



THE EFFECT OF CORPORATE SOCIAL PERFORMANCE ON FINANCIAL PERFORMANCE WITH FIRM SIZE AS A CONTROL VARIABLE

Kiagus Andi*, Rizky Isnaeni, Ade Widiyanti

University of Lampung, Indonesia.

Email: *kiagus_andi@yahoo.co.id

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Abstract

Purpose: The purpose of this study is to examine whether the variables of social performance and corporate financial performance affect each other.

Methodology: The research has used quantitative methods, namely, regression testing, in the form of descriptive statistics and multiple regression analysis. The data obtained in this research are analyzed by using the Statistical Product and Service Solutions (SPSS) program, version 22. In order to answer the study objectives, the researcher analyzes the mining companies listed on the Indonesian Stock Exchange (IDX).

Results: The results of this study indicate that social performance has a significant positive effect on corporate financial performance; this is as per good management theory. Furthermore, it was found that financial performance has a significant positive effect on corporate social performance; this is as per slack resources theory.

Implication: This study implies that social performance can help firms to improve social performance. Hence, a firm should consider depositing its profitability to increase social performance that may lead to the improvement of firm performance.

Keywords: *Social Performance, Financial Performance, Firm Size, Good Management Theory, Slack Resources Theory.*

INTRODUCTION

In recent years, customers, employees, suppliers, communities, governments, and some shareholders have encouraged companies to make additional investments in corporate social responsibility (CSR). Some companies have responded to these concerns by devoting more resources to CSR. On the other hand, other company managers have refused, arguing that additional investments in CSR do not match their efforts to maximize profits ([McWilliams & Siegel, 2000](#)).

In Indonesia, governments have required companies that engage in activities concerning natural resources to perform CSR ([Hadi, 2011](#)). This matter is regulated in Undang-undang Perseroan Terbatas No. 40 Article 74 of the year 2007 and Peraturan Otoritas Jasa Keuangan No 29/Pojk.04/2016 about the annual report of the issuer or public company. CSR is important to consider, especially for companies engaged in the mining sector. This is because mining activities are directly related to natural resources. The management of these natural resources should receive support from related parties ([Wibisono, 2014](#)).

According to the good management theory, overall corporate performance will increase if the needs of various stakeholders are handled ([Waddock & Graves, 1997](#)). A company will get a good reputation from stakeholders in line with the CSR. This will make easier for the company to get a good financial position as well, so that the social performance of the company is a matter of concern, in advance, compared with the financial performance of the company ([Margaretha, 2012](#)).

On the other hand, slack resources theory is formed based on the view that a company can carry out its activities because of the resources owned by the company ([Fauzi & Idris, 2009](#)). This theory argues that better financial performance has the potential to generate slack resources, which will then allow companies to invest in the realm of social performance, such as public relations, employees, or the environment. If slack resources are available, better social performance will be generated ([Waddock & Graves, 1997](#)).

Empirically, the relationship of social performance to corporate financial performance is still controversial among academicians ([Wibisono, 2014](#)). [Waddock and Graves \(1997\)](#) studies show a positive relationship between CSR and corporate financial performance. Similar results are also shown by [Orlitzky et al. \(2003\)](#), [Eduardus and Juniarti \(2016\)](#), and [Weber \(2017\)](#).

On the other hand, there are studies that show different results. The research conducted by [Hirigoyen and Poulain-Rehm \(2015\)](#), shows that financial performance negatively impacts CSR. This is in line with the research conducted by [Tyagi and Sharma \(2013\)](#), in which the overall results show a modest, but simple relationship between corporate social performance (CSP) and corporate financial performance (CFP), which ultimately indicates that there may be a negative relationship.

Based on the background described above, this research is conducted with the aim to find out whether social performance and financial performance of companies affect each other as described by the good management theory and slack resources theory, as well as based on the results of research conducted by [Waddock and Graves \(1997\)](#) and [Eduardus and Juniarti \(2016\)](#). In order to find out the influence, the research is done in two steps. The first step is to find out how social performance influences the financial performance of the company. The second step is to find out the influence of financial performance on corporate social performance. This research uses a control variable in the form of firm size.

LITERATURE REVIEW

In this study, the authors assume that the social performance and financial performance of the company is a variable that affects each other. As explained by the good management theory, a company will get a good reputation from stakeholders in line with the corporate social performance. This will make easier for the company to get a good financial position as well, so that the social performance of the company is a matter of concern, in advance, compared with the financial performance of the company ([Margaretha, 2012](#)). Stakeholder companies can be defined as groups or individuals that affect organizational activities or be influenced by company activities ([Roberts, 1992](#)). Examples include shareholders, creditors, customers, suppliers, government, public institutions, and the environment ([Mishra & Suar, 2010](#)).

The good corporate social performance will cause the company to be viewed positively by its stakeholders, which then can cause the company to get many benefits such as customer loyalty, as well as trust from creditors and investors. This will further trigger the company's finances to be better, so the company's profit will increase. The increase in the company's profit will then lead to an increase in the company's Return on Assets (ROA) in the next year ([Husnan & Pamudji, 2013](#)). Based on the statement, the first hypothesis is proposed as follows:

H1: Social performance positively affects corporate financial performance.

On the other hand, slack resources theory explains the influence of financial performance on corporate social performance. This theory is formed based on the view that companies can carry out their activities because of the resources owned by the company ([Fauzi & Idris, 2009](#)). This theory argues that better financial performance has the potential to generate the availability of slack resources (financial and other), which will then provide an opportunity for companies to invest in the realm of social performance, such as public relations, employees, or the environment. If slack resources are available, better social performance will be generated ([Waddock & Graves, 1997](#)). Slack resources theory is a theory that states that a company must have a good financial position to contribute to its social performance ([Margaretha, 2012](#)). Based on these statements, the second hypothesis is proposed as follows:

H2: Financial performance has a positive effect on corporate social performance.

In finding out the effect of social performance and financial performance of the company, the researcher uses a control variable in the form of firm size. It needs to be done so that the influence of independent variables on the dependent variable in this study is not influenced by other factors, which are not examined. Firm size is made constant (controlled) in the study because the researcher assumes that the variable can influence the social performance and corporate financial performance. This variable is made constant, so that the influence of social performance on financial performance and the influence of financial performance on corporate social performance can be known more clearly.

METHODOLOGY

This research is a kind of causal research, which aims to test a hypothesis about the influence of one or several independent variables on the dependent variable. The hypothesis proposed in the research is tested using quantitative research methods, namely conducting regression testing in the form of descriptive statistics and multiple regression analysis. The data obtained in this research will be processed using Statistical Product and Service Solutions (SPSS) version 22. In order to perform the test, it is necessary to explain the measurement of the variables used in the research, namely social performance, financial performance, and firm size.

Corporate Social Performance

In this study, the corporate social performance was measured using criteria suggested by the Global Reporting Initiative (GRI) G4 guidelines. The GRI G4 indicator is used because it is an international rule that has been accepted by companies worldwide. GRI G4 is also the latest corporate social performance measurement published in 2013. As the period of this study is 2013-2016, it is very appropriate to use GRI G4 for the research to be up-to-date.

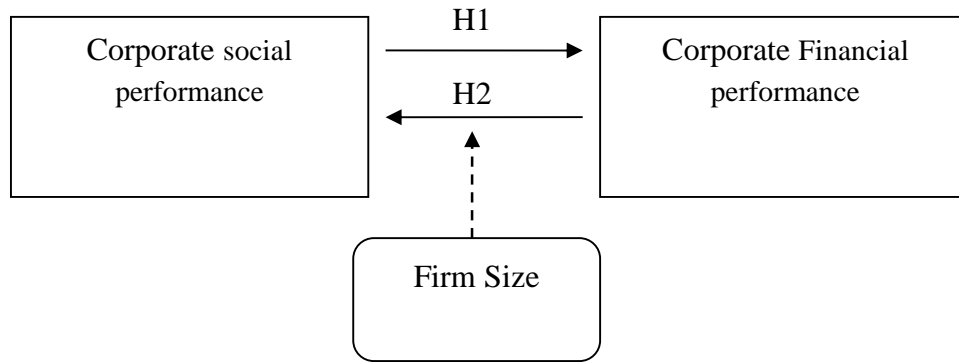


Figure 1. Framework

In GRI G4 91 criteria are covering all dimensions. If the company discloses CSR activity based on these criteria, it will be given a score of 1 (one). Meanwhile, if not, then given a score of 0 (zero). Measurements are made by calculating the proportion between the total numbers of disclosure criteria made by the company against the total disclosure criteria present in GRI G4. Measurement of variables can be formulated as follows (Eduardus & Juniarti, 2016).

$$CSRI = \frac{\text{Number of Corporate Disclosure Criteria}}{\text{Number of Disclosure Criteria According to GRI G4}} \quad (1)$$

Information: CSRI = Corporate Social Responsibility Index

Corporate Financial Performance

In this study, the corporate financial performance is measured by accounting-based measures using ROA because the measurement of accounting-based financial performance, especially ROA, proves to be a better social responsive predictor than market size (McGuire et al., 1988). ROA is a ratio that can illustrate the profitability of the company more clearly and has included some other profitability variables. Besides, ROA also reflects the ability of corporate assets to generate revenue for the company. By knowing ROA, we can assess whether the company has been efficient in using its assets in operating activities to generate profits (Halim, 2003).

Performance measurement on an accounting basis, especially ROA is more commonly used because accounting data can be obtained more easily from companies listed in the stock market (Horowitz, 1984). ROA can be calculated by the following formula (Fahmi, 2014).

$$ROA = \frac{\text{Earning After Tax (EAT)}}{\text{Total Assets}} \quad (2)$$

Firm Size

Firm size is a scale that can be used to determine the size of the company (Aryani, 2011). The size of the firm will determine the firm's capacity to perform operations, possibly generate profits, and influence market reaction (Crisostomo et al., 2011). On the other hand, the larger size of the company shows the most established and stable growth of the company. Therefore, big companies have more resources that are likely to be used in social responsibility activities (Waddock & Graves, 1997). According to Lanis and Richardson (2013), firm size can be measured by the total natural logarithm of assets.

$$\text{Firm Size} = \text{Ln} (\text{Total Assets}) \quad (3)$$

Population and Sample Research

The population in this study includes all mining companies listed on the Indonesia Stock Exchange 2013 to 2016, covering total 38 companies. The sample was obtained by purposive sampling technique. The final sample used in this study is 32 mining companies listed on the Indonesia Stock Exchange from 2013 to 2016.

In this study, there are 57 data used as sample research on model 1 and 59 data on model 2, obtained through outlier data. According to Ghozali (2016), outlier is a case or data with unique characteristics that look very much different from other observations and appears in the form of extreme values. This outlier data should be removed from observation. The limit of the normal curve is to have a Z-score with a range of -2.5 to +2.5. These value limits tend to produce better normality (Sufren & Natanael, 2013).

Table 1: Research Sample

No.	Information	Amount
1.	Mining companies listed on IDX during 2013-2016	38
2.	Publish annual full report in succession from 2013-2016	(2)
3.	Reveal CSR in the annual report in succession from 2013-2016	(4)
4.	Availability of data required in the calculation (ROA and firm size)	(0)
5.	Number of samples (company)	32

Source: Processed Data (2018)

Data Collection

In this study, the required data is obtained by using archive data collection techniques, namely using documents or secondary data. Data on financial and non-financial statements are obtained from the website of the Indonesia Stock Exchange (IDX) and the company website, which became the object of research. Additionally, the theoretical data on the issues raised in the research is obtained from literature books, journals, and research results related to the problems discussed in this study.

DISCUSSION

Descriptive Statistics Analysis Results

The variables used in this study are financial performance measured by ROA, social performance measured by CSRI, and firm size (F size) measured by Ln (Total Asset).

In testing hypothesis H1, financial performance (ROA) is used as a dependent variable, social performance (CSRI) as an independent variable, and firm size as a control variable. In testing hypothesis H2, social performance (CSRI) is used as a dependent variable, financial performance (ROA) as an independent variable, and firm size (F size) as a control variable. The results of descriptive statistical analysis can be seen in Table 2 for the model used in testing hypothesis H1, and Table 3 for the model used in testing hypothesis H2.

Table 2: Results of Descriptive Statistics Analysis Model 1

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	64	-.7213	.1534	-.013564	.1463148
CSRI	64	.0549	.8681	.192308	.1393730
Fsize	64	17.3306	34.5748	29.152903	2.1766614
Valid N (listwise)	64				

Source: Processed SPSS Data 22

Table 3: Results of Descriptive Statistics Analysis Model 2

	Descriptive Statistics				
	N	Minimum	Maximum	Mean	Std. Deviation
CSRI	64	.0769	.6374	.254808	.1399341
ROA	64	-.7213	.1534	-.013564	.1463148
F-size	64	17.3306	34.5748	29.187948	2.1667373
Valid N (listwise)	64				

Source: Processed SPSS Data 22

Linear Regression Model

This study uses two models of regression analysis: Model 1 test to see whether there is the influence of independent variable 1 (CSRI) to dependent variable 1 (ROA) with firm size (F size) as a control variable. Table 4 below shows the results of multiple regression analysis in model 1 of this study.

Table 4: Regression Coefficient Test Results Model 1

Model	Coefficients	
	Unstandardized Coefficients B	Std. Error
(Constant)	.275	.217
1 CSRI	.312	.113
F size	-.011	.008

Source: Processed SPSS Data 22

Based on the table above test results, n the regression model 1 used in this study is as follows.

$$ROA_t = 0.275 + 0.312 CSRI_{t-1} - 0.011 F size_{t-1} \quad (4)$$

Information:

- ROA_t = Corporate Financial Performance (Return On Assets) in period t.
- 0.275 = Constants
- CSRI_{t-1} = Social Performance (Corporate Social Responsibility Index) on t-1 (previous period)
- F size_{t-1} = Firm size in the previous period

Furthermore, model 2 test to see whether there is the influence of independent variable 2 (ROA) to the dependent variable 2 (CSRI) with firm size (F size) as a control variable. Table 5 shows the results of multiple regression analysis in model 2 of this study.

Table 5: Regression Coefficient Test Results Model 2

Coefficients ^a		
Model	Unstandardized Coefficients	
	B	Std. Error
(Constant)	-.856	.280
1 ROA	.768	.170
F size	.037	.010

Source: Processed SPSS Data 22

Based on the table above test results, the regression model 2 used in this study is as follows.

$$CSRI_t = -0.856 + 0.768 ROA_{t-1} + 0.037 F size_{t-1} \quad (5)$$

Information:

- CSRI_t = Social Performance (Corporate Social Responsibility Index/CSRI) in period t
- 0.856 = Constants
- ROA_{t-1} = Corporate Financial Performance (Return On Assets) in period t-1 (previous period)
- F size_{t-1} = Firm Size in the previous period

Hypothesis Testing Results

Based on the test with SPSS 22, the results of the significance of individual parameters (t-test statistic) for model 1 and model 2 are mentioned below in Tables 6 and 7.

Table 6: Statistical T Test Results Model 1

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.275	.217		1.266	.211
1 CSRI	.312	.113	.382	2.768	.008
F size	-.011	.008	-.198	-1.433	.158

Source: Processed SPSS Data 22

Table 7: Statistical T Test Results Model 2

Coefficients ^a					
Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.856	.280		-3.053	.003
1 ROA	.768	.170	.504	4.528	.000
F size	.037	.010	.434	3.905	.000

Source: Processed SPSS Data 22

The results of statistical t-tests for model 1 (Table 6) can show the level of significance of the influence of independent variables separately to the dependent variable. It can be observed that the social performance of the company (CSRI) has a significant level of 0.008 where this value is below 0.05 and has a regression coefficient value of 0.312 (positive value). This shows that CSRI has a significant positive effect on the dependent variable (ROA). Firm size (F size) has a significant

level of 0.158 and has a regression coefficient value of -0.011 (negative value). This result indicates that F size has no significant negative effect on ROA.

Table 7 shows the results of the t-test statistic for model 2 used in this study. It can be observed that ROA has a significance of 0.000 where this value is below 0.05 and has a regression coefficient value of 0.768 (positive value). This shows that ROA has a significant positive effect on CSRI. Firm size (F size) has a significance value of 0.000 or is under 0.05 with regression coefficient value of 0.037 (positive value), so it can be seen that firm size variable (F size) has a significant positive effect on CSRI.

The Influence of Social Performance on Corporate Financial Performance

It can be observed from the analysis of research outcomes that social performance (CSRI) has a significant positive effect on corporate financial performance (ROA). This suggests that the results of this study support the hypothesis H1 that "Social performance has a positive effect on the financial performance of the company".

Higher social performance will lead to increased financial performance (ROA) of the company. This is as per the good management theory, which states that a company will get a good reputation from stakeholders in line with the corporate social performance. This will make easier for the company to get a good financial position as well, so that the social performance of the company is a matter of concern, in advance, compared with the financial performance of the company ([Margaretha, 2012](#)).

Companies that have a good social responsibility will get a positive appreciation from the stakeholders so that the companies can increase sales and reduce costs that leads to increased corporate profits ([Dean, 1998](#); [Eduardus & Juniarti, 2016](#)). Besides, the company will also get many advantages such as customer loyalty, as well as trust from creditors and investors. This will trigger the company's finances to be better so that the company's earnings increase and this will be followed by an increase in company ROA in the next year ([Husnan & Pamudji, 2013](#)).

The results of this study support the results of research conducted by previous studies, such as [Waddock and Graves \(1997\)](#), [Orlitzky et al. \(2003\)](#), [Husnan and Pamudji \(2013\)](#), [Eduardus and Juniarti \(2016\)](#), [Fadila \(2016\)](#), and [Weber \(2017\)](#).

Effect of Financial Performance on Corporate Social Performance

Based on the results of the research that has been done, it can be seen that the financial performance (ROA) has a significant positive effect on corporate social performance (CSRI). This suggests that the results of this study support the hypothesis H2, which states as follows: "Financial performance has a positive effect on corporate social performance".

The results support the slack resources theory which suggests that better financial performance has the potential to generate slack resources (financial and other), which will then provide an opportunity for companies to invest in the realm of social performance, such as public relations, employees, or the environment. If slack resources are available, better social performance will be generated ([Waddock & Graves, 1997](#)). The results of this study also support the results of research conducted by [McGuire et al. \(1988\)](#), [Waddock and Graves \(1997\)](#), [Chen and Wang \(2011\)](#), [Eduardus and Juniarti \(2016\)](#), and [Weber \(2017\)](#).

CONCLUSIONS

This study aims to find out whether the social performance and financial performance of the company is an influencing variable, as explained by the good management theory and slack resources theory. Based on the results of research, it can be seen that social performance has a significant positive effect on the financial performance of the company. These results indicate that better social performance will lead to increased corporate financial performance. This is in line with that explained by the good management theory, which states that a company will get a good reputation from stakeholders in line with the corporate social performance. This will make the company easier to get a good financial position as well so that the social performance of the company is a matter of concern in advance compared with the financial performance of the company ([Margaretha, 2012](#)).

Furthermore, the results showed that financial performance has a positive effect on corporate social performance. The company's higher financial performance will improve its social performance. The results of this study support the slack resources theory which states that better financial performance has the potential to produce slack resources (financial and other), which will then provide an opportunity for companies to invest in the realm of social performance, such as public relations, employees, or the environment. If slack resources are available, better social performance will be generated

(Waddock & Graves, 1997). Based on the results of this study, it is concluded that the social performance and financial performance of mining companies listed on the Indonesia Stock Exchange (IDX) is a variable that affects each other.

As a limitation of this research, it should be noted that the results of this study could not be generalized to all types of industries, because this study only uses mining companies as research objects. Additionally, the observation period of this study is relatively short, covering only a period of four years, from 2013 to 2016.

Based on the conclusions obtained from the results of this study, the company should try to improve its social performance, so it that it can increase its financial performance. Besides, further research is expected to extend the observation period undertaken.

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