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The Influence of Good Corporate Governance (GCG) Practices on Financial Performance and Environmental Performance

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A B S T R A C T

Good Corporate Governance (GCG) practices are a concept that depicts the standards of quality in a company's operations. Meanwhile, environmental performance reflects a company's commitment to environmental preservation and fulfilling social responsibilities. Both are crucial elements that can influence the reputation and attractiveness of a company to investors in its stocks. In this context, maintaining and enhancing financial performance is crucial for sustaining the interest of investors in the company's stocks.

Therefore, this research aims to delve into how the implementation of GCG practices in efforts to improve environmental performance contributes to sustainable financial performance and overall company value enhancement. By understanding the complex relationship between GCG, environmental performance, financial performance, and company value, this research is expected to provide new insights beneficial to practitioners and researchers in designing socially and environmentally responsible corporate strategies.

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INTRODUCTION

The company has a responsibility not only towards profit achievement but also towards the environmental impact of their operational activities. Corporate responsibility and environmental ethics are efforts to align environmental concerns with good corporate governance practices. Implementing good corporate governance and disclosing corporate social responsibility information are concepts proposed for enhancing company performance. When these concepts are well-applied, it is expected that economic growth will continue to increase alongside improved transparency in corporate management, ultimately benefiting various stakeholders (Sukasih & Sugiyanto, 2017).

Optimizing profits involves more than just generating consistent and sustainable profits. It also entails active company involvement in addressing issues and challenges surrounding its business environment. Company performance and effective financial management are key components that can enhance company value. Increased company value can maximize prosperity for shareholders as stock prices rise. The higher the stock price, the greater the welfare of shareholders. High company value instills market confidence in the current and future performance prospects of the company (Putri & Wahidahwati, 2018).

Companies need to provide information to shareholders and other stakeholders about their business activities that impact the surrounding environment, including the handling of waste, whether it's in the form of gas, liquid, or solid. This is due to suboptimal waste processing equipment, leading to environmental pollution caused by waste generated by the company (Edi Wijaya Kusuma & Dewi, 2019). The government has issued regulations and statements to protect social interests, particularly for the establishment or development of new companies. One of these regulations is stipulated in Law No. 32 of 2009 concerning Environmental Protection and Management, Article 22 paragraph (1), which mandates that any business and/or activity with long-term environmental impacts must have an environmental impact assessment (Fatmawatie, 2017).

Many studies have been conducted to examine the relationship between good corporate governance, environmental performance, and company value, but their results still show variations. The variations in these results serve as impetus for researchers to conduct further research and develop previous studies (Putri & Wahidahwati, 2018).

From this background, the problem to be discussed can be formulated to build hypotheses for this research, namely:

What are the company's responsibilities in considering the environmental impact of their operational activities?

How can GCG practices help improve company performance?

LITERATURE REVIEW

Agency Theory

According to Jensen and Meckling in 1976, Agency Theory is a conceptual framework used to analyze the relationship between parties with interests (principals) and parties involved in the company. This theory describes the interaction between managers as agents and shareholders as principals (Sari, Hamdi, & Karimi, 2022).

Agency theory reflects the relationship between individuals and an entity, where managers act as agents and investors as principals who delegate responsibilities and authority to the agent. Principals generally have specific goals or interests. In the context of agency relationships, conflicts of interest may arise because agents have incentives to act. Agency theory considers how principals can design incentive systems and oversight to reduce the risk of agent behavior that is not in line with principal interests.

Legitimacy Theory

According to Gray et al. (1996:46), legitimacy theory is a framework that discusses how an organization or entity acquires and maintains support and recognition of interests. Legitimacy creates moral and social foundations for the existence and actions of an entity (Fitra et al., 2021). Dowling and Jeffrey (1975) stated that an organization seeks to convince society that its activities comply with the boundaries and norms prevailing in society (Sari et al., 2022).

Financial Performance

In the context of companies, maintaining and enhancing financial performance is essential to sustain investor interest in company stocks. Financial performance evaluation is often conducted through Financial Statement Analysis, with financial ratio analysis being the primary basis for assessing operational success and overall company performance. Financial statements also provide information that can be used to estimate potential future profits and dividends (Mariani et al., 2018).

Environmental Performance

Environmental performance reflects a company's efforts to preserve the environment and fulfill social and environmental responsibilities. Environmental accounting practices are part of environmental performance, demonstrating the company's commitment to sustainability. Corporate responsibility is not limited to achieving maximum profit but also includes social and environmental impacts. These factors increasingly influence corporate decision-making and can enhance attractiveness to stakeholders and consumers (Mariani et al., 2018).

Firm Value

Firm value reflects the price that prospective buyers are willing to pay to acquire the company. A high firm value is related to the prosperity of shareholders, as stock price increases with the increase in firm value. Business owners desire a high firm value because it indicates high prosperity for them (Mariani et al., 2018).

Good Corporate Governance (GCG)

Good Corporate Governance (GCG) encompasses quality corporate practices run by business stakeholders, including the board of directors. GCG principles include transparency, accountability, responsibility, independence, fairness, and equality. The implementation of GCG has been regulated by the government for State-Owned Enterprises (Sakila et al., 2017).

METHODOLOGY

The research method used is Systematic Literature Review (SLR), which involves collecting data from various literature sources, reading, taking notes, and managing research materials. Literature review is an integral part of research, especially in academic research contexts aiming to develop theoretical and practical aspects. Literature studies are conducted by researchers to establish a theoretical basis, build a theoretical framework, develop a conceptual framework, and formulate research hypotheses.

Through literature review, researchers can organize, allocate, and use various literature references in their research fields. This allows them to gain in-depth understanding of the issues under investigation. Literature review is conducted before the research to gather necessary data.

Data are sourced from various materials such as textbooks, scientific journals, articles, and literature reviews from online applications like Google Scholar, Mendeley, and other online platforms. Researchers start by reviewing the most relevant research materials, starting from the most recent ones, and proceeding to older ones. Reading abstracts of each study is done to assess relevance to the research problem. Researchers take notes on important and relevant sections related to the research problem, as well as record information sources and compile a bibliography to avoid plagiarism.

During the note-taking process, researchers organize notes, quotations, or systematically arranged information so that data can be easily accessed when needed (Kartiningrum, 2015).

RESEARCH RESULT

The Influence of Good Corporate Governance on Financial Performance

GRI standards emphasize that environmental aspects include a company's impact on air, land, water, and ecosystems. Disclosure of environmental performance aligns with stakeholder principles, where companies have responsibilities towards stakeholders. Additionally, environmental performance disclosure is relevant to legitimacy theory, where companies are expected to establish good relationships to create environments in line with societal norms. In this context, environmental performance disclosure is considered a form of corporate transparency towards stakeholders (Yusmaniarti et al., 2023).

The Influence of Environmental Performance on Financial Performance

Companies that demonstrate positive environmental performance tend to attract interest from potential investors and stakeholders. This interest arises from investors' trust in companies considered to have relatively low environmental risks. Effective environmental management also strengthens a company's position in the eyes of the public, in line with legitimacy theory (Edi Wijaya Kusuma & Dewi, 2019).

The Influence of Good Corporate Governance on Firm Value

Good corporate governance practices are not just about managing business operations but also about enhancing the overall well-being of the company. Effective corporate governance systems add value to all parties involved, protecting the interests of shareholders and creditors and ensuring integrity in corporate management. Thus, the effectiveness of good corporate governance mechanisms can reduce risks and increase firm value (Putri & Wahidahwati, 2018; Ummul Khair et al., 2023).

The Influence of Environmental Performance on Firm Value

Research indicates that improving a company's environmental performance can be an attractive factor for investors to invest in the company's stocks. This can lead to an increase in stock value and total company value in the long run, due to increased company earnings and positive market perception of environmentally responsible companies (Yusmaniarti et al., 2020).

DISCUSSION

The influence of Good Corporate Governance (GCG) practices on financial performance and environmental performance has become increasingly important in today's business context, which emphasizes corporate social and environmental responsibilities. Research findings provide valuable insights into how GCG practices affect financial and environmental performance, reinforcing the understanding that integrity in corporate governance impacts not only financial performance but also environmental outcomes. The practical implications of these findings are significant, as they demonstrate that companies that implement GCG practices tend to have better financial performance and also consider the environmental impacts of their operational activities. Discussions will deepen understanding of how GCG practices can be effectively implemented in the modern context, integrating aspects of financial and environmental performance to achieve long-term sustainable goals.

Furthermore, the impact of these findings on investor perceptions and actions, as well as other stakeholders, is noteworthy. Companies with a good reputation for GCG practices and environmental concern are more attractive to investors who increasingly consider social and environmental factors in their investment decisions. This indicates that the implementation of good GCG practices not only affects internal company performance but also influences relationships with external stakeholders such as investors, consumers, and the broader community. Discussions will highlight the importance of building strong relationships with these stakeholders through transparent, accountable, and responsible GCG practices.

Lastly, exploring the policy implications of these findings is crucial. Regulations that strengthen GCG practices and environmental protection are expected to be increasingly important in encouraging companies to act responsibly. Discussions will include considerations on how public policies can be designed to promote better GCG practices and ensure more effective environmental protection. This includes the roles of government and regulatory bodies in developing frameworks that support sustainable and responsible business practices. Thus, this discussion summarizes the importance of GCG practices in achieving a balance between optimal financial performance and better social and environmental responsibilities in contemporary business.

CONCLUSIONS AND RECOMMENDATIONS

From the review of various articles related to the implementation of environmental performance through Good Corporate Governance (GCG) practices on financial performance and firm value, it can be concluded that many companies still focus solely on profit achievement without considering its impact on the surrounding environment. However, GCG practices have proven to enhance the impact of environmental performance on financial performance. The adoption of good corporate governance strengthens the level of transparency, especially in environmental performance disclosure by management. Companies that can demonstrate high levels of transparency tend to attract investor interest, creating a situation where improved environmental performance becomes a driver for investors to invest in their stocks. In this context, GCG practices integrated with environmental performance bring significant benefits to companies. Companies that implement good GCG practices through effective environmental performance will gain trust from various parties, including investors, society, and consumers. The positive image built by companies through good GCG practices and environmental performance will significantly impact financial performance and overall firm value. Thus, the close relationship between GCG practices, environmental performance, and financial performance becomes clearer, indicating that ethical considerations and social responsibilities are increasingly important in the modern business context.

In conclusion, the integration of solid GCG practices with sustainable environmental performance is a strategic step for companies in creating long-term value. This not only creates trust and a good reputation among stakeholders but also strengthens financial performance and enhances overall firm value. Therefore, companies need to prioritize the adoption of effective and sustainable GCG practices and integrate them with efforts to improve environmental performance to achieve sustainable long-term success in an era of ethical and responsible business.

ADVANCED RESEARCH

The limitations of this study include data constraints potentially related to data availability and access, time and resource constraints affecting the depth of analysis, and respondent subjectivity in providing responses. Additionally, the research findings may not be directly applicable on a broader scale due to the research focus potentially being limited to specific companies or industries. Suggestions for further research include cross-company or cross-industry studies, longitudinal approaches to track changes over time, and the development of more complex analytical models to better understand the interaction between GCG practices and company performance.

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