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# The Influence of Corporate Social Responsibility to Corporate Financial Performance

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**Abstract.** This paper examines the relationship between corporate social responsibility and financial performance in Indonesian non-financial companies through stakeholder's pressures. The researcher has chosen the Indonesia context as one of the world's developing countries and it has undergone many changes over a short period of time in terms of economic, environmental and social changes. Purposive sampling was used to collect data relating to CSR and financial performance, tested by used regression model and generate mixed result. This paper contributes to the accounting literature by providing evidence from Indonesia that perceived the level of CSR in annual reports can have an influence on level of financial performance by stakeholder's pressure.

Keywords: corporate social responsibility, financial performance, stakeholder theory

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## Introduction

The idea underlying corporate social responsibility (CSR) is the "the triple bottom" value that John Elkington stated in 1994 which consists of three values, namely finance, people and the planet as a form of measurement of how the company has been responsible for the environment (Elkington, 2009). CSR activities for the benefit of the community are at the heart of business ethics i.e. companies not only have legal and economic obligations to shareholders, but also to other stakeholders (Solihin, 2008). The presence of stakeholders on the basis of the theory of CSR implementation and the emergence of many studies conducted in Indonesia and other countries to prove the CSR relationship to financial performance is controversial (Orlitzky, 2003). Based on the description above, the purpose of this study is to determine the effect of CSR on corporate performance. As for collecting data of nonfinancial companies as population of this research used purposive sampling method. Secondary data taken by writer from IDX website and company website, then collected sample of 1,084 companies during 2011-2013 from 1,236 non-financial companies.

Table 1
Sample Research Period 2011-2013

| Sample Criteria | Manufacture | Material | Service | Total |
|---|---|---|---|---|
| Population 2011-2013 | 402 | 177 | 657 | 1,236 |
| Annual report not available | (32) | (12) | (59) | (103) |
| CSR activities are not disclosed | (2) | - | - | (2) |
| Annual report and CSR activities available | 368 | 165 | 598 | 1,131 |
| Companies that do not distribute shares | (8) | (10) | (29) | (47) |
| Research sample | 360 | 155 | 569 | 1084 |

## Literature Review

Stakeholders are groups and individuals that can influence or be influenced by the process of achieving the goals of an organization, so that changes that can occur in the corporate environment into two categories, namely internal and external (Freeman, 1994). Stakeholders can basically control or have the ability to influence the use of economic resources used by the company. Stakeholder power is determined by the size of the Stakeholder's power over the resource (Ghozali, 2013). One form of corporate concern for Stakeholders is the high level of social disclosure and social performance of companies (Bayoud, 2012). Information and social performance are disclosed in a CSR report and categorized based on economic performance, environmental performance, labor indicators, human rights, and community and product responsibility (Ullman, 1985).

The business commitment (CSR) plays a role in supporting economic development, working with employees and their families, local communities and the wider community, to improve the quality of their lives in ways that benefit business and development. One of the advantages for the expected business is the emergence of a positive influence on financial performance as a result of CSR commitment. The financial performance in the form of financial ratios are return on assets (ROA), return on equity (ROE), revenues (REVS) and Tobins Q. According to Horne & Wachowicz (2008), ROA measures the overall effectiveness in generating profits through available assets; power to generate profit from invested capital, using the following formula (Van Horne, 2005).

*ROA = Net profit after taxes/Total assets*

Return on equity (ROE) is a measure of the income available to the owners of the company (both common shareholders and preferred shareholders) on the capital they invest in the company (Harahap, 2008). According to Horne & Wachowicz (2008), the following is the formula used to calculate the ROE of a company (Van Horne, 2005).

*ROE = Net profit after taxes/shareholders' equity*

Niswonger (1992) explains the notion of income or revenue is a gross increase or gross in the owner's capital resulting from the sale of merchandise, the execution of services to customers or clients, tenants, borrowers of money, and all business activities and professions aimed at earning.

The financial ratios underlying the hypothesis are Tobin's Q which is calculated as the market value of the firm divided by the asset replacement value of the firm (Lindenberg, 1981).

$$\text{TOBIN's } Q = ((MVE + DEBT))/TA$$
$$MVE = P \times Qshares$$
$$DEBT = (CL - CA)$$
$$DEBT = (CL\text{-}CA) + INV + LTL$$

MVE: The market value of the outstanding number of shares outstanding

DEBT: The total value of the company's liabilities

| | |
|---|---|
| TA: | The book value of the total assets of the company |
| P: | Stock price closing |
| Qshares: | Number of outstanding shares outstanding year-end |
| CL: | Short-term liabilities |
| CA: | Current assets |
| INV: | Inventory book value |
| LTL: | Long-term liabilities |

CSR disclosure indicators include environmental disclosure (ED), consumer disclosure (CD), community disclosure (CoD) and employee disclosure (EMD) (Branco, 2006). Here it is found that there are other factors that draw attention to the relationship between CSR on financial performance that potentially affect the performance of companies such as AGE, SIZE and industry (INDTY). It can be taken an initial hypothesis that CSR has a positive effect on the company's financial performance.

## Research Methods

The collected sample of research will be calculated ROA, ROE, REVS and Tobins Q based on figures obtained from the financial statements and CSR activities that are checked list from the annual report. As for to test the influence of CSR on financial performance using multivariate regression model in through SPSS program with empirical model as follows:

$$FP = \alpha + \beta 1\ CSR + \beta 2\ SIZE + \beta 3\ AGE + \beta 4\ INDTY + \varepsilon$$

The FP is to measure financial performance (return on assets, return on equity, revenues and Tobins q). CSR is an independent variable consisting of four environmental disclosure (ED), consumer disclosure (CD), community disclosure (CoD) and employee disclosure (EMD). All control variables including age of company (AGE), firm size (SIZE) measured by total asset and industry type (INDTY) (Bayoud, 2012), as measured by dummy variables, is assigned a value of "1" if the manufacturing and mining and "0" sectors are both α constants, β is the coefficient of independent variables and ε is error term, i.e. the level of error estimators in the study.

## Results and Discussion

*Descriptive Statistics*

The data generated in Table 2 shows the average value of ROA of 4.5 indicates that the amount of return on corporate profits to investors amounted to 450%. The minimum value is -172.9 is the company Rimo Catur Lestari Tbk and the highest value of 74.84 (7484%) is a company Duta Pertiwi Nusantara. The mean ROE of 7.0727636, 4374.98 (4374.98%) is Wahana Prontural Tbk and the lowest is Tirta Mahakam Resources Tbk with a value of -2398.57. The company's earnings are averaged at Rp4,827,409,140,000; the lowest income is Itamaraya Tbk worth Rp219,000,000 and the highest income of Rp193,880,000,000,000 is Astra International Tbk.

Tobins Q has an average value of 1.12 (112%), a minimum value of 1.93 (193%) of the company Golden Eagle Energy Tbk and the highest value is Bumi Teknokultura Unggtu Tbk with a value of 144.19 (14.419%). The data in Table 2 have not been normally distributed because niali skewness and kurtosis are well above and below 0.

Table 2
Descriptive Statistics

| | Min | Max | Mean | Std. Dev | Skew | Kurt |
|---|---|---|---|---|---|---|
| ROA | -172.90000 | 74.84000 | 4.5362403 | 14.35264339 | -3.449 | 37.766 |
| ROE | -2398.57000 | 4374.98000 | 7.0727636 | 165.76625007 | 13.427 | 490.208 |
| REVS | 219 | 193880000 | 4827409.14 | 12951690.254 | 8.542 | 102.605 |
| TOBINSQ | 1.93177 | 144.19246 | 1.1185657 | 5.27167165 | 20.049 | 513.155 |

*Normality Test*

The normality test of kolmogorov-smirnov test in Table 3 shows that the data is normal.

Table 3
Kolmogorov-Smirnov Test

| | ROA | ROE | REVS | TOBINSQ |
|---|---|---|---|---|
| Kolmogorov-Smirnov Z | 0.819 | 1.662 | 1.415 | 1.067 |
| Asymp. Sig. (2-tailed) | 0.513 | 0.072 | 0.086 | 0.205 |

ROA data has been normal since the KSZ 0.819 and asymp.sig values were 0.513 > 0.05. ROE data has been normal since it shows the KSZ and Asymp.Sig values of 1.662 and 0.072 > 0.05 respectively. Data revenues have shown normal distribution because KSZ and asymp.sig values are 1.415 and 0.086 > 0.05 respectively. Tobins Q data has been normal since KSZ 1.067 and asymp.sig values were 0.205 > 0.05. In addition to the normality test, Figure 1 is the result of the heteroscedasticity test.

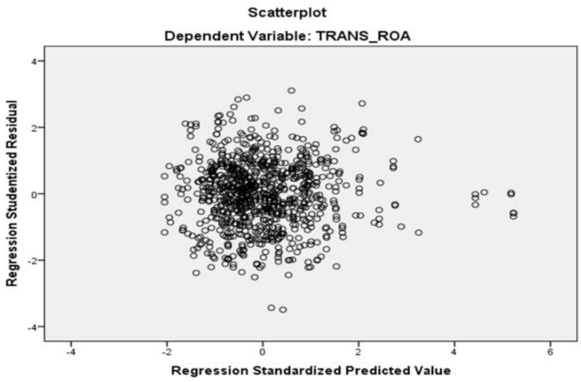


Fig. 1. Heteroscedasticity Test Results

The scatterplot graph in Figure 1 shows the points spreading randomly over the 0 boundary either above or below on the Y axis.

*Multicollinearity and Durbin Watson Test*

Multicollinearity test results and Durbin Watson seen in Table 4 below.

Table 4
Multicollinearity and Durbin Watson Test Results

| Variable | ROA | | ROE | | REVS | | TOBINSQ | |
|---|---|---|---|---|---|---|---|---|
| | Tol | VIF | Tol | VIF | Tol | VIF | Tol | VIF |
| ED | .889 | 1.125 | .893 | 1.119 | .901 | 1.110 | .901 | 1.110 |
| CD | .791 | 1.264 | .791 | 1.265 | .807 | 1.239 | .807 | 1.239 |
| CoD | .975 | 1.025 | .975 | 1.026 | .970 | 1.031 | .970 | 1.031 |
| EMD | .833 | 1.201 | .834 | 1.199 | .857 | 1.167 | .857 | 1.167 |
| SIZE | .932 | 1.073 | .932 | 1.073 | .932 | 1.072 | .932 | 1.072 |
| AGE | .915 | 1.093 | .917 | 1.091 | .929 | 1.076 | .929 | 1.076 |
| INDTY | .967 | 1.034 | .965 | 1.036 | .976 | 1.024 | .976 | 1.024 |
| DW | 2.056 | | 1.987 | | 2.082 | | 2.077 | |

Table 4 shows that multicolinearity does not occur because the independent variable tolerance is CSR and the control variable is greater than 0.10. VIF value of independent variable that is CSR and control variable less than 10.00. The DW value is compared with using the significance value of 5%, the sample number is 1.084 (n) and the number of independent variables is 4 (k = 4), then the upper limit of the Durbin Watson table is (du) 1.90636. The result of DW value is 2.056, 1.987, 2.082 and 2.077 larger than the upper limit (du) 1.90636 and less than 4-1.90636 (4-du) is 2.09364 then this regression model is a good regression model. There is no positive or negative autocorrelation in the regression model.

*Results of Multivariate Regression Analysis*

Table 5 shows the significance of the influence of CSR on financial performance.

Table 5
Results of Multivariate Regression Analysis

| Variable | Financial Performance | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Koe. ROA | p-v | Koe. ROE | p-v | Koe. REVs | p-v | Koe. TobinsQ | p-v |
| ED | 0.110 | 0.016** | 0.450 | 0.130* | 0.036 | 0.074* | 0.130 | 0.052* |
| CD | 0.054 | 0.010** | 0.360 | 0.028** | -0.011 | 0.080 | -0.028 | 0.740 |
| CoD | 0.048 | 0.013** | -0.021 | 0.059 | 0.167 | 0.048** | 0.739 | 0.025** |
| EMD | 0.066 | 0.042** | 0.346 | 0.032** | 0.054 | 0.013** | 0.163 | 0.278* |
| SIZE | 0.000 | 0.098 | 0.000 | 0.082 | 0.000 | 0.048 | 0.000 | 0.012 |
| AGE | 0.003 | 0.001 | 0.014 | 0.005 | 0.002 | 0.010 | 0.003 | 0.087 |
| INDTY | 0.077 | 0.012 | 0.550 | 0.006 | -0.052 | 0.050 | -0.038 | 0.021 |

** Positive Influence (positive coefficient) and significant at level 0.05 (0.05> p-v). * Positive Influence (positive coefficient) but not significant at level 0.05 (0.05 < p-v).

Regression results showed a positive, negative and significant influence on the 5% significance level between the dependent variable and the independent variable. Environmental disclosure is a regular CSR activity conducted almost every year by non-financial companies in Indonesia. Positive and significant results are shown between environmental disclosure to ROA (p-value 0.016 < 0.05). Positive and significant influence was also shown between consumer disclosure to ROA (p-value 0.010 < 0.05) and significant positive effect on ROE (p-value 0.028 < 0.05). Community disclosure also shows positive and significant relationship to ROA, REVS and Tobins Q. Employee disclosure also shows positive and significant influence on ROA, ROE and REV. Positive influence is indicated by the influence of Environmental disclosure on ROE, REV and Tobins Q because it has positive coefficient but not significant (p-value > 0.05). Positive and insignificant influence was also shown between community disclosure to ROE and employee disclosure against Tobins Q, because it has positive coefficient but p-value > 0.05. Based on the results of this regression model can be concluded that the regression model supports the hypothesis of the influence of CSR on financial performance.

Generally in developing countries, some CSR activities focus on the community, very rarely companies develop CSR activities aimed at consumers. Very few companies that have sustainability reporting prove that few non-financial companies, especially service companies, have low budgets to improve CSR activities from 2011 to 2013. Companies like these are passive companies that do CSR without clear goals, not for promotion, not for empowerment, just doing creative activities. Companies like this see promotions and CSR as being of little use to the company. Research conducted in developing countries namely Indonesia also produce positive, negative and influence between CSR on financial performance. The results of this study are consistent with the results of Bayoud et al. (2012) that finds mixed results, enabling companies to make informed strategic decisions for CSR activities by providing more precise information about the effects of each type of CSR activity on financial performance.

*The influence of CSR on ROA*

ROA is one element to test the overall effectiveness in generating profits through available power assets to generate profits from invested capital. All CSR disclosure items ie ED, CoD, CD and EMD have positive and significant impact on ROA. Based on regression result seen that positive coefficient and level of sinfikansi < 0.05. CSR can be said to have a significant positive effect on financial performance ROA ratio. Bayoud et al. (2012) found a positive and significant influence between environmental disclosure and community disclosure against ROA. Positive influence between employee disclosure to ROA and negative influence between consumer disclosure and ROA. Mix result was found by Bayoud et al. (2012) and researchers found that the four items of CSR disclosure have a positive and significant impact on ROA. This result can be categorized as consistent with previous research because it finds a positive and significant influence in it.

*The influence of CSR on ROE*

ROE is a very important indicator for investors or shareholders to know the company's ability to earn profits that are related to dividends. Based on the results of the regression found that consumer disclosure and employee disclosure have a positive and significant influence. Positive but insignificant influence is indicated by environmental disclosure to ROE. Negative influence is also shown between community disclosure to ROE.

Bayoud et al. (2012) found a positive and significant influence between employee disclosure to ROE. Positive effects were found between environmental disclosure, consumer disclosure, and community disclosure against ROE. Mix result is found in result of regression of financial performance of ROE ratio that have positive and significant influence between consumer disclosure and employee disclosure to ROE, positive influence between environmental disclosure to ROE and negative impact of community disclosure to ROE. The results of this regression can be categorized as consistent with Bayoud et al. (2012) because it found a positive and significant influence in it.

*The influence of CSR on Revenues*

This study is consistent with Bayoud et al. (2012) who found that CSR has a significant positive effect on company revenue. Bayoud et al. (2012) found a positive and significant influence between consumer disclosure against revenues. Positive effects were found between environmental disclosure, employee disclosure, and community disclosure against revenues. The results of this study found a positive and significant influence between community disclosure and employee disclosure to revenue, while the influence between environmental disclosure to revenue is positive and the negative effect between consumer disclosure to revenue. This mixed result can be categorized as consistent with Bayoud et al. (2012) as it finds positive and positive and significant influences.

## Conclusion

This research contributes in at least two ways: first, it extends previous research linking CSR levels with financial performance with only three financial ratios of ROA, ROE and revenues. Researchers add the ratio of Tobins Q and the results of research to prove that the influence of CSR on Tobins Q positive and significant by using a combination of institutional and resource-based perspectives. Second, it discloses the nature of the influence between the level of CSR and financial performance irrespective of the lack of CSR data in the annual reports of developing countries compared to the developed countries. This paper has a number of limitations: first, this paper focuses only on CSR in annual reports, even though these companies use other mass communication mechanisms. Most companies in Indonesia have not used sustainability reporting and GRI standards in developing and disclosing CSR reports. In the process of data processing and content analysis issues, cannot be denied the subjectivity contained in the coding process. The authors hope that future research should manage the limitations of this study.

Based on the results of research, the conclusions and limitations faced by the author in developing the research, the authors expect some things that can be a reference for future researchers who want to develop this research. In addition to using CSR as an independent variable, good corporate governance is also expected to become a reference as an independent variable in its impact on the company's financial performance. In the next research is expected other variables used moderating variables such as firm size, leverage and several other variables that strengthen future research results.

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