EFFECT OF CORPORATE SOCIAL RESPONSIBILITY TO PROFITABILITY FINANCE COMPANIES LISTED IN INDONESIA STOCK EXCHANGE

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ABSTRACT

This research was designed to find out the effect of Corporate Social Responsibility to profitability finance companies listed in Indonesia Stock Exchange. The population of this research is the entire finance companies amounted to 169 companies listed in Indonesia Stock Exchange by using purposive sampling. Analytical method used qualitative method, a method which formulated statistic. The calculation used the SPSS program to discover the accurate data. The research showed that, by using T-test it can be concluded that Corporate Social Responsibility obviously affected the return on asset (ROA), where the T-test calculated the $\alpha = 0.05$ with 0.000 significance. Thus, the higher the corporate social responsibility of the company, the better the level of profitability of the company is.

Keywords: Corporate Social Responsibility, Profitability.

INTRODUCTION

Corporate Social Responsibility is a matter of concern of companies based on three principles known as the Triple Bottom
Lines; Profit, People and Planet. Corporate Social Responsibility is intended to encourage businesses to become more ethical in carrying out its activities so that no negative impact on society and the environment, so that businesses will be able to survive in a sustainable manner to obtain economic benefits are the main objectives the establishment of the business world, without harming the environment in which they the business world run their business. Kotler and Lee (2005) in Solihin (2009) stated that the company would be compelled to carry out practices and CSR, as it can have an impact on increasing sales and market share, strengthening brand positioning, enhance corporate image, reduce operating costs, thereby increasing profitability in long term, as well as increasing the company’s attractiveness in the eyes of investors.

Kiroyan (2006) in Sayekti and Wondabio (2007) states that by implementing CSR, it is expected the company will gain social legitimacy and can maximize its financial strength in the long term. It can indicate the company no longer doing CSR disclosure was limited to compliance with the rules, but CSR is already a party of the company’s business strategy. CSR is no longer regarded as a cost, but an investment company (Sutopoyudo 2009) social activity reporting disclosures in the financial statements is important because through social reporting disclosure of financial statement users will be able to analyze the extent to which the attention and corporate social responsibility in running the business. This condition will eventually affect sustainability extensive disclosures in the company report. Companies that wish to build its image as a green company will strive to maximize the sustainability report as a tool for building the company’s image and ultimately increase profitability. It is in line with the previous
research. (Sembiring 2003) found that profitability was not affected as part of corporate social responsibility. The variable of company size was proved significant to the implementation of corporate social responsibility and in another research in (2005) he did conduct a research by taking five variables: profitability, size, leverage, board of commissioners, and profile of company and proved that, there were 3 of the variables affected to the corporate social responsibility; size, profile and board of commissioners. Meanwhile, variables of profitability and leverage don’t significantly influence the implementation of corporate social responsibility.

LITERATURE REVIEW

Stakeholder theory: stakeholder theory is a theory that describes to whichever side a company responsible (Freeman, 2001) and must maintain relationships with its stakeholders to accommodate the wishes and needs of his stakeholders, especially the stakeholders who have the power of the availability of the resources used for the company's operational activities, such as labor, the market for the products of companies and others (Chariri & Ghozali, 2007). One strategy used by companies to maintain a relationship with her is to stakeholder disclosure- social and environmental information.

Legitimacy theory: the theory of legitimacy focuses on the interaction between the company and the community (Ulman, 1982; in Ghozali & Chariri, 2007). Based on this, it can be seen that the activities of the company should have a social value that is consistent with community values. When the values espoused a separate company with the values of society, the legitimacy of the
company will be in a position threatened. The difference between the company’s values and the values of society is often referred to as a "legitimacy gap" and could affect the company’s ability to continue its business activities (Dowling andprefer, 1975 quoted from Ghozali and Chariri, 2007). Embodiment legitimacy in the business world can be a collective activity reporting and enterprise environments. By expressing CSR, it is expected the company will gain social legitimacy and maximize its financial strength in the long term (Kiroyan 2006; in Sayekti and Wondabio, 2007).

Disclosure of CSR information in the annual report is one way companies to build, maintain, and legitimize the company’s contribution in terms of economic and political (Guthrie and Parker, 1990; in Sayekti and Wondabio, 2007) In addition, disclosure of social and environmental became one the way of the company to show a good performance to the public and investors. With such disclosure, the company will acquire the image and good recognition, that the company is also responsible for the surrounding environment, so that the company will appeal in capital investment Moreover, Ghozali & Chariri (2007) also said that the company’s activities may have social impacts and environment, so that the practice of social and environmental disclosure is a managerial tool used by companies to avoid social and environmental conflicts.

Agency Theory: This theory states that an agency relationship arises when one party (the principal) hire another party (the agent) to perform some service on his behalf which involves delegating some decision-making authority to the agent (Jensen and Mecking, 1976 in Saleh et al., 2008). What is defined as the
principal shareholder or investor in question while the management agent is managing the company. Jensen and Meckling (1976) explain the existence of a conflict of interest in an agency relationship. Conflicts of interest occur due to differences, the goal of each party. In carrying out its duties, managers as agents possess an obligation to maximize the welfare of the owners of the company (the principal) in both the short and long term. On the other hand, managers also have an interest to maximize their own welfare. The big difference in objectives between principal and agent as well as the separation of ownership and control of the company will cause managers to act not in accordance with the wishes of the principal. This separation results in any of the risks borne by the company will be entirely borne by the shareholders as a manager as the manager does not get a direct connection with the company's profit or loss. As a result, managers will take measures that could improve his own welfare without thinking of the interests of shareholders.

Corporate Social Responsibility: CSR can be defined as the moral responsibility of a company towards its stakeholders, particularly the community around the work area and its operations. CSR aims to provide social and environmental concerns into its operations. As explained by Darwin (2004) (in Anggraini 2006) shared accountability is the mechanism for an organization to voluntarily integrate social and environmental concerns into its operations and its interaction with the parties concerned. Thus, the business operations conducted by the company not only committed by the size of the monetary benefits, but also must be committed to the overall socio-economic development and sustainable. Disclosure of social responsibility is the process of communicating the effects of social and environmental over
economic measures companies in certain groups in society and on society as a whole (Gray et al, 1987 in Waryanto, 2010). By revealing the information about the company's operations with respect to the environment the company is expected to earn the trust of the community that in carrying out its activities, the company is not only focused on profit alone but the company also pay attention to the impact on the environment. Corporate Social Responsibility will increase the company's value at the time of increased corporate profitability. Dahli and Siregar (2008) in their research also indicate that the ethical behavior of the company in the form of social responsibility against the surrounding environment have a positive impact in the long term and will be reflected on the company's profit (profit) and improved financial performance.

METHODOLOGY

Population and Sample: Population of this research is companies listed on the Stock Exchange of financing, the period 2010 to 2013. The sample is done with purposive sampling method, the sample selection with several specific criteria. Data Analysis Techniques: The analysis used in this study using quantitative analysis, analysis using statistical formulas. Calculations used throughout this study using the statistical program SPSS to get more accurate results. Descriptive statistics are a transformation process in the form of quantitative research data so easily understood and interpreted. The goal is to determine the broad picture of the relationship between the data and the variables to be used in research. This can be illustrated through the variables utilized in this study through the frequency table shows the average, median, range and standard deviation. Reasons for using classical
assumption in this study, are to measure the closeness of the relationship between the independent variables through the correlation coefficient ($r$). Consequences of the relationship can be interpreted through regression analysis performed by classical assumption test. Classical assumptions that must be met including normality test residue that the residual data should be normal, non-multicollinearity, autocorrelation, and homoscedasticity.

**RESULTS AND DISCUSSION**

Based on the results of the output can be observed in the average value of ROA of 30 companies tested is worth 5.5700 with a standard deviation of 4.42090, while the average value of CSR = 4.0333 with a standard deviation of 2.59. Showed in the table above:

Table 1:

**Descriptive Statistics**

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roa</td>
<td>5.5700</td>
<td>4.42090</td>
</tr>
<tr>
<td>Csr</td>
<td>4.0333</td>
<td>2.59287</td>
</tr>
<tr>
<td>Lev</td>
<td>76.3530</td>
<td>13.03943</td>
</tr>
</tbody>
</table>

This analysis is used to determine the effect of variable CSR as a variable (X) to ROA (Y) with leverage as control variables.
Table 2:

Test Results Determinants ($R^2$)

<table>
<thead>
<tr>
<th>Model Summary $^b$</th>
<th>Model</th>
<th>$R^2$</th>
<th>Adjusted $R^2$</th>
<th>Std. Error of Estimate</th>
<th>Change Statistics</th>
<th>F</th>
<th>DF1</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>M</td>
<td>R</td>
<td>Std. Err</td>
<td>Change in $R^2$</td>
<td>$\Delta$ $R^2$</td>
<td></td>
<td></td>
</tr>
<tr>
<td>od</td>
<td>1</td>
<td>.955</td>
<td>.906</td>
<td>1.3585</td>
<td>.912</td>
<td>140</td>
<td>2</td>
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<td>el</td>
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<td></td>
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<td></td>
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<tr>
<td>a. Predictors: (Constant), lev, csr</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Dependent Variable: roa</td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Based on the analysis performed, the calculated value coefficient $R^2$ (coefficient of determination), is equal to 0.906. This value indicates that the ability of independent variables and control variables on ROA amounted to 90.6%, while the remaining 9.4% is due to other factors that are not explained in the regression model in this study.

Test F

F test is used to test the hypothesis of the influence of independent variables to be bound together (simultaneously), with a significant level of 5%, if the probability of <0.05 then $H_0$ is rejected and
H_a accepted whereas if the probability of > 0.05 then H_0 is accepted and H_a rejected.

Table 3:

Test results F

<table>
<thead>
<tr>
<th>ANOVA</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Regression</td>
<td>10 014</td>
<td>2</td>
<td>5,007</td>
<td>20</td>
<td>.000</td>
</tr>
<tr>
<td>Residual</td>
<td>6,704</td>
<td>27</td>
<td>.248</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>16 718</td>
<td>29</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: res2

Based on these results, the test simultaneously with f obtained yield was 20.166 with significant value for 0.00 less than 0.05. This value illustrates that simultaneously, the variables used in this study has the simultaneous effect of significant related variables. CSR as a variable (X) and leverage (Z) sebaga i variable controller simultaneously (together) have a significant effect on ROA (Y)

Test Statistics T

T test was used to test whether independent variables affect the dependent variable. Step-by-step test:
a. $H_0: b_1 \geq 0$ (not affected significantly between the independent variables on the dependent variable)

b. $H_1: b_1 \leq 0$ (there is a real influence among the independent variables on the dependent variable)

c. Significance level, $\alpha = 0.05$

Based on the results of studies using T test, the obtained results of the study as follows:

Table 4:

Test Results T

<table>
<thead>
<tr>
<th>Coefficients</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>T</th>
<th>Sig.</th>
<th>Correlations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model</td>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<td>B</td>
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<td>Std.Er</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Beta</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>-</td>
<td>2.224</td>
<td>-323</td>
<td>.003</td>
<td></td>
</tr>
<tr>
<td></td>
<td>7194</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Csr</td>
<td>1.823</td>
<td>.123</td>
<td></td>
<td></td>
<td>.941</td>
</tr>
<tr>
<td>Lev</td>
<td>.071</td>
<td>.024</td>
<td>.209</td>
<td>.007</td>
<td>-.447</td>
</tr>
</tbody>
</table>

From the results of these tests, generated value t count for CSR = 14.794, LEV = 2.894. Constant value obtained is -3.235 with a value of 1.823 with a value $\beta_1$ is significance of 0000. B2 value amounted to 0.71 with a significance value of 0.007. From these results, the CSR real impact on ROA, where the results of 14.794 t, in excess of $\alpha = 0.05$ with a significance level of 0000. Under these conditions,
there is a real influence of independent variables with the dependent variable.

LEV t test results in real impact on ROA, where the value of LEV = 2.894 with a significant level of 0.007. Under these conditions, the results of the t test, the hypothesis derived: that corporate social responsibility significant effect on the profitability of the company.

From the results of regression testing found regression model as follows:

\[ \text{ROA} = a + b \cdot \text{CSRDi} + \text{LEV} + e \]

or \[ \text{ROA} = 7194 + 1823 + 0.71 + e \]

Those values indicate that the independent variables namely CSR positive effect on the profitability of the company. The higher the level of CSR undertaken by a company, the level of profitability obtained by the company is increasing as well.

**TESTING HYPOTHESIS**

Based on the research that has been described previously, the results of the hypothesis can be described as follows: Corporate Social Responsibility effect on Return On Assets (ROA), Based on results obtained in testing the hypothesis of partial or t test, the obtained result value t count namely 14 794 with a significance level of 0.000 <0.05. This implies that corporate social responsibility of the company positively affects the profitability of the company proxy through ROA. The higher the corporate social responsibility of the company, the better the level of profitability of the company is. Thus, the first hypothesis of a significant corporate social responsibility influence on ROA is acceptable. Increased corporate social responsibility in the company means
that the higher the level of confidence of stakeholders in the company, so that more and more levels of investment in the company and the level of public confidence in the company is getting better also causes the level of public confidence in using the company’s services are increasingly high that profitability is increasing.

Leverage significant effects on ROA. Based on the results of hypothesis, suggested that there was not significant effect of the variable leverage as a control variable to company profitability. The profitability of the company was not able to be measured by the magnitude of the leverage disclosure as control variables. High degree of leverage does not mean to say that the company's ability to decline, causing concern for the creditor may reduce profit to be received by the company and creditors threatened not get right in line with expectations and the specified time.

**IMPLICATIONS**

Managerial Implication: corporate social activities at the end of the financial year as compared to list. This practice has over the years improved their financial performance. Relationship between corporate social responsibility and return on assets however relationship and if significant it will increase profit and financial support for the company image and for employee. Return on assets (ROA) is a measure commonly utilized when estimating a firm’s economic performance and profitability. ROA is a measure of which represents the financial performance within the firm.

Theoretical Implication: The implication of this result is contributes to the existing literature body of CSR and financial
performance relationship research field in several ways. Developed mandatory disclosure that it shows that it is mandatory for listed firms to account and present their corporate social activities at the end of the financial year.

Limitation: This study discusses only relation CSR to ROA for see financial implication, and financial performance is too much indicator for measurement and non-financial.

**CONCLUSION**

Based on the analysis and testing of the influence of corporate social responsibility to the company profitability financing listed on the Indonesia Stock Exchange, it could be concluded as follows: Based on t test results it can be concluded that the Corporate Social Responsibility significantly affect Return On Assets (ROA), where the results of 14 794 t, in excess of $\alpha = 0.05$ with a significant level of 0000. Based on these results, it can be said that there is an influence of corporate social responsibility on ROA. 2. The result is simultaneous test with the F test obtained yield was 20 166 with significant value for 0.00 less than 0.05. This value illustrates that simultaneously, the variables used in this study have the simultaneous effect of significantly related variables. CSR as a variable (X) and leverage (Z) as control variables simultaneously (together) have a significant impact on ROA (Y).

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