

The Effect of Profitability and Environmental Performance on Firm Value in Consumer Goods Sector Listed on Indonesian Stock Exchange 2017-2019

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ABSTRACT : One of the performance of a company can be seen from the firm value. The firm value describes the prosperity of its shareholders. In order to appear to have a good performance, a company needs to pay attention to the factors that can affect its firm value. The purpose of this study is to determine the effect of profitability and environmental performance on firm value. This research was conducted in consumer goods sector companies listed on the Indonesia Stock Exchange in 2017-2019. The sample was determined by purposive sampling method and obtained as many as 22 companies with 52 observational data. The data analysis technique used is multiple linear analysis. Based on the research results, it was found that profitability, which is proxied by Return of Assets (ROA) and environmental performance, which is proxied by the company's PROPER rating, has a positive and significant effect on firm value.

Keywords : *profitability, environmental performance, and firm value*

I. INTRODUCTION

One of the indicators for assessing the performance of a company is that it can be seen from the firm value. Firm value is a measure of the success of a company based on the company's stock price. Companies are required to have good corporate value, because it reflects the wealth or prosperity of its shareholders. In addition, firm value reflects company performance which can affect investors' perceptions of the company (Purwanto & Agustin, 2017). The firm value is said to be good if the share price owned by the company is high. The higher the share price of a company, the more attention the company will get from investors and the government (Ardila, 2017).

The share price, which is a measurement of firm value, is influenced by the profits generated by the company. Company earnings have a positive influence on the company's stock price (Nawangulan et al., 2018). If the company earns a large profit, then theoretically the company is considered capable of distributing bigger dividends, so that it will positively affect stock returns and have an impact on increasing the company's stock price. Therefore, firm profitability has an important influence on firm value. Profitability itself is the ability of a company to generate profits. Companies need to maximize their level of profitability in order to increase share price.

In theory, high profitability will increase firm value. However, what happens in the field is often different from the theory. For example, based on its financial and annual reports, PT. Akasha Wira International Tbk in 2019 earned a profit of 83 billion rupiah with firm value measured by Tobin's Q of 1.06. On the other hand, PT. Prasadha Aneka Niaga Tbk in 2019 suffered a loss of around 25 billion rupiah, in fact it has a firm value of 1.06, the same value as PT Akasha Wira International Tbk which benefited. This phenomenon is contrary to the theory that high profitability will increase firm value.

One of the other factors that can affect firm value is environmental performance. Environmental performance is the performance of a company that focuses on environmental management. A company with good environmental performance can be said to be investing in the long term in the form of a good name or image of the company. The concern for the environment shown by the company through environmental performance will increase public trust so that later it will have a good impact on the company's survival. Not only the community, investors give more appreciation for companies that are serious about environmental management activities. Information regarding the environmental performance of a company will be one of the factors that influence investors' interest before investing, and ultimately will have an impact on firm value.

However, although in theory environmental performance can affect firm value, the factual conditions that occur are often different. The phenomenon that occurs at PT. H.M. Sampoerna Tbk in 2018, where the company was included in the red category of the Company Performance Rating Program in Environmental

Management (PROPER) which means that it has poor environmental performance, but has a higher corporate value than PT. Indofood CBP Sukses Makmur Tbk which was included in the PROPER green category in the same year. Another example, PT. Unilever Indonesia Tbk, which during 2017-2019 was in the blue PROPER category, has a higher corporate value than PT. Sido Muncul Tbk's Herbal and Pharmaceutical Industry whose environmental performance is better because it is in the green PROPER category in the same year period.

Based on a government program through the Ministry of Environment to assess the environmental performance of companies called PROPER, there are still some companies that have a poor reputation in environmental management. This is evidenced by the discovery of companies with red and black ratings, which are the two lowest PROPER rankings for companies with poor environmental management. As for the details of the ranking during PROPER running from 1999 to 2018, namely gold rankings for 20 companies (1.1%), green rankings for 155 companies (8.3%), blue rankings for 1454 companies (77.7%), red rankings 241 companies (12.9%), and 2 companies (0.1%) black rank.

With regard to profitability, several previous studies have tried to conduct research related to the effect of profitability on firm value and have different results. In research conducted by Putranto & Kurniawan (2018), profitability has a positive effect on firm value. In contrast to the results of Sondakh's (2019) study, which found there was no influence between profitability and firm value. Similar to profitability, environmental performance research on firm value has been conducted several times. Research by Kurnia and Wirasedana (2018) found that environmental performance results have a positive effect on firm value. However, the results of research conducted by Septiani, Holiawati, and Ruhayat (2019) found no influence between environmental performance and firm value.

The choice of the consumer goods sector for this research is because most of the companies in this sector use single-use plastic packaging for their products, so that they also contribute a fairly large amount of plastic waste. The phenomenon that occurs in consumer goods sector companies related to environmental pollution, namely Indofood, Orang Tua, and Wings companies, is an example of several companies that are quite large, but are at the top in terms of contributing to plastic waste during 2016-2019 (Greenpeace Indonesia, 2019). The reason for choosing the consumer goods sector in terms of methodology is to obtain data that is more homogeneous than taking data from companies in the manufacturing sector which tend to produce conclusions that are not in accordance with the actual situation.

II. CONCEPTUAL MODEL AND HYPOTHESIS

Profitability has an important influence on firm value. Based on signal theory, information about the high profit or profit of a company is a good signal for investors. This good signal certainly influences investors' decisions to invest. High profitability will show good company performance in generating profits so that investors are interested in buying company shares. The large demand for shares in the market will cause the company's share price to increase. The high share price will have an impact on the increase in firm value.

High profitability is also one way for a company to achieve prosperity for its shareholders. The increase in firm value caused by high profitability will lead to a high rate of return for investors, which has an impact on increasing the welfare of the company's shareholders. This is in line with stakeholder theory which states that a company must provide benefits for its stakeholders. The high profitability of the company is a form of benefits that the company provides to shareholders as its stakeholders. From the research of Purbawangsa & Suprasto (2019), it was found that profitability had a positive effect on firm value. In line with this research, Wardhany, Hermuningsih, & Wiyono (2019) state that profitability has a positive influence on firm value. This is also supported by the research results of Sulistyono & Yuliana (2019) which found that there was a positive influence between profitability and firm value.

H₁: Profitability has a positive effect on firm value

Good environmental performance is a form of company responsibility to parties affected by company activities. This is in accordance with the stakeholder theory which states that the company must be accountable to its stakeholders, because the company needs stakeholders to survive. Stakeholders such as the community in the surrounding environment will greatly affect the survival of a company, so that the company's responsibility to stakeholders will have an impact on firm value. Based on the theory of legitimacy, a company that has met the interests of the community and the environment will get a good image or name in the eyes of the public and investors, which in turn will affect the company's value. A company with a good image will increase community loyalty to use the products the company produces (Fadila, 2016). This community loyalty will increase the company's profit. The increase in the amount of profit will have an impact on the firm value.

Investors in making investment decisions also look at other factors which, in their opinion, can add value to the company so that they are suitable as investment targets. Environmental performance is one of the things that influences investors' decisions because it shows the company's seriousness in carrying out environmental management. Therefore, information on good environmental performance is expected to be

responded to by investors which will have a positive impact on firm value (Harahap et al., 2018). Good environmental performance will have a positive influence on firm value. This is supported by research conducted by Asnita & Wahidahwati (2019) which found a positive influence between environmental performance and firm value. Gabrielle & Toly (2019) also concluded that environmental performance has a positive effect on firm value. The research results of Mardiana & Wuryani (2019) also state that environmental performance has a positive influence on firm value.

H₂: Environmental performance has a positive effect on firm value

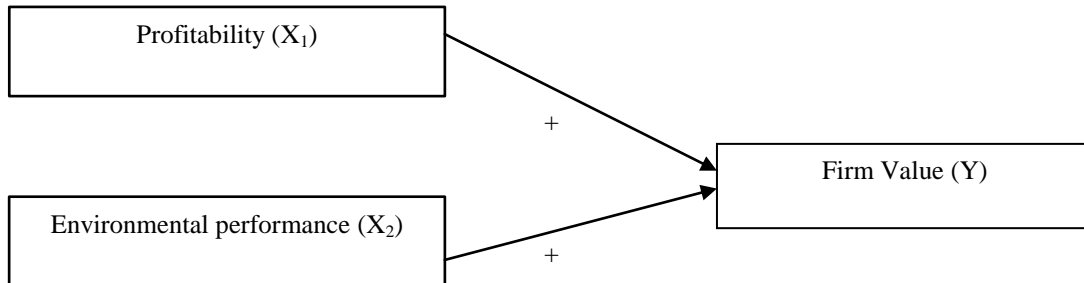


Figure 1. Conceptual Framework

III. RESEARCH METHODS

This study describes the effect of profitability and environmental performance on firm value. This research was conducted by taking financial reports and annual reports as well as PROPER ratings on companies listed on the Indonesia Stock Exchange with the types of companies engaged in the consumer goods sector in 2017-2019. The required data can be obtained through the official website of the Indonesia Stock Exchange and the website of the Ministry of Environment.

Firm value proxied by Tobin’ s Q. Tobin’ s Q is the ratio that compares the market capitalization with the firm’s total assets.

$$Tobin's\ Q = \frac{\text{Total market value of equity} + \text{Total liabilities}}{\text{Total Assets}} \dots\dots\dots(1)$$

Profitability proxied by Return of Assets (ROA). ROA is the ratio that compares profits with the firm’s total assets.

$$ROA = \frac{\text{Net Profit}}{\text{Total Assets}} \times 100\% \dots\dots\dots(2)$$

Environmental performance proxied by PROPER. PROPER is the rank created by the Indonesian Ministry of Environment and Forestry to assess the firm’ s environmental performance. The firm will be divided into five categories between gold, green, blue, red, or black based on its environmental performance.

The consumer goods sector company is a sub-sector of manufacturing companies that is engaged in producing goods that are often consumed by the public. The population of this study amounted to 47 companies. The sample in this study was taken by purposive sampling technique. The following Table 1 presents the selection process for determining the research sample.

Table 1 Sample Determination Process and Research Observed Data

No	Sampling Criteria	Number of Companies
1	Consumer goods sector companies listed on the Indonesia Stock Exchange in 2017-2019.	47
2	Consumer goods sector companies that do not report financial and annual reports consecutively and are not registered as PROPER participants for the 2017-2019 period.	(25)
	Total Samples	22
	Observation period (years)	3
	Amount of data available in the study	66
	Data Outlier	13
	The amount of data used in the study	52

Source: Data processed, 2021

Based on Table 1, the number of samples that met the criteria to be researched was 22 companies, with total observations from 2017-2019, 66 research data were obtained. Of the 66 available data, 13 outlier data were found that had to be removed and left 52 observational data usable.

IV. RESULTS AND DISCUSSION

This research using multiple linear regression analysis techniques. The purpose of this multiple linear regression analysis is to determine the effect of profitability and environmental performance on firm value. The multiple linear regression analysis' results are presented in following tables.

Table 2 Results of Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-1.135	.463		-2.452	.018
	Profitability	.063	.009	.668	7.026	.000
	Environmental Performance	.392	.158	.236	2.484	.016

Source: *Secondary data processed, 2021*

The Effect of Profitability on Firm Value

Table 2 show that profitability has a significance value of 0.000, which means it is smaller than 0.05 or $0.000 \leq 0.05$. Therefore, the profitability variable has a positive and significant effect on firm value. The first hypothesis is accepted, which means that the higher the profitability of the company, the higher the firm value. Companies with high profitability ratios are said to be able to generate large amounts of profit. The amount of profit generated is what will make the demand for company shares increase due to investor interest in buying company shares, resulting in an increase in share prices which will affect the increase in firm value.

The results of this study are in line with Purbawangsa and Suprasto (2019), Wardhany, Hermuningsih, and Wiyono (2019), and Sulistyono and Yuliana (2019) which state that profitability has a positive effect on firm value. A high rate of return is one of the things that investors look at before they provide funds for company capital. By having high profitability, the company is considered to have good prospects in the future because it is considered capable of providing returns to its shareholders so that it will have an impact on firm value.

The Effect of Environmental Performance on Firm Value

The t test results in Table 2 show that environmental performance has a significance value of 0.016, which means it is smaller than 0.05 or $0.016 \leq 0.05$. Therefore, environmental performance variables have a positive and significant effect on firm value. The second hypothesis is accepted, which means that the better the environmental performance of the food company, the more the firm value increases. The good image a company gets by improving its environmental performance can lead to increased community support for the company. Support from the surrounding community in the form of business licenses, providing the resources needed by the company, or by using the products produced by the company will increase the value of the company.

The results of this study are in line with research by Gabrielle & Toly (2019), Asnita & Wahidahwati (2019), and Mardiana & Wuryani (2019) which state that environmental performance has a positive effect on firm value. The public will appreciate more companies that are responsible for the environment, and that appreciation can be in the form of increased profits that can increase firm value. In addition, the company's performance in managing the environment is one of the factors that investors consider whether a company is feasible or not to be an investment target. Information regarding good environmental performance will receive a response from investors which will have a positive impact on firm value.

V. CONCLUSION

Based on the results of data analysis, it can be concluded that profitability has a positive effect on firm value. This can be interpreted that the higher the company's ability to generate profits, the higher the interest of investors to invest so that it has an impact on increasing firm value. Environmental performance has a positive effect on firm value. This means that the better the environmental performance of a company, it will increase investor interest in investing so that it affects the value of the company.

Suggestions that can be given are that the company is expected to always be responsible for managing the funds it has to generate maximum profits that can affect the firm value. The company is expected to always carry out environmental management as a responsibility for the impact caused by the company's activities on the surrounding environment. Investors are expected to pay attention to the company's ability to generate profits before investing, because companies with high profitability are considered to be able to provide dividends so

that prosperity is achieved for shareholders. In addition, investors are also expected to pay attention to the environmental performance of a company, because companies with good environmental performance have a good image or name in the eyes of the community so that they can get benefits that can have an impact on the welfare of shareholders. The next researcher is expected to be able to use research objects that are not limited to companies in the consumer goods sector and increase the observation period. The variables in this study only explain the dependent variable of 59.2%, and there are still 40.8% variables outside the model that can explain firm value. Further researchers are advised to use other variables such as company size, corporate governance, dividend policy, or other variables that can explain firm value.

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