# RELATIONSHIP BETWEEN INVESTMENT DECISIONS, ENVIRONMENTAL CONCERNS AND ENVIRONMENTAL PERFORMANCE ON CORPORATE SOCIAL RESPONSIBILITY

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**Abstract:** Corporate Social Responsibility (CSR) is an approach that integrates social care into a company's business operations and its interactions with stakeholders. The approach is based on voluntary and partnership principles. CSR awareness is needed as a form of concern for the interests of stakeholders. CSR is not only volunteerism, but also it has become a demand for companies if they want to survive and develop. This study aims to analyze the influence of investment decisions, environmental concerns and environmental performance on CSR. The population were all mining companies listed on the Indonesia Stock Exchange from 2013-2016. A total of nine companies met the selection criteria. Results usinglinear regression indicate thatinvestment decisions,environmental, performance concerns positively and significantly affect the extent of CSR.Further research can extend the period of observation. The samples in other sectors on the Indonesian Stock Exchange.

**Keywords:** *Investment Decisions, Environmental Concern, Environmental Performance, Corporate Social Responsibility.*

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Business behaviour in a noble, honest, fair and responsible manner is expected in maintaining the existence of a company and to be well received in its business chain. However, this is not enough for the company to remain in its industry. One factor that is also a consideration for companies is Corporate Social Responsibility (CSR). Awareness of CSR is also needed as a form of concern for the interests of the stakeholders. CSR is not only voluntary but also has become a demand for companies to survive and thrive (Boulouta and Christos, 2014).

CSR is an approach that integrates social care into the company's business operations and in interactions with stakeholders based on voluntary and partnership principles. Many studies show that CSR and the development of constructive relationships with stakeholders also determine the company's long-term success (Huang and Luke, 2015). CSR is carried out as an effort to obtain long-term benefits for the company in building trust and loyalty for its users (customers). It is expected that through CSR the customer can contribute to improving the competitiveness of the company, whether it is listed in the stock exchange or not (Saeidi, et al., 2015).

The House of Representatives and the local government of Indonesia have agreed to incorporate CSR as an obligation into the amendment to the Limited Liability Company Bill at the end of June 2007. Also, the practice of disclosure of social responsibility is regulated by the Indonesian Accountants Association in the Statement of Financial Accounting Standards No.1 of 2012 (Revised). This is coupled with the program from the Ministry of Environment and the PROPER Program (Assessment of Company Performance Rating) in the management of the environment. PROPER is the flagship program of the Ministry of Environment in the form of supervising activities to ensure greater responsibility of business and their activities. PROPER is a form of government policy, which seeks to improve the performance of the company's environmental management in accordance with what has been stipulated in the legislation. Furthermore, PROPER is also a manifestation of transparency and democratization in environmental management in Indonesia. The implementation of this program is carried out in an integrated manner by involving various stakeholders (Angelia and Rosita, 2015).

Every year the participation of companies in the assessment continues to increase. In the 2010-2011 period, there were 1,002 companies, the next period of 2011-2012, the number increased to 1,317 companies and the latest period rose quite significantly by 37%, to 1,812 companies. As an alternative structuring instrument, PROPER was praised by various parties including the World Bank. PROPER even became one of the case study materials at Harvard Institute for International Development (HIID). Since its implementation in 1995, PROPER has become an example in various countries in Asia, Latin America, and Africa as an alternative structuring instrument. In 1996, PROPER received a Zero Emission Award from the United Nations, Universities in Tokyo (Reliantoro, 2012).

The purpose of this study was to determine and test the influence of investment decisions, environmental concerns, and environmental performance on CSR empirically. Using a sample of nine mining companies listed on Indonesian stock exchange, the study finds that the three variables have a positive relationship with the level of CSR.

## LITERATURE REVIEW

### Stakeholder Theory

Stakeholder theory assumes the existence of a company is determined by its stakeholders. Stakeholders are all parties, internal and external, that can influence or be influenced by the company, both directly and indirectly (Freeman and Sergiy, 2017). This theory states that a company is not an entity that only operates for its stake. But the company must provide benefits to its stakeholders. Thus, the existence of a company is strongly influenced by the support given by the stakeholders to the company. The greater the power of the stakeholders, the greater is the company's efforts to adapt. Social disclosure is considered as part of a dialogue between the company and its stakeholders (Wisdom, et al., 2018).

### Legitimacy Theory (Legitimacy Theory)

Legitimacy theory is one of the theories underlying the disclosure of CSR. Legitimacy is a corporate management system that is oriented towards aligning with the community, the government, individuals, and community groups. The company discloses its CSR to get positive value and legitimacy from the community (Khan, et al., 2013). Furthermore, this legitimacy will improve the company's reputation which will ultimately affect the value of the company.

### Corporate Social Responsibility (CSR)

CSR is a form of the company's commitment to prospering the community by an awareness that the company is an integral part ofsociety (Asif, et al., 2011). ISO 26000 states that CSR is a form of corporate social care that is currently an important aspect to improve company performance. ISO 26000 is an international standard for social responsibility and is a guideline that helps companies develop strategies and programs for CSR based on the internal and external objective conditions of the company (Rashid, et al., 2014).

The definition of Corporate Social Responsibility (CSR) which is used as a reference for the obligations of CSRis explained by Article 15 Letter b. CSR is the inherent responsibility of each company to create a harmonious relationship and balance in accordance with the environment, values, norms and culture of the local community.

### Disclosure of Corporate Social Responsibility (CSR)

Disclosure of CSR is the process of communicating social and environmental effects on corporate economic actions tocertain groups in society and society as a whole. According to Cheng, et al. (2014), the disclosure of corporate social responsibility is defined as the company's commitment to improving community welfare through business practices and by contributing a portion of company resources.

### Investment Decision

Investment decisions are important because company goals can only be to achieve and generated through company investment activities. The purpose of investment decisions is to get a high level of profit with a certain level of risk. High profits and the risks that follow must be managed well to increase the value of the company. Investment Opportunity Set (IOS) is defined as a combination of assets owned and investments chosen in the future with a positive Net Present Value. IOS can be used to estimate the company's prospects by looking at the value of the company,which depends on the company's future expenses.

### Environmental Concern

According to the Law of the Republic of Indonesia No. 32 (2009), the environment is a unit of space with all objects, power, circumstances, and living things including humans and their behaviour that affect nature itself, survival, and the welfare of humans and other living things. The protection and management of the environment is a systematic and integrated effort carried out to preserve the environmental function which includes planning, utilization, control, maintenance, supervision and law enforcement. Concern for the environment can be reviewed with two main objectives: first, in terms of the availability of natural resources, to see to what extent are these sources economically profitable to be explored and then used as a source of income to finance development activities. Second, if the wealth owned is limited and economically not profitable to be explored and processed, then what strategies need to be pursued to meet the needs and demands of the nation's development.

### Environmental Performance

The concept of environmental performance refers to the level of environmental damage caused by activities carried out by the company. A lower level of damage shows better performance of the corporate environment. Similarly, on the contrary, the higher the level of damage to the environment, the worse the performance of the company. According to Angelia and Rosita (2015), environmental performance is the company's performance in creating a good environment. In other words, environmental performance is a company performance that focuses its activities on efforts to preserve the environment. This study uses the PROPER assessment results as an indicator of the company's environmental performance.

### Hypotheses Development

Increasing investment opportunities in various sectors and increasingly their rapid development can make companies continue to strive to maintain their existence. Various activities carried out by the company can develop more and more environmental problems. Therefore, operating companies are required to be responsible for environmental problems that occur by carrying out their corporate social responsibility. Investors tend to choose companies that report their corporate social activities to reduce the risk to them caused by company activities. This is in line with Benlemlih & Bitar (2016), that investment decisions affect CSR.

Therefore, the research hypothesis is as follows:

$H_1$: Investment decisions affect Corporate Social Responsibility

Environmental care is sensitive and is about caring for matters relating to the surrounding environment. This always improves if there is pollution or an imbalance. By taking part in environmental issues, the organization shows a reflection of the reality of the organizations caring about environmental phenomena. An organization in carrying out social responsibility will certainly involve the public. Thus the harmonization of a relationship fostered by the organization has a tangible form that will provide benefits not only for the good name of the organization but also for the wider community. An organization that carries out social responsibility will include its social activities in the company's annual report that will benefit the good name of the company to the wider community. This is in line with the research Bahri (2016), who found that environmental concerns affect Corporate Social Responsibility (CSR).

Therefore, the research hypothesis is as follows:

$H_2$: Environmental concern influences Corporate Social Responsibility

Environmental performance is influenced by how much the company is motivated to do environmental management so that it will have an impact on the company's social responsibility disclosure. The better the environmental performance of the company and it's a positive contribution to its environment, the greater is the CSR disclosures by the company. With the company's proactive actions in environmental management and high performance, its management is expected to be encouraged to disclose it's environmental management actions in its annual report. This shows transparency and accountability to the public so that the public can know the role of the company in its environment. This is in line with Pujiasih (2013), who shows that environmental performance influences CSR.

Therefore, the research hypothesis is as follows:

$H_3$: Environmental performance influences Corporate Social Responsibility

## METHOD

The population in this study were all mining companies listed on the Indonesia Stock Exchange in 2013-2016. The sample is determined using purposive sampling, and it generated nine companies with 36 firm-years data. The hypotheses were tested using multiple linear regression model.

## RESULTS

### Descriptive Statistical

Descriptive statistical analysis used in this study is used to provide an overview or description of the research variables in the form of frequency tables showing minimum values, maximum values, mean values, and standard deviations. The results of the descriptive analysis are shown in Table 1.

Table 1 Results show that Environmental Concern and Environmental Performance more influence CSR than Investment Decision.

**Table 1 Descriptive Statistics of Variables (n=36)**

| Variable | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|
| CSR | 0.28 | 0.47 | 0.35 | 0.05 |
| Investment Decisions | 0.31 | 4.46 | 1.54 | 1.12 |
| Environmental Concern | 0 | 1 | 0.67 | 0.48 |
| Environmental Performance | 3 | 5 | 3.69 | 0.79 |

**Results of Multiple Linear Regression Test**

Hypothesis testing of multiple linear regression models in this study to examine the effect of investment decisions, environmental concerns, and environmental performance on corporate social responsibility (CSR). The results of multiple linear regression analysis can be seen in Table 2.

**Table 2 Multiple Linear Regression Test Results**

| Description | Coefficient | Standard Error | t-value | p-value |
|---|---|---|---|---|
| **Constant** | 0.206 | 0.035 | 5.971 | 0.000 |
| Investment Decisions | 0.021 | 0.007 | 3.010 | 0.005 |
| Environmntal Concern | 0.035 | 0.016 | 2.163 | 0.038 |
| Environmental Performance | 0.024 | 0.009 | 2.508 | 0.017 |

**Influence of Investment Decisions on Corporate Social Responsibility**

Investment decisions affect CSR because of the growing investment opportunities in various sectors, the rapid development of investments and the company'sdesire to maintain its existence. Various activities carried out by the company can create and bring more and more environmental problems. Therefore, operating companies are required to show they are responsible for environmental problems by carrying out their corporate social responsibility strategies. Investors tend to choose companies that report on their corporate social activities and the reduced risks that company activities can create. In relation to stakeholder theory, companies cannot escape their social environment. The company is not an entity that only operates for its own sake. But the company must provide benefits to its stakeholders. Companies need to maintain stakeholder legitimacy and place it in the framework of policy and decision making.

The results of this study are consistent with the research conducted by Prasetyo (2010), that investment decisions affect CSR. But it is not in line with the research conducted by Fauziyah (2015), who stated that investment decisions do not affect CSR.

**Effect of Environmental Concern on Corporate Social Responsibility**

Environmental concern influences CSR because with companies taking part in addressing environmental issues, the organization shows and reflects the reality of an organization that cares about environmental issues. An organization in carrying out its social responsibility will certainly involve the public. Thus the harmonization of a relationship fostered by the organization has a tangible form that will provide benefits not only for the good name of the organization but also for the wider community. An organization that carries out social responsibility will include its social activities in the company's Annual Report and so will increase the good name of the company to the wider community. This relates to the legitimacy theory that companies that disclose CSR will get positive feedback and gain legitimacy from the wider community. Furthermore, this legitimacy will improve the company's reputation which will ultimately affect the value of the company.

The results of this study are consistent with research conducted by Lucyanda J and Siagian LG (2012), who found that environmental concerns affectedCSR. When a company has an ISO14001 certificate, it means that the company's attention has increased in awareness of itssocial responsibilities, actions and regulations. But it is not in line with the research conducted by Tampubolon (2008), who stated that environmental concern does not affect CSR.

### Effect of Environmental Performance on Corporate Social Responsibility

Environmental performance influences CSR. Environmental performance is influenced by how motivated a company is to do environmental management, and this will impact on CSR disclosures. This relates to the legitimacy theory that if the actions taken by the company are actions that are desirable, appropriate or in accordance with the system of social norms and demonstrate the value of trust, (or in other words sides with the government and society), then it will get a positive value and legitimacy from the wider community. Furthermore, this legitimacy will increase the company's reputation. Therefore, companies with good environmental performance will disclose their environmental performance information in their company's Annual Report. The more a company increases the quality of its performance towards addressing environmental issues and reveals it's performance through it's Annual Report, the better the company will be in the eyes of investors and the public (Handayani, 2010).

The results of this study are in line with the research of Pujiasih (2013), who showed that environmental performance influencedCSR when the company's efforts to create a positive environment were measured through the PROPER program, and so had a positive influence on CSR disclosure by the company. But it is not in line with the research conducted by Sukasih and Eko (2017), who stated that environmental performance does not affect CSR.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusion

Investment decisions positively affect CSR because a company wants to create greater investment opportunities to ensure the company's survival, but more investment can bring more environmental problems for a company. Environmental concern positively influences CSR because whena company takes part in environmental issues. Environmental performance positively affects CSR because environmental performance is influenced by the company's motivation to carry out environmental management and impacts the disclosure of the company's social responsibilities.

### Recommendation

Further research can extend the period of observation. The samples in other sectors on the Indonesian Stock Exchange.

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