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## THE INFLUENCE OF COMPANY STRATEGY, *ENTERPRISE RISK MANAGEMENT*, COMPANY SIZE AND LEVERAGE ON ENVIRONMENTAL PERFORMANCE

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### ABSTRACT

#### KEYWORDS

Company Strategy;  
Environmental  
Performance; risk  
management

This study aims to analyze the influence of corporate strategy, Enterprise Risk Management (ERM), company size, and leverage on environmental performance. The object of research chosen is companies incorporated in the primary consumer goods industry, non-primary consumer goods, and health (manufacturing) listed on the IDX in the period 2017 – 2020. The sampling technique used is purposive sampling. The data that meets the criteria for processing amounts to 97 observational data. This study used a multiple linear regression model as an analysis technique and use PLS to process the data. The results of this study found that the ERM has a positive and Leverage has a negative effect on environmental performance while the differentiation strategy, ERM, company size, and leverage do not affect environmental performance.

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### INTRODUCTION

All profit-oriented companies must have the same goal, namely maximizing profits. Some companies feel that carrying out social and environmental activities will actually increase the company's expenses instead of increasing profits. However, over time, the company's role in terms of social and environmental responsibility has now become quite important to consider. In carrying out its activities the company cannot escape being in the community. Especially for companies whose activities are producing or manufacturing activities. Waste generated from the company's production activities can have a negative impact on the environment, for example waste and pollution problems. This causes manufacturing companies to have a high level of industrial and environmental risk. The Indonesian government has issued various regulations related to the environment. Among them are PP on the Implementation of Environmental Protection and Management, namely PP no.22/th 2021, Regulation of the Minister of Environment and Forestry Number 6/th 2021 concerning procedures and requirements for processing hazardous and toxic waste materials and the latest is Regulation of the Minister of Environment and Forestry No. 8/ th 2022 regarding the pioneering development of environmental generation. There are various factors that affect the environmental performance of a company including corporate strategy, ERM, company size and leverage.

The company's business strategies discussed are Cost Leadership Strategy and Differentiation Strategy. Strategy Cost Leadership Strategy seeks to reduce or reduce costs that exist within the company and will have a low environmental performance profile this is due to the efforts made by the company in cutting all types of costs so that activities related to environmental performance will also experience the impact of a decline these costs. On the other hand, companies that use the Differentiation Strategy will make product differentiation that aims to pay more attention to environmental issues or make products that are more environmentally friendly.

Risk management has also become a fundamental concern in today's dynamic global environment. The concept of enterprise risk management (ERM) has been widely recognized as an integral and comprehensive risk management innovation in an organization. The higher the level of ERM in a company, it is expected that the company can mitigate the risks that will occur in carrying out its operational activities and this greatly affects the company's environmental performance. Environmental Performance is an important part of the risk management process, which involves identifying the appropriate risks, defining their impact and demonstrating how to reduce the likelihood of risks and their consequences.

Company size is often proxied by the number of assets owned by the company. Assets are assets or resources owned by a company. The larger the assets owned, the company can invest well and meet product demand. This further expands the market share achieved and will affect the company's profitability. With the greater asset value, the company's opportunities to improve environmental performance will also be greater in research (Rindawati and Asyik 2015).

Factors that can affect the value of the company is the level of leverage of a company's financial performance. Leverage can be understood as an estimator of the risks inherent in a company. This means that the greater the leverage, the greater the investment risk. Leverage needs to be managed because the use of high debt will increase the value of the company. Leverage can be measured by the Debt to Equity Ratio (DER). This is in line with research conducted by (Firdausi & Prihandana, 2022) which states that there is a negative effect of leverage on improving environmental performance.

This research is expected to provide knowledge and insight in studying and understanding policies and strategies that can affect the company's performance on the environment, the strategies taken will have an impact on natural resources and the environment so that companies must realize that they have a responsibility towards social and environmental life. This study aims to analyze and empirically test the effect of Corporate Strategy, Enterprise Risk Management, Company Size and Leverage on Environmental Performance.

### **Agency Theory**

Agency relationship is a contract in which one or more people (principals) instruct another person (agent) to perform a service on behalf of the principal and authorize the agent to make the best decisions for the principal. If the principal and agent have the same goal, the agent will support and carry out everything ordered by the principal, otherwise if the principal's goal is different from the agent's goal, then an *agency conflict will occur*. (Jensen and Meckling, 1976).

### **Legitimacy Theory:**

Legitimacy theory states that an organization can only survive if the community in which it is located feels that the organization operates based on a value system that is commensurate with the value system owned by the community. The existence of the company is very much determined by the community, because the relationship between the two influences each other. Thus, a good social contract is needed so that there is a balance so that there are agreements that protect the interests of the company.

### **The Influence of Corporate Strategy on Environmental Performance**

Companies that use a *Cost Leadership strategy* will find it difficult to have good environmental performance because the company will pressure management to minimize expenses that are not considered important and will prevent companies from being more concerned about the environment (Biswas & Roy, 2015). As according to agency theory, company management tends to behave opportunistically, driven by self-interest (maximizing wealth) so that to get maximum profit, companies with *low cost strategies* will only be oriented

towards the company's *core activities* and minimize environmental costs and ignore environmental legitimacy. Therefore, companies that use this strategy will have a negative impact on the environment. On the other hand, if the company applies a differentiation strategy, it will allow the company to use environmentally friendly materials, environmentally friendly production processes by recycling or reducing hazardous factory waste, although this environmentally friendly strategy may increase production costs. so that companies with a differentiation strategy will have better environmental performance. So the hypothesis of this study is

H1a: *Cost Leadership Strategy* has a negative effect on Environmental Performance

H1b: *Differentiation Strategy* has a positive effect on environmental performance

### **Effect of ERM on Environmental Performance**

Companies need to provide management tools to manage risk (Widjaya and Sugiarti, 2013). As a good risk manager, you must be able to increase business certainty and have a competitive advantage and superior company value. In addition, a manager must also think about the company's impact on the surrounding community, which can be seen from how much environmental performance and concern it is social activities carried out by the company. ERM strengthens the trust and loyalty of the company's stakeholders. Thus, it can be assumed that ERM can be an effective strategy to mitigate risk and in turn, significantly reduce the risk of the company. ERM shows that agents (management) have guidelines for carrying out activities by taking into account the risks that may occur in the future, including the risk of lawsuits due to neglecting the environment. ERM targets the company's overall strategy and will endeavor to operate in compliance with applicable laws and regulations to gain legitimacy, including environmental laws and regulations. Companies that have good environmental performance will get a good reputation in the community. In general, environmental regulations have motivated the market and have

had a positive effect on the growth of the *atmospheric environment's total factor productivity* (Miao, 2019). Based on this argument, the following hypothesis is derived.

H<sub>2</sub>: ERM has a positive effect on environmental performance

### **The Effect of Firm Size on Environmental Performance**

Agency theory generally states that the larger the size of the company, the wider the disclosure of environmental performance will be. This theory explains that the bigger the company, the bigger the agency costs. Companies with large sizes tend to disclose more information than relatively small companies. This is because large companies will face greater risks than small companies. Theoretically, large companies will not be separated from political pressure, namely the pressure to carry out social responsibility. The results of the theoretical explanation above are supported by research conducted by (Oktafia, 2017) which explains that there is a positive influence between company size and the disclosure of social and environmental responsibility. Research conducted by (Dewi & Priyadi, 2016) also states that company size has a positive influence on the disclosure of corporate responsibility in line with research conducted by (Nur & Priantinah, 2012). However, this is not in line with research conducted by (Kurnianingsih, 2014) which explains that company size does not affect the disclosure of environmental performance. In addition, (Subiantoro & Mildawati, 2015) also explain that company size does not affect the disclosure of environmental performance by companies. Based on the explanation above, the hypothesis is:

H3: Firm size has a positive effect on Environmental Performance

### **Effect of Leverage on Environmental Performance**

The relationship between leverage and disclosure of environmental performance can be related to agency theory where the management of companies with a high level of leverage will

reduce the disclosure of social responsibility. This is because companies with high leverage ratios will result in high supervision carried out by *debtholders* on company activities. Therefore, management will reduce the disclosure of corporate responsibility so as not to be in the spotlight of debtholders. The above theory is supported by the results of research conducted by (Nur & Priantinah, 2012) which explains that leverage proxied by DER hurts CSR disclosure. This is to research conducted by (Giannarakis, 2014) which states that leverage hurts CSR disclosure. However, this is not in line with the research conducted by (Dewi & Priyadi, 2016) which states that there is no influence between leverage on CSR disclosure. Then the hypothesis is H4: Leverage hurts Environmental Performance

## METHOD RESEARCH

### RESEARCH PLAN

This type of research is a type of quantitative research by testing the hypothesis. This study uses quantitative data originating from secondary data sources, namely the financial statements of manufacturing companies that have gone public and are listed on the Indonesia Stock Exchange (IDX) from 2017 to 2020. Sampling in this study was carried out using the purposive sampling method, namely by applying certain criteria that became the basis for sampling. These criteria are listed on the IDX from 2017-2020, including manufacturing companies, and having data both in financial statements and complete annual reports for the 2017-2020 period.

### POPULATION AND SAMPLE

The population used in this study were all manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2020 period. Sampling in this study used a purposive sampling approach, namely samples taken with certain considerations. The sampling criteria in this study are:

1. Manufacturing companies listed on the IDX continuously during the 2017-2020 period.
2. Manufacturing companies that publish financial reports and complete annual reports for the period 2017-2020.
3. Manufacturing companies participating in PROPER in 2017-2020.
4. Manufacturing companies that have research and development during the 2017-2020 period.

**Table 1**  
**Sample Selection**

1	Raw goods companies, industry, primary consumer goods, non-primary consumer goods, and health (manufacturing) listed on the IDX continuously during the 2017-2020 period	697
2	Manufacturing companies that are delisted or merged	(5)
3	Companies that IPO in the current year	(53)
	Manufacturing companies that do not have complete financial/annual reports	(18)
3	Manufacturing companies not participating in PROPER in 2017-2020	(352)
4	Manufacturing companies that present financial statements in foreign currencies	(89)
5	Manufacturing companies that do not have research and development	(83)
	Number of Research Samples	97

## OPERATIONAL DEFINITION OF VARIABLES AND MEASUREMENTS

### Environmental Performance

According to ISO 14001, environmental performance is about how well an organization manages the environmental aspects of its activities, products, and services and their impact on the environment. In Indonesia, environmental performance can be measured by PROPER (Performance Rating Program in Environmental Management). The approach to calculating PROPER uses the Score variable according to the achievement of the PROPER color level of a manufacturing company. If the company gets the highest color rating, namely gold, it will be given a score of 5, a score of 4 for a green rating, a score of 3 for a blue color, a score of 2 for a red rating, a score of 1 for a black rating. These five colors represent the PROPER Performance rating system.

### Corporate Strategy

The first independent variable is organizational strategy. According to Banker, et. al., (2014), the formula in organizational strategy is divided into two, namely, cost leadership strategy and differentiation strategy. A cost leadership strategy is a low-cost competitive strategy aimed at a broad market and requires aggressively building with efficient-scale facilities, aggressive price reductions, tight cost and cost control, avoiding marginal customers, and minimizing costs such as R&D, service, sales force, advertising, and so on. A differentiation strategy is an active strategy to gain above-average profits in a particular business because brand loyalty will make consumers' sensitivity to price low.

Cost Leadership Strategy:

$$ATO = \frac{\text{Operating Sales}}{\text{Operating Asset}}$$

Where:

ATO = Asset TurnOver Operation

Operating Sales = (Total Sales) – (Cash) – (Short-term Investments)

Operating Assets = (Total Assets) – (Cash) – (Short-term Investments)

Differentiation Strategy:

$$PM = \frac{\text{Operating Income} + \text{R\&D Expenditure}}{\text{Sales}}$$

Where:

PM = Profit Margin

Operating Income = (Total Income) – (Cash) – (Short-term Investments)

R&D Expenditure = R&D Activities

sales = Total sales for this year

### Enterprise Risk Management (ERM)

Enterprise Risk Management is measured using the ERM index and calculated using the following formula: Enterprise Risk Management can help organizations deal with uncertainty by analyzing annual reports in the form of risks and opportunities effectively which increases the organization's capacity to build value for shareholders. Enterprise risk management (ERM) consists of 108 items covering eight dimensions, namely: (1) internal environment, (2) goal



setting, (3) event identification, (4) risk assessment, (5) risk response, (6) monitoring activities, (7) information and communication, and (8) monitoring.

$$\text{ERM Index} = \frac{\text{Jumlah item yang diungkapkan}}{108 \text{ item ERM}}$$

### Company Size

Company size is a scale to measure the size of a company. Usually to measure the size of the company can be seen from the number of assets or total assets owned by the company. The larger the assets owned by the company, the larger the size of the company, and the smaller the assets of the company, the smaller the size of the company (Nuraini, 2014). Company size is obtained from Ln Assets.

### Leverage

Leverage is a funding policy related to the company's decision to finance the company. Companies that use debt have obligations for interest and principal costs. The use of debt (external financing) has a considerable risk of non-payment of debt, so the use of debt needs to pay attention to the company's ability to generate profits. The higher the leverage in the company will have the possibility for the company to reduce environmental performance because by reducing disclosure of environmental performance it will not be in the spotlight by debtholders.

$$\text{Debt to Total Equity} = \frac{\text{Total Liability}}{\text{Total Equity}}$$

## DATA ANALYSIS METHOD

### Classic Assumption

**Data Normality Test** This test is intended to determine whether the existing data is normally distributed or not. Data that is normally distributed will minimize the possibility of bias (Subiantoro & Mildawati, 2015). The autocorrelation test aims to test whether in the linear regression model there is a correlation between the confounding error in period t and the confounding error in period t1 (previous), using the Durbin-Watson Test (DW Test) which is intended to determine whether there is a correlation between the observational data or not. In this test to avoid autocorrelation either positive or negative, the value of dw is  $2 < dw < +2$ . The multicollinearity test aims to test whether the regression model found a correlation between the independent variables (independent). A good regression model should not correlate with the independent variables. In this test, to be free from multilinearity symptoms, the value is also Variance Inflation Factor or  $VIF < 10$  and tolerance value  $> 0.10$ . The heteroscedasticity test aims to test whether in the regression model there is an inequality of variance from the residuals of one observation to another observation. If the variance and residual from one observation to another observation remain, it is called Homoscedasticity, and if it is different it is called Heteroscedasticity. This study uses the Glejser test for heteroscedasticity testing by using the absolute value of the residual on the independent variable. Therefore, to be free from heteroscedasticity symptoms, the sig value is  $> 0.05$ . **Multiple Linear Regression Analysis** The analytical method used to test the hypothesis in this study is the multiple regression model. Regression is an analytical tool used to measure how far the influence of the independent variable on the dependent variable.

Regression Equation:

$$KL = a + b1. ERM + b2.LC + b3. DF + b3. Assets + b4.DER + e$$

Information:

- KL = Environmental Performance
- ERM = Enterprise Risk Management
- LC = Low-Cost Company Strategy
- DF = Differentiation Firm Strategy
- Assets = Company Size
- DER = Debt Equity to Ratio
- E = Error

### Hypothesis test

#### Coefficient of Determination Test (R<sup>2</sup>)

(Ghozali, 2011) said that the coefficient of determination (R<sup>2</sup>) measures how far the model's ability to explain the variation of the dependent variable is. The value of the coefficient of determination is used to determine the suitability or accuracy of the relationship between the independent variable and the dependent variable in the regression equation. **t-test (Partial Individual Test)**

The t-test is used to partially test the effect of the independent variable on the dependent variable, namely the effect of each independent variable consisting of company strategy, ERM, company size, and leverage on the company's environmental performance which is the dependent variable. This test uses a significance level of ( $\alpha = 5\%$  or 0.05) with the basis for making decisions, namely: (1) If the significance value is  $> 0.05$  or  $t \text{ count} < t \text{ table}$ , then there is no effect of the independent variable on the dependent variable. So the hypothesis is rejected. (2) If the significance value is  $< 0.05$  or  $t \text{ count} > t \text{ table}$ , then there is an effect of the independent variable on the dependent variable. Then the hypothesis is accepted.

#### F Test (Overall Significance Test)

This test is used to test the feasibility of the explanatory variables simultaneously which is carried out to see the effect of the independent variables as a whole on the dependent variable. This test used a significance level of 5% (0.05). With the basis of decision making, namely: (1). If  $F_{\text{count}} > F_{\text{table}}$  and sig value  $< 0.05$ , this indicates that the independent variable influences the dependent variable, which means that H1 is accepted or feasible. (2) If  $F_{\text{count}} < F_{\text{table}}$  and sig value  $> 0.05$ , this indicates that the independent variable does not affect the dependent variable, which means that H1 is rejected or not feasible.

## RESULTS AND DISCUSSION

Results of the analysis descriptive described in table 2. Descriptive statistical test results still use real data as many as 97 observational data that meet sample criteria.

**Table 2**  
**Descriptive statistics**

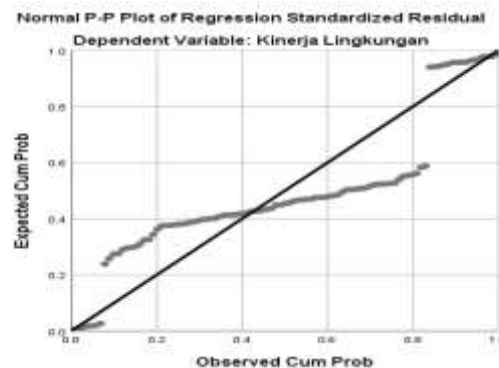
	N	Minimum	Maximum	mean	Std. Deviation
Low-Cost Strategy	97	.30010	2.41760	1.039216	.44584910
Differentiation Strategy	97	.00010	.06470	.0140619	.01881251
ERM	97	.19440	.33330	.2669887	.03619538
Leverage	97	-2.13000	23.91750	1.0925670	2.67891618
Environmental Performance	97	2000000	4000000	3.0927835	.48050482

Asset	97	9912200000	609614897253300	76032083729285	617868952321284
Valid N (listwise)	97				

In Table 2 the lowest *Cost Leadership* value is 0.300 which is the value of PT. Semen Baturaja Tbk in 2020 and the highest score of 2,418 is the value of PT. Unilever Tbk in 2019; The lowest Differentiation value of 0.0001 is the value of PT Astra OtoParts Tbk from 2019 and the highest value of 0.065 is the value of PT. Unilever Tbk in 2017; The lowest *Enterprise Risk Management* value of 0.194 is owned by the company PT. Tirta Mahakam Resources Tbk in 2017 and 2018, while the highest value of 0.333 is the value of PT. Indofood CBP Indo Makmur Tbk in 2020; The value of the company's size based on the amount of the lowest asset is 9.912 million which is PT. Tirta Mahakam Resources Tbk in 2020, while the highest value of 6.096 billion was PT. Indofood CBP Indo Makmur Tbk in 2020; The lowest *leverage value* or *Debt to Equity Ratio* is -2,130 which is PT Tirta Mahakam Tbk in 2020 while the highest value of 23,917 is PT Tirta Mahakam Tbk in 2019. The value of Environmental Performance is measured using the PROPER method (Performance Rating Program in Environmental Management) with the highest color rating, namely gold, will be given a score of 5, a score of 4 for a green color, a score of 3 for a blue color, a score of 2 for a red color, a score of 1 for a black rank, the highest score with 4 points. The score for PROPER with a score of 4 is owned by several companies including PT Indocement Tunggul Perkasa Tbk, PT Kalbe Farma Tbk, PT Industri jamu, and Pharmacy SD Mncl tbk between 2017 and 2019 while the one with a lowest PROPER score with a score of 2 is PT Kimia Farma Tbk, PT Martina Berto Tbk, PT Nippon Indosari Corpindo tbk 2017-2020.

### Classic assumption test

The normality test is done by using a pp plot. In Figure 1 it can be seen that the data is not normal. After testing outliers and discarding outlier data as much as 20 data, the data is still not normal. This can be seen, when the observation data is cut off and away from the diagonal line. Therefore, the researchers carried out data transformation, so that in the end the data became normal. The graph of the pp plot of normality results using 77 data can be seen in Figure 2.



**Figure 1**  
Stage 1 normality test results (abnormal data)



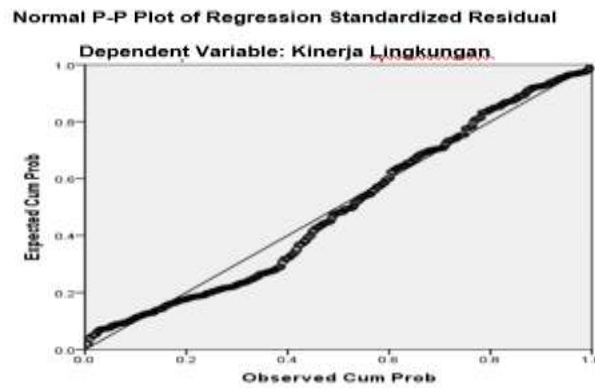


Figure 2

The results of the normality test after the outlier data are removed and transformed

The multicollinearity test is seen from the value of the Variance Inflation Factor (VIF). If the VIF value of each independent variable  $< 10$  then the regression model is free from multicollinearity. From the test results, the data shows that the VIF value of the *Low Cost Strategy variable* is  $1.586 < 10$ ; *Differentiation Strategy*  $1,530 < 10$ ; *ERM*  $1,664 < 10$ ; *Company Size*  $1,562 < 10$ ; *Leverage*  $1.175 < 10$ , which means that the regression model in this study is free from multicollinearity. Then the Autocorrelation Test also needs to be carried out in this study because this study takes data from more than one research period so that autocorrelation does not occur. Based on the decision-making criteria for the Durbin-Watson test, namely  $2 < dw < +2$ , there is no autocorrelation. where the DW value obtained from the regression model is 1,616, the DW value is greater than -2 and less than +2, with n as much as 97 and the independent variable (k) as much as 5, this indicates that there are no symptoms of positive or negative autocorrelation in the regression model. The Heteroscedasticity Test is carried out to ensure that there is no heteroscedasticity

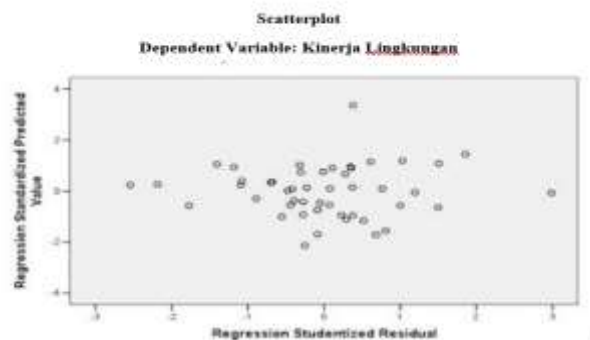


Figure 3  
Scatterplot Graph

Source: processed through SPSS

Figure 3 above shows the pattern of dots spread above and below the number 0. This shows that the regression model in this study is free from the problem of heteroscedasticity. Then it can be tested again.

The autocorrelation Test (adjusted  $R^2$ ) is used to measure the proportion or percentage of the contribution of the independent variable under study to the variation in the rise and fall of the dependent variable. When  $R^2$  is getting closer to  $1$ , it shows the stronger influence of the independent variable on the dependent variable.

**Table 3**  
**Model Summary**

Model	R	R Square	Adjusted R Square	Std. The error in the Estimate
1	.421 <sup>a</sup>	.177	.120	.08523

Source: Data processed with SPSS

Based on table 3 above, the adjusted R<sup>2</sup> figure is 0.120 or 12% This is *Strategy*, *Enterprise Risk Management*, *Company size*, and *Leverage* on the company's environmental performance is 12% while the remaining 88% is explained by other independent variables that are not included in this study.

**Table 4**  
**Hypothesis Test Results**

Model	Unstandardized Coefficients		Standardized Coefficients		t	Sig.	KESIMPULAN
	B	Std. Error	Beta				
1 (Constant)	1.629	.292			5.582	.000	
Low cost	.004	.054	.009		.067	.947	H1a ditolak
Differentiation	.063	.149	.056		.422	.674	H1b ditolak
ERM	1.048	.368	.393		2.851	.006	H2 diterima
Size Firm	-.066	.067	-.131		-.984	.329	H3 ditolak
Leverage	-.075	.028	-.309		-2.665	.010	H4 diterima
	F	Sig.					
<b>Sig. F test</b>	3.098	0.014					

### The Influence of Corporate Strategy (Cost Leadership Strategy) on Environmental Performance

Based on the hypothesis test from the test results in table 4 the Cost Leadership Strategy is 0.004. The test results show that the beta sign does not match the proposed hypothesis, where the Low-Cost Leadership Strategy hurts Environmental Performance, therefore the significance test is not continued. The processing results show a sig value of  $0.947/2 = 0.4735 > 0.05$  (alpha 5%) so the first hypothesis is rejected, and  $H_0$  is accepted so that there is no influence of the Low-Cost Leadership Strategy on Environmental Performance. So the Low-cost leadership strategy does not affect the company's ability to improve its environmental performance. Companies implementing the Cost Leadership Strategy will find it difficult to have good environmental performance because the company will pressure management to minimize expenses that are not considered important and will prevent companies from being more concerned about the environment. The second thing is that company management tends to behave opportunistically, driven by self-interest (maximizing wealth) so that to get maximum profit, companies with a low-cost strategy will only be oriented towards the company's core activities and still not use the profits generated from cost savings for environmental costs. Therefore, companies that use this strategy do not affect their environmental performance. This result is not in line with the research by (Biswas & Roy, 2015) which states that the company's strategy, especially the Cost Leadership Strategy, has a significant effect on environmental performance.

### Effect of Corporate Strategy (Differentiation Strategy) on Environmental Performance

Based on the hypothesis test in table 4, it is explained that the value of in the table has a positive value of 0.063 and a sig value of  $0.674/2 = 0.337 > 0.05$  (alpha 5%) then  $H_0$  is accepted

this is not following the proposed hypothesis, where the Differentiation Strategy positive effect on the disclosure of Environmental Performance. So it can be concluded that the Differentiation Strategy does not affect Environmental Performance so H1b is rejected. The differentiation strategy will allow the company to use environmentally friendly materials, and environmentally friendly production processes by recycling or reducing hazardous factory waste, although this environmentally friendly strategy may increase production costs. The Differentiation Strategy has not yet affected Environmental Performance, most likely the differentiation of products or services in Indonesia is still limited to the differentiation of product features. Differentiation of environmentally friendly products has not become a priority for companies in Indonesia because consumers in Indonesia have not fully and not many have responded to environmentally friendly products. Why this happens because usually environmentally friendly products will increase the basic price of a product to be more expensive and uncompetitive in the market for example electric cars. Or electrical energy using a solar system. The results of this study are not in line with the research conducted by Gorondutse and Hilman (2017), namely the differentiation strategy has a positive impact on Environmental Performance because the company will strive to continue to innovate its products to become a more environmentally friendly company. It can be concluded that there is no influence of Differentiation Strategy on Environmental Performance.

#### **Effect of ERM on Environmental Performance**

Based on the test results in table 4, the value in the table has a positive value of 1.048 and a sig value of  $0.006/2 = 0.003 < 0.05$  (alpha 5%) then  $H_0$  is rejected. The beta sign is by the proposed hypothesis, where ERM has a positive effect on Environmental Performance, therefore the significance test is continued. ERM shows that management has guidelines for carrying out activities by taking into account the risks that may occur in the future, including the risk of lawsuits due to ignoring the environment because ignoring the environment will pose a risk to the company in the future so companies that pay attention to risk consider this as an issue. the important thing to do immediately. The view from investors that the implementation of ERM is an absolute thing that must be applied to companies because many listed companies understand that the implementation of ERM can help companies make decisions regarding activities that must be carried out to carry out business activities with measurable risks. superiority due to a proactive environmental strategy is compelled to inform investors and other stakeholders about their strategy by voluntarily disclosing more environmental information. This causes an increase in the company's valuation because investors will conclude that the exposure and liability for environmental damage are lower for companies that show good environmental performance. Compliance with environmental regulations or environmental pollution can also affect the company's business. The CEO's awareness of the environment is quite good, it is proven that companies that follow the PROPER ranking get grades with 3 and 4 ratings. The results of this study are in line with research conducted by (Miao, Hynan, Von Jouanne, & Yokochi, 2019) where environmental regulations have motivated the market and have a positive effect on the environment. growth in corporate risk management so that it can be concluded that ERM has a positive effect on environmental performance.

#### **The Effect of Firm Size on Environmental Performance**

Based on the test results in table 4, the value in the table has a positive value of -0.066 and a sig value of  $0.329/2 = 0.1645 > 0.05$  (alpha 5%) then  $H_0$  is accepted. So it can be concluded that company size does not affect environmental performance so H3 is rejected. It is concluded that there is no effect of company size on environmental performance. Company size cannot be used as a benchmark that every large company has good environmental

performance and small company size has not to have very good environmental performance. The results of this study are not significant because most large companies tend to focus more on obtaining profit or profit so the company's environmental performance is not the focus of attention. Another reason is the regulations in Indonesia that do not force large companies to care about the environment and if there is a dispute with the surrounding community, the legal case usually wins in favor of the company that is destroying the environment. The results of this study are in line with research conducted by (Kurnianingsih, 2014) which explains that company size does not affect the disclosure of environmental performance. In addition, (Subiantoro & Mildawati, 2015) also explain that company size does not affect the disclosure of environmental performance by companies.

### **Effect of Leverage on Environmental Performance**

Based on the test results in table 4, it shows the beta sign following the proposed hypothesis, where Leverage hurts Environmental Performance, the value in the table has a negative value of -0.075 and a sig value of  $0.010/2=0.005 < 0.05$  (alpha 5%) then  $H_0$  is rejected. So it can be concluded that Leverage hurts Environmental Performance so  $H_4$  is accepted. The results of this study indicate that the high and low value of the debt ratio which is a proxy for leverage affects the company's environmental performance. Companies with low debt ratio values tend to pay attention to environmental conservation with their assets, while companies with high debt ratio values will prioritize their assets for debt repayment. This is due to the preservation of the environment such as processing waste, recycling requires a large and significant cost. If the company still has high debt, then the company's priority is to pay off its debts first and use existing resources to improve company performance. This is in line with research conducted by Giannarakis (2014) which states that leverage hurts performance. Environment. So it can be concluded that there is no influence of Leverage on Environmental Performance.

## **CONCLUSION**

The results of this study indicate that Cost Leadership Strategy does not affect Environmental Performance. Differentiation Strategy does not affect Environmental Performance. Enterprise Risk Management (ERM) has a positive effect on Environmental Performance. Company size does not affect Environmental Performance. Leverage hurts Environmental Performance.

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