

# The Effect of Corporate Social Responsibility to Financial Performance of Company in Indonesia

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**Abstract:** This study aims to determine the effect of corporate social responsibility (employee, environment, and community) to financial performance (ROA and Tobin's Q). This study using a sample of 30 primary sector companies listed in Indonesia Stock Exchange for the period 2010-2013 which is chosen using purposive sampling method. The analysis used in this study is multiple regression analysis with the Statistical Package for the Social Science (SPSS) as its program. The results of this study indicate that CSR measured through indicators of employee has no significant effect on the company's financial performance as measured by ROA and Tobin's Q. Environment has a significant effect on ROA but not against Tobin's Q. Community has a significant effect both on ROA and Tobin's Q. The results of this study can be used by managers for consideration to improve the financial performance by choosing environment and the community as a social activity.

**Keywords:** corporate social responsibility, financial performance, return on asset, Tobin's Q

## Introduction

Almost all of the companies in Indonesia both large and small have come to realize that implementing environmental concerns about the impact of their business activities are important. This is demonstrated by the many activities of corporate social responsibility (CSR). Reinforced with the realization that as long as this government, the Indonesian economy has been built on the foundation of the theory of growth that provide unlimited opportunities for large companies to exploit natural resources but little or not at all provide mutual benefits to the community in which the property was obtained (Achda, 2006).

Surrounding environment is not only the natural environment alone. Stakeholders, or rather those who have a direct impact on the business activities carried on by a company, becoming one of the priorities when discussing about CSR. Stakeholders can be divided into two types: primary and secondary (Carroll, 2009). Primary stakeholders are those directly related to the organization and the most influential, such as shareholders, employees and consumers. Secondary stakeholders are those who are not involved directly to the organization, but could be the most influential on the business. They are the government, the media, and competitors.

CSR activities by companies are not only intended as a responsibility to the environment. These activities are also conducted in order to attract investors to glance at a business that can maintain its business activities. With the CSR, the company expects an added value for having done a good thing in maintaining business continuity. This added value which can then raise the company's financial performance is obtained from the interests of stakeholders and shareholders. In an investor's perspective, CSR can be a thing that brings value-added enterprises, but also the one thing that is not useful. By doing social activities, a company means doing sustainable business. However, these social activities can also be a burden for the company; this means that there is a cash purse to be reduced.

Through the perspective of the consumer and public audiences, CSR is an excellent activity because it reflects the company of its responsibility towards society. With more and more conscious people will care about the environment, consumer behavior changes, too. This behavior can affect demand. The study revealed that 30% of consumers are considering environmental issues to the products they buy (Young et al., 2010). These perspectives into consideration strategies for companies. Strategies that should be considered in order not to be a financial burden to be incurred for social programs because of course that is not good news for investors or shareholders. But the strategy is also important to consider that the company's business continuity is not disrupted.

The purpose of this study was to examine how the impact of CSR policies is in the field of employee , environmental , community and the financial performance of a company .

## Literature Review

### Previous Research

McGuire et al . , ( 1988) explained that in business there will always be a risk that must be faced . To overcome , a company needs to hold a social responsibility to reduce that risk . The data indicate that the low corporate social responsibility also experienced lower ROA and stock market returns than firms that are high in social responsibility . To that end, it recommends to companies that perform social responsibility in order to obtain more value to investors who would assume that companies with a high CSR can reduce the risk.

In research Mustafa et al . , ( 2012) , argued that CSR is a topic that is growing rapidly in Malaysia . Taking a sample of 200 companies listed on the stock exchanges of Malaysia , it is known that there is a significant relationship between CSR and financial performance of the company. Social responsibility to give effect to the stakeholders either beneficial or detrimental . This effect would then be followed by further automatic effect of the company's financial performance .

Taking a sample of 156 companies listed on the Karachi Stock Exchange for the period 2010 to 2011 , Iqbal et al . ( 2012) revealed that, overall , the results of the study concluded that corporate social performance ( CSR ) has no effect on financial performance ( CFP ) . Research involving the textile sector , chemical sector , cement sector and the tobacco sector clearly illustrates that from the results , CSR negatively affect the value of the stock market , but there is no connection with the company's behavior , significantly .

Mwangi et al . ( 2013) studied the relationship of CSR to financial performance . Secondary data were taken from the Nairobi Securities Exchange for the period 2007 to 2011 with a company involved in the manufacturing, construction , and alliances . Scores of environmental responsibility is taken by using content analysis . The results of the research pointing to a relationship between the independent variables ( scores of corporate social responsibility ) are used in the model and the dependent variable ( return on assets ) with a correlation coefficient of 0.870 . The results of this study also showed that there was a significant positive relationship between corporate social responsibility practices and financial performance . His research found that sales companies still play an important role in determining the company's financial performance.

Aras et al . ( 2010 ) in his research explores the relationship between CSR and financial performance in companies listed on the Istanbul Stock Exchange ( ISE ) 100 Index in the period 2005-2007 . In conducting this analysis determined the relationship between firm size and corporate social responsibility . However, the authors could not find a significant relationship between corporate social responsibility and performance / financial gain . Of the three proposed hypotheses , all of the results was rejected . This study suggests that there is no significant relationship between CSR and financial performance .

Fauzi et al . ( 2007 ) in this study examined the relationship of corporate social performance related to the company's financial performance . The study was conducted on companies in Indonesia . Through the examination of 383 companies , the research failed to find a significant relationship between corporate social performance with financial performance between the two models used .

Brammer et al . ( 2006 ) found that outlines the company's social performance scores tend to achieve higher results in lower firm value . While the value of the company 's Corporate Social Performance as low as possible even outperformed the market . Brammer observed that for values of environmental indicators and high community while negatively correlated with indicators of low value are positively correlated . Brammer therefore conclude that the various aspects of corporate social behavior should be examined separately in order to achieve an accurate picture of them .

## Hypothesis Development

### Employee

Human resources are the main elements of the organization compared to the other elements ( Fawziya et al . , 2011) As a major asset , its presence within the company is essential to be given attention . Employees are expected to be a representative of the company to the outside world , including the media in connecting his experience in the company ( Maignan and Ferrell 2001) . To that end , the coaching staff from recruitment , training , remuneration need to be addressed. Not only well-being are considered , but gender also be important here . Previous studies

explain that sex differences employees also make different results . Employees with female gender proved to have a bond stronger commitment to the company than men ( Peterson , 2004) . Those things which later became the basis of the assessment that the employee is a measure of the importance of CSR . From the above, then formed a hypothesis :

H<sub>1</sub>: CSR activities related to the employee having a significant impact on financial performance.

### **Environment**

A company attach great importance to the image in the eyes of stakeholders. In keeping with this image, including all the way done in terms of CSR. Disclosure of social and environmental responsibility has been growing rapidly since the last twenty years (Jenkins, 2005). For some companies, environmental responsibility is a manifestation to sustain its business. This disclosure is certainly not only through annual reports but also on a large scale through the media, which will help the company achieve its goals. Given the importance of disclosure of environmental responsibility has been an increase in companies that publish independent reports of environmental responsibility beyond the annual report (Walling, 1997). The report is then able to be an instrument in raising the company's enterprise value. From the above, then formed a hypothesis:

H<sub>2</sub>: CSR activities related to the environment has a significant impact on financial performance.

### **Community**

In conducting its business, the company will be in contact with the surrounding community, either directly or indirectly. Being worth noting because in maintaining business continuity, related parties or stakeholders have a role in it. There are two reasons why the community was seen as important in the implementation of CSR. The first is that understanding, norms, and rules that are owned by local communities can serve as a touchstone to legitimize corporate social action (Marquis, 2007). The second reason is more pragmatic affect local communities: social action generally locally oriented company where the business is run. Guthrie (in Marquis, 2007: 8) suggests that 80% of its spending on CSR distributed in the city where the business running. From the above, then formed a hypothesis:

H<sub>3</sub>: CSR activities related to the community to have a significant impact on financial performance.

## **Research Methodology**

### **Sampling Method**

Sampling was done by using a purposive sampling method. Samples are sorted by criteria:

1. Extractive companies listed on the Stock Exchange for the year 2010-2013
2. Provides a complete annual report for the year 2010-2013
3. Provide complete data related to the variables used in the study

### **Variable**

In this study there are three variables are used, namely the independent variable, control variables and the dependent variable.

#### **Independent Variable**

Independent variables are variables that can affect a change in the dependent variable. Corporate Social Responsibility is an independent variable in this study was measured through three categories, namely employees, environment, and community. Measurements were made with a content analysis method, namely by giving a score on each indicator checklists available. List of categories of social disclosure checklist drawn from previous studies by Aras et.al (2010).

Score 0: If there are no points are described in the company's annual report.

Score 1: If there is a point that is mentioned in the company's annual report.

The scores were then summed values collected, so that each company will be represented by the value of its CSR employees, environment, and community.

#### **Control Variable**

Control variables are variables that are controlled or held constant so that the independent variable on the dependent relationship is not influenced by external factors not examined. Based on previous studies on CSR and corporate financial performance, there are three variables that control the filter used. All three of these variables are:

1. Company size, seen from the figures in the financial statements of Total Assets

2. Sales of the company, seen from the figures in the financial statements Sales
3. 
$$\text{EPS} = \frac{\text{earning after tax}}{\text{number of stock outstanding}}$$

### Dependent Variable

Dependent Variable in this research is *financial performance*. Calculate through two indicators:

1. *Return on Asset*

ROA is a measure of financial performance of the acquired company's financial statements.

2. *Tobin's Q*

Tobin's q is the ratio of the market value of the company's assets as measured by the market value of the number of shares outstanding and net asset value of the company's outstanding shares

$$\text{Tobin's } Q = \frac{\text{Market Value per Share}}{\text{Net Asset Value per Share}}$$

(Hettiarachchi and Gunawardana, 2012)

### Method Analysis

to answer the hypothesis, researchers using multiple regression method with correlation. Multiple Linear Regression analysis was used to measure the influence of more than one predictor variables (independent variables) on the dependent variable. In this study, researchers used two regression based on the dependent variables, respectively.

1. Multiple linear regression analysis with ROA as the dependent variable

$$Y_1 = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e$$

2. Multiple linear regression analysis with Tobin's Q as the dependent variable

$$Y_2 = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + e$$

Explanation

$Y_1$  = ROA

$Y_2$  = Tobin's Q

$\alpha$  = Constanta

$\beta_1 - \beta_6$  = Coefficient Regression

$X_1$  = Employee

$X_2$  = Environment

$X_3$  = Community

$X_4$  = Total Aset

$X_5$  = Sales

$X_6$  = EPS

The significance level used was 0,05 ( $\alpha = 5\%$ )

If the significance of  $t > 0.05$ , means  $H_0$  accepted or  $H_a$  rejected, and

If the significance of  $t < 0.05$ , means  $H_0$  rejected or  $H_a$  accepted

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## Results

Table 1  
t-Test Result

Variable name	Constanta	Coefficient	Sig.	Conclusion
Model 1 (y=ROA)	-0,532			
Employee		-0,003	0,136	Not Significance
Environment		-0,013	0,002	Significance
Community		0,017	0,005	Significance
Total Asset		0,003	0,877	Not Significance
Sales		0,049	0,001	Significance
EPS		0,000412	0,001	Significance
Model 2 (y=Tobin's Q)	894,173			
Employee		-3,928	0,079	Not Significance
Environment		0,539	0,888	Not Significance
Community		20,278	0,001	Significance
Total Asset		-50,00	0,003	Significance
Sales		-24,356	0,068	Not Significance
EPS		-0,014	0,716	Not Significance

From the results of the T test table above, conclude:

1. Employees

Based on calculations of data using SPSS results obtained for model 1, the regression coefficient of -0.003 employees (negative) with a significance value of  $0.136 > 0.05$  level. This means that the employee does not have a significant effect on the financial performance as measured by return on assets. For model 2, the regression coefficient of -3.928 employees (negative) and significance value of  $0.079 > 0.05$ . This means that employees no significant effect on Tobin's Q

2. Environment

Based on calculations of data using SPSS results obtained for model 1, the regression coefficient of -0.013 environment (negative) with a significance value of  $0.002 < 0.05$ . This means that the environment significantly influence financial performance as measured by return on assets. For model 2, the regression coefficient of 0.539 environment (positive) and significance value of  $0.888 > 0.05$ . This means that the environment does not significantly influence Tobin's Q

3. Community

Based on calculations of data using SPSS results obtained for model 1, the regression coefficient of 0.017 community (positive) with a significance value of  $0.005 < 0.05$ . This means that communities have a significant effect on the financial performance as measured by return on assets. For model 2, the regression coefficient of community 20.278 (positive) and significance value of  $0.001 < 0.05$ . This means that communities have a significant effect on Tobin's Q

## Conclusion

This study aimed to determine the effect of corporate social responsibility is measured using indicators of employees, the environment and the community that the company's financial performance is measured using ROA and Tobin's Q. This study used a sample of 30 companies listed on the primary sector Indonesia Stock Exchange for the period 2009-2012. Based on the description and analysis of the previous discussion, it can be concluded as follows:

1. Employee has no significance effect to ROA and Tobin's Q
2. Environment has a significant negative effect on ROA but has no significant effect on Tobin's Q

3. Community has a significant positive effect both on ROA and Tobin's Q.

### Managerial Implication

The managerial implications of this research are as follows:

1. For Manager

The selection of social activities are directly visible in the community such as community- related activities could be one right choice for companies seeking to enhance shareholder value . However , other CSR activities should also be considered given the social responsibility of the company held with the intention of maintaining continuity of business enterprise . Still perform environmental awareness and concern for employee benefits not expected to be taken in the short term but long term.

2. For Investor

In invest funds , investors always look at how the company's prospects going forward . With the social responsibility that is intended to allow business continuity company's short and long term guaranteed . Concern for the social enterprise can be an indicator that the company has awareness of sustainability business . Allocating sufficient funds need to be observed so that no money is wasted . Thus, investors need to examine what social activities are deemed necessary for the benefit of the company where the capital is invested

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