THE IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY (CSR) AND ITS IMPACT ON FIRM’S OPERATING EFFICIENCY, INCOME TAX, AND STOCK PRICE

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ABSTRACT

The primary objective of the firm is to earn maximum profit or to maximize shareholder wealth. Profit, in accordance with the principle of going concern, was required to maintain firm’s existence and, in turn, firm’s expansion and development. One way that can be accomplished by a firm in order to achieve a satisfactory level of profit is to make a positive contribution to the social environment, or better known as corporate social responsibility (CSR). This study generally aims to analyze the effect of the implementation of CSR on stock prices and income taxes either directly and indirectly through operating efficiency. In particular, objectives of this study were to analyze (i) the direct effect of CSR implementation on corporate stock prices, (ii) the indirect effect of CSR implementation on corporate stock prices through corporate operating efficiency, (iii) the direct effect of CSR implementation on corporate income tax, and (iv) the indirect effect of CSR implementation on corporate income taxes through corporate operating efficiency.

Samples of this study were 198 companies implemented corporate social responsibility (CSR) in 2009 and 2010. Data, consisting of corporate social responsibility indices, operating efficiencies, income taxes, and stock prices were obtained from the Indonesia Stock Exchange. Path analysis was performed to analyze causal relationships amongst investigated variables.

Results of the study indicate that the implementation of corporate social responsibility (CSR) directly affects corporate stock prices and indirectly affects income taxes through corporate operating efficiency.

Keywords: Corporate Social Responsibility (CSR); operating efficiency, stock price; corporate income tax.
Background to the Study

Basically the company's goal is to earn profit. With a profit, then the company can maintain the survival and can continue to develop and deliver a profitable return for its owners. To earn a profit, the company conducts its operational activities in order to achieve that goal. However, along with the activities of the company to earn profit collisions sometimes occur on the surrounding environment, both natural and social environment. As evidence, many series of cases concerning the impact or the impact of business activities that impact on social order and environment such as the Chernobyl nuclear reactor meltdowns, Ukraine (1986); Greenpeace activist blockade against the action of the sinking of the former Shell owned rig in the North Atlantic Ocean in the event of Brent Spar (1995). Never-ending conflict between indigenous Papuans with PT Freeport Indonesia and the Government and mudflow events of exploration field of Lapindo Brantas in Sidoarjo are some examples of the negative impacts of business activities in Indonesia.

The concept of CSR or Corporate Social Responsibility embodies a commitment to sustainability (sustainability) of the company are reflected into the triple bottom line "3Ps" namely profit, planet, and people. 3Ps concept is regarded as a key pillar in building a sustainable business. This concept of changing the old paradigm that the survival of the company will occur if the company put a concern for economic growth, concern for the development of concern for the environment and social development. In keeping with the development, business enterprises must contribute to all three issues (Andiwahyudin, 2011).

Currently the company is not only required to seek profit but also should pay attention to social responsibility in society. Economically, the company is expected to get the highest possible profit. But the social aspect, then the company should contribute directly to the public that improves the quality of life of the community and environment. Therefore, the government asked for a commitment of private or business people in particular as a form of accountability for the negative impacts arising from this CSR program. Through Legislation No. 40 of 2007 on limited liability companies and law and Legislation No. 25 of 2007 on capital investment, the government expressively asked for the commitment of private/company obliged to perform CSR. CSR is increasingly playing an important role in encouraging the broader corporate social responsibility for creating a good balance of economic development, social or environmental.

With the inception of the legislation on the company's obligation to carry out social responsibility or Corporate Social Responsibility (CSR) makes the pros and cons in the business circles. The company objected again the legislation when they are burdened with the cost of this social responsibility. Actually, the implementation of CSR has many benefits that will be felt by the company. According to Kotler and Lee (2005), some benefits can be gained through the implementation of CSR companies are increasing sales and marketing share, strengthen brand positioning, enhance corporate image, reduce operating costs, enhance the attractiveness of the company in the eyes of investors and financial analysis.
From another aspect, namely taxation, the implementation of CSR programs requires more in-depth study in the application, because the CSR programs implemented by the company could be in the form of various programs. Form of the program selected by the company raises its own problems in the aspect of taxation, both aspects of Income Tax and Value Added Tax.

Therefore, this paper aims to examine more deeply about the impact of the implementation of CSR programs for the company. Furthermore this study aims to provide empirical evidence of the influence of the implementation of corporate social responsibility (CSR) on stock prices and income taxes both directly and indirectly through corporate operating efficiency.

**Research Methods**

Variables used in this study were dependent variable, intervening variable, and independent variables. These include: (i) Corporate Social Disclosure Index (CSDI) based on the GRI which consists of three focuses of disclosure (i.e., economic, environmental, and social sustainability); (ii) corporate operating efficiency (i.e., Operating Expenses to Operating Income Ratios); and (iii) income tax and stock price.

Sample of the study were obtained from companies listed in Indonesian Stock Exchange (IDX) using the following criteria: (i) the companies listed in the Indonesian Stock Exchange in period of 2009 to 2010; (ii) the companies provide a complete annual report for the selected period; and (iii) the companies have complete data related to the variables used in the study. Based on these criteria, 198 companies were selected and used in this study.

Path analysis was performed to analyze both the direct and indirect effect, through corporate operating efficiency, of corporate social responsibility disclosure indices on corporate income tax and stock price. Amos 15 was used to perform the analyses.

**Results and Discussions**

In analyzing the effect of CSR on corporate operating efficiency and, in turn, on corporate income tax and corporate stock price we performed path analysis. Results of the analysis are shown in the following figures.

![Figure 1. The unstandardized path coefficients](image_url)
Significances of both direct and indirect effects, through corporate operating efficiency, of CSR implementation on corporate income tax and corporate stock price are depicted in table which follows.

<table>
<thead>
<tr>
<th>Effect of IV $^1$ on DV $^2$</th>
<th>Path coeff.</th>
<th>SE $^3$</th>
<th>CR $^4$</th>
<th>Sign $^5$</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSRI $\rightarrow$ BOPO</td>
<td>-0.862</td>
<td>.344</td>
<td>-2.504</td>
<td>0.012</td>
</tr>
<tr>
<td>BOPO $\rightarrow$ TAX</td>
<td>0.060</td>
<td>.008</td>
<td>7.963</td>
<td>***</td>
</tr>
<tr>
<td>BOPO $\rightarrow$ SP</td>
<td>-3.919</td>
<td>3.212</td>
<td>-1.220</td>
<td>0.222</td>
</tr>
<tr>
<td>CSRI $\rightarrow$ TAX</td>
<td>0.100</td>
<td>.052</td>
<td>1.919</td>
<td>0.055</td>
</tr>
<tr>
<td>CSRI $\rightarrow$ SP</td>
<td>45.935</td>
<td>22.157</td>
<td>2.073</td>
<td>0.038</td>
</tr>
</tbody>
</table>

Note: $^1$ IV: Independent variable  
$^2$ DV: Dependent variable  
$^3$ SE: Standard Error  
$^4$ CR: critical ratios  
$^5$ Significance

It is found that corporate social responsibility which is represented by CSRI directly affects corporate stock price (SP). CSR significantly affect on corporate operating efficiency (BOPO) in negative manner which means that the higher the company implements CSR the more efficient the company operation will be. Corporate operating efficiency (BOPO), however, has no significant effect on corporate stock price (SP). On the other hand, it is interesting to find that CSR has no direct effect on corporate income tax (TAX). In the mean time, corporate operating efficiency (BOPO) significantly affects corporate income tax (TAX). Since corporate social responsibility (CSRI) affects corporate operating efficiency (BOPO). It is understood that corporate social responsibility (CSRI) indirectly, through corporate operating efficiency (BOPO), affects corporate income tax (TAX).

These results are generally in line with Kotler and Lee (2005), who state that companies that implement corporate social responsibility will obtain to some extent either direct or indirect benefits. One of which, according to them, is that these companies will lower their operating cost. The costs of marketing their products can be reduced and replaced it with the costs of CSR which subject to tax deductible. In this study, it is found that corporate social responsibility implementation affects in a significant manner corporate operating efficiency (i.e., BOPO).

Regarding corporate income tax and its relationship with corporate social responsibility implementation, Irawan (2008), Aris (2010), Adoe (2011), and Williams, 2007, Watson 2011, have an interesting statement. They argued that from tax regulation or tax law point of view, corporate social responsibility implementation can be linked with income tax and value added tax (VAT). To obtain benefits from corporate social responsibility implementation in relation with income tax, companies are required to select an appropriate strategy that makes all costs incurred for the selected CSR program can be deducted from as expenses that reduce taxable income (Irawan, 2008; Aris, 2010; Adoe, 2011; Williams, 2007; Watson, 2011).
The Directorate General of Taxation, Ministry of Finance of the Republic of Indonesia, confirmed that costs incurred from Corporate Social Responsibility (CSR) implementations can be deducted from gross income in determining taxable income (tax deductible). However, CSR activities that are tax deductible is limited only to certain types of activities as stipulated in Law no. 36/2008 on Income Tax.

In this study, as mentioned earlier, corporate social responsibility implementation does affect income tax that must be paid by companies. Interestingly, however, it affects corporate income tax indirectly through corporate operating efficiency. This phenomenon is generally in accordance with Kotler and Lee (2005), Irawan (2008), Aris (2010), Adoe (2011), and Williams (2007), and Watson (2011).

For investors in capital markets, especially those with long-term investment horizon, CSR implementation report can be used as a source for investment decisions in the stock world. The report is useful for identifying companies that have a high commitment to CSR. Companies that have a high commitment to CSR will be appreciated by the community that will increase the company's reputation (Cahyono, 2011; Cellier, 2011; Cheng and Christiawan, 2011). A study conducted by Ismiyanti and Mahadwartha (2006) revealed that there a strong relationship between corporate social responsibility implementation with corporate profitability. Since corporate financial performance, which is, among other things, represented by corporate profitability, is closely related to corporate stock price, social responsibility implementation has the potential to positively affect corporate stock price (Flori et al., 2010; Hall and Rieck, 1998; Arx and Ziegler, 2009). This is also supported by a survey conducted Marsteller (2000) which indicated that 42% of respondents believe that the track record of CSR will increase stock prices by 89%. This is indicated that corporate social responsibility implementation is of importance to the corporate stock price.

Results of this study strongly support these statements. Corporate social responsibility implementation (i.e., CSRI) is found to significantly and directly affect corporate stock price which is—in various ways and magnitudes—in line with Flori et al. (2010), Hall and Rieck (1998), and Arx and Ziegler (2009).

Conclusions and Suggestions

General conclusions of the study, which was aimed at analyzing the effect of the implementation of corporate social responsibility (CSR) on operating efficiency, income tax, and stock price, are that CSR implementation directly affects corporate stock price and indirectly affects corporate income tax through corporate operating efficiency.

It is interesting that CSR implementation was found to significantly affect, either directly or indirectly, corporate stock price as well as corporate income tax. This suggests that CSR implementation is of importance to the firm, particularly in increasing its financial performance which is represented, amongst other things, by stock price and in decreasing its income tax as a result of tax deduction in accordance with Act No. 36/2008 of income tax. Accordingly, we strongly suggest the government to more comprehensively encourage all companies to implement corporate social
responsibility. It will be not only benefit the companies but also, and most importantly, benefit the society in term of a better long term social, economic, environmental, and possibly political (Indrawati, 2009), conditions.

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