The Effect of the Board of Directors and Environmental Performance on Financial Performance

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ABSTRACT

This study aimed to determines the impact of board and environmental performances on financial performances. The population of this survey is the Islamic bank for the period 2016-2021. The sampling method used is purposive sampling, so the sample are 73 companies that meet the criteria. The data analysis method used is multiple regression analysis using SPSS programs. The results of this survey show that the age diversity of the board has a positive impact on financial performance, but it is not important. Board education does not affect financial performance. Environmental performance does not affect financial performance.

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1. INTRODUCTION

Companies that have large assets will generally get more attention from the public. This makes the company more careful in its financial statements. Companies must always try to maintain the stability of their financial Performance. This good financial report certainly cannot be made without good Performance from all parts of the company [27]. Companies can achieve their goals through efficient and effective use of resources and describe the extent to which a company has achieved results when compared to previous performance results is an environmental performance assessment that is used as a basis for assessment [16]. Enforcing good corporate governance is crucial to building and maintaining public trust in a company. Corporate governances is a system that regulates and controls companies, and is expected to creates and improves the corporate value of stakeholders [26].

Corporate governances is a set of clear rules, procedures, and relationships between peoples who make good decisions and control those decisions. Supervision is an integral part of the management process. Supervising means seeing and noticing that what is being done is consistent with the plan [3]. The Board of directors is an important organization of the companies. It is responsible for the directions and management of the company, the protection of the interests of shareholders, and the oversights [8], including its financial Performance.
Environmental Performances is the performance of a companies that strives to create a good environment [31]. [20] in his research explained that environmental Performance is a company strategy that will describe environmental Performance against certain assessment standards. Further, explained that environmental management strategies will produce good environmental performances and will have an impacts on improving companies performance [10], including improving financial Performance.

2. LITERATURE REVIEW

2.1 Agency Theory

According to [7], the manager is a representative on behalf of the shareholders (principal). This relationship between agents and shareholders is called the agency relationships. In general, all shareholders under management have their interests so those management decisions will be influenced by factors other than the welfare of the company owners. This is the beginning of the agency problem. The imbalance of information (information asymmetry) also causes agency problems due to differences in information knowledge of management (agent) and stakeholders (principal) so that management can manipulate financial reporting information without the knowledge of stakeholders. [1]. [24], agency phenomena and problems can be explained by agency theory. From agency theory perspectives, company performance can be disrupted due to problems that arise between managers and shareholders (conflict of interest). However, when the relationship between managers and shareholders can be controlled, the company's Performance will be better and its financial reporting will be smoother. A good corporate governance mechanism has been established to resolve conflicts of interest for companies. According to [29], the purpose of the corporate governance mechanism is to balance the various interests of shareholders and management. In this survey, the diversity of board ages and the education of board directors are adopted as corporate governance methods. Board age diversity and the education of board directors are one of the superior corporate governance mechanisms aimed at minimizing decision-making conflicts between management and shareholders.

2.2 Financial Performance

The companies financial performance is one of the bases for assessing the companies financial position, which is can be done on the basis of an analysis of the companies financial ratios [17], to assess the operating Performance and financial condition of a company, a financial analyst requires certain steps. In conducting financial analysis, a company requires a standard that can describe the conditions and achievements of a company by comparing a company with other similar companies or with industry averages [32].

2.3 Board of Directors

The Board of directors is the body of the company that, on behalf of the company, both judicial and external, has full authority and responsibility, and is responsible for managing the company for the benefit of the company, depending on the purpose and purpose of the companies as required by law (UU No. 41 Tahun 2007). In order for the implementation of the duties of the Board of directors to run smoothly and effectively, one of the principles that must be upheld is that the compositions of the Board of directors must ensure that it enables efficient, accurate, and effective implementation. fast and able to act independently.

2.3 Environmental Performance

Environmental Performance is a company’s activity to create an environmentally friendly or favorable environment [28]. A good strategy in managing the environment will also have a positive impacts on environmental performances and have an impacts on improving company performance, including financial Performance [11].

The Effect of Age Diversities of the Board of Directors on Financial Performance

In stewardship theory, age is categorized in the criteria for developing a company's Performance. [22] said that the various compositions of the Board of Directors can be classified based on age, ethnicity, and gender, but the number of members of the company's Board of directors consists mostly of those who have entered the golden age. The downsides of aging and aging can be offset by the knowledge, experiences and wisdom gained over time, and the complexity of the work of board members requires special skills, so the downside of age is reduced. [15]. [9] in his research, he argues that the more diverse the age, the more positive the company's financial results will be, as it balances the prudence of the older generation with the innovation of the younger generation.

H1: the age diversity of the Board of directors has a positive effect on financial Performances

The Effect of the Board of Directors Education on Financial Performance

The educational background of a director can influence the insights that a director has and can affect the value of the company. [13] in their research, economic and business education is not mandatory for someone if they are going to entered the business world, but it is better if the person has a background in economics and business education. A board member must have the skills and experience needed so that they can provide opinions and decisions regarding problems or company development related to company strategy and Performance [19]. [26] found that the educational background of the associated Board of directors has a positive effect on financial Performances.

Proceedings homepage: https://conferenceproceedings.ump.ac.id/index.php/pssh/issue/view/16
Hypothesis H1: Educational diversity of the Board of directors has a positive effect on financial Performance

The Effect of Environmental Performance on Financial Performance

Environmental performance is a mechanism that allows a company to voluntarily communicate environmental issues in its business and interact with stakeholders beyond the legal responsibilities of the organization [30]. Environmental performance is a mechanism by which a company voluntarily communicates its business's environmental issues and interactions with stakeholders beyond the organization's legal responsibilities [23]. Research resulted in a significant effect of environmental performance on the companies financial performance. In line with research conducted by [9] shows that the greater the diversity of ages, the more aggressive the companies financial development is, as it balances the prudence of the older generation with the innovation of the younger generation.

Hypothesis H2: Environmental Performance has a positive effect on financial performance

3. RESULT AND DISCUSS
3.1 Population and Sample

The population and samples used in this survey are for Islamic banks from 2016 to 2021. The sampling technique that used in this research is purposive sampling. Based on the sample criteria that have been selected in this study, the research sample obtained is 15 companies for each year where the period used in the study is 2016-2021. So that the total sample used is 90, with a total of 73 data that meet the criteria.

3.2 Operation Definition

Board of Directors Age Diversity (X1)

World Health Organization (WHO) classifies the elderly into 4, namely middle age 45-59 years, elderly 60-74 years, elderly 75-90 years and very old age (very old) above 90 years. Board age is the one type of board diversity measurement that has an influence on financial value [12]. The age of directors is considered to depend on their level of experience and risk tolerance. The age difference in the management will create a good relationship between the Board and stakeholders from different age groups. Senior members are more likely to deal with government agencies or government regulations. While junior members can match the aspirations of the next generation of customers [2]. Age differences provide diversity in the experience, skills and social networks of board members. The older a person gets, usually the person is wiser [13]. Middle-aged adults between the ages of 40 and 60 are mature. By the ages of 40, most people have achieved the peak of their careers. Middle-aged executives have the wisdom to make mature decisions that can affect the companies Performance. The age diversities of the Board of directors can be formulated as follows:

\[ \text{Age} = \frac{\sum \text{Board of Directors} \geq 40 \text{ years old}}{\sum \text{Members of Board of Directors}} \]

3.3 Diversity Education Board of Directors (X2)

Educational background is related to one's intellectual abilities, the higher the education taken, the wider the intellectual abilities. Majors and levels of education will be used in determining the company's qualifications in obtaining employees so as to increase the values of company performances. Although not a requirement, it will be important because the background of the Board of directors is in appropriate with the companies field so that they are able to manage the company and make more mature decisions [33].

The resulting decisions can affect the effectiveness of the companies and make it easier to finish the problems because people with the right education are more capable in business, the resulting decisions can affect the effectiveness of the company and make it easier to solve problems. Therefore, the educational background of the Board of directors affects the value of the companies [12].

\[ \text{Education} = \frac{\sum \text{Board of Directors with Economic Education}}{\sum \text{Members of the Board of Directors}} \]

3.4 Environmental Performance (X3)

The concept of efficiency refers to the levels of environmental damage caused by the company's activities, where less damage indicates good Performance of the company and vice versa [14]. One of the measurements that can be carried out for environmental Performance is using the bank's EMP (Environmental Management Performance) assessment index in accordance with research conducted by [4], where the EMP index consists of the number of the environmental audits, staff trainings, supplier audits, cases of non-compliances with environmental regulations, also 25 environmental certified locations. From each of these indicators there are points that will be analyzed in the companies annual report. The calculation is as follows:

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| EPI sub-dimensions | Details of EPI-Indicators | Codings of EPI |
|--------------------|---------------------------|----------------|
| Environmental governance/organisational structure | Where is the highest level of direct responsibilities for climate change within your organisation? | Boards/Executives = 4  
Senior managements = 3  
Middle managements = 2  
Junior managements = 1 |
| Do you provide incentives to manage climate change issues, including achieving your goals? | Yes = 1  
No = 0 |
| Environmental strategy | Choose the option that best represents your risk management practices related to climate change risks and opportunities. | A specific climate change risk management process = 2  
Integrated into multidisciplinary companywide risk management processes = 1  
There are no documented processes for assessing and managing risks and opportunities from climate change = 0 |
| Is climate change integrated into your business strategy? | Yes = 1  
No = 0 |
| Were there any positive efforts to reduce emissions in the current fiscal year? (This may include those in the planning and implementation phases) | direct = 2  
Yes/Indirect = 1  
No = 0 |
| Environmental targets & initiatives | Were there any active (ongoing or completed) emission reduction targets in the reporting year? | Absolute & intensity target = 2  
Intensity or absolute target = 1  
None = 0 |
| Please provide the details of your absolute target | Emissions reduction target |
|---------------------------------------------------|----------------------------|
| Were there any positive efforts to reduce emissions in the current fiscal year? (This may include those in the planning and implementation phases) | Yes = 1  
No N/A = 0 |
| Show the total number of projects in each phase of development and the estimated CO2e savings of the project in the implementation phase. | implemented = 2  
to be implemented or under investigation = 1  
not to be implemented = 0 |

| Environmental audits |
|----------------------|
| Please provide the verified / confirmed status of the reported Scope 1 emissions. |
| Please provide the verified / warranty status of the reported Scope 2 emissions. |

| Verification for both Scope 1 and 2 = 2  
For either 1 = 1  
None = 0 |

| Emissions trading participation |
|--------------------------------|
| Do you participate in the emissions program? |
| Did your organization create or purchase project-based carbon credits during the reporting period? |

| Yes = 1  
No N/A = 0  |

So the total final score is as follows:

\[
\text{EMP} = \left( \frac{\text{Total Score}}{24} \right) \times 100\%
\]

**Financial Performance (Y)**

Financial Performance is the outcome of a company's Performance over time and can reflect the company's health. There are several important numbers for assessing a company's financial Performance, such as liquidity, leverage, activity, profitability, growth, and market value. In this study, financial Performance is measured using profitability metrics that measure management's effectiveness in generating revenue and investment-related profits. The profitability ratio used in study is the return on assets (ROA), a comparison of profits earned with...
investments or assets. One of the advantages of ROA is that it is comprehensive and relevant to environmental costs and environmental Performance, which requires a substantial investment in waste treatment assets. ROA can be formulated as follows:

\[ \text{ROA} = \frac{\text{net profit}}{\text{total assets}} \times 100\% \]

**Data analysis technique**

The hypothesis test in this study uses multiple regression analysis techniques. However, before performing multiple regression testing, it is necessary to test the classical assumption test first to test and To ensure the feasibility of the regression model used in this study. The regression equation in this study is as follows:

\[ \text{ROA} = \alpha + \beta_1 \text{AGE} + \beta_2 \text{EDU} + \beta_3 \text{EP} + e \]

- \( \text{ROA} \): Return of Assets
- \( \alpha \): constant
- \( \beta_1 \beta_2 \beta_3 \): Regression coefficient of each independent
- \( \text{AGE} \): Board of Directors Age Diversity
- \( \text{EDU} \): Diversity Education Board of Directors
- \( \text{EP} \): Environmental Performance
- \( e \): Error Term

### 4. RESULT AND DISCUSSION

#### 4.1 Descriptive Statistics Analysis

**Table 2. Descriptive Statistics**

|       | N  | Min | Max  | Mean   | Std. Deviation |
|-------|----|-----|------|--------|----------------|
| AGE   | 73 | .500| 1.000| .96014 | .110029        |
| EDU   | 73 | .200| 1.000| .65479 | .227328        |
| EP    | 73 | .167| .458 | .30594 | .099966        |
| ROA   | 73 | -.122| .108 | .00832 | .036938        |
| Valid N (listwise) | 73 |     |      |        |                |

Source: Data processed 2022

Description:
- ROA: Return of Assets
- AGE: Board of Directors Age Diversity
- EDU: Diversity Education Board of Directors
- EP: Environmental Performance

Board of Directors Age Diversity (X1): shows the N value for the amount of data to be studied is 73. The minimum score for Board of Directors Age Diversity is 0.5, and the maximum score is 1.0. The average is 0.96014, and the standard deviation is 0.110029.
- Board of Directors education (X2): shows the N value for the amount of data to be studied is 73. Board of Directors education with an economic background has a min score of 0,2 and a max value of 1,0 And has an average of 0,65479 and a standard deviation of 0,227328.
- Environmental Performance (X3): shows the N value for the amount of data to be studied is 73. The minimum environmental performance is 0,167 and the maximum is 0,458. The average is 0.30594 and the standard deviation is of 0,099966.
- Financial Performance (Y): shows the N value for the amount of data to be studied is 73. The minimum financial performance is -0,122, a maximum value of 0,108, an average of 0,00832, and a standard deviation of 0,036938.

4.2 Classic acceptance test

Normality testing

Table 3. One-sample kolmogorov-smirnov test

|                            | unstandardized residual |
|-----------------------------|-------------------------|
| N                           | 56                      |
| normal parameters\textsuperscript{a,b} | Mean         | .0000000 |
|                             | Std. Deviation | .00750114 |
| most extreme differences    | Absolute               | .109      |
|                             | Positive              | .109      |
|                             | Negative              | -.053     |
| test statistic              |                        | .109      |
| asymp. sig. (2-tailed)      |                        | .094\textsuperscript{c} |

Source: Data processed 2022

From the table above, you can see that it is an Asymp value. Sig is greater than 0,05, i.e. 0,094 (0,094 > 0,05). From this we can conclude that the data are normally distributed.
**Multicollinearity Testing**

### Table 3. Coefficients

| Model  | B      | Std. Error | Beta   | t     | Sig. | Tolerance | VIF |
|--------|--------|------------|--------|-------|------|-----------|-----|
| (Constant) | -0.013 | 0.012      | -1.100 | 0.276 |
| AGE    | 0.025  | 0.013      | 0.263  | 1.987 | 0.052| 0.898     | 1.114|
| EDU    | -0.008 | 0.005      | -0.232 | -1.760| 0.084| 0.900     | 1.111|
| EP     | 0.013  | 0.013      | 0.136  | 0.978 | 0.333| 0.815     | 1.227|

a. Dependent Variable: ROA

Source: Data processed 2022

The table above shows that the VIF value is < 10, and the tolerance value > is 0.10. This it can conclude that the data do not have multicollinearity.

**Heteroscedasticity Testing**

### Table 4. Coefficients

| Model  | B    | std. error | beta  | t    | sig. |
|--------|------|------------|-------|------|------|
| (Constant) | 0.001 | 0.007      | 0.164 | 0.871|
| AGE    | 0.011 | 0.008      | 0.199 | 1.413| 0.164|
| EDU    | -0.004| 0.003      | -0.213| -1.510| 0.137|
| EP     | -0.009| 0.008      | -0.168| -1.137| 0.261|

a. Dependent Variable: abs_res6

Source: Data processed 2022

From the table above, it has known that the Sig value of each AGE variable, EDU, and EP is greater than 0.05, i.e., 0.164; 0.137; 0.260. Therefore, we can make a conclusion is no heteroscedasticity in the data.
Autocorrelation Testing

Table 5. Model Summary\(^b\)

| Model | R  | R Square | adjusted R Square | Std. Error of the Estimate | Durbin-Watson |
|-------|----|----------|------------------|---------------------------|---------------|
| 1     | .577\(^a\) | .332     | .279             | .007097                   | 1.978         |

\(^a\) Predictors: (Constant), LAG_Y, AGE, EDU, EP

\(^b\) Dependent Variable: ROA

Source: Data processed 2022

From the table above, it is known that the calculate D value (1.978) is greater than DU (1.6815) and smaller than 4-DU (2.3185). So it can conclude that there is no autocorrelation in the data.

Regression Test Results

Table 6. Coefficients

| Model | Unstandardized Coefficients | Standardized Coefficients | t  | Sig. |
|-------|-----------------------------|---------------------------|----|------|
|       | B                           | Std. Error                | Beta|      |
| 1     | (Constant)                  | -.013                     | .012| -1.100| .276 |
|       | AGE                         | .025                      | .013| .263| 1.987| .052 |
|       | EDU                         | -.008                     | .005| -.232| 1.760| .084 |
|       | EP                          | .013                      | .013| .136| .978| .333 |

\(^a\) Dependent Variable: ROA

Source: Data processed 2022

\[ \text{ROA} = -0.013 + 0.025 \text{AGE} - 0.008 \text{EDU} + 0.013 \text{EP} + e \]

- The constant value in the regression equation is -0.013, which shows that if the Age Diversity DD (AGE), DD Education (EDU), and Environmental Performance (EP) variables are 0, then the Financial Performance Disclosure (ROA) value will have a score of -0.013 (negative).

- The value of regression coefficient value of the Age Diversity Board of Directors (AGE) variable is 0.025, indicating that if there is an increase in the Age Diversity Board of Directors (AGE) by one score, the value of the Islamic Social Reporting variable will increase in score by 0.025 with the assumption that the other variables are 0 (zero).

- The value of the regression coefficient for the DD variable Education is -0.008, and any increase indicates that there is one director with an economic background, the value of the Islamic Social Reporting variable will decrease in score by -0.008 with the assumption that the other variables are 0 (zero).
The value of regression coefficient value of the Environmental Performance variable is 0.013, indicating that if there is an increase in Environmental Performance of 1%, then the value of the Islamic Social Reporting variable will increase in score by 0.013 or 1.3% with the assumption that other variables are 0 (zero).

### 4.3 Hypothesis testing

**Adjusted $R^2$**

**Table 7. Model Summary**

| Model | R   | R Square | Adjusted R Square | Std. Error of the Estimate |
|-------|-----|----------|-------------------|---------------------------|
| 1     | .429<sup>a</sup> | .184     | .137              | .007714                   |

a. Predictors: (Constant), EP, EDU, AGE

Source: Data processed 2022

From the table above, you can see that the value of RSquare is 0.184. This means that the ability of variable X to influence variable Y is 18.4%. In contrast, the remaining 81.6% are affected by other uninvestigated factors.

**F testing**

**Table 8. ANOVA**

| Models      | Sum of squares | df | mean square | F      | sig.  |
|-------------|----------------|----|------------|--------|-------|
| 1 regression| .001           | 3  | .000       | 3.905  | .014<sup>b</sup> |
| residual    | .003           | 52 | .000       |        |       |
| total       | .004           | 55 |            |        |       |

a. Dependent Variable: ROA
b. Predictors: (Constant), EP, EDU, AGE

Source: Data processed 2022

The results of the simultaneous F-test in the table show a significance value of 0.014. This means that the combination of the independent variables in this study will have a significant impact on financial performance.

**T testing**

**Table 8. Coefficients<sup>a</sup>**

| Model       | B    | std. error | beta | t      | Sig. |
|-------------|------|------------|------|--------|------|
| (Constant)  | -.013| .012       |      | -1.100 | .276 |

<sup>a</sup>
| Variable | Coefficient | t-value | Significance |
|----------|-------------|---------|--------------|
| AGE      | 0.025       | 1.987   | 0.052        |
| EDU      | -0.008      | -1.760  | 0.084        |
| EP       | 0.013       | 0.978   | 0.333        |

a. Dependent Variable: ROA
Source: Data processed 2022

From the table above, it is obtained that the t-value of each Board of directors Age Diversity variable; Board of Directors education; and Environmental Performance is 1.987; -1.760; and 0.978. The number of samples is 73, then the resulting degrees of freedom \( df = 70 \) from n-k with a significant value of 5% so that the t-table value is 1.667.

4.4 Discussion
- First Hypothesis
  \( H_1 \): Age Diversity Board of Directors positively affects financial Performance.
  According to the T-test table above shows that the Age Diversity Board of Directors variable obtained a regression coefficient value of 0.025 with a positive direction and a significance value of 0.052 > 0.05, and the value of t-value (1.987) > t-table (1.667). Based on the analysis results, Board age diversity variables do not have a significant positive impact on business performance. This means that \( H_1 \) states that the Board of Directors' Age Diversity has a positive effect on financial Performance are accepted.

- Second Hypothesis
  \( H_2 \): Board of Directors' education positively affects financial Performance.
  From In the above t-test table, the regression coefficient values for variable board education are -0.008 with a positive direction and a significance value of 0.084 > 0.05, and a t-value value (-1.760) < t-table (1.667). Based on the analysis results, the Board of Directors Education variable does not affect Financial Performance. This means that \( H_2 \), which states that Board of director's education has a positive effect on financial performing is rejected.

- Third Hypothesis
  \( H_3 \): Environmental Performance has a positive effect on financial Performance.
  Based on the T-test table above, it shows that the Environmental Performance variable obtains a regression coefficient value of 0.013 with a positive direction and a significance value of 0.333> 0.05, and the value of t-value (0.978) < t-table (1.667). Based on the analysis results, the environmental performance variable does not affect financial performing. This means that \( H_2 \), which states that environmental performing has a positive effect on financial performance is rejected.

5. CONCLUSION
This study is intended to determine the effect of Age Diversity Board of Directors, Board of Directors education, and environmental Performance on the Financial Performance of Islamic commercial banks from 2016 to 2021. The conclusions that can be drawn from this survey are:
1. Age Diversity Board of Directors have a positive but not significant effect on financial performance.
2. Board of Directors education has no effect on financial Performance.
3. Environmental Performance does not affect financial Performance.

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