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## Vol. 10 No. 3 (2019): Binus Business Review



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### Editorial

#### Editorial Page and Table of Content

Haryadi Sarjono



PDF

Abstract 69 • Downloaded  50

### Articles

#### The Implications of Good Governance of Village Government Office in Sidoarjo

Rita Ambarwati, Affandy Winarko Mudjib, Fita Fitria Lestariana, Gogor Arif Handiwibowo  
147-158



PDF



Abstract 1174 ● Downloaded  196

## Macroeconomic Determinants of Automobile Sales in Indonesia: An Empirical Study in 1986-2016

Suwinto Johan  
159-166



Abstract 1016 ● Downloaded  357

## Entrepreneurial Orientation in Micro and Small Enterprises of Traditional Food Centers in Bandung, West Java

Margo Purnomo, Erwin Permana, Achsanul Qosasi, Ahmad Fajri Febrian, Asep Miftahuddin  
167-174



Abstract 1176 ● Downloaded  185

## The Implications of Leadership Style, Human Resources Practices, and Organizational Culture on Employee Performance in PT Kansai Prakarsa Coatings

Septian Anggra Setiawan  
175-186



Abstract 937 ● Downloaded  257

## Employee Engagement Factors in A Higher Education Institution

Ahmad Azmy  
187-200



Abstract 1923 ● Downloaded  492

## Understanding People's Acceptance of Light Rail Transit in Bandung and Its Determinant Factors

Raisha Shadrina, Yuliani Dwi Lestari  
201-209





PDF

Abstract 699 ● Downloaded 114

## Halal Slaughterhouse Certification: The Comparison between Two Halal Certification Bodies

Sherly Artadita, Yuliani Dwi Lestari  
211-227



PDF

Abstract 1309 ● Downloaded 330

## The Power of Stakeholders in the Management Compliance with Environmental Responsibility Issues in Indonesia

Juniarti Juniarti, Cynthia Karina, Lisa Lisa, Amelia Cicilia Tjahjono  
229-238



PDF

Abstract 788 ● Downloaded 133

## Menu

Editorial Team

Instruction For Author

Reviewers Acknowledgement

BBR Citation in Scopus

BBR in Tokopedia

## Tools



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S2

Sinta Score



Indexed by GARUDA

23

H-Index

23

H5-Index

2758

Citations

2678

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# Binus Business Review

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# The Power of Stakeholders in the Management Compliance with Environmental Responsibility Issues in Indonesia

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## ABSTRACT

The objectives of this research were to find which the dominant stakeholders that pushed management to comply with the environmental responsibility and to examine the effect of environmental performance on financial performance. This research adopted Ullman's three-dimensional framework to explain the stakeholders' power. Stakeholders' power was proxied by the power of shareholders, government, and customers. Then, PROPER rating measured the environmental performance. All Indonesian listed companies in all industrial sectors incorporating in the PROPER program were selected as the research sample. It resulted in 462 observations in the period of 2002-2017. PROPER was a company performance assessment program in environmental management. The Indonesian government initiated it through the Ministry of Environment and Forestry. This research also included various control variables (firm size, firm age, level of competitiveness, and leverage). Ordinary Least Square (OLS) was used to analyze data. The results show that the government's power and customer's power consistently influences the managers to comply with environmental issues. Meanwhile, the powers of the shareholder do not influence it. In the case of financial performance, the result supports the prior researchers that the higher rates of environmental performance are, the higher the powers of shareholders and customers will significantly be improved.

**Keywords:** stakeholders, management compliance, environmental responsibility

## 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 Program Kali Bersih (PROKASIH - Clean River Program) in 1990. Then in 1995, it changed to PROPER. The PROPER program was suspended in 1997-1998 during the Asian financial crisis and revived in 2002. PROPER only evaluates the listed companies that the operational impacts are considered significant to the environment. However, the government expands coverage over time. PROPER program is expected to encourage

the improvement in the environmental responsibility performance of companies. The government has a vital role in influencing the company's strategy and performance to comply with environmental quality through PROPER. The PROPER aims to motivate the companies to improve environmental performance by releasing the ranking result to the public (Sarumpaet 2005; Sarumpaet, Nelwan, & Dewi, 2017)

The high environmental performance is proven to reduce pollution by increasing the company's competitiveness, innovation, and financial performance (Ramanathan, He, Black, Ghobadian, & Gallear, 2017). The company with high environmental performance can reduce their operation cost, improve their access to resources, and reduce employee turnover.

Furthermore, the company with high environmental performance is better at utilizing market opportunities (Korhonen, Honkasalo, & Seppälä, 2018). Employees and customers as the stakeholders play an essential role in the company's life sustainability (Wang & Sengupta, 2016). Customers can push managers to comply with their environmental issues. Some management literature also reports that companies can improve their environmental performance with the help of customers and suppliers (Korschun, Bhattacharya, & Swain, 2014). Nowadays, technological advancements have made it easier for customers to quickly pass on their opinions and experiences on environmental issues efficiently. Therefore, customers have more significant power in influencing the community through social media. Thus, issues about companies that do not comply with environmental issues can be rapidly known by communities (Nejati, Amran, & Hazlina Ahmad, 2014). Customers' demand for high environmental performance must be stimulating managers' compliance in environmental issues. Although the claim about stakeholders' pressure on environmental performance has been discussed by Zrelli and Belloumi (2015) and Korschun *et al.* (2014), the empirical studies about the concept are still limited.

Previous researchers only search for the impact of PROPER ranking on financial performance (Sarumpaet, 2005). Thus, it still needs to investigate further which the stakeholders have successfully pushed the companies to enter the PROPER.

The development of business in this modern era requires the companies to pay more attention not only to shareholders but also to all existing stakeholders. This is under the stakeholder theory developed by Freeman (2010). Stakeholders are the 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, which are concerning power, legitimacy, and urgency, influence organizational strategy (Clarkson, 1995). The main point of stakeholder theory is that a company's success depends on the successful management of all the relationships that the company has with its stakeholders (Freeman, 1984; Clarkson, 1995). Legitimacy theory, following stakeholder theory, also argues that to survive, the company seeks to gain legitimacy from all stakeholders by implementing appropriate policies, including environmental performance (Dowling & Pfeffer, 1975).

Freeman (2010) categorized stakeholders' concepts into two categories. The first concept was business planning and policy models. The focus of stakeholders was developing and evaluating the company's strategic decisions. Stakeholders in this first model included the company's owners, customers, employees, and suppliers. The second concept was Corporate Social Responsibility (CSR) model of stakeholder management. This model included the external components, including the government,

competitors, customers, environmentalists, special interest groups, and the media. This enabled managers to make strategic plans which could adapt to the changes in the social demands of non-traditional stakeholder groups.

According to Miles (2017), stakeholders can be people or groups with the power to influence the future of the organization directly. If that power does not exist, they are not considered as stakeholders. 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 stakeholders' networks. The power and interest of every stakeholder are significant to an organization. Stakeholder's power is a relevant factor to explain the organizational ability to achieve its strategic objectives.

Stakeholder's power is one of the dimensions in Ullman's three-dimensional framework (Elijido-Ten, 2007). Ullman (1985) stated that the first dimension (stakeholder power) explained that a firm would be responsive to the intensity of the demands of stakeholders. For example, when stakeholders controlled critical resources, the company was likely to react in a way to satisfy their demands. In accordance with this research, increasing environmental awareness would also increase the needs of companies to extend their corporate strategies to include stakeholders. It was to adapt to the changing social demands as companies were encouraged to fulfill stakeholders' demands. The second dimension explained how management responded to social questions and requests. Moreover, for the third dimension, the strategic framework was moderated by Corporate Financial Performance (CFP) in the past and present. CFP determined the relative intensity of social demands and attention received from leaders in the company.

A primary stakeholder group has more power. Therefore, without this group's participation, a company cannot survive. Primary stakeholder groups typically consist of shareholders and investors, employees, customers, and suppliers, and public stakeholder groups (the governments and communities). Public stakeholder group provides infrastructures and markets that the 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 (Freeman, 1984; Lu & Abeysekera, 2014).

According to Elijido-Ten (2007), stakeholder power can be classified into the power of shareholders, creditors, and government. The shareholder has the power to be the primary provider of capital. Meanwhile, the creditor has the power to provide economical power to the company through debt provisions. Then, the government has the power to intervene through sanctions and legislation. This previous study does not include one of the most influential stakeholders, which are customers. Customers have an essential role, as they are the company's primary resource. Customers give rewards to environmentally responsible companies

by demanding more products or paying extra to the company, which is the primary source of income for the company (Arbelo, Pérez-Gómez, Rosa-González, & Ramos, 2014).

Along with increasing environmental issues, the environmental concern of managers and stakeholders has also increased. Environmental responsibility has become a focus on businesses with the encouragement of stakeholders. Corporate Environmental Responsibility (CER) is a component of CSR, which is a company's commitment and practice to protect and improve environmental performance (Korschun *et al.*, 2014).

Previous researchers have applied various approaches to defining environmental performance and its definition. Numerous researchers 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 to Journeault (2016), environmental performance must be a multi-dimension aspect consisting of organization structure, stakeholder relations, regulation compliance, and environmental impact.

Environmental performance is a mechanism to a company to integrate the concern to the environment in their operations and their relations to the stakeholders, which exceed their law responsibilities. Companies with high environmental performance have a better long-term value compared to companies with low environmental performance (Sarumpaet, Nelwan, & Dewi, 2017, ).

The majority of the previous studies (Chang & Zhang, 2015; Li *et al.*, 2017; Nejati *et al.*, 2014; Lu & Abeysekera, 2014) are from developed countries such as the United States and Europe, where environmental awareness is considered to be high. Meanwhile, in Indonesia, environmental issues are first considered when the Badan Pengendalian Dampak Lingkungan (Bapedal - Indonesian Environmental Impact Management Agency) initiated the PROPER in 1995. PROPER is initiated in 1995 to resolve the weaknesses of environmental control in Indonesia. This program uses environmental disclosure, appreciation, evaluation, and ratings, which are intended to increase motivation in upgrading environmental performance. With this program, government institutions claim to give an accurate and reliable evaluation. To prove this, the government announces the rating to the public.

Then, financial performance can be described as a measurement of how well a firm uses its assets from its primary business to generate revenue. The term is also used as the general measure of the company's overall financial health over a given period. Financial performance is the measuring results of the company's policies and operations in monetary terms, and these results are reflected in the company's Return on Assets (ROA) (Ararat, Black, & Yurtoglu, 2017). ROA measures how much a company earns from its

sales. This gives information about the company's resilience to competition, declining prices and sales, and adverse rising costs. ROA also measures how well the company utilizes its assets to generate income.

Specific company's characteristics are associated with financial performance such as firm size, leverage (Ararat *et al.*, 2017), firm age (Lundgren & Zhou, 2017), and others. The theory gives two diverse opinions on what influences company performance. The first viewpoint is that company's characteristics that profoundly influence performance (Barbu, Dumontier, Feleagă, & Feleagă, 2014).

One of the company's characteristics that are associated continuously to company performance is firm size measured by the total asset (Barbu *et al.*, 2014). It is reflected by the number of economic resources owned by the companies to achieve their objectives. Legitimation theory claims that the bigger companies tend to be under more pressure from the public. So, they tend to disclose more information about environmental performance to the public to receive support for their going concern and build an environmentally responsible image. Bigger companies are associated with having more diversification capabilities, the ability to exploit economies and, highly formalized procedures. These features are directed to active operations, so the company has a good performance.

Previous studies also indicate that the bigger the company equals more transparency in implementing and reporting their environment policy (Chang & Zhang, 2015). It is because the government are more likely to be a concern to bigger companies than smaller companies if their business activities are related to environmental issues (Barbu *et al.*, 2014; Gallego-Álvarez & Quina-Custodio, 2016; Cumming, Hou, & Lee, 2016; Hourneaux Jr, Hrdlicka, Gomes, & Kruglianskas, 2014). Consequently, bigger companies will have higher environmental performance than smaller companies.

Most of the recent researchers also use firm age as the control variable. They have found that age and size are significantly driving companies' profitability and productivity. Bushee, Jung, and Miller (2017) found that profitability decreased when companies increased their age. It was because as age increased, the cost increased. Then, the growth slowed down, and assets got obsolete. As a result, the investment and Research and Development (R&D) activities would slow down. Previous studies have found that new companies tend to grow faster than older companies (Daunfeldt & Halvarsson, 2015).

Ayuba, Bambale, Ibrahim, and Sulaiman (2019) argued that older firms were more experienced, had enjoyed the benefits of learning, and were not prone to the liability of newness leading to superior performance. However, another opposing view is that older firms may lose a profitable opportunity because of the inflexible structural created by bureaucracy (Bushee *et al.*, 2017).

Some of the recent studies also use level



competitiveness as the control variable. Profile of the industry is another critical variable perceived affecting environmental performance. Profile of industry concerns with the level of the sensitivity in the company on the negative impact of company activities on the environment. The profile of the industry can be classified into two groups (the 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 will be more severe in managing the issues (Chen & Wu, 2015). A company in high-profile of the industry has a high degree of sensitivity and eventually will seek to improve its image in public by implementing environmental policies (Chen & Wu, 2015; Xie, Huo, Qi, & Zhu, 2016).

Environmental performance can affect the leverage by increasing the company's 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 related to potential regulatory changes and cleaning costs. However, previous researchers show that managers and stakeholders consider undisclosed obligation in determining the optimal capital structure of the company (Meixell & Luoma, 2015; Carballo-Penela & Castromán-Diz, 2015). Therefore, companies with poor environmental performance must have disclosed lower leverage compared to the companies that perform better.

As mentioned previously, stakeholder's power is the first dimension of Ullman's model. If the company believes that its influential stakeholders are concerned with social and environmental issues, the firm will be more motivated to improve its environmental performance. Thus, the first hypothesis implied in this research is as follows.

H1 : Stakeholder's power is positively associated with environmental performance

Thus, from the first hypothesis, it is divided into several hypotheses. The government has the power to intervene through regulations and can be viewed as an influential or 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 and Abeysekera (2014) provided empirical evidence to support the perspective of Freeman (1984). It 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 the 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.

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

Consistent with Eljido-Ten (2007), shareholder's power has a significant association with environmental performance. Management will incorporate better environmental performance decisions in its strategic plan to satisfy its owner. A shareholder is the primary provider of the company's scarce resource. According to the Anglo-American model, the shareholders as the dominant stakeholders can exert substantial influence on managerial decision making. (Abdullah, Ismail, & Nachum, 2016). Ullman (1985) enhanced that shareholders who were sensitive to social problems could strengthen pressure on top managers to provide social and environmental information. Thus, the hypothesis is as follows.

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

The company puts the customers into a CSR strategy and considers them to be a concern for the company because they directly affect income. Customers are the primary source of income for the company (Arbelo *et al.*, 2014). Customers after the government are one of the main forces that drive companies to adopt environmental management (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 (Martín-de Castro, Amores-Salvadó, & Navas-López, 2016). The researchers estimate that the customer has a significant impact on the company's activity. The high concentration company on customers' influence will lead to high CSR activities.

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

Company environmental performance is proven to be reducing pollution and improving financial performance, competitiveness, and innovation (Ramanathan *et al.*, 2017).

Moreover, a measure that has been commonly used to measure financial performance is ROA. Environmental performance is an essential factor in improving 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

This study will focus on stakeholders' power. It is to search which stakeholders are dominant in obliging the managers to fulfill the environmental requirement using a three-dimensional framework by Ullman (1985). Furthermore, this study will also examine the effect of environmental performance on financial performance.

## METHODS

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

The sample of this study consists of companies listed on the PROPER in 2002-2017. From the companies listed in PROPER, only 3% of the total companies are listed on the Indonesian Stock Exchange. The remainings are privately held companies. Since privately held companies do not release their information to the public, this research only uses the listed companies in the Indonesian Stock Exchange.

This study includes a sample from all periods since the first re-run of PROPER in 2002. The sample used includes all sectors in Indonesia. The samples that meet all of the criteria during the year 2002 – 2017 are 462 observations. The sample selection is presented in Table 1.

Table 1 The Sample Selection

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

This study includes several variables as the determinant of the company performance. This research uses the PROPER rating to measure environmental performance. The PROPER gives the

rating to companies in Indonesia by using the color. These colors are used to classify companies based on their environmental performance. The ranks are (5) gold, (4) green, (3) blue, (2) red, and (1) black (Sarumpaet, Nelwan, & Dewi, 2017). Table 2 shows the meaning of each category.

Table 2 The PROPER Rank

PROPER ranks	Remark
<b>Gold</b>	Management has consistently demonstrated superior environmental management (environmental excellence) in the production process and services. It has also implemented an ethical business and been responsible for society
<b>Green</b>	Management has managed environmental activities beyond the regulation (beyond compliance) through the implementation of environmental management systems. It has also used the resources efficiently through the reducing, reusing, recycling, and recovering (4R), and performed Corporate Social Responsibility (CSR) well
<b>Blue</b>	Management has managed environmental activities as required by the rules/regulations
<b>Red</b>	Management has managed environmental activities that do not conform with the requirements in the legislation
<b>Black</b>	Management has deliberately acted or been involved in any activities resulting in pollution and environmental damage. It has also violated laws and regulations or does not impose an administrative sanction

Financial performance is measured by the most common measurement, which is ROA. It is measured by net income divided by the total assets of the company. Stakeholder's power can be classified into the power of shareholders, customers, and government. According to Mitchell, Agle, and Wood (1997), coercive power comes from physical resources. Therefore, the shareholder's power is measured by the equity ratio. Meanwhile, the customer's power is measured by the sales scaled by the total asset. Both equity ratio and sales represent the physical resource to push companies to follow the stakeholders' needs.

The government's power refers to normative power. It is the symbolic resources, such as being able to command attention. The power of the government to regulate is even more significant when companies are in the high profile industry. The high-profile companies will be subjected to more stringent rules than low profile companies (Roberts and Mahoney, 2004). Companies in a high profile industry will be scored one (1); otherwise, it is zero (0).

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

Firm age means that the older business tends to provide an accumulation of experience and knowledge to the owner. It can provide the ability to manage corporate finance (Li *et al.*, 2017).

According to Lundgren and Zhou (2017), the level of competitiveness means the higher the level of competition is, the higher the threat of liquidation will be. This encourages managers to work harder to improve the internal efficiency of their companies. However, the impact of the competition will be lower when companies have dominant external shareholders.

In leverage, the role of financial leverage in magnifying the return of the shareholders is based on the assumption. The fixed-charges funds (such as the loan from financial institutions and other sources or debentures) can be obtained at a lower cost than the rate of Return on Net Assets (RONA). The leverage ratio contributes to the measurement of the risk of using equity costs (Barakat, 2014). There are various measures known for capital structure. The most important measures are book value-based measures, market value-based measures, and semi-market value-based measures (adjusted market value). Equation (1) is used to test the first hypothesis. This model is described as 1a (government), 1b (shareholder), and 1c (customer). Meanwhile, Equation (2) is to test the second hypothesis.

$$\begin{aligned} \text{PROPER}_{it} = & \alpha_0 + \beta_1 \text{GP}_{i,t-1} + \beta_2 \text{AGE}_{i,t-1} \\ & + \beta_3 \text{COMP}_{i,t-1} + \beta_4 \text{LEV}_{i,t-1} \\ & + \beta_5 \text{FS}_{i,t-1} + \varepsilon \end{aligned} \quad (1a)$$

$$\begin{aligned} \text{PROPER}_{it} = & \alpha_0 + \beta_1 \text{SP}_{i,t-1} + \beta_2 \text{AGE}_{i,t-1} \\ & + \beta_3 \text{COMP}_{i,t-1} + \beta_4 \text{LEV}_{i,t-1} \\ & + \beta_5 \text{FS}_{i,t-1} + \varepsilon \end{aligned} \quad (1b)$$

$$\begin{aligned} \text{PROPER}_{it} = & \alpha_0 + \beta_1 \text{CP}_{i,t-1} + \beta_2 \text{AGE}_{i,t-1} \\ & + \beta_3 \text{COMP}_{i,t-1} + \beta_4 \text{LEV}_{i,t-1} \\ & + \beta_5 \text{FS}_{i,t-1} + \varepsilon \end{aligned} \quad (1c)$$

$$\begin{aligned} \text{FP}_{it} = & \alpha_0 + \partial_1 \text{PROPER}_{i,t-1} + \partial_2 \text{SP}_{i,t-1} \\ & + \partial_3 \text{CP}_{i,t-1} + \partial_4 \text{GP}_{i,t-1} \\ & + \partial_5 \text{AGE}_{i,t-1} + \partial_6 \text{COMP}_{i,t-1} \\ & + \partial_7 \text{LEV}_{i,t-1} + \text{FS} + \varepsilon \end{aligned} \quad (2)$$

Each model represents each hypothesis. The hypothesis two is analyzed using Ordinary Least Square (OLS). Meanwhile, ordinal OLS for the first hypothesis (H1a-H1c). Current environmental performance is the result of the previous pressure of stakeholders, so this study uses t-1 for independent variables. The dependent variable is in t-period. GRET'1 software is applied to test the hypothesis.

Environmental performance (PROPER) is measured using the PROPER rating (Sarumpaet *et al.*, 2017). Next, financial performance (FP) is measured by ROA since it is a comprehensive measure of financial performance (Rivera, Muñoz, & Moneva, 2017). ROA is obtained by dividing total income to total assets. Similarly, shareholder power (SP) is measured by the equity ratio. The equity ratio is total equity divided by the total assets of the company. Customer power (CP) measured by the ratio of asset turnover that is sales divided to the total asset (Mitchell *et al.*, 1997).

Government power (GP) is greater in high profile companies classified than low profile companies. It is because high profile companies have greater potential to damage the environment than low profile companies (Roberts and Mahoney, 2004).

The variable is considered as a dummy variable, which refers to a low profile or high-profile industry (Roberts and Mahoney, 2004). Firm size (FS) is measured by the total log assets of the company (Li *et al.*, 2017). Then, firm age (AGE) is measured by the number of years since listing in the Indonesian Stock Exchange (Pervan, Pervan, & Ćurak, 2017). Next, level competitiveness (COMP) is measured by the Herfindahl Index Model (HHI). A high score is an indication of high concentration levels or low competition. Meanwhile, a low score indicates high competition (Nawrocki & Carter, 2010). Leverage (LEV) is total debt divided by total equity of the company.

## RESULTS AND DISCUSSIONS

This research uses 462 observations consisting of 91 listed companies on the Indonesia Stock Exchanges. Overall, these companies have average PROPER ratings. The PROPER ratings are around 3,03. 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 relatively the same size.

The researchers find that better performance follows the higher proper ranking of companies. Table 3 shows that the higher the rating of PROPER is, the higher the power of government and shareholders will be. However, the customer's power becomes slightly lower for the gold group compares to the green group. Moreover, there is no significant different result in firm age, firm size, level competitiveness. However, the average leverage on the green group is higher than gold among the 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

The researchers propose two hypotheses for this study. Ordinal OLS is applied in testing the first hypothesis. According to Tables 4 and 5, the data are fit with the model. At least one of the independent variables has a probability of influencing the PROPER rank. Moreover, the goodness of fit is also fulfilled. All variables simultaneously change the dependent variables (Table 6), with a range of 7% to 14,5%, according to the Pseudo R-square.

Table 7 shows the summary of the first hypothesis. The results support that the powers of government and customers have a significant effect at  $<0,01$ . Research results prove that H1a is accepted. The power of government has a positive effect on environmental performance. Moreover, H1c is also accepted, that customer's power has a positive effect on environmental performance.

However, H1b (there is a positive association between the shareholder's power and environmental performance) is not proven. This result is consistent with Eljido-Ten (2007), who found that government power had a significant positive association with environmental performance. Meanwhile, shareholder's power was not supported. The government has the most dominant power in encouraging companies to comply with environmental regulations. This is proved by the highest and most significant coefficient of GP, compared to the other two variables

All control variables except the level of competitiveness (COMP) positively affect the changes in environmental performance. The finding implies that the specific firm characteristics, including size, age, and leverage force the companies to comply the regulation since the requirements of society to the such firms is high. The level of competitiveness causes the company's attention to more focus on how to win the competition than paying attention to environmental issues.

Table 4 Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	819,623			
Final	760,435	59,188	7	0,000

Table 5 Goodness-of-Fit

	Chi-Square	dg	sig	Sig.
Pearson	1760,449	1837	0,898	
Deviance	760,435	1837	1,000	0,000

Table 6 Pseudo R-square

Cox and Snell	Nagelkerke	McFadden
0,120	0,145	0,072

Table 7 The Summary of The First Hypothesis Tests

		Wald	sig.	
Threshold	[PROPER = 1]	2,969	0,085	*
	[PROPER = 2]	11,246	0,001	***
	[PROPER = 3]	23,710	0,000	***
	[PROPER = 4]	35,021	0,000	***
Location	GP	7,017	0,008	***
	SP	0,262	0,609	
	CP	3,811	0,051	***
	COMP	2,265	0,132	
	AGE	6,107	0,013	***
	LEV	4,934	0,026	**
	SIZE	23,788	0,000	***

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

For the second hypothesis, the results support previous studies that the higher rank of environmental performance will significantly improve financial performance. The study finds that PROPER is significantly improving financial performance at  $<0,01$ . Thus, H2 is accepted. This is consistent with the research of Zhongfu, Jianhui, and Pinglin (2011) and Korhonen *et al.* (2018). They found that good environmental performance might have better financial conditions to adopt better environmental practices. The results can be seen in Table 8.



Table 8 The Summary of the Second Hypothesis 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	
LVE	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%

## CONCLUSIONS

The objectives of this research are to investigate additional empirical findings to answer which stakeholders' power effectively drives managers to concern the environmental issue. It is also to search the association of environmental performance and company performance. The results support that the power of stakeholders, especially the government, successfully drives the managers to comply with environmental issues. The researchers find that the government's power consistently proves the positive association with financial performance. This finding gives additional evidence on which power of stakeholders behind the compliance of managers to environmental issues is.

This research offers some implications for managers, especially 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 development of technological advances and social media makes the customers easy to convey environmental issues that are not responded adequately by the company. Therefore, the managers should address the concern of customers in environmental issues because the customers have the great power to influence the community.

There are some limitations to this research. First, the researchers cannot observe all the companies in the PROPER. It is because their data are not publicly available. Second, the researchers still cannot satisfactorily answer whether these results will be consistent for the unobservable PROPER participants. The analysis of the strength behind the loyalty of managers to follow the rules, especially responding to the broader community, is still very interesting for future studies.

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