is hoped to encourage improvement in the environmental responsibility performance of companies. The government has a vital role in influencing the company's strategy and performance to comply environment quality through PROPER Program. The PROPER aims to motivate firms to improve environmental performance by releasing the ranking result to the public.

High environmental performance is proven to be reducing pollution that finally increase the firm's competitiveness, innovation and financial performance (Ramanathan et al., 2017). Firms with high environmental performance can reduce their operation cost,

improve their access to resources, and reduce employee turnover (Korhonen et al., 2018). Furthermore, firms with high environmental performance are better in utilizing market opportunities (Korhonen et al., 2018). Employees and customers as stakeholder play an essential role in the firm's life sustainability (Wang & Sengupta, 2017). Customers can push managers to comply with their environmental issues. Some management literature also reports that firms can improve their environmental performance with the help of customers and suppliers (Daniel et al., 2014). Customers stimulate managers to comply with environmental issues, and nowadays, technological advancements have made it easier for customers, to quickly pass on their opinions and experiences on the environmental issues efficiently. Therefore, customers have more significant power in influencing community through social media. Thus, issues about firms who do not comply with environmental issues can be rapidly known by communities (Mehran et al., 2014). Customers' demand for high environmental performance must be stimulating managers' compliance in environmental issues. Although claim about stakeholder pressure to environmental performance has been discussed (Zrelli & Belloumi, 2015; Daniel et al., 2014), empirical studies about the concept are still limited.

Prior studies only search for the impact of PROPER ranking on financial performance (Sarumpaet, 2005). It is still required to investigate further which of the stakeholder has successfully pushed companies to enter the PROPER program. Thus, this study will further focus on stakeholder power to search which dominant of stakeholder hat effectively oblige the managers to fulfill with the environmental requirement using Ullmann's three-dimensional framework (1985). In Indonesia, the government has a vital role in influencing the company's strategy and performance to comply environment quality through PROPER Program. The PROPER aims to motivate firms to improve environmental performance by releasing the ranking result to the public.

Based on the research opportunities described above, this study aims to examine which stakeholder forces are dominant in encouraging management to comply with environmental responsibilities. Furthermore, this study will also examine the effect of environmental performance on financial performance.

To enhance the results of this study, we use data from all companies that registered in Indonesia Stock Exchanges from all sectors and receiving PROPER award issued by the Ministry of Environment, the Republic of Indonesia in the year 2002-2017 to analyzes the influence of stakeholder power to environmental performance and financial performance. There are two findings from this research. First, stakeholder power especially government power successfully encourages management to care about environmental problems, but shareholder and customer do not. Second, PROPER is significantly improving financial performance.

The development of business in this modern era requires companies to pay more attention not only to shareholders, but also all existing stakeholders. This is under the stakeholder theory which was developed by Freeman (2010). Stakeholders are groups or individuals who can influence or be influenced by the achievement of the goals of the organization (Freeman, 1984). Stakeholder theory states that major stakeholders (Clarkson, 1995), which is relevant by management concerning power, legitimacy, and urgency influence organizational strategy. The point of stakeholder theory is that a firm's success is dependent upon the successful management of all the relationships a firm has with its stakeholders (Freeman, 1984). Stakeholder theory provides a theoretical framework to explain that organizations' success depends on their leader's competence to manage the relationship of all of the stakeholders (Freeman, 1984; Clarkson, 1995). Legitimacy theory, following stakeholder theory, also argued that to survive, the company seeks to gain legitimacy from all stakeholder (Dowling & Pfeffer, 1975) by implementing appropriate policies including environmental performance.

Freeman (2010) categorizes stakeholder concepts into two categories. The first is business planning and policy models, where the focus of stakeholder analysis is developing and evaluating the company's

strategic decisions. Stakeholders in this first model include company owners, customers, employees, and suppliers. The second is a corporate social responsibility (CSR) model of stakeholder management, wherein this model includes external components including the government, competitors, customers, environmentalists, special interest groups, and the media. This enables managers to make strategic plans which are adaptable to changes in social demands of non-traditional stakeholder groups (Freeman, 1984).

Miles (2017) state that stakeholders can only be people or groups who have the power to influence the future of the organization directly. If that power does not exist, then they are not considered as stakeholder. This influence can be directly and indirectly based on the level of resource dependence between organizations and stakeholders or the position held by organizations in stakeholder networks. The power and interest of every stakeholder are significant to an organization (Miles, 2017). Stakeholder power is a relevant factor to explain organizational ability to achieve their strategic objectives.

Stakeholder power is one of the dimensions in Ullman's three-dimensional framework (Elijido, 2007). Ullmann (1985) states that the first dimension, stakeholder power, explains that a firm will be responsive to the intensity of stakeholder demands. For example, when stakeholders control critical resources, the firm is likely to react in a way to satisfy their demands. In accordance to this research, the increasing environmental awareness will also increase the needs of companies to extend their corporate strategies to include stakeholders in order to adapt to changing social demands as firms are encouraged to fulfill stakeholders' demand. The second dimension, explains how management responds to social questions and requests. Moreover, for the third dimension, Ullmann states that the strategic framework will be moderated by corporate financial performance (CFP) in the past and present. Such as, CFP determines the relative intensity of social demands and attention received from company leaders.

A primary stakeholder group is one whose have more power. Therefore, without this group's participation, a firm cannot survive as a going concern. Primary stakeholder groups typically are comprised of shareholders and investors, employees, customers, and suppliers, together with what is defined as the public stakeholder group: the governments and communities that provide infrastructures and markets, whose laws and regulations must be obeyed, and to whom taxes and other obligations may be due. There is a high level of interdependence between the corporation and its primary stakeholder groups. Stakeholder power can be classified into shareholders power, creditor power, and government power (Elijido, 2007). According to Elijido (2007), shareholder have the power to be the primary provider of capital, the creditor has the power to provide economical power to the firm through debt provisions, and the government has the power to intervene through sanctions and legislation. This previous study did not include one of the most influential stakeholders, which is customers. customers have an important role, as a customer are the firm's primary resource. Customers give rewards to environmentally responsible companies by demanding more product or paying extra to the company, which translates to the primary source of income for the company (Arbelo et al., 2014).

Along with increasing environmental issues, managers' and stakeholders' environmental concern has also increased. Environmental responsibility has become a focus on businesses with the encouragement of stakeholders. Corporate environmental responsibility (CER) is as a component of corporate social responsibility (CSR) which is a company's commitments and practices to act responsibly to protect and improve environmental performance (Daniel et al., 2014).

Prior studies have applied the various approach in defining environmental performance and its definition. Numerous researches previously measure environmental performance by considering the environmental impact such as output, waste, and pollution, environmental compliance or chemical waste (Ramanathan et al., 2017). Unfortunately, that

approach seems to limit the scope of environmental performance in the case of operational outcome and strategic element consideration (Journeault, 2016). According Journeault (2016), environmental performance must be a multi-dimension aspect consist of organization structure, stakeholder relations, regulation compliance, and environmental impact.

Environmental performance is a mechanism to a firm to integrate concern to the environment in their operations and their relations to the stakeholders, which exceed their law responsibilities. Firms with high environmental performance have a better long-term value compared to firms with low environmental performance.

Majority of the previous studies are from developed countries such as the United States and Europe, where environmental awareness is considered to be high. Whereas, in Indonesia, environmental issues are first to be considered when The Environmental Impact Management Agency of Indonesia (BAPEDAL) initiated the PROPER program in 1995. PROPER is initiated in 1995 to resolve the weaknesses of environmental control in Indonesia. This program is made to use environmental disclosure, environmental appreciation, evaluation, and ratings which are intended to increase motivation in upgrading environmental performance. With this program, government institutions claim to commit to giving an accurate and reliable evaluation. To prove this, the government announce the rating to the public.

This research uses PROPER rating to measure environmental performance. The PROPER program gives the rating to companies in Indonesia by using the color code. These colors are used to classify companies based on their environmental performance. The sequence of color from best until worst environmental performance is gold, green, blue, red, and black. Gold, green and blue is for companies which comply with environmental regulations. While red and black are for companies which do not comply with environmental regulation, this rating using color code are intended to make it easier for the public to understand (Sarumpaet, 2017).

Financial performance can be described as a measurement of how well a firm uses its assets from its primary mode of business to generate revenue. The term is also used as the general measure of the firm's overall financial health over a given period. Financial performance as measuring results of a firm's policies and operations in monetary terms, and these results are reflected in firm's return on investment, return on assets (ROA), value-added (Ararata et al., 2017). ROA measures how much a company earns with its sales. This gives information about the company's resilience to competition, declining prices and sales, and adverse rising costs. ROA measures how well the company is utilizing its assets to generate income.

Specific firm characteristics are associated with firm financial performance such as firm size, leverage (Ararata et al., 2017), firm age (Lundgren & Zhou, 2017), and many more others. The theory gives two diverse opinions on what influences firm performance. The first viewpoint is that many argue that it is firm characteristics that profoundly influence performance (Barbu et al., 2014). Firm size, firm age, level competitiveness, and leverage are components of firm-specific characteristic.

One of the firm characteristics that are associated continuously to firm performance is firm size commonly measured by total asset (Barbu et al., 2014), which reflect the number of economic resources that are own by companies to achieve its objective. Legitimation theory claim that bigger companies will tend to be under more significant pressure from the public and tend to disclose more information about environmental performance to the public to receive support for their going concern and building an environmentally responsible image. Larger firms are associated with having more diversification capabilities, ability to exploit economies of scale and scope and also being highly formalized regarding procedures. These features directed to active operations, so it is the company to produce good performance. Previous studies indicate that the bigger the

company equals more transparency in implementing and reporting their environment policy (Chang & Zhang, 2015). The reason is that government are more likely to be concern to bigger companies than small companies if their business activities are related to environmental issues (Barbu et al., 2014; Gallego- Álvarez & Quina-Custodio, 2016; Cumming et al., 2016; Hourneaux et al., 2014). Consequently, bigger companies will have higher environmental performance than smaller companies.

Most of the recent studies also use firm age as the control variable. Previous studies have found that age and size were significantly driving companies' profitability and productivity. Brian et el (2017) found that profitability will decrease when companies increase their age because as age increases, the cost will increase, growth slows down, assets get obsolete, and investment, as well as R&D activities, will slow down. Previous studies found that new companies tend to grow faster than older companies (Daunfeldt et al., 2015). They stated that companies with more rapid growth mostly are from new companies.

Ayub et al (2019) argues that older firms are more experienced, have enjoyed the benefits of learning and are not prone to the liability of newness which ultimately leads to superior performance. However, another opposing view is that older firms may lose out on grasping the profitable opportunity that comes along their way because of the structural inflexibility created by bureaucracy and inertia.

Some of the recent studies also use level competitiveness as the control variable. Profile of industry is another critical variable perceived as affecting environmental performance. Profile of industry is concerned with the level of the company's sensitivity to the negative impact of company activities on the environment. The profile of industry can be classified into two groups: high-profile and low-profile industry. A high-profile industry is an industry with high consumer visibilities, political risks, and competitions. Companies, which are sensitive to environmental issues are more severe in managing the issues (Chen & Wu, 2015). Indeed, a company in high-profile of the industry has a high degree of sensitivity and eventually will seek to improve its image in the eyes of the public by implementing environmental policies (Chen & Wu, 2015; Xie et al. 2016).

Environmental performance can affect leverage by increasing the company risk. Trade-off theory shows that companies with smooth cash flow utilize less debt financing in the capital structure to avoid bankruptcy. Poor environmental performance indicates uncertainty cash flows which related to potential regulatory changes and potential cleaning costs. However, previous studies showed that managers and stakeholders consider that undisclosed obligation when determining the optimal capital structure of the company (Mary & Patrice, 2015; Carballo-Penela & Castromán-Diz, 2015). Therefore, companies with poor environmental performance must have disclosed leverage relatively lower compared to companies that perform better.

As mentioned earlier, stakeholder power is the first dimension of Ullman's model. Ullman proposes that if the firm belief that its influential stakeholders are concerned with social and environmental issues, the firm will be more motivated to improve its environmental performance. Thus, the hypothesis implied in this research is:

H1: Stakeholder power is positively associated with environmental performance

This research will further identify the stakeholders. According to Freeman (2010), stakeholder concept is divided into two models which are first, business planning and policy model, includes company owners, customers, employees, and suppliers. Also, second, the corporate social responsibility model, includes government, competitors, customers, environmentalists, special interest groups, and the media. This research only will examine some of the stakeholders who have the most reliable power to the firm, which are shareholder power, government power, and customer power.

Government power has the power to intervene through regulations and can be viewed as an influential, powerful stakeholder.

According to (Li et al. 2017), companies faced with strict government regulations must be more efficient in investing and utilizing their resources to overcome environmental problems. Lu & Abeysekera (2014) provides empirical evidence to support Freeman's (1984) perspective, which recognizes the ability of governments to influence corporate strategy and performance through regulations. The government states social and environmental responsibilities as a strategic tool to fulfill requests from stakeholders and other related parties.

In Indonesia, the government has an essential role in influencing the company's strategy and performance to comply environment. The government's efforts to preserve the environment are carried out by the government by issuing Republic of Indonesia Law No.32 of 2009 concerning Environmental Protection and Management, and Republic of Indonesia Government Regulation No.101 of 2014 concerning Management of Hazardous and Toxic. The government's effort shows that the government is very concerned about environmental management. With the implementation of the government's regulations, it is expected that companies pay more attention to the environment around them and reduce the negative impacts generated by the company's operations. The Government through the Ministry of Environment has established a program of environmental management of companies in Indonesia called PROPER (Program for Rating Company Performance). This activity is carried out to provide an assessment of environmental performance, and to encourage every company to care more about its environment. This suggests hypothesis as follows:

H1a: There is a positive association between government power and environmental performance

Consistent with Elijido (2007), shareholder power is having a significant association with environmental performance. Management will incorporate better environmental performance decision in their strategic plan to satisfy their owner. A shareholder is the primary provider of the firm's scarce resource. According to the Anglo-American model, the shareholders as the dominant stakeholders able to exert substantial influence on managerial decision making. (Abdullah et al., 2016). Ullmann (1985) enhance that shareholders who are sensitive to social problems can strengthen pressure on top managers to provide social and environmental information. Thus, *H1b* stated as follows:

H1b: There is a positive association between shareholder power and environmental performance

The company put the customer into a corporate social responsibility strategy and considers the customer to be a demand and concern for the company because the customer is a stakeholder that directly affects income. Customers are the primary source of income for the company (Arbelo et al., 2014). Customer power, after government power, is one of the main forces that drive companies to adopt environmental management plans (Barbu et al., 2014). Customers influence companies to improve their environmental compliance. This is because customers have more knowledge about the problem, while service providers have more information about solutions, so the need to engage customers in creating value is satisfactory (Martin de-Castro et al., 2016). We estimate that customer pressure has a significant impact on the company's activity and high concentration company on customer influence will pay more attention to CSR activities, so leads to the following hypothesis:

H1c: There is a positive association between customer power and environmental performance

Corporate environmental performance is proven to be reducing pollution and also improving the firm's financial performance, competitiveness, and innovation (Ramanathan et al., 2017). Firms with high environmental performance can reduce their operation cost, improve their access to resources, and reduce employee turnover (Korhonen et al., 2018). Furthermore, firms with high environmental performance are better in utilizing market opportunities (Korhonen et la., 2018). CER implementation contributes to better company

reputation, leading the company to open report reporting, assisting in forming a circle of environmental information with good economic performance (Sarumpaet, 2017)

A measure that has been commonly used to measure financial performance is the return on assets (ROA). Environmental performance is an essential factor to improve financial performance. Therefore, it is predicted that environmental performance is directly related to financial performance. Thus, the second hypothesis is formed as follows:

H2: There is a positive association between environmental performance and financial performance

METHODS

Since 1995, the Indonesian government launched the PROPER program to rank the company's environmental performance. PROPER aims to encourage companies to implement a good system in environmental management. However, PROPER was stopped in 1997 to 1998 due to an economic crisis. Then, PROPER re-run in 2002 with only 82 participants, but now consists of 1.906 companies from all over Indonesia.

The sample of this study consist of companies listed on the PROPER in the year 2002-2017. Of all the companies enrolled in PROPER, only 3% of the total companies are listed in Indonesian Stock Exchange (BEI), while the remaining are privately held companies. Since privately held companies do not release their information to the public, this research only applies to listed companies in the Indonesian Stock Exchange. This study includes a sample from all periods since PROPER first re-run, which is from the year 2002. Sample used includes all sectors in Indonesia. The sample that met all of the criteria during the year 2002 – 2017 were 462 observations. The sample selection is presented in Table 1.

Table 1. Sample Selection

Listed companies for the period 2002-2017	8.978
Companies not enter in PROPER Program during this period	(6.603)
Financial data are no longer available	(1.913)
Final sample	462

This study includes several variables that proved as the determinant of the company performance. Companies' environmental performance is measured by the rank of PROPER award received by companies with measured scales as follows: (5) gold, (4) green, (3) blue, (2) red, and (1) black. Table 2 shows the meaning of each category.

Table 2. The PROPER Rank

PROPER ranks	**Remark**
Gold	Management has consistently demonstrated superior environmental management (environmental excellence) in the production process and services, and implemented ethical business and are responsible for society
Green	Management has managed environmental activities beyond the regulation (beyond compliance) through the implementation of environmental management systems, used resources efficiently through the 4 (reduce, reuse, recycle and recovery), and performed social responsibility (CSR/community development) well
Blue	Management has managed environmental activities as required by the rules/regulations
Red	Management has managed environmental activities that do not conform to the requirements stipulated in the legislation
Black	Management has deliberately acted or been involved in any activities that resulted in

	pollution and environmental damage and violated laws and regulations or does not impose an administrative sanction

Financial performance measured by the most common measurement, that is return on assets (ROA). It is measured by net income divided by total assets of the company. Stakeholder power can be classified into shareholder power, customer power, and government power. According to coercive power, the power comes from the physical resources of force (Mitchell et al, 1997). Therefore, shareholder power measured by the equity ratio and customer power measured by the sales scaled by total asset. Both equity ratio and sales represent the physical resource to push companies to follow the stakeholders need

Government power refers normative power, that is the symbolic resources such as being able to command attention. The power of government to regulate is even greater when companies are in the high profile industry, because high-profile companies will be subjected to more stringent rules than low profile companies (Roberts and Mahoney, 2004). Then government power refers to low profile or high-profile industry. Companies in high profile industry will be scored one (1), otherwise zero (0).

The control variables consist of firm size, firm age, level of competitiveness and leverage. These firms should respond to stakeholder demands to maintain their reputation and social legitimacy. Highly visible firms are expected not only to have the best level of social and environmental responsiveness but also to become more involved in CSR activities (Luo et al., 2015).

Firm Age (AGE), the older business tends to provide an accumulation of experience and knowledge to the owner, which can provide the ability to manage corporate finance (Li et al., 2017).

Level Competitiveness (COMP), according to Lundgren & Zhou (2017) the higher the level of competition increases the threat of liquidation. This encourages managers to work harder to improve the internal efficiency of their companies. However, the impact of competition will lower when companies have dominant external shareholders.

Leverage (LEV), The role of financial leverage in magnifying the return of the shareholders' is based on the assumptions that the fixed-charges funds (such as the loan from financial institutions and other sources or debentures) can be obtained at a cost lower than the firm's rate of return on net assets (RONA ROI). The leverage ratio contributes in measuring the risk of using equity costs (Barakat, 2014). There are various measures known for the capital structure among which the most important are book value-based measures, market value-based measures and semi-market value-based measures (adjusted market value).

The following model 1 is used to test hypothesis 1. This model is described as 1a government, 1b shareholder, 1.3 customer. The

Model 1.a

$$PROPER_{i,t} = \propto_0 + \beta_1 GP_{i,t-1} + \beta_2 AGE_{i,t-1} + \beta_3 COMP_{i,t-1} + \beta_4 LEV_{i,t-1} + \beta_5 FS_{i,t-1} + \varepsilon$$

Model 1.b

$$PROPER_{i,t} = \propto_0 + \beta_1 SP_{i,t-1} + \beta_2 AGE_{i,t-1} + \beta_3 COMP_{i,t-1} + \beta_4 LEV_{i,t-1} + \beta_5 FS_{i,t-1} + \varepsilon$$

Model 1.c

$$PROPER_{i,t} = \propto_0 + \beta_1 CP_{i,t-1} + \beta_2 AGE_{i,t-1} + \beta_3 COMP_{i,t-1} + \beta_4 LEV_{i,t-1} + \beta_5 FS_{i,t-1} + \varepsilon$$

Model 2

$$FP_{i,t} = \propto_0 + \partial_1 PROPER_{i,t-1} + \partial_2 SP_{i,t-1} + \partial_3 CP_{i,t-1} + \partial_4 GP_{i,t-1} + \partial_5 AGE_{i,t-1} + \partial_6 COMP_{i,t-1} + \partial_7 LEV_{i,t-1} + FS + \varepsilon$$

Each model represents each hypothesis, and data are analyzed using ordinary least square (OLS) dan ordinal OLS for hypothesis 1. Current environmental performance as the results of the previous pressure of stakeholders, so that is why, this study using t-1 for

independent variables and dependent variable is in t period. GRET'1 software is applied to test the hypothesis.

The operationalization of each variables are explained as follow.

Environmental Performance (PROPER) is measured using the PROPER rating where the gold rating is given a value of five (5), green is a value of four (4), blue is given a value of three (3), red is given a value of two (2) and black is given a value of one (1). Sarumpaet, et al. (2017).

Financial performance (FP) is measured by Return on Assets (ROA), since ROA is a comprehensive measure of financial performance (Rivera et al., 2017). ROA is obtained by dividing total income to total assets.

Shareholder power (SP) measured by equity ratio. Equity ratio is measured by total equity divided by total assets of the company (Mitchel et al., 1997)

Customer Power (CP) measured by the ratio of asset turnover that is sales divided to total asset (Mitchell et al., 1997)

Government Power (GP) the power of the government to force is greater in companies classified as high profile than low profile because high profile companies have greater potential to damage the environment than low profile companies (Roberts and Mahoney, 2004). Then government power refers to high-profile or low-profile industry. Companies in high-profile industry will be scored one (1), otherwise zero (0).

The variable is considered as a dummy variable which refers to low profile or high-profile industry (Roberts and Mahoney, 2004). Companies in high profile industry will be scored one (1), otherwise zero (0).

Firm size (FS) is measured by total log assets of the company (Li et al., 2017)

Firm age (AGE) is measured by the number of years since listing (Pervan et al., 2017).

Level competitiveness (COMP) is measured by the Herfindahl Index Model (HHI). A high score is an indication of high concentration levels or low competition, and a low score indicates high competition (Nawrocki, 2010).

Leverage (LEV) is measured by total debt divided by total equity of the company.

RESULT AND DISCUSSION

This research uses 462 observations consist of 91 listed companies on the Indonesia Stock Exchanges. Overall, these companies have average PROPER ratings. Even though there are thousands of companies enter in PROPER Program, but not all of them are listed in Indonesia Stock Exchange (BEI). Around 3% of the total companies enter in PROPER Program are listed in Indonesia Stock Exchange, the others are privately held companies. The information about privately held companies are not open to the public. The PROPER ratings are around 3,03 in which the average samples can be categorized as moderate environmental performance. This implies that these companies have enough concern for their environmental problems. These companies in this study have extensive experience in their industry and have a relatively same size.

This research found that higher proper ranking of companies are followed by a better performance. Table 3 shows that the higher the rating of PROPER, the higher the power of government and shareholders, but customer power become slightly lower for Gold ranking group compares to Green ranking group. There is no significant different result in firm age, firm size, level competitiveness, but the average of leverage on Green ranking is higher than Gold ranking among sample groups.

Table 3. Profile of companies based on PROPER Ranking

	PROPER RANK				
	1	2	3	4	5
GP	0,3333	0,4459	0,5721	0,6883	1
SP	0,4701	0,4753	0,5376	0,5188	0,5671
CP	1,3892	1,0352	0,9284	0,9371	0,7261
FP	0,12	0,05	0,06	0,13	0,10
AGE	20	20,8648	17,9381	17,2467	18

FS	12,1924	12,4831	12,7014	13,1051	13,0322
COMP	0,3302	0,3824	0,3620	0,3686	0,2501
LEV	35,8069	88,7611	60,5416	66,4530	41,6714

We propose two hypothesize for this study, first is stakeholder power, including shareholder, government, and customers have a positive association with environmental performance. Ordinal OLS is applied in testing hypothesis 1. According to Table 4.a to Table 4.b, the data is fit with the model, at least one of the independent variables has a probability to influence the PROPER rank. Goodness-of fit is also fulfilled. All variables simultaneously change the dependent variables (Table 4.c), with range of 7 percent to 14,5 percent, according to the Pseudo R-square.

The results support that government power and customer power have a significant effect, at <0.01. Which is consistent with Elijido (2007) who found that government power has significant positive association with environmental performance. Whereas, shareholder power is not supported. All control variables except the level of competitiveness (COMP) positively affect the changes of environmental performance.

Table 4.a. Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	819,623			
Final	760,435	59,188	7	,000

Table 4.b. Goodness-of Fit

	Chi-Square	df	Sig	Sig.
Pearson	1760,449	1837	,898	
Deviance	760,435	1837	1,000	,000

Table 4.c Pseudo R-square

Cox and Snell	Nagelkerke	McFadden
,120	,145	072

Table 5. Summary of Hypothesis 1 Tests

		Wald	Sig.	
Threshold	[PROPER = 1]	2,969	,085	*
	[PROPER = 2]	11,246	,001	***
	[PROPER = 3]	23,710	,000	***
	[PROPER = 4]	35,021	,000	***
Location	GP	7,017	,008	***
	SP	,262	,609	
	CP	3,811	,051	**
	COMP	2,265	,132	
	AGE	6,107	,013	**
	LEV	4,934	,026	**
	SIZE	23,788	,000	***

Notes: *** Significant 1% , ** Significant 5% , * Significant 10%

In the case of our second hypothesis, the results support prior studies that higher rank of environmental performance will significantly improve financial performance. The study finds that PROPER is significantly improving financial performance at <0.01. This is consistent with Zhongfu et al. (2011); Korhonen et al (2018), who found that good environmental performance might have better financial conditions, thus were able to adopt better environmental practices.

Table 6 Summary of Hypothesis 2 Tests
Model 2: Pooled OLS, using 462 observations
Dependent variable: FP

	Coefficient	*t-ratio*	*p-value*	
Const	−0,5907	−7,017	<0,0001	***
PROPER	0,0328	4,977	<0,0001	***
GP	−0,0203	−2,501	0,0127	**
SP	0,1249	4,504	<0,0001	***
CP	0,1054	14,59	<0,0001	***
COMP	0,0018	0,08463	0,9326	
LEV	9,82335e-05	2,347	0,0194	**
FS	0,0311	4,866	<0,0001	***
AGE	8,84687e-05	0,2162	0,8289	
R-squared	0,3815	Adj R-squared	0,3706	
F(8, 453)	34,9315	p-value(F)	6,11e-43	

Notes: *** Significant 1% , ** Significant 5% , * Significant 10%

CONCLUSION

The objectives of this study are to investigate additional empirical findings to answer which stakeholder power effectively drive managers to concern with the environmental issue and to search the association of environmental performance and

firm performance. The results support that the power of stakeholders especially government customer power successfully drive the managers to comply with environmental issues. We find that government power consistently proves the positive association with the financial performance. This finding gives an additional evidence on which power of stakeholders behind the compliance of manager to environmental issues.

This study offers some implications for managers especially those in the high-profile industry. The compliance the environment issues will prevent companies from the risk of being subjected to sanctions or more stringent rules. The rise of technological advances and social media make customers easy to convey environmental issues that are not responded properly by the company. Therefore, managers should address the concern of customers in the environmental issues, because customer have great power to influence the community.

There are some limitations of this study. First, we cannot observe all the companies that enter in the PROPER Program, since their data is not publicly available. Second, this research still cannot satisfactorily answer whether these results will be consistent for the unobservable PROPER participants. Research on the strength behind the loyalty of managers to follow the rules, especially those related to responsibility to the wider community, which does not seem to promise direct benefits, is still very interesting for future studies.

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