

THE IMPACT OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURES ON HIGH-PROFILE COMPANY PROFITABILITY

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ARTICLE HISTORY	A B S T R A C T
Received: 16 May 2023 Revised: 19 June 2023 Accepted: 7 August 2023	<i>Companies with complex environmental consequences have an obligation to address their corporate social and environmental impacts. The heterogeneity of results makes research on the impact of companies in implementing CSR still very interesting to do, one of which is the impact on profitability that will be received by companies if companies carry out CSR well. This study examines how the impact caused by the company on its CSR activities on company profitability. Testing was carried out using regression. From the test results of 54 companies listed on the IDX, it was found that CSR disclosures made by companies had an impact on company profitability.</i>
Keywords: CSR, Disclosure, High-Profile Company, Profitability	

1. Introduction

Companies in Indonesia have various types of business fields which can have a direct or indirect impact on the surrounding environment. The impact on the surrounding environment can be short term or long term and can also harm living things in the environment around the company. Often, company management is aware of the impact arising from its business activities. In order not to have a bigger impact, company management must be responsive in dealing with environmental problems that arise. Awareness of social responsibility or what is known as Corporate Social Responsibility (CSR) is an obligation for company managers because it plays an important role in fulfilling social and environmental responsibilities.

Machmuddah et al., (2020)states that companies that have a large impact on the environment will be of concern and valued by the community. Most companies in various fields that have an impact on the environment claim that they have carried out social obligations towards the surrounding environment. Increasing public trust in efforts to care for and improve the environment around the company is one of the motivations for implementing social responsibility (CSR) by companies.

Social responsibility activities are not only aimed at the company's reputation and profits but also to improve social welfare. By carrying out social responsibility the views of the public and investors towards the company will tend to be better. Although it can be useful, the implementation of social responsibility will reduce the company's income because of the costs incurred for these activities. However, the image and loyalty of consumers can also increase with the company's

decision to implement CSR which in turn can also improve the company. Thus, increased profitability can also be expected through the implementation of CSR.

Testing the relationship between CSR disclosure and profitability has heterogeneous results Rosiliana et al., (2014) examined the impact of corporate social responsibility on corporate financial performance. Using Return on Equity (ROE) and Return on Assets as dependent variable, this shows that CSR disclosure has no significant effect on both of them. Research conducted by Muraleetharan et al., (2020) in Sri Lanka found that Corporate Social Responsibility (CSR) and Profitability (ROA and ROE) had a positive relationship, based on the regression test for CSR disclosure activities which had significant results for ROE but not ROA.

The heterogeneity of results makes research on the impact of CSR disclosure still interesting to do, especially its effect on profitability as a benchmark for company performance. In contrast to previous research, this study analyzes the level of disclosure of Corporate Social Responsibility (CSR) seen from the company's annual report, whether it is in accordance with the disclosure points of the Global Reporting Initiative (GRI). Furthermore, researchers will analyze the company's profit level in the following year after the company discloses CSR. Analysis of the impact of Corporate Social Responsibility (CSR) disclosure will be viewed in terms of stakeholder theory and agency theory.

2. Literature Review

2.1. Stakeholder Theory

Stakeholder theory explains that a company operates not only as an entity for the benefit of itself but also must be able to give benefits to its stakeholders. Stakeholders provide support which influences the existence of a company (Ghozali & Chariri, 2007). It explains that an operating company must provide benefits for all stakeholders, because a company is not an organization that operates for the benefit of the entity and its own interests. In stakeholder theory, the company in its operational activities requires contributions from all stakeholders.

2.2. Agency Theory

Agency theory explains the association between agent and principal. Moreover, it explains the extent to which the holder of the company understands that in running the management of the company, the owner will delegate it to management who is competent in running the business. Management wants the company or organization can run optimally while the owner getting the benefits from the company's operations. Delegation of authority allows the emergence of conflicts of interest between owners and management. On social responsibility obligation, agency theory emerges to overcome conflicts that often occur and to fulfill the interests of stakeholders and company management expresses the implementation and disclosure it as an effort to meet public demands.

2.3. Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is related to the idea also implementation of activities and financing that make social and environmental issues one of the company's main points so that it is not just financial responsibility (Fatah & Haryanto, 2020). CSR activities implemented by the company are a form of corporate social responsibility towards the environment for the company's operational impact which has a significant effect on environmental damage and community empowerment as well as the impact of using the company's products. CSR is an organizational mechanism to make the company being responsible about the integrated environmental and social concerns into its functioning and relation with stakeholders (Fatah & Haryanto, 2020)

2.4. Profitability

Profitability is one measure of company performance. According to Heinze (1976); Gray et.al, (1995) in Brammer & Pavelin (2006) profitability shows the company's potential to earn profits in an attempt to rise shareholder value through the company's business activities. Fatah & Haryanto (2020) revealed that profitability giving a description of performance in managing a company which is doing by the management so that it provides results or profits. Profitability can be measured with various variations, including: operating and net profit, rate of return on owner's equity, and rate of return on investment/assets.

According to Muraleetharan et al., (2020) the profitability or profitability ratio describes the company's success in generating profits for its business activities. The profits will be used as a source of corporate income that is appropriate for distribution to shareholders. The greater the profitability, the higher the profit earned, the company's potential to pay dividends will be greater. Profitability is the net end result of various program and selection made by the company (Brigham & Houston, 2006), where this ratio is used as a measure of the company's capability to earn profits. Profitability is important for companies because it also serves as a measuring tool to assess the company's financial health and maintain business growth.

2.5. Hypotheses

Profitability is a measuring tool that shows the combined financial performance of liquidity, asset management and debt to operating results (Brigham & Houston, 2006). Many ratios can be used to measure and compare profitability (James and John, 2005). In his research (Muraleetharan et al., 2020) tested the relationship between CSR disclosure and financial achievement using ROA and ROE as a measure of company profitability. The results of the study show that the ROA variable has the strongest relationship with CSR disclosure. That is, the higher the CSR disclosure, the higher the company's ROA level. Another researcher is (Fatah & Haryanto, 2020) who examines CSR disclosure with environmental performance in terms of company profitability using the Return on Assets (ROA) ratio. ROA is assumed to reflect financial performance of the company for the aspect of profitability. The ROA ratio is used to measure the extent to which the

company's management performance generates returns on the assets used or owned by the company.

Based on the studies and results of several studies above, the hypothesis put forward is that companies that disclose Corporate Social Responsibility (CSR) when viewed from the perspective of stakeholder theory, agency theory, and legitimacy theory will have an impact on public trust in companies. The higher the company's activities, the better impact it has on society and carrying out social activities that pay attention to its stakeholders, in the end the community will trust and respect the company, the company's products will be accepted in society, this will have an impact on the level of company profitability.

H₁: Disclosure of Corporate Social Responsibility (CSR) has a significant effect on profitability.

3. Method

This study tested the hypothesis empirically on the effect of CSR disclosure on profitability. Hypothesis testing was carried out using regression analysis on the collected sample data. The independent variable in the research is CSR while the dependent variable is company profitability. The design of this research is to test whether the disclosure of Corporate Social Responsibility (CSR) has a consequence on the level of profitability.

Profitability is one of the company's performance measurement tools. Referring to research by Machmuddah et al., (2020) dan Fatah & Haryanto (2020) ROA (Return on Assets) as a proxy of profitability, be used in this study. The ROA value used is after CSR disclosure.

$$ROA = ROA_{t+1}$$

Information: ROA t+1: ROA in year t+1 (one year ahead)

CSR disclosure is carried out by companies for the social activities they carry out (Hutabarat, 2016). Disclosure of CSR is one of the information submitted by the company that is not related to the company's finances. In this study, the level of CSR disclosure is measured using the GRI standard. GRI consists of 79 disclosure items; 9 items of disclosure of Economic Aspects, 30 items of disclosure of Environmental Aspects, 9 items of disclosure of Human Rights Aspects, 14 items of disclosure of Labor Aspects, 9 items of disclosure of Aspects of Product Responsibility, and 8 Social Aspects disclosure items. Calculation of CSR index is as follows:

$$CSRI_{pt} = \sum X_{ip} / N_p (79)$$

Information: CSRI pt = Corporate Social Responsibility Disclosure Index company p in year t; N_p = number of CSR items that should be for company p (79 items); X_{ip} = 1 if item i is disclosed; 0 if item i is not disclosed. Thus, 0 < CSRI pt < 1.

This study used high profile company as the population which is listed on the Indonesia Stock Exchange in 2018-2020. A High profile company is a company with a high level of sensitivity to the environment, as well as a high level of politican risk and intense competition. High profile is category is industries are included in the construction, forestry, fishery, chemical, mining, pharmaceutical, automotive, consumer goods, agriculture, food and beverage, paper, and plastic industries. Sample were selected using a purposive sampling method. The criteria are:

1. The company is included in the high profile industry category.
2. The company does not experience disinvestment.
3. The company publishes annual financial reports for 2018, 2019 and 2020.

The sample selection resulted in 54 high profile companies that fit the criterias. Data on this company will be processed to test the hypothesis. The secondary data used in this study comes from the annual reports of companies listed on the IDX for 2018-2020. The choice of year is so that the data obtained is fairly new and acceptable.

This study will use simple regression analysis to examine the effect of CSR disclosure on company profitability. The equation in this study is as follows:

$$Y = \alpha + \beta_1 X_1 + e$$

Where Y is Profitability, α is Constant, β_1 is Regression Coefficient, X_1 is Disclosure of CSR, and e is Error Term, i.e. confounding error.

4. Result and Discussions

This research was conducted at high profile companies listed on the Indonesia Stock Exchange (IDX) in 2018, 2019 and 2020. Based on the purposive sampling method, the number of samples that can be used is 54 samples. Descriptive analysis is used to determine the variation values of each research variable. Descriptive statistics for the dependent variable and independent variable are presented in the table below.

As for the results of testing the descriptive statistics of social responsibility (CSR) and profitability, namely the profitability variable shows the highest value is 39%, the lowest value is -9%, and the average value is 7.6%. This means that high profile companies in Indonesia have a return of 39 million when using assets of 100 million. The lowest value of -9 means that there are still companies that have negative returns or losess in carrying out their activities.

Tabel 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CSR	54	6.00	27.00	16.9815	5.49954
PROFITABILITAS	54	-9.00	39.00	7.6969	7.84061

Source : Processed Data (2022)

The CSR variable has a maximum value of 27, a minimum value of 6 and an average of 16. This value indicates that the average company in Indonesia is still relatively low in disclosing CSR. The average value of 16 means that when compared to the total GRI items of 79 items, high profile companies in Indonesia only disclose CSR of 20.25%. It is means that the score of CSR disclosure in Indonesia still low. CSR disclosure on high profile company not even more than half of total score.

Distribution of the variable in regression model need to fulfill the normality assumption. The normality test is carried out to test the distribution of the model. Several techniques are used to determine the normality of the data, namely by using the normal P-P plot of the data shown to be spread around the diagonal line.

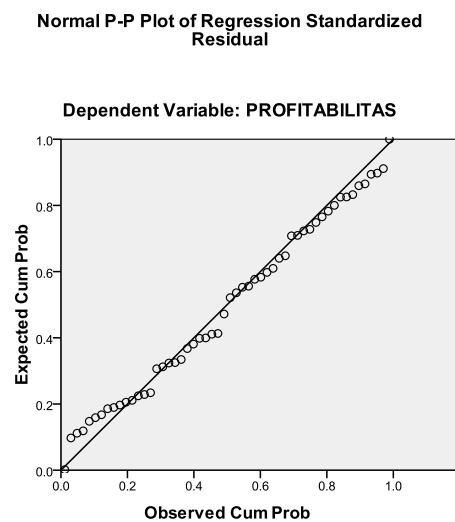


Figure 1. Normal Test Result

Graphical analysis for the normality test is carried out by looking at the normal plot graphic display. On the normal plot graph in Figure 1 it can be seen that the points spread around the diagonal line. Based on graphical analysis, the regression model meets the assumption of normality.

A t-test was performed to determine the significance of each independent variable relative to the dependent variable. A t-test was performed to further explore which independent variables in this study influenced the dependent variable. According to table 1, it is revealed that the CSR disclosure variable has a significant effect on the profitability variable with a sig value of 0.003 below 0.05. The t value of 3.17 means that CSR disclosure has a significant positive effect on the profitability variable.

Table 1. t test Result

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-2.045	3.228		-.634	.529
1 CSR	.574	.181	.402	3.170	.003

The coefficient of determination (R^2) giving score how much the model can be used to explain the dependent (Suwandi, 2014). It is revealed that the result of the test for the coefficient of determination is the Adjusted R^2 value of 14.6%. This means that 14.6% of profitability is affected by CSR disclosure. And the rest (100% - 14.6%) is influenced by other factors outside the model. Based on testing the CSR disclosure variable on increasing profitability, the t value is 3.17 with a sig value of $0.003 < \alpha (0.05)$ meaning that the CSR disclosure variable has a significant effect on profitability. Therefore the hypothesis "CSR disclosure has a positive effect on profitability" can be accepted. From the results of observations it was revealed that companies that have carried out CSR disclosures with high disclosure items are proven to have high profitability values.

Based on company data obtained on the Indonesia Stock Exchange (IDX), companies that make high disclosures are proven to have high profitability values, namely PT. Astra Agro Lestari, which carries out CSR disclosures of 31% of the total disclosures according to GRI, has a profitability value of 20.29%. Meanwhile, companies with low CSR disclosure, namely PT. Alumindo with CSR disclosure of 10% has a profitability value of 7%.

This can prove the theory of legitimacy where companies that pay attention to the community through social responsibility (CSR) activities will also get positive feedback from the community in terms of their profitability value, this is because the community is satisfied with the results of the performance carried out by the company so that the community provides reciprocity in the form of loyalty and loyalty to the company.

The discussion above is in line with (Fatah & Haryanto, 2020) which states that disclosing social responsibility to shareholders will be more free and flexible according to the profitability of the company. This means that the higher the company's profitability, the company has an obligation to disclose social information. This is also in line with Hantono's research (2017) that companies with good CSR disclosure will increase profitability.

Based on the results of this study, that disclosure of Corporate Social Responsibility (CSR) has a significant effect on profitability, where it is stated that companies with good CSR disclosure will increase profitability. This supports stakeholder theory that a company is not an entity that operates only for its own sake, but must give benefits to the stakeholders. Beside, where the community will give appreciation to companies that comply with the social contract. Public

appreciation can be in the form of purchasing power for the company's products and investment by investors. The results of this study also support the stakeholder theory that a company is not an entity that operates only for its own sake, but must give benefits to the stakeholders. With the real result that CSR disclosure has a significant effect on profitability, the company has implemented agency theory well, in which the company's management is still trying to overcome conflicts that often occur and to fulfill the interests of stakeholders and company management to disclose social responsibility as an effort to meet public demands.

5. Conclusion

This research was conducted to determine the impact of CSR disclosure on increasing company profitability. To determine whether a company makes social responsibility disclosures or does not disclose social responsibility, a disclosure index with items from the GRI is used. And the companies that were sampled in this study were 54 companies in the study during 2018-2020 companies that were in the high profit category on the IDX. Disclosure of CSR in high profit companies in Indonesia has a positive effect on company profitability.

The result of this study is that disclosure of Corporate Social Responsibility (CSR) has a significant impact on increasing the level of company profitability proxies by Return on Assets (ROA). From the results of observations it was revealed that companies that have carried out CSR disclosures with high disclosure items are proven to have high profitability values. Society can assess how a company contributes to society through social activities and environmental control. The more companies disclose social and environmental contributions, the more people respect the company's products and this will have an impact on the level of company profitability.

The limitation of this research is the measurement of profitability which is still focused on Return on Assets (ROA). Another limitation is the measurement of Corporate Social Responsibility (CSR) disclosure items through the company's Annual Report. Meanwhile, not all companies disclose their CSR activities in the Annual Report. The research suggestion is that the next research can examine profitability with other financial performance ratios that can describe the overall company profitability. For further research, it is hoped that it will also examine the firmness of the government in establishing regulations regarding CSR practices, disclosures, and monitoring in companies in Indonesia, so that practices and disclosures will increase. It has been proven in several studies that CSR disclosure can increase company profitability.

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