

CHAPTER I INTRODUCTION

1.1. Background

In the current era of globalization which is characterized by a variety of facilities that are always renewable, easy, instant, and fast will demand increased human life needs. Also, have an impact on the economy. One of the problems caused by globalization in the economic field is marked by a significant gap in the working world. There is an imbalance in the average that is happening now which several available job vacancies are not compatible with the numbers of job seekers in this country. According to Data from the *Indonesian Central Bureau of Statistics* shows that the unemployment rate fell to 5.13 percent at the beginning of February 2018. The number of workforce in February 2018 was 133.94 million people, up to 2.39 million compared to February 2017, be following the Labor Force Participation Rate amounted to 69.20 percent, only increased by 0.18 percent of the points (BPS, 2018).

This condition seems to have been used by business-person to further tightening competition between companies or domestic industries. Competition occurs widely without any restrictions including geographical boundaries. For all this time, the company considered as a place for society's earnings that can provide employment opportunities, goods needed for people's consumption, donations and others. In the real world, most of the companies only seeking to maximize profit by exploiting the exploitation of human resources and natural resource and caused lack of responsibility for the environment (physical and social) which led lack of social relations with the community (Almilia and Wijayanto, 2007). The principle of profit maximization company with the exploitation concept is deemed to deviate from good corporate financial performance because it has ruled out for environmental management, environmental performance, or even environmental conservation company (Mardikanto, 2014).

Damanik and Yadyana (2017) arguing if the company wants to stack on (going concern), then it means, they must pay attention to 3P, which named to "*profit as profit, people* where companies must pay attention to the wealth of their society and *the planet* is a companies contribution to the environment. Therefore, it has expected that the company does not only prioritize in terms of financial performance but also expected to pay attention to the condition of the community and surrounding the environment. Environmental problems in Indonesia are an essential problem and must be followed up, given the adverse effects of poor environmental management that are increasingly evident and difficult to control such as pollution, poisoning, noise and vibration (Andayani, 2015). Companies with a high level of environmental risk in Indonesia are

companies engaged in forest concessions (HPH / HPHTI holders) and global mining. Both types of companies are companies that deal directly with the environment, where raw materials for the production process are taken directly from nature (WALHI, 2016).

Lapindo company on May 29, 2006, conducted a hazardous petroleum drilling in Brantas, Sidoarjo by inserting a series of drill pipes down to the surface located near to the Balongnongo Hamlet settlement, which proved have caused Mud Volcano. The biggest man-made disaster occurred in Indonesia was caused by an error in the drilling operation which intentionally defaulted. The intentional main mistake contained the non-compliance with the provisions in the standard operating procedures for world oil and gas drilling. The drilling was also carried out by not carrying out the 9 5/8 inch casing stated in the drilling program agreed and approved by BPMIGAS. Exactly 13 years ago today, the Lapindo mud disaster had soaked 16 villages in three sub-districts, even the results of research conducted by the Executive Director of the Indonesian Forum for the Environment (WALHI) in 2008-2016 said that there were dangerous organic compounds of Carcinogens, which can trigger cancer and mentioned from that there are heavy metals and PAH's (Polycyclic Aromatic Hydrocarbon) which have contaminated resident's draw wells in the villages of Tanggulangin District and Glagaharum in Porong District. The results of the medical examination showed that 80 percent of the people experienced abnormal body conditions, including high blood pressure, high blood sugar levels, and stiffness in the heart and lungs (CNN Indonesia, 2016). In this case, will have an impact on the revocation of the company's operating permit, the company will also get many demands from the surrounding community and environmental NGOs that will cause the costs incurred by the company to be significant. Besides, it will also close the opportunity for companies to be able to market their products to companies that are known to be environmentally friendly (Mastilah, 2016).

The government through the Ministry of Environment established a Program for Rating the Performance of the Company in Environmental Management (PROPER) which was implemented in 2002 in the field of environmental impact control to enhance to the role of companies in environmental conservation programs. Environmental performance is the relationships between the company and the environment regarding the environmental impact of resources used, effects of organizational processes, implications of products and services, the restoration of product processing and compliance with workplace regulations (Damanik and Yadnyana, 2017).

Disclosure of environmental performance as a corporate social responsibility can affect financial performance. Because companies that have excellent environmental performance, indirectly have useful social information can increase company value (Bahri and Cahyani, 2016). The view that a

company that performs excellent environmental performance and proper disclosure of company information is also expected to be a material consideration for investors to invest capital. Investors not only look at the company's performance in financial terms but also the environmental performance that needs to be considered. This shows that companies that implement CSR expect to get a positive response from market participants (Bahri and Cahyani, 2016). This is in line with the research conducted by Andayani (2015) which suggests that environmental performance (PROPER) has a significant positive relationship with ROA, when a company pays attention to responsibility for the environment both socially and physically where the company is located, it will provide positive investors and potential investors in looking at the company even more so if the company has a good ranking in environmental awareness programs. The response can be in the form of investor confidence in investing their capital in the company through stocks or other investments. Increasing investors' trust in investing their capital in the company will encourage an increase in the return of company value represented by return on assets (ROA) (Andayani, 2015). The same thing was also revealed in the study of Fitriani (2013), and Whino (2014) that environmental performance affected the company's financial performance.

Environmental problems required instruments or tools to manage these problems. The International Organization for Standardization (ISO) is an organization that issued ISO 14001 on international standards regarding the Environmental Management System (EMS) which the basis of the ISO 14000 concept, namely a system to achieve excellent and voluntary environmental management (Ramadhanti, 2013). Current problems are not all companies are willing and able to implement ISO 14001 EMS. In addition to being voluntary, several studies have revealed that ISO 14001 EMS certification requires significant costs depending on the characteristics and facilities of each company that includes investment costs and audit costs routine (Aprilasani, 2017). Furthermore, the overall goal of implementing ISO 14001 EMS as an international standard is to support environmental protection and prevention of pollution that was balanced with socio-economic needs. The economic benefits that can be obtained from ISO 14001 EMS include improving overall environmental performance, producing a framework in efforts to prevent pollution, increasing efficiency and saving potential costs, and enhancing the corporate image (Sueb and Keraf, 2014). Previous research by Tze San Ong et al. (2016) examined the effect of implementing ISO 14001 on the company's financial performance, and the results of companies implementing ISO 14001 can improve the company's financial performance (ROA and ROE). This thing because many investors believe that companies shall pay special attention to the environment to be more sustainable than those who do not. Therefore, investors will also choose to invest in green companies in the long run (Tze San Ong et

al., 2016). However, different from the research of Hazudin et al. (2015), Andayani (2015), and Aprilasani et al. (2017) suggest that there is no effect of ISO 14001 on the company's financial performance. Therefore, researchers want to reexamined by taking the title of Effect of Environmental Performance, Environmental Disclosure, and ISO 14001 on the Financial Performance of Mining Companies “.

1.2. Problems Formulating

Based on the background described, the formulation of the problem in this study is as follows:

1. Is there an influence of environmental performance on financial performance in mining companies?
2. Is there an influence of environmental disclosure on financial performance in mining companies?
3. Is there an influence of ISO 14001 on financial performance in mining companies?

1.3. Research Purposes

- a. Analyzing the influence of environmental performance on financial performance in mining companies.
- b. Analyzing the influence of environmental disclosure on financial performance in mining companies.
- c. Analyzing the influence of ISO 14001 on financial performance in mining companies.

1.4. Benefits of Research

A. Theoretical Contribution :

1. This research is useful for increasing knowledge in the financial and social environment, especially regarding factors that influence financial and environmental performance.
2. Become a reference for further research that will examine the influence of environmental performance, environmental disclosure, and ISO 14001 on the financial performance of mining companies.
3. As a means to add insight in the field of the environment, especially regarding the influence of environmental performance, environmental disclosure, and ISO 14001 on the company's financial performance, so that it is expected to be useful for the next writer.

B. Practical Contributions :

1. Become a reference for investors before investing, by looking at the company's concern for the environment.

2. The results of this study are expected to increase concern for companies engaged in all types of industries to increase environmental awareness.
3. It is expected that the company can implement ISO 14001 certification and environmental performance to support the company's environmental performance and sustainability to be even better.

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