Effect of Corporate Social Responsibility Disclosure on Financial Performance

Lady Januasti Merdian, Ikaputera Waspada

Universitas Pendidikan Indonesia

ladymerdian@upi.edu

Abstract. This study aims to predict the possibility of a causal model of the effect of disclosure of Corporate Social Responsibility on corporate financial performance. In addition, this study also examines the motivation for implementing CSR based on financial performance in industrial sector manufacturing companies that disclose CSR activities and are listed on the Indonesia Stock Exchange during 2013 - 2019 make-up and household items. The number of samples is 36 companies. Data were analyzed by GSCA. The result is that there is a significant direct effect between CSR on Return on Assets (ROA) and Return on Equity (ROE). In addition, there is a significant direct effect between ROA and ROE on CSR. There are empirical findings in this study. First, ROA has a positive effect on CSR and vice versa CSR has a positive effect on ROA. Second, ROE has a positive effect on CSR and vice versa CSR has a positive effect on ROE.

1. Introduction

The company is a place for production activities, both goods and services, and also a gathering place for all production factors. Activities carried out within the company to meet human economic needs [1]. One of the company's goals is to maximize the company's owner's wealth. In other words, the company's goal is to obtain maximum profit or profit by increasing the efficiency and effectiveness of the company [2]. In the midst of increasingly competitive global competition, companies are mutually increasing their competitiveness in various fields so as to attract investors to invest [3]. Thus, the company's performance must be improved to influence investors' perceptions of the company, not only at present but also the company's prospects in the future.

One of the factors that is thought to affect the company's financial performance is the Corporate Social Responsibility (CSR) factor [4]. Many national and international companies claim that they have carried out their social responsibility. Every time the company carries out its operations, the company interacts with its social environment. In Indonesia, CSR is actually used as a legal obligation that companies must comply with, as stated in Article 74 paragraph (1) of the PT. The formulation of Article 74 paragraph (1) of the PT Law states that companies are required to implement CSR, namely "companies that carry out their business activities in midwives and / or are related to natural resources". Then the explanation of the paragraph in question is explained as a company whose business activities are to manage and utilize natural resources, and / or a company that does not manage and utilize natural resources, but its business activities have an impact on the function of natural resource capabilities [5].

CSR can provide many benefits for companies that implement it, including: being able to create a new image for the company in a competitive market so that in turn it will be able to create customer

loyalty and build or maintain a business reputation and help companies to obtain or continue a license to operate from The government and from the public because companies will indirectly be assessed by those who have met certain standards and have social awareness. So, CSR can be a kind of advertisement for the company's products [5]

Many previous studies have been conducted to examine the extent of the influence of CSR activities on company financial performance. CSR disclosure had a significant and positive effect on the relationship between financial performance (ROA) and firm value [6]. Industry companies listed on the IDX shows the same empirical evidence that there is a positive and significant influence between CSR disclosure on company profitability as measured by ROA and NPM [7]. Significant influence between corporate social responsibility and financial performance [8]. The relationship between social and environmental performance of companies with financial performance (ROE and ROA) with control variables debt to assets ratio and assets [9]. This research was conducted in companies in Canada with a sample of 352 companies. The results show a positive relationship.

Contradictory empirical evidence, namely that corporate social responsibility and good corporate governance do not have a significant effect on ROE as a proxy for company performance [10]. CSR disclosure did not have a significant effect on company performance (ROE) [11]. CSR had no effect on financial performance [12]. CSR disclosure has a positive but not significant effect on firm value with variable control size, type of industry, profitability, and leverage in IDX companies listed on the IDX for the 2007-2010 period [13]. The purpose of this study was to examine the effect of Corporate Social Responsibility (CSR) on company performance as measured by the overall profitability dimension (proxied by ROA).

2. Method

The purpose of this study was to examine the effect of Corporate Social Responsibility (CSR) on company performance as measured by the profitability dimension (proxied by ROA) of the overall make-up and household appliances companies listed on the Indonesia Stock Exchange. The population that is the object of this study is the annual reports of makeup and household appliances companies listed on the Indonesia Stock Exchange for the period 2012-2019 totaling 7 companies. The selected samples are with the following criteria: 1) annual reports from companies on the Indonesia Stock Exchange which are included in the makeup and household appliances sector, 2) Annual reports for the period 2012 to 2019, 3) reporting CSR activities in the annual report.

Method of Analysis
Data analysis was carried out in the following stages:
   a.   CSR index calculation
   b.   Company ROA calculation
   c.   Classic assumption test
   d.   Hypothesis testing

3. Results and Discussion

4. Descriptive Analysis

The average CSR index is higher than Shenjaya's (2016) research of 0.2440 which uses data from 2010 - 2014. In this study the CSR index is 0.3291. The increase in CSR trends carried out by this company indicates that the company is increasingly paying attention to CSR activities and discloses them in its annual reports. It is interesting to investigate which CSR activities (CSR parameters) are actually the most concern of the company.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
csri	32	.19	.49	.3291	.10256
economic	32	.22	.89	.5847	.20333
environment	32	.09	.59	.3006	.17380
social	32	.19	.38	.2953	.06149
ROA	32	-.18	.61	.1769	.22587
Valid N (listwise)	32				

Based on the statistics above, the average CSR index for economic parameters is 0.5847, environmental parameters are 0.3006 and social parameters are 0.2953. So it can be concluded that the average CSR activity of economic parameters is higher than environmental and social parameters. This is understandable because the purpose of CSR disclosure is to increase company trust and image, especially in relation to the company's contribution to the environmental economy [14]. For example in the development of the impact of infrastructure investment and local suppliers.

4.1. Correlation Analysis

The results of the Pearson correlation test on the table show that the correlation between the ROA variable and the economic variable is positive and insignificant. Meanwhile, the correlation between ROA variables and environmental and social variables is positive and significant. Likewise, the overall CSR variable has a positive and significant correlation. The results of this pearson correlation are in accordance with the predictions which state that there is an effect of CSRI (parameter) on ROA. Meanwhile, the correlation between environmental and social parameters [15].

4.2. Classic assumption test

This is to determine the chorealization between independent variables. The method used to detect multicollinearity is using tolerance and VIF (variance inflation factor) values. The results of the multicollinearity symptom test for models 1 and 2 are presented in the following table 2.

Table 2. Classic Assumption Test

Model	Coefficientsa		
	Collinearity Statistics		
	Tolerance	VIF
economic	.743	1,917
environment	.781	1,412
social	.112	1,960

Based on the test results, all independent variables used in all regression models produce a tolerance value close to 1, VIF (variance inflation factor) around the number 1 or less than 10, and weak correlation between independent variables. Based on these results, it can be concluded that there are no multicollinearity symptoms between the independent variables in the regression model used [16].

4.3. Autocorrelation Test

To determine the existence of autocorrelation, the Durbin-Watson test is used which can be seen from the results of multiple regression tests. The Durbin-Watson calculation result shows the number 1. 188. So the Durbin-Watson value is between 1.177 and 2.812. With these results, it can be concluded that the regression model does not have autocorrelation problems.

4.4. Data Testing Results

Because the CSRI coefficient value and all CSR parameters are positive, the multiple regression model for CSR and financial performance is positive or unidirectional. This indicates that if the value of the CSR variable is higher, the value of the financial performance variable (ROA) will also be higher. The constant value (2) is -0,200. This means that the constant value is if corporate social responsibility is equal to zero, then the value of financial financial performance (ROA) is -0,200, assuming other variables that can influence are considered constant (constant).

4.5. Determination Coefficient Test (R2).

From the research results, the coefficient of determination was 0.697 or 69.7%. This value shows the magnitude of the influence of disclosure of Corporate Social Responsibility (CSR) on financial performance (ROA). So any change of 69.7% (0.697) in financial performance (ROA) is caused by the implementation of CSR [17]. Where the better the implementation of CSR, the level of financial performance (ROA) will increase or vice versa if CSR disclosure is not good, the level of financial performance will decrease [18] [19].

5. Conclusion

This study is to examine the effect of Corporate Social Responsibility (CSR) on company performance as measured by the dimensions of profitability (proxied by ROA) as a whole make up and household appliances companies listed on the Indonesia Stock Exchange. The result is that there is a significant direct influence between CSR on Return. on Assets (ROA) and Return on Equity (ROE). In addition, there is a significant direct effect between ROA and ROE on CSR. There are empirical findings in this study. First, ROA has a positive effect on CSR and vice versa CSR has a positive effect on ROA. Second, ROE has a positive effect on CSR and vice versa CSR has a positive effect on ROE

References

[1] Garetti, M., & Taisch, M. (2012). Sustainable manufacturing: trends and research challenges. *Production planning & control*, *23*(2-3), 83-104.

[2] Harmon, P., & Trends, B. P. (2010). Business process change: A guide for business managers and BPM and Six Sigma professionals. Elsevier.

[3] Laaksonen, E., & Mäkinen, H. (2013). The competitiveness of the maritime clusters in the Baltic sea region: key challenges from the Finnish perspective. *Journal of East-West Business, 19*(1-2), 91-104.

[4] Maqbool, S., & Zameer, M. N. (2018). Corporate social responsibility and financial performance: An empirical analysis of Indian banks. *Future Business Journal, 4*(1), 84-93.

[5] Erawaty, Elly AF, (2010) "Explanation of RI Law Number 19 of 2003 concerning Public State-Owned Enterprises". Article online.ditjenpp.kemenkumham.go.id.

[6] Yuniasih, Ni Wayan and Made Gede Wirakusuma. (2009) "The Effect of Financial Performance on Firm Value with Disclosure of Corporate Social Responsibility and Good Corporate Governance as Moderating Variables". AUDI Journal of Accounting and Business. No. (1)

[7] Almar, Multafia, Rima Rachmawati, and Asfia Murni (2012) The Effect of Corporate Social Responsibility (Csr) Disclosure on Company Profitability (Survey on Cement Industry Companies Listing on the Indonesia Stock Exchange). National Seminar on Accounting - Business (SNAB) 2012, March 27 2012, ISSN: 2252-3936

[8] Ehsan, Sadaf and Ahmad Kaleem. (2012) "An Empirical Investigation of the Relationship between Corporate Social Responsibility and Financial Performance". Journal of Basic and Applied Scientific Research, Vol. 2 (3). pp 2909-2922

[9]   Mahoney L and Roberts R. 2003. Corporate social and environmental performance and their relations to financial performance and institutional ownership: empirical evidence on Canadian firms. School of Accounting, University of Central Florida.

[10] Novrianti, Vesy, et al .. (2012) "The Influence of Corporate Social Responsibility and Good Corporate Governance on Company Performance". Journal, pp. 1-9

[11] Lindrawati, Nita Felicia, J. Th Budianto T. (2008) "The Influence of Corporate Social Responsibility on the Financial Performance of Companies Listed as 100 Best Corporate Citizens by KLD Research & Analysis". Economics Magazine XVIII. No. (1). Thing. 66-81

[12] Wijayanti, Feb Tri, Sutaryo, and Muhammad Agung Prabowo. (2011) "The Effect of CSR on Company Financial Performance". SNA XIV Aceh 2011

[13] Retno, Reny Dyah M. and Denies Priantinah (2012) "The Effect of GCG and CSR Disclosure on Company Value (Empirical Study on Companies listed on the IDX 2007-2010 Period)". Journal Nominal. Volume I. Number I

[14] Serrano-Cinca, C., & GutiéRrez-Nieto, B. (2013). Partial least square discriminant analysis for bankruptcy prediction. *Decision support systems*, *54*(3), 1245-1255.

[15] Marzbali, M. H., Abdullah, A., & Tilaki, M. J. M. (2016). The effectiveness of interventions in the built environment for improving health by addressing fear of crime. *International Journal of Law, Crime and Justice*, *45*, 120-140.

[16] Rosenquist, J. N., Fowler, J. H., & Christakis, N. A. (2011). Social network determinants of depression. *Molecular psychiatry*, *16*(3), 273-281.

[17] Pätäri, S., Arminen, H., Tuppura, A., & Jantunen, A. (2014). Competitive and responsible? The relationship between corporate social and financial performance in the energy sector. *Renewable and Sustainable Energy Reviews*, *37*, 142-154.

[18] Beck, C., Frost, G., & Jones, S. (2018). CSR disclosure and financial performance revisited: A cross-country analysis. *Australian Journal of Management*, *43*(4), 517-537.

[19] Lin, W. L., Law, S. H., Ho, J. A., & Sambasivan, M. (2019). The causality direction of the corporate social responsibility–Corporate financial performance Nexus: Application of Panel Vector Autoregression approach. *The North American Journal of Economics and Finance*, *48*, 401-418.