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The Influence of Environmental Costs, Implementation of Good Corporate Governance and Current Ratio on the Financial Performance of Industrial Companies Listed on the Bei For the 2020-2023 Period

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Abstract: This research analyzes the influence of environmental costs, implementation of good corporate governance (GCG), and current ratio on the financial performance of industrial companies listed on the IDX for the 2020-2023 period. Independent variables include environmental costs, institutional ownership, managerial ownership, and current ratio, while financial performance is measured by Return on Assets (ROA). The results of the analysis show that environmental costs and current ratio have a positive and significant effect on financial performance. On the other hand, institutional ownership and managerial ownership as indicators of GCG do not have a significant effect. These findings underscore the importance of environmental and liquidity management in improving corporate financial performance.

Keyword: Environmental Costs, Good Corporate Governance (Institutional Ownership and Managerial Ownership), Current Ratio, Financial Performance, BEI.

INTRODUCTION

In order to face intense business competition, companies need to consistently strive to ensure operational continuity and simultaneously optimize performance through increased effectiveness and efficiency. The capacity to achieve significant profits serves as a vital measure of a company's success, as these profits serve as the driving force for business growth and sustainability (Oktaviani & Kristi, 2021). Internationally, the creative industry has become a key driver of economic growth, including in Indonesia where the sector contributes 11% to Gross Domestic Product (GDP). However, even though GDP has increased, not all residents enjoy a better economy, because GDP only reflects macro economic growth.

In 2023, the processing industry sector will contribute IDR 3,900.1 trillion or 18.67% of Indonesia's total GDP. However, environmental sustainability challenges remain a concern, especially in the manufacturing and energy sectors. Companies in this sector must manage environmental impacts responsibly, even though environmental costs are often considered an additional burden (Meiyana et al., 2019). Environmental costs, including investment in environmentally friendly technology and implementing CSR, can provide long-term benefits through increasing efficiency and company reputation (Rusli & Yohanes Mardinata, 2019).

The latest phenomenon in Indonesia shows increasing attention to environmental sustainability by companies, influenced by strict government regulations and consumers who care more about environmentally friendly products. However, environmental costs often burden product prices, which can reduce a company's competitiveness (Prinanta et al., 2023). In this issue, Good Corporate Governance (GCG) plays a crucial role in building a strong and trusting relationship between the company and all its stakeholders through the application of the principles of transparency, accountability and responsibility (Qalbi & Adhara Sakana, 2022).

Apart from GCG, financial aspects such as the current ratio also influence company performance. A company's financial stability is primarily influenced by its capability to handle liquidity effectively. The current ratio acts as a barometer in assessing such ability, where an unbalanced ratio value may signal fundamental problems (Rahayudi et al., 2024). Companies listed on the Indonesia Stock Exchange (IDX) are obliged to always pay attention to the correlation between environmental costs, GCG and current ratios in maintaining financial performance. Pressure from investors, regulators and society is pushing companies to maintain a balance between profitability and sustainability. The interests of today's investors have evolved, where they are not just focused on financial returns alone but also apply good governance principles and are environmentally responsible (Hapsari et al., 2021). Thus, environmental sustainability and operational efficiency become strategic elements in facing global competition.

Referring to the results of previous studies (Hapsari et al., 2021; Prinanta et al., 2023; Qalbi & Adhara Sakana, 2022; Rusli & Yohanes Mardinata, 2019) above it can be concluded that environmental costs are very dominant in the development of a company by considering the surrounding environment and available natural resources and in addition *Good Corporate Governance* making it an aspect that underlies the company's financial performance, this prompts the company to take into account the financial performance of environmentally friendly businesses while evaluating the management of resources and enhancing their availability. *Current Ratio* (CR) pays attention to the asset aspect and pays attention to the company's development of short-term debt. Therefore, the research aims to explore “Effect of Environmental Costs, Implementation *Good Corporate Governance* and *Current Ratio* on the Financial Performance of Industrial Companies Listed on the IDX”.

Through an in-depth understanding of these interconnections, this study is anticipated to provide valuable contributions to both companies and policymakers in formulating sustainable business strategies that are responsive to environmental issues.

By considering the findings of previous research, the problems to be discussed in this study are as follows:

1. How do environmental costs affect the financial performance of industrial companies listed on the Indonesian Stock Exchange?
2. How to influence *Good Corporate Governance* (GCG) on the financial performance of industrial companies listed on the Indonesia Stock Exchange?
3. What is the impact of implementing *Current Ratio* (CR) on the financial performance of industrial companies listed on the Indonesian Stock Exchange?

The findings of this study are expected to offer practical insights for companies, regulators, and other stakeholders in formulating strategic decisions concerning to environmental management, corporate governance, and liquidity. Provides practical insight for companies in managing environmental costs, implementing good corporate governance and Current Ratios to improve financial performance. Provide input to policy makers in formulating regulations related to environmental management and better corporate governance in the industrial sector.

Hypothesis

There are eight hypotheses in this research, the explanatory formulation of the hypotheses will be explained as follows:

1. First hypothesis : "It is stated that environmental costs have an influence on the financial performance of industrial sector companies listed on the Indonesian Stock Exchange"
2. Second hypothesis : "stated that *Good Corporate Governance* (Managerial Ownership) has an influence on the financial performance of industrial sector companies listed on the Indonesian Stock Exchange"
3. Third hypothesis : "stated that *Good Corporate Governance* (Institutional ownership) has an influence on the financial performance of industrial sector companies listed on the Indonesian Stock Exchange"
4. Fourth hypothesis : "stated that Current Ratio has an influence on the financial performance of industrial sector companies listed on the Indonesian Stock Exchange"

METHOD

Types of research

This study adopts a quantitative approach, which is a research method that relies on collecting and analyzing numerical data to empirically test hypotheses, as well as identifying cause-and-effect relationships between research variables. Researchers look for causal relationships between 4 independent variables (independent variables), namely "environmental costs (X1), managerial ownership (X2), institutional ownership (X3) and current ratio (X4)" with the dependent variable (related variables) namely "financial performance (Y)".

Research Design

From the development of research methods, a research design can be formed according to the concept to be studied, as follows:

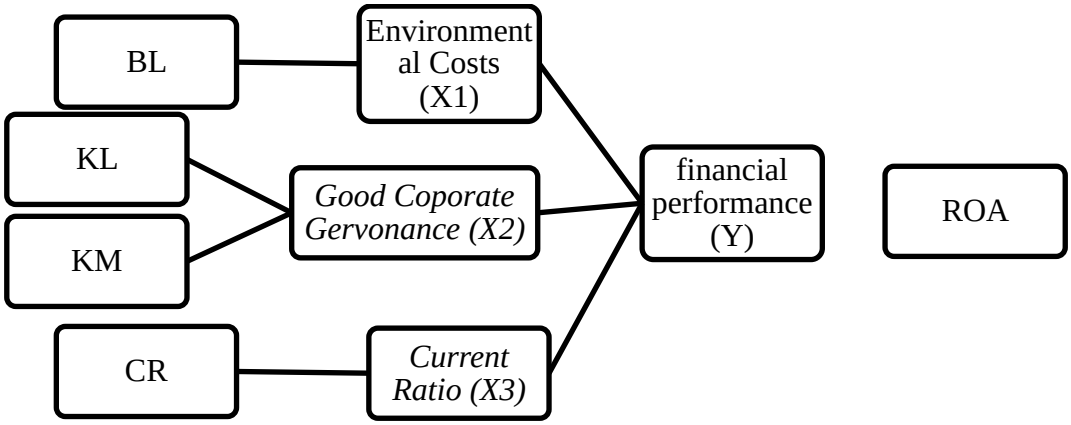


Figure 1 Research Design

Information :

BL : Environmental Costs
KI : Institutional Ownership
KM : Managerial Ownership
CR : *Current Ratio*

Operational definition and measurement of variables

This research involves two types of variables, namely dependent and independent variables. The dependent (dependent) variable is financial performance, which is measured using Return on Assets (ROA). ROA describes the company's efficiency in converting total assets into net profit. This ratio is important for managers because it reflects the company's overall operational performance.

The higher the ROA, the better the company's ability to generate profits from the assets it owns.

Independent (free) variables include environmental performance, environmental costs, and good corporate governance. These variables play a role in influencing financial performance (dependent variable). Variable measurements are carried out using a ratio scale. The independent variables consist of Environmental Costs (X1), Good Corporate Governance (X2), and Current Ratio (X3), while the dependent variable is Financial Performance (Y).

Population and Sample

In this research, the population includes all industries listed on the Indonesian Stock Exchange in 2020-2023, the population obtained is 48 companies with company data that has passed input under 2020. Researchers use the industrial sector because industry is one of the most dynamic sectors. and changes quickly, and its development is used as new opportunities and challenges to imply economic development so that it has good prospects. The company population data in table 2 is as follows:

In this study, purposive sampling technique was used to obtain samples that were relevant to the research objectives. Samples are selected based on specific criteria that have been previously determined so that they can provide valid and reliable data to answer research questions. The sample criteria for this research include:

a. Industrial companies listed on the Indonesia Stock Exchange (BEI) during the 2020-2023 period
b. Companies that fail to publish continuous corporate financial reports
c. Industrial companies do not apply key aspects of good corporate governance, particularly Managerial Ownership and Institutional Ownership.
d. Industrial companies that fail to incorporate social assistance aspects, such as environmental costs
e. Companies that meet the criteria.

The company criteria that have been input from 48 companies, based on the sampling that will be used by researchers and in accordance with the desired criteria, are 14 companies.

Types, Sources and Techniques of Data Collection

This research uses a type of secondary data where the data obtained is in ready-made form, has been collected and has been processed by other parties, in the form of a publication.

The data sources contained in this research are financial reports and annual reports on company websites and the Indonesian Stock Exchange. In research, data collection techniques are used, namely using the documentation method, where data is collected through documents that are downloaded and then stored periodically in the form of financial reports contained in the company.

Analysis Method

To prepare this research, data and information are needed that are appropriate to the problems being studied so that the data obtained is complete to be used as a basis for discussing existing problems. In preparing this research the author used quantitative data analysis methods. Quantitative methods are used to get an overall picture of the viewpoint being studied.

This research uses descriptive analysis. Test classification assumptions (normality test, heteroscedasticity test, multicollinearity test, and autocorrelation test) multiple regression analysis and hypothesis testing.

Descriptive Analysis

Descriptive analysis is statistical data that is used to analyze data that has been collected by describing the data and then making conclusions that apply to the general public.

Classical Assumption Test

Normality Test

If the data is said to be normally distributed or meets the normality test then the significance level is more than 0.05. Where this test tests the independent variable and the dependent variable and determines whether the data is normally distributed or not.

Heteroscedasticity Test

The heteroscedasticity test is carried out to determine whether there is heteroscedasticity in the regression model, it can be done by looking at the scatter plot graph or from the predicted value of the dependent variable (SRESID) with residual error (ZPRED). If the graph does not show a particular pattern and does not spread above or below zero on the Y axis, it can be concluded that there are no symptoms of heteroscedasticity, or it can be interpreted that the research model used is good. However, the pattern points in the scatterplot method may still not determine the heteroscedasticity test, therefore the park heteroscedasticity test is assisted to make it more efficient in determining the results.

Multicollinearity Test

If independent variables are correlated with each other, then these variables are not orthogonal. Orthogonal variables are independent variables whose correlation value between independent variables is equal to zero.

Autocorrelation Test

This test aims to find out whether there is a correlation between members of a series of observation data sorted according to time and space. To detect symptoms of autocorrelation, you can use the Durbin-Watson (D-W) test.

Multiple Linear Regression

Multiple linear regression is a regression that has one dependent variable (not independent) and more than one independent variable (free). This analysis is to determine the direction of the relationship between variables, whether each independent variable is positively or negatively related and to predict whether the value of the independent variable will increase or decrease.

Hypothesis Testing

Testing of the proposed hypothesis is carried out by means of Determination Coefficient Test, Partial Test and Simultaneous Test.

RESULTS AND DISCUSSION

Multiple Linear Analysis with Environmental Cost Variables (X1), Institutional Ownership (X2), Managerial Ownership (X3), Funds *Current Ratio* (X4) Against Financial Performance (Y).

Uji Descriptives

In this study, quantitative data analysis will be carried out using IBM SPSS Statistics software version 25. The final sample that met the research criteria amounted to 14 companies. The results of descriptive statistical analysis of the data are presented in Table 1 :

Tabel 1 Deskriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Biaya Lingkungan	56	-32801,84	102193,99	3106,2845	17685,66090
kepemilikan institusional	56	,14	,98	,6105	,26807
kepemilikan manajerial	56	,00	,45	,1121	,15402
carrunt rasio	56	,16	6,82	1,6734	1,29889
roa	56	-29,57	22,34	1,8805	9,09223
Valid N (listwise)	56				

Data Processed by the Research Team, 2024

Table 1, N=56 shows the number of samples used in the research. The interpretation of the Descriptive Statistics output results is as follows:

1) The variable (X1) with Environmental Costs has a minimum value of -32801.84. The maximum value is 102193.99, the mean (average) value is 3106.2845 and the standard deviation is 17685.66090.
2) The variable (X2) with Institutional Ownership has a minimum value of 0.14. The maximum value is 0.98, the mean (average) value is 0.6105 and the standard deviation is 0.26807.
3) The variable (X3) with Managerial Ownership has a minimum value of 0.00. The maximum value is 0.45, the mean (average) value is 0.1121 and the standard deviation is 0.15402.
4) Variable (X4) with *Current Ratio* has a minimum value of -29.57. The maximum value is 22.34, the mean (average) value is 1.8805 and the standard deviation is 9.09223.
5) The variable (X4) with Current Ratio has a minimum value of 0.16. The maximum value is 6.82, the mean (*average)* value is 1.6734 and the standard deviation is 1.29889.

Classic Assumption Test

Normality Test

In this research, statistical analysis data is used. Statistical analysis that can be used to test residual normality is the nonparametric Kolmogrov-Smirnov (K-S) statistical test. If the Kolmogrov Smirnov results show a significant value of more than 0.05 (Sign. > 0.05) then the residual data is normally distributed. The results of the One-Sample Kolmogorov-Smirnov Test can be seen in table 2:

Table 2 outcomes of the One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		**56**
Normal Parameters A,b	Mean	,0000000
	Std. Deviation	8,15219848
Most Extreme Differences	Absolute	,094
	Positive	,044
	Negative	-,094
Test Statistic	,094	
Asymp. Sig. (2-tailed)	,200c,d	

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
b. d. This is a lower bound of the true significance.

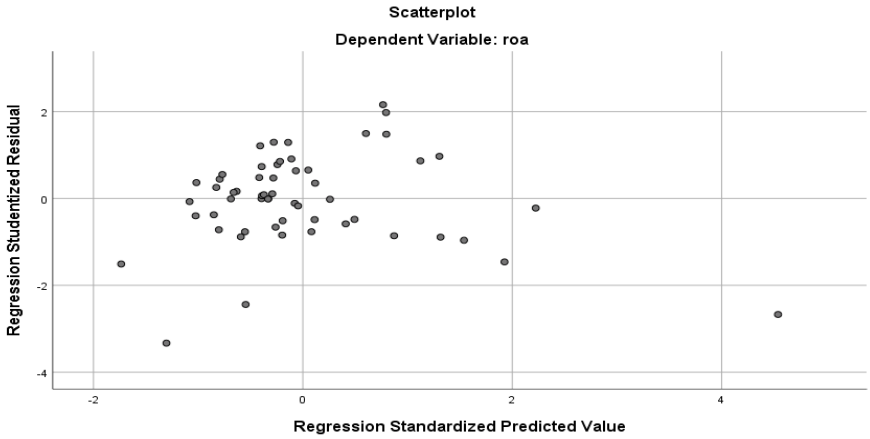
Data Processed by the Research Team, 2024

Based on the results of table 2 above, it can be seen that the value of Asymp. Sig shows the number 0.200c,d So, it can be concluded that the Asymp number. Sig 0.200c,d this is greater than 0.05 (0.200c,d > 0.05) then it can be said that this test has data results that have residual values so that the data has a normal distribution or is suitable for normality testing and is suitable as research data.

Heteroscedasticity Test

To see whether there is heteroscedasticity in a model, you can see the Scatterplot image pattern. The basic analysis of the heteroscedasticity test via plot graphs is as follows:

Figure 2 Scatter plot



Data Processed by the Research Team, 2024

The test results above can be declared to have passed the Scatter Plot heteroscedasticity test if the distribution of the data is spread both above and above the 0 axis. From the resulting output, it can be concluded that the data has passed the heteroscedasticity test. However, while visual graph analysis provides a useful starting point, it has limitations in providing objective and accurate results. Therefore, more formal statistical tests are required to confirm the research findings. To test for heteroscedasticity, this study used the "Park test with the help of IBM SPSS Statistics software version 25". This test involves regressing the absolute value of the residuals of the model against all independent variables. A significance level of 5% was used for this analysis. The complete results of the heteroscedasticity test are presented in Table 3.

Table 3 Park heteroscedasticity test

Model		Unstandardized Coefficients		Standardized Coefficients	t	Say.
		B	Std. Error	Beta		
1.	(Constant)	-.082	1.076		-.076	.940
	Environmental Costs	1.808E-5	.000	.230	1.274	.212
	Institutional Ownership	.848	1.348	.151	.629	.534
	Managerial Ownership	2.704	2.406	.255	1.124	.269
	Current Ratio	.081	.238	.057	.342	.734
a. Dependent Variable: LN_Y						

Data Processed by the Research Team, 2024

As shown in Table 3, the Park test results indicate that none of the independent variables are statistically significant in explaining heteroscedasticity at the 5% level. The significance value for X1 is 0.212, while for X2 is 0.534. Thus, the independent variables can be concluded not to experience heteroscedasticity problems.

Multicollinearity Test

The outcomes of the multicollinearity test are presented in Table 4 below:

Table 4 Multicollinearity Test

Model		Say.	Collinearity Statistics	
			Tolerance	VIF
1.	(Constant)	,959		
	environmental costs	,009	,834	1,199
	institutional ownership	,641	,425	2,351
	managerial ownership	,710	,457	2,188
	the car is shaved	,052	,972	1,029
a. Dependent Variable: roa				

Data Processed by the Research Team, 2024

In the results of table 4, if the tolerance value is greater than 0.1, it means that this model does not have multicollinearity. in the regression model, this is the case further strengthened by the VIF results because the results of several variables show results that are smaller than 10.00, this means that there is no multicollinearity. So it can be concluded that the data in this study does not have a high correlation with the dependent variable.

Autocoleracy Test

The findings of the autocorrelation test are presented in Table 5 below:

Table 5 autocorrelation test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,443[a]	,196	,133	8,46586	2,223
a.Predictors: (Constant), loss ratio, institutional ownership, environmental costs, managerial ownership b.Dependent Variable: roa					

Data Processed by the Research Team, 2024

Based on the Durbin-Watson test results listed in Table 5, we can conclude that:

1. "If d < dl or d > 4-dl" then the null hypothesis stating the absence of autocorrelation is rejected. This indicates that there is serial correlation in the residuals of the regression model.
2. "If du < d < 4-du" then it can be concluded that there is autocorrelation in the data, thus violating one of the classical assumptions of linear regression.
3. "If dl < d < dU or 4-dU < d < 4-dL" then the Durbin-Watson test does not provide a definitive conclusion on the existence of autocorrelation.

The results in the table show that the Durbin-Watson test value is 2.223. This value is then compared with dL (Durbin-Watson lower limit value) and dU (Durbin-Watson upper limit value). Based on the Durbin-Watson table with a significance level of 5%, the number of data (n) is 56, and the number of independent variables (K) is 4, obtained dL = 1.4201 and dU = 1.7246. In addition, the 4-dL value is 2.5799 and 4-dU is 2.2754. After analysis, the Durbin-Watson value of 2.223 is within the range of dU < d < 4-dU, namely 1.7246 < 2.223 < 2.2754. Therefore, it can be concluded that there is no autocorrelation in the regression model used in this study.

Multiple Liner Analysis Tests

The analysis technique used is multiple linear regression which is useful for determining the influence of perceptions of environmental costs, good corporate governance and current ratios on the financial performance of the industrial sector. Data processing was carried out using the SPSS program (*Statistical Program for Social Sciences*) version 26 found in the following table 6:

Table 6 multiple linear regression analysis test

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1.	(Constant)	-,274	5,293	
	environmental costs	,000	,000	,374
	institutional ownership	-3,063	6,530	-,090
	managerial ownership	4,095	10,964	,069
	Current Rasio	1,774	,891	,253
a. Dependent Variable: roa				

Data Processed by the Research Team, 2024

Based on the test results in the table above, it shows that the value of the multiple liner regression model can be formulated as follows:

AND = a + bx1 + bx2 + bx3 + bx4 + e (A = constant)

= (-0,274) + 0,000X1 + (-3,063X2)+ 4,095X3 + 1,774X4 + e

a. The value -0.274 is a constant value, which means that when variables return *of asset*) is equal to (-0.274).
b. The value of 0.000 for the environmental cost perception variable (X1) is increased by 1 unit *return of asset* (Y) will increase by 0.000.
c. The value of -3.063 in the gcg variable (X2), namely institutional ownership, means that if X2 is increased by 1 unit the *return of asset* (Y) will decrease by (-3.063).
d. The value of 4.095 in the gcg variable (X3), namely managerial ownership, means that if X3 is increased by 1 unit then the value *return of asset* (Y) will increase by 4.095.
e. The value of 1.774 in the current ratio variable (X4) means that if X4 is increased by 1 unit then the value *return of asset* (Y) will increase by 1.774.

Hypothesis Testing

Coefficient of Determination Test

This research carries out a Coefficient of Determination test which aims to find out how much influence the independent or independent variables have, in this research these variables are Environmental Costs, Institutional Ownership, Managerial Ownership and Current Ratio on the dependent variable or dependent variable, namely ROA. This can be seen in table 4.7 below:

Table 7 Coefficient of Determination test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,443[a]	,196	,133	8,46586	2,223

a.Predictors: (Constant), loss ratio, institutional ownership, environmental costs, managerial ownership
b.Dependent Variable: roa

Data Processed by the Research Team, 2024

The coefficient of determination (R-squared) value obtained from the regression analysis is 0.196. This figure indicates that the independent variables in the model are able to explain 19.6% of the total variance of the dependent variable. The remaining 80.4% of the variance of the dependent variable cannot be explained by the regression model that has been developed, which implies the influence of other factors outside the model that need to be considered in future research.

Silmutancy Test (F Test)

The F test analysis was conducted to test the hypothesis that the variables of perceived environmental costs, institutional ownership, managerial ownership, and current ratio together have a significant effect on the company's financial performance. The results of the F test can be seen in Table 8:

Table 8 simultaneous test (F test)

Model		Sum of Squares	df	Mean Square	F	Say.
1.	Regression	891,570	4	222,892	3,110	,023[b]
	Residual	3655,209	51	71,671		
	Total	**4546,778**	**55**			

a.Dependent Variable: roa
b.Predictors: (Constant), loss ratio, institutional ownership, environmental costs, managerial ownership

Data Processed by the Research Team, 2024

Explanation: the hypothesis is accepted if:

1. If the sigmat is less than 0.05, the hypothesis is accepted
2. Calculated F value > F table (accepted hypothesis)

Formula F table = (k ; n-k)
= (3 ; 56 – 4)
= (3 ; 52)

F table = 2,78
Note: so from the results of the F table it can be concluded that

1. Sigma 0.023 < 0.05 (hypothesis accepted)
2. F count > F table = 3.110 > 2.78 (effect ***significant simultaneous***)
   = **F** *significant influence on* AND

Based on the results of the analysis of variance, the calculated F value of 3.110 indicates that overall, the regression model built successfully explains variations in the dependent variable (Return on Asset) with statistical significance. This is supported by the significance value (p-value) of 0.023 which is smaller than the 0.05 significance level. The statistical test value shows that the four factors studied (Environmental Costs, Managerial Ownership, Institutional Ownership, and Current Ratio) together have a fairly strong influence on the company's profit level. This means that changes in one or more of these factors will have an impact on the company's profit level.

Partial Test (T Test)

The t test in multiple regression analysis aims to test individually the effect of each independent variable on the dependent variable. The t test results in Table 9 below show how much significant contribution each independent variable makes in explaining the variation in the dependent variable.

Table 9 partial test (T test)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1.	(Constant)	-,274	5,293		-,052	,959		
	Environmental Costs	,000	,000	,374	2,724	,009	,834	1,199
	Institutional Ownership	-3,063	6,530	-,090	-,469	,641	,425	2,351
	Managerial Ownership	4,095	10,964	,069	,373	,710	,457	2,188
	Current Ratio	1,774	,891	,253	1,990	,052	,972	1,029

a. Dependent Variable: roa

Data Processed by the Research Team, 2024

Based on the statistical tests conducted, the effect of a variable is considered statistically significant if "the calculated t value (Thitung) > the t table value (Ttabel) and the significance level (α) < 0.05". Conversely, if "the calculated t value is smaller than or equal to the t table value, or if the significance level is greater than or equal to 0.05", then the influence of the variable is considered statistically insignificant. In this study, researchers have set a significance level of 5% to test the null hypothesis (H0). Because the test carried out is a two-sided test, the significance level is divided by two to 0.025. Based on the t distribution table with a significance level of 0.025 and 51 degrees of freedom, the t table value is 2.00758. This t table value is then used as a critical point to compare with the calculated t value obtained from data analysis. Table 4.9 can be interpreted as follows:

1. It can be seen that environmental costs have a T count of 2.724 so that it is 2.724 > 2.00758 and the significance level is less than 0.05 (0.009 < 0.05), it can be concluded that "environmental costs have a positive and significant effect on financial performance (ROA)".
2. It can be seen that Institutional Ownership has a Tcount of (-0.469) so that (-0.469) < 2.00758 and a significance level greater than 0.05 (0.641 > 0.05) then it can be concluded that "Institutional Ownership does not have a negative and significant effect on financial performance (ROA)".
3. It can be seen that Managerial Ownership has a T count of 0.373 so that it is 0.373 < 2.00758 and a significance level greater than 0.05 (0.710 > 0.05), it can be concluded that "Managerial Ownership does not have a negative and significant effect on financial performance (ROA)".
4. Seen that *Current Ratio* has a Tcount of 1.990 so that 1.990 < 2.00758 and a significance level of less than 0.05 (0.052 > 0.05) then it can be concluded that "*Current Ratio* has a positive and significant effect on financial performance (ROA) at any time".

RESULT AND DISCUSSION

Influence of Environmental Costs (X1) on Financial Performance (Y)

The research results prove that environmental costs have a positive and significant effect on financial performance. It can be interpreted that if environmental costs increase, financial performance will decrease. This is because environmental costs are considered to be a burden on the company and if environmental costs increase, it will increase the company's burden which must be spent on repairing damage caused by the production process (Ladyve et al., 2020). but high environmental costs cannot make financial performance good either. Because basically the environmental costs incurred by the company reduce profits which makes financial performance (ROA) also decrease (Rahayudi & Apriwandi, 2023). In legitimacy theory, companies can be convincing if they try to adapt to government policies and regulations, as well as the local environment by being environmentally responsible according to Buana & Nuzula, 2017 in (Rahayudi & Apriwandi, 2023).

The results of this study align with research from (Usemahu & Rasni Hanipa, 2023) supports the argument that sustainable business practices can create added value for the company. The increase in environmental costs invested in environmental conservation efforts is proven to be positively correlated with an increase in the company's financial performance. And supported by the findings of research by (Mauhibah, Ratu Habibah, et al., 2024) stating that increasing environmental costs may also impact the price at which a company's products are sold, perhaps prices will be more expensive than usual but it is hoped that the high cost of the product must also be in accordance with the quality of the product being sold. So, the company gets a return on the funds it has spent on environmental costs from product sales.

In other words, sustainability and a focus on the environment are not only beneficial for the sustainability of the company, but also bring economic benefits to the company in the long term. Environmental costs are one way for companies to overcome environmental damage to their production processes. Companies that implement an environmental cost system will have added value and can create a competitive advantage for the company and the environment around the company. With the application of environmental costs to all company activities and the existence of a form of responsibility, a company can improve the company's image towards its environment.

Influence of Institutional Ownership (X2) on Financial Performance (Y)

The results of this study indicate a negative relationship between institutional ownership and corporate financial performance. This finding indicates that the higher the proportion of ownership by institutions, the lower the financial performance achieved by the company. This can be explained by the tendency of institutional investors to pursue short-term profits, thus paying less attention to long-term investments that have the potential to increase firm value (Cundowan & Fransisca, 2019). In other words, institutional ownership is temporary ownership, this is because institutional institutional investors do not supervise the optimal management of the company but rather compromise or side with management and ignore the interests of minority shareholders.

According to the explanation from (Khoirunnisa, Khoirunnisa, et al., 2021), fluctuations in corporate earnings can trigger negative reactions from institutional investors, especially if the changes in earnings are considered unfavorable. As a result, institutional investors tend to withdraw their investments, which can lead to a significant decline in stock prices. This suggests that institutional ownership, which is often short-term in nature, does not always guarantee stock price stability and a sustainable increase in firm value.

These results align with prior research undertaken by (Pangesti et al., 2022) which states that institutional ownership has no effect on profitability. Because the amount of supervision over management performance in company decision making does not affect profits. Research by (Rahardjo, Agassi Pringgo, et al., 2021) mentioned that although institutional shareholders have an important role in corporate oversight, the strategic and operational decisions of the company are directly in the hands of the board of directors and management. This means that institutional shareholders, despite their influence, do not have full authority in the day-to-day decision-making of the company.

Influence of Managerial Ownership (X3) on Financial Performance (Y)

The results of this research show that Managerial Ownership does not have a negative and significant effect on financial performance, this is because the low number of shares owned by management means that management does not feel like they own the company because they cannot own all the profits so that management is motivated to maximize their utility rather than their interests shareholders (Febrina, Viola, et al., 2022). It can be interpreted that low share ownership by management causes a decline in management performance, resulting in the superior financial performance of a company also decreasing. Due to the lack of shares owned by company management, they do not feel like they own the company because not all the profits can be enjoyed by them. As a result, management becomes less motivated and performs less, which has no impact on a company's financial performance.

These results align with prior research undertaken by (Romadoni, Dwi Setyowati, et al., 2022) indicates that while managerial ownership can enhance company performance, an excessively high concentration of ownership may lead to conflicts of interest between

managers and external shareholders. This can hinder the company's efforts to achieve the goal of maximizing shareholder value. So it can be concluded that there is a positive but insignificant relationship between managerial ownership and company financial performance.

Influence of Current Ratio (X4) on Financial Performance (Y)

This study shows that the current ratio has a positive influence on the company's financial performance. An optimal current ratio allows the company to manage liquidity without sacrificing the efficiency of asset use. An increase in the current ratio above the optimal level may reduce the company's operational efficiency. A low current ratio will provide a poor image. The company's low current ratio reflects problems with liquidity (Saragih Joana, 2021). There is a trade-off between liquidity and profitability. While high liquidity is important to maintain business continuity, excess liquidity can reduce profitability. Companies need to balance the need for liquidity with the effort to maximize return on investment. The increase in current ratio caused by the decrease in operating profit indicates that most of the retained earnings are allocated to pay off short-term liabilities. Consequently, the net profit that can be distributed to shareholders is reduced, thus negatively affecting the rate of return on assets (ROA).

The assertion that the current ratio has no effect on the rate of return on assets (ROA) contradicts the common understanding of the role of the current ratio in measuring corporate liquidity. The current ratio, as an indicator of a company's ability to meet short-term obligations, has significant implications for the structure of the balance sheet and, indirectly, may influence investment decisions that impact ROA. Fluctuations in the current ratio caused by changes in a company's commitment to short-term debt can affect overall financial performance, especially when the company manages to balance its short-term liabilities.

This is consistent with the results of earlier studies conducted by (Tripuspitorini et al., 2022) which states that companies have more sources of assets from retained earnings to cash such as inventory and receivables. Apart from that, companies can also maximize profits by managing current assets such as cash, inventory and receivables. In other words, the current assets owned by the company are in good condition and can support business activities and obtain greater profits for the company. This states how much influence the current ratio has on the development of a company because to minimize the company's assets, it must consider all its short-term debt.

CONCLUSION

The results of hypothesis testing using panel data regression analysis with three independent variables, namely the Effect of Environmental Costs, Implementation of Good Corporate Governance and Current Ratio on one dependent variable, namely Financial Performance, show that: 1) Environmental Costs Has a Positive and Significant Impact on Financial Performance in Industrial Companies for the 2020-2023 period. This shows that companies that budget for environmental sustainability tend to achieve better financial performance. Environmental costs incurred to meet sustainability standards and environmental protection regulations can enhance a company's reputation and draw in more investors, and ultimately contribute to a more stable financial situation. 2) Institutional ownership has no negative effect on the financial performance of industrial companies for the period 2020-2023. Institutional ownership is important in overseeing management and influencing strategic decisions, but the results showed negative and insignificant results during the study period. This suggests that it is not a given. This may be because there are other factors that have a greater influence on financial development. 3) Managerial Ownership Does Not Have a Positive Influence on Financial Performance in Industrial Companies for the 2020-2023 Period. Managerial share ownership does not have a significant impact on improving financial performance. This is likely due to a number of external and internal factors, such as market

conditions and company strategy, which have a greater influence on business decisions and financial management than management ownership alone. 4) Current Ratio has a positive and significant influence on financial performance in industrial companies for the 2020-2023 period. The current ratio has a positive effect on the company's financial performance. The optimal current ratio shows that the company has sufficient liquidity to meet its short-term obligations. This reflects good financial management and financial stability of the company, which contributes to better financial performance. Companies with better current ratios tend to be able to manage their cash flows and short-term liabilities more efficiently, which has a positive impact on overall financial performance.

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