# CORPORATE SOCIAL RESPONSIBILITY MANUFACTURING COMPANY IN INDONESIA

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**Abstract:** Corporate Social Responsibility (CSR) is a form of corporate moral responsibility to its stakeholders. The impact of the company's operational results must be accountable as a form of social responsibility to the stakeholders. The implementation of Corporate Social Responsibility done by the company well provides benefits in increasing the value of the company in the eyes of investors which can also affect the company's financial performance. This research was conducted to determine and explain the effect of Corporate Social Responsibility on the value of the company and the company's financial performance and to know and explain the influence of the company's value on the company's financial performance. This study uses quantitative research types, namely explanatory research with approval, where this research was conducted on cement manufacturing companies listed on the Indonesia Stock Exchange from 2014 to 2018. The research sample was obtained using a purposive sample method so as many as 6 sample units were obtained and using panel data there were 30 units of analysis. The data analysis technique used in this study is PLS (Partial Least Square) using SmartPLS. The results of this study indicate that Corporate Social Responsibility has a significant and positive effect on firm value, Corporate Social Responsibility has an insignificant and negative effect on Financial Performance, and Corporate Value has an insignificant and positive effect on Financial Performance.

**Keywords:** Corporate Social Responsibility, Company Value, and Company Performance

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There are 2 impacts on operating a company, which are positive and negative impacts. The positive impact of the operation of the company can be in the form of opening up new jobs or meeting the needs of the community through its services or products, but the other side of the operation of a company is the emergence of environmental problems caused by the company's operational activities that are directly related to the environment, which often results in natural damage and the surrounding environment ecosystem. The positive or negative impacts of the company's operational activities must be accountable as a form of social responsibility to stakeholders, the community, and the surrounding environment.

A company if you want to be sustainable it is necessary to pay attention to the concept of "The Triple Bottom Line" or 3P, which is not only profit sought, but the company must also make a positive contribution to society (people), and take part in maintaining environmental sustainability (planet), Hadi (2014). Corporate Social Responsibility (CSR) is the moral responsibility of the company to its stakeholders, primarily in the community or community around the work area and its operations. The legal basis corporate social responsibility in Indonesia is regulated in Law No. 40 Article 74 of 2007 concerning Limited Liability Companies. The law explains that every company that carries on its business activities in fields related to natural resources is required to carry out social and environmental responsibility. Under the Act, CSR is an obligation that must be carried out by the company and not an activity that can be done voluntarily.

The value of a company based on the price of shares issued from a public assessment of company performance is called company value. Increasing company value is one of the important things for the company because with high company value can increase the welfare of shareholders. In addition to the company's value, financial performance is also expected to improve with the CSR activities disclosed by the company. CSR disclosures made by companies can improve the company's image which will have an impact on customer loyalty. Sales and company revenues are needed by consumers on products released by the company so that the company's profitability will increase.

Company Value and Good financial performance also require good financial management. Company value is taken by every financial decision taken by the company. Financial performance is a picture of the financial condition of a company in a certain period. Whether or not the company's finances can be proven in the finances issued by the company every year. In addition to providing information about financial conditions, financial statements are also a management accountability tool to the company's owners and an overview of the company's success indicators as well as material in consideration of decision making (Harahap, 2013). So in determining investment decisions, look at potential investors based on that information.

The results of previous studies are still varied and have not shown consistent results, therefore this study reexamined Corporate Social Responsibility on Company Value and Corporate Financial Performance. In this study using objects consisting of cement sub-sectors of manufacturing companies in the basic and chemical industry sectors which are listed on the Indonesia Stock Exchange (IDX). Object Selection due to reasons In 2010-2017 domestic cement consumption on average continued to increase. The total installed capacity of cement production in Indonesia until the end of 2017 reached 107.4% million tons or grew 19.73% YoY, faster than domestic consumption. The growth of cement production capacity last year was much faster than the 2016 capacity growth of only 1.70% YoY. That way, the total national demand is only 66.35 million tons in 2017, the excess supply reached 41.05 million tons. The oversupply volume swelled to almost double the 2016 supply surplus of 28.06 million tons. The purpose of this study is to examine and explain the effect of Corporate Social Responsibility on Company Performance.

**Corporate Social Responsibility (CSR)**

Corporate Social Responsibility (CSR) is the moral responsibility of a company to its stakeholders, primarily the community or the community around the work area and its operations (Hamdani, 2016). Hadi (2014) explained that based on the World Business Council for Sustainable Development (WBCSD), CSR is an action that starts from ethical considerations of companies to improve the economy, quality of life for companies and their families, and the quality of life of surrounding communities and the wider community. On the other hand, based on Article 15 letter b of Law Number 25 the Year 2007 concerning CSR (UUPM), it explains that corporate social responsibility is the responsibility inherent in every investment company to create a harmonious, balanced, and environmentally appropriate environment. , norms, and culture of local communities. Theories related to Corporate Social Responsibility (CSR) include:

1) Signal Theory

Sindhudiptha and Yasa (2013) revealed that signal theory explained the company's reasons for providing information to external parties. the existence of asymmetric information between the company and external parties provides insistence on the information. The asymmetry of the information can be caused by a lack of information received from external parties so that it can reduce its trust in the company. Companies can prevent and reduce information asymmetry by disclosing information that is owned, such as from the financial side, namely with financial statements and from the non-financial side, such as CSR activities reported by the company. Disclosure of the company's CSR programs can be used as a signal for companies to attract external parties, the signal is expected to be received positively by external parties so that it can affect the company's performance and its implementation of company value.

2) Legitimacy Theory
Gary et al, (1996) revealed that legitimacy is a management system of companies that are oriented to alignments with the community, government, individuals, and community groups. Legitimacy is a psychological state of partiality of people and groups who speak of the symptoms of the surrounding environment.

3) Stakeholder Theory
Stakeholders are all parties, both internal and external who have a good relationship to influence or be affected, directly or indirectly by the company (Hadi, 2014). Lako (2011) argues that the ability to balance diverse stakeholder interests largely determines the success of a company so that growth in market share, sales, and profits by taking into account the environment and surrounding communities. Disclosure of CSR programs conducted by the company will increase stakeholder confidence in the company.

4) Social Contract Theory
Social contracts arise because of interactions in the social life of the community, so that harmony, harmony, and balance occur, including the environment. The social contract is used to explain the relationship between the company and the community. The company is a group that has goals and strives together in achieving these goals. To strike a balance between the company and the community, a social contract is needed so that an agreement can occur that can be beneficial and protect each other's interests, (Hadi 2014).

**Principles of Corporate Social Responsibility (CSR)**

Crowther David (2008) revealed that there are principles of social responsibility which are as follows: a. Sustainability, namely how the company manages and conducts its operational activities by taking into account the sustainability of resources in the future. b. Accountability, which is the company's business in being open and responsible for the activities or activities that have been carried out. This concept explains the quantitative effect of company activities on internal and external parties. The level of accountability and corporate responsibility determines the legitimacy of external stakeholders and increases the company's stock transactions. And c. Transparency is important for outsiders in reducing information asymmetry and misunderstanding, especially regarding information and accountability for various environmental impacts.

CSR disclosure is a way of providing information and accountability from the company to stakeholders. This is also one way to obtain, maintain, and increase the legitimacy of stakeholders. "CSR disclosure is one part of social responsibility to stakeholders. Companies that have implemented CSR programs can disclose the implementation of CSR in their annual reports as well as separate reports commonly called sustainability reports. The reasons underlying the company to do social disclosure (social disclosure).

**The value of the company**

Company value is the perception of investors about the level of success of the company in increasing shareholder profits. High stock prices of a company can make the company value is also high, and can increase market confidence in company performance. The value of the company based on

Sartono (2010) is the selling point of the company as a business that is operated. The demand and supply of capital markets make stock prices that reflect the company according to public valuation. The measurement of company value used in this study is Earning Per Share (EPS) because, in general, company management, ordinary shareholders, and potential shareholders are very interested in Earning Per Share. After all, EPS describes the amount of rupiah obtained for each common share (Fahmi, 2015). Investors expect to get a return on their investment through dividends or share price appreciation. Dividend payments are closely related to the company's ability to obtain operating profits. EPS is used to measure the company's profit growth and profit potential.

### Financial Performance

Analysis of financial performance is used in planning the use of finances correctly and correctly. While finance forms corporate finance based on benchmarks from the form of ratios and indexes so that financial data.

### Research Model

The concept model can be explained that by analyzing the variable Corporate Social Responsibility can affect the Company's Value and the financial performance of a company.

## METHOD

This research is explanatory research because it aims to explain the Corporate Social Responsibility towards Company Value and the Company's financial performance and test existing hypotheses. The independent variable in this study was formulated Corporate Social Responsibility with indicators of Corporate Social Responsibility (X1) (Cooke, 2005):

$$CSRI_j = \frac{\Sigma X_{ij}}{nj}$$

Information

CSRI : Corporate Social Responsibility Index company j

$n_j$ : The number of items for company j is based on GRI standards

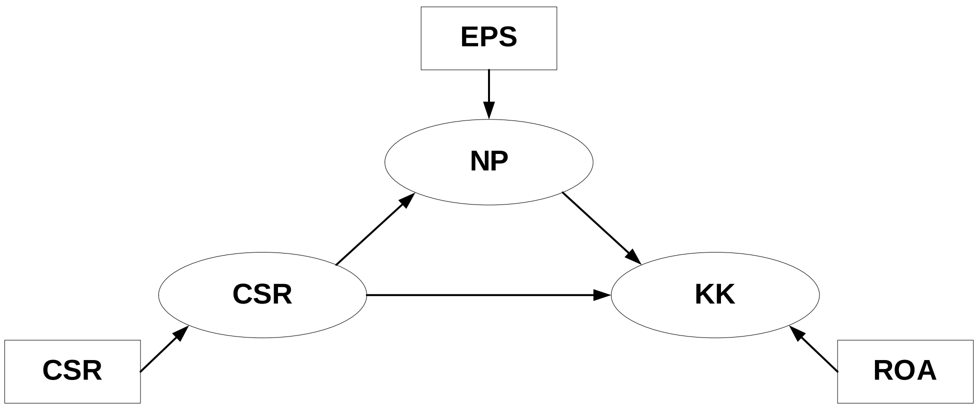
nj : 91 items for GRI G.4 in 2014, 2015 and 2016

nj : 77 items for GRI Standards for 2017

$\Sigma X_{ij}$ : Number of items disclosed by the company

1 = if item i disclosed, 0 = if item i is not disclosed

GRI divides CSR into 3 main components, namely economic, environmental, and social.




Information

NP = The value of the company

KK = Financial performance

***Figure 1 Research Hypothesis Model***

The dependent variable is a variable that is influenced by other variables. The dependent variable in this study is Company Value. Company Value Variable with EPS Indicator (Y1) is commonly used to measure profit growth and company profit potential. The way to find out the number of EPS can be calculated using the formula (Fahmi, 2015):

$$EPS = \frac{EAT\ (Earning\ \ After\ Tax)}{number\ of\ \ share\ outstanding}$$

While financial performance uses the ROA (return on assets) indicator (Y2). Return on assets illustrates the company's ability to generate profits from each rupiah asset used. The formula for calculating ROA is as follows (Fahmi, 2015):

$$ROA = \frac{EAT\ (Earning\ \ After\ Tax)}{Total\ \ Assets}\ x\ 100\%$$

Based on Sugiyono's explanation (2012) about population, in this study, the population used was Cement manufacturing companies listed on the Stock Exchange in 2014 to 2018 totaling 6 companies. While the sample was taken using the purposive sampling method, which is a sampling technique with certain criteria or considerations and adjusted to the objectives or research problems. 6 companies meet the criteria so that during 2014-2018, using panel data 30 units of analysis were obtained.

The method used in this study uses the Partial Least Square (PLS) method. PLS is a variant-based SEM statistical method designed to solve multiple regressions when specific problems occur in data, such as small sample sizes, missing data, and multicollinearity. The reason for using Partial Least Square (PLS) in this study is that the variable used in the study is a latent variable (not directly measurable) that can be measured based on its indicators (manifest variable). So that it can be analyzed in more detail about the indicators of latent variables. Partial Least Square (PLS) is a variant-based SEM statistical method designed to solve multiple regressions when specific problems occur in data, such as the size of a small study sample, the presence of missing data, and multicollinearity. The reason for using Partial Least Square (PLS) in this study is that the variable used in the study is a latent variable (not directly measurable) that can be measured based on its indicators (manifest variable).

## RESULT

### Outer Model Evaluation

Convergent Validity, Discriminant Validity, Average Variance Extracted (AVE), and Composite Reliability. The correlation between indicator scores and construct scores. In the PLS model convergent meeting validity can be accepted valid if the loading value is 0.5 to 0.6. Analysis of each variable in explaining the research variables offered is Convergence Validity. Discriminant validity explains the ability of each indicator to make a difference between constructs and other constructs. AVE illustrates the average variance or discriminant extracted on each indicator so that each item's ability to share measurements with others can be trusted. AVE values equal to or above 0.50 indicate good convergence. Composite reliability measures internal consistency and its value must be above 0.6.

**Table 1 Results of PLS Analysis**

| | Cronbach Alpha | rho_A | Composite Reliability | Average Variance Extracted (AVE) |
|---|---|---|---|---|
| **CSR** | 1.000 | 1.000 | 1.000 | 1.000 |
| **KK** | 0.429 | -3.695 | 0.597 | 0.517 |
| **NP** | 1.000 | 1.000 | 1.000 | 1.000 |

Source: Processed Data, 2020.

Based on the results in the table above, the AVE value for each variable is 1,000; 0.517; and 1,000. At the critical limit of 0.5, the indicator for each construct is valid with other items in one measurement. Based on these results, the composite reliability value for the CSR construct is met so that the construct has good reliability. In contrast to the Financial Performance construct which only has a value of 0.597, which means it is still below 0.60 and needs to be reviewed with that construct.

## Inner Model Evaluation

### Inner Model Test or Structural Model Test

This test is used to evaluate the relationship between latent constructs as hypothesized in the study, Based on PLS output, the following figure is obtained:

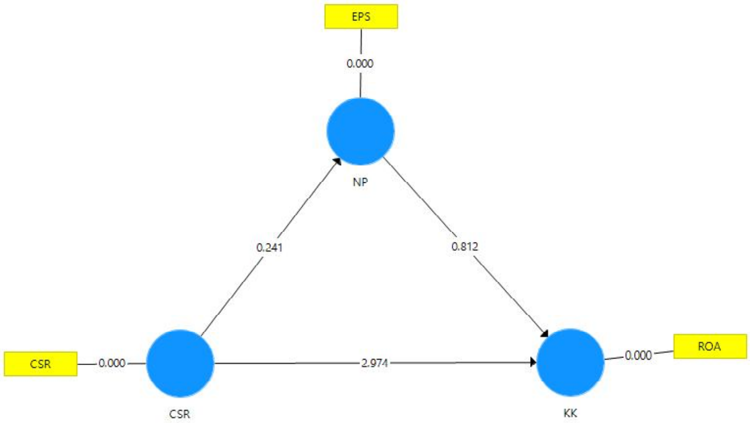



***Figure 2 Inner Weight Results***

The inner weight results in the picture above show that Corporate Social Responsibility has a positive effect on Company Financial Performance, has a negative effect on Company Value, and Company Value has a negative effect on Company Financial Performance. The results of the research hypothesis test can be seen from the t-statistics:

**Table 2 Hypothesis Test Results**

| | Original Sample (O) | Sample Mean (M) | Standard Deviation (STDEV) | T Statistics (\|O/STDEV\|) | P_Values |
|---|---|---|---|---|---|
| **CSR → KK** | 0,522 | 0,498 | 0,174 | 2,995 | **0,003** |
| **CSR → NP** | -0,044 | -0,049 | 0,190 | 0,233 | **0,816** |
| **NP → KK** | 0,145 | 0,094 | 0,179 | 0,807 | **0,420** |

Source: Processed Data, 2020

Based on the table above it can be explained that the relationship between CSR and KK is significant with a T-statistic of 2.95 (> 1.96) and the value of the original sample estimate is 0.522, then the direction of the relationship between CSR and KK is positive. The relationship between CSR and NP is not significant with a T-statistic of 0.233 with (> 1.96) and the original sample estimate value is negative, which is -0.044, then the direction of the relationship between CSR and KK is negative. The relationship between NP and KK is not significant with a T-statistic of 0.807 with (> 1.96) and the value of the original sample estimate is 0.145, the direction of the relationship between NP and KK is positive.

### Structural Model Testing (Inner Model)

In assessing a model with PLS it starts by looking at the R-Square for each latent dependent variable. Changes in the value of R-Square can be used to assess the effect of certain independent latent variables on the dependent latent variable whether it has a substantive effect.

**Table 3 Structural Model Test Results**

| R Square | R Square | Adjusted |
|---|---|---|
| KK | 0.306 | 0,255 |
| NP | 0,002 | -0,034 |

Source: Processed Data, 2020

The latent variable of Corporate Social Responsibility which affects the Financial Performance variable in the structural model has an R2 value of 0.306 which indicates that the model is "Moderate". Latent variables, Corporate Social Responsibility and Financial Performance that affect the Company Value variable in the structural model have an R2 value of 0.002 which indicates that the model is "small".

## DISCUSSION

1) Effect of Corporate Social Responsibility on the Company's Financial Performance
   Based on the results of the study note that Corporate Social Responsibility influences the positive financial performance of the company, so the hypothesis that reads "Corporate Social Responsibility (CSR) affect the company's financial performance" is accepted. This proves that CSR activities will greatly affect a company's financial performance. The influence between CSR and Company Financial Performance is positive and significant.
2) The Effect of Corporate Social Responsibility on Company Value
   Based on the results of the study note that Corporate Social Responsibility has an insignificant influence on Company Value in a negative direction, so the hypothesis which reads "Corporate Social Responsibility (CSR) affect the value of the company" was declared rejected. This proves that CSR activities have very little influence on the value created by a company. The influence between CSR and Company Financial Performance is not a significant effect.
3) Effect of Company Value on Company Financial Performance
   Based on the results of the study note that the value of the company has no significant effect on the value of the company in a positive direction, so the hypothesis that reads "Company value affects the Financial Performance of the Company" was declared rejected. This proves that a value created by the company has very little influence on the Company's Financial Performance. The influence between Company Value and Company Financial Performance is not a significant effect.

## CONCLUSIONS AND RECOMMENDATIONS

### Conclusion

Based on the results of the first analysis shows that Corporate Social Responsibility (CSR) has a significant effect on firm value. This significant effect indicates that the high or low of the company's value can be influenced by CSR. The value of the path coefficient between CSR variables and company value is positive. This illustrates that the influence between CSR and corporate value has a directional relationship. The better CSR, the higher the value of the company.

Based on the results of the second analysis shows that Corporate Social Responsibility (CSR) has no significant effect on financial performance. These effects indicate that the level of CSR is not influenced by financial performance. The value of the path coefficient between CSR variables and financial performance is negative. This illustrates that the influence between CSR and financial performance has an opposite but not significant relationship direction. The better the CSR, the lower the financial performance.

Based on the results of the third analysis shows that the value of the company has no significant effect on financial performance. The insignificant influence shows that the high and low value of the company can be influenced by the financial performance with very little value. The value of the path coefficient between the firm value variable and financial performance is positive. This illustrates that the influence between firm value and financial performance has a directional relationship. The higher the value of the company, it will improve financial performance.

## Recommendation

The company is expected to be able to make the results of this study a consideration to further enhance CSR disclosure in the company. The implementation of good CSR can be used as a strategy to attract the attention of investors. Investors are expected to use CSR disclosure information as a basis for making investment decisions, and not just looking at their financial performance.

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