

DIVIDEND POLICY AND COMPLIANCE OF CORPORATE SOCIAL RESPONSIBILITY IN STRENGTHENING FINANCIAL PERFORMANCE OF CONSUMER GOODS INDUSTRY COMPANIES IN INDONESIA

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Abstract—The study aimed to analyze the financial performance of companies in the consumer goods industry sector in Indonesia which might affect the stock price using Return on Assets (ROA) variable and moderated by compliance with Corporate Social Responsibility (CSR) activities and dividend policy. The sample of this research was sixty financial reports of companies using a quantitative research approach. The data analysis method was performed by path analysis using SmartPLS. The study results showed that current ratio and debt to equity ratio had significant effect on ROA. While ROA had a positive and significant effect on the stock price, CSR had a negative and significant effect on the stock price. Moreover, ROA moderated by CSR and DPR had no significant effect on the stock price.

Keywords—financial performance, corporate social responsibility, dividend, stock price

I. INTRODUCTION

A company's financial performance is an indicator of the success of company's management in managing the company's finances, which will have an impact on the company's values as reflected in the company's stock price. Companies from various industrial sectors compete to provide the best stock price for their shareholders. Slowing global economic growth and tightening of interest rates encourage companies to maintain their financial performance and allocate company profits with the right decisions. The consumer goods industry sector is one of the sectors which can survive in these conditions even though it is still in the process of recovery in 2018. The sub-sectors which experienced growth were food and beverage, transportation and communication, dwelling and utilities related sub-sectors. Furthermore, this sector still contributes significantly to the Gross Domestic Product (GDP) in Indonesia. To be able to maintain a good

financial performance, the company must pay attention to various factors that improve financial performance, such as the level of company liquidity, efficient use of company assets, and debt management.

Good company performance will provide a high rate of return to its shareholders. The level of return on assets obtained by shareholders will encourage the company's stock price to increase (Asmirantho, 2015). These conditions prove the importance of monitoring financial performance to generate profits for investors.

Investors do not only assess the company's financial performance based on the level of profitability which can be given but also the company's benefits to the stakeholders' environment. At present, companies are also required to be able to make a good distribution of profits related to dividend policies and compliance with corporate social responsibility (CSR) programs. Dividend distribution to shareholders and the implementation of corporate social responsibility activities to the community is a concrete form of commitment from the company to increase the investors' trust and provide a positive image of the company (Imran, 2017).

Companies must also understand that company profits distributed to dividends have a stronger effect on the stock price than only show the effect of the profit rate on the stock price (Sitorus, 2017). This proves that shareholders do not only need a large amount of profit but rather assess how much profit will be distributed in the form of cash dividends for the welfare of shareholders.

Furthermore, companies which earn profits must also evaluate their CSR activities because companies which have profits indicate that they can allocate their profits to CSR activities each year. However, non-compliance with CSR activities is a problem which is often found in companies in Indonesia. Although companies in Indonesia are obligated to implement CSR in

according to Law no 40 of 2007, many of which are still constrained by budgets, resources, and target activities. Companies must realize that CSR has a positive impact on the company which can increase the stock price because it can increase public trust toward the company, and the investors will see better prospects of the company (Darmawati, 2018). Additionally, the companies must have the policy to allocate the existing profits into their CSR program budgets each year.

Previous studies discussing the direct effect of profitability on the stock price have been widely conducted. However, studies which analyze the effectiveness of the use of profit with the moderating of dividends and CSR on the stock price are still difficult to obtain; thus, the present study would provide empirical evidence for investors.

II. LITERATURE REVIEW

The stock price is the market price that prevails on the exchange, which is the determinant price for investors to make the stock sale-purchase transactions. The stock price which was used as an indicator in this study was the closing price of the stock at the end of the year (Darmaji & Fakhruddin, 2012).

Profitability is a measure of the success rate of managing company assets to generate profits. A company which has profits can distribute dividends and hold the company's CSR activities which will form a positive image of the company to investors and increase the company's values/stock price (Hanif, 2017).

Dividends are profit distributions as a company achievement each year. Investors will determine the company's financial performance as good if the profits obtained can be distributed in the form of cash dividends, so the company's stock price increases (Lioew, 2014).

Corporate social responsibility is a concrete action from the company's commitment to act ethically in carrying out the company's operations by providing economic contributions to the company's stakeholders (i.e. employees, family of employees, local communities, and general public) and improving the quality of life in their environment (Imran, 2017). The profits generated by the company must be allocated to the budget of the company's CSR activities which will have a positive impact on the stakeholder's environment.

The financial performance of the company which is reflected in the level of profitability is the result of the company's management related to the level of liquidity, the efficient use of company assets, and the management of corporate debt. These various factors must be optimized in encouraging the achievement of the return target expected by investors.

Company liquidity is a measure of a company's ability to fulfill short-term obligations related to its

business operations. A company must establish the right level of liquidity according to the needs of the company. This is because the excessive level of liquidity will decrease the company profits (Mardian, 2017).

Inventory turnover is a measure of how quickly a company manages company assets in the form of inventory to generate sales. Higher inventory turnover will encourage the achievement of company sales so that it can generate profits (Hoiriya, 2015).

Debt to equity ratio is an indicator of the company debt management which is considered by investors. A company must pay attention to the proportion of debt and its own capital so that it can boost its financial performance more optimally. Excessive debt conditions will reduce shareholder trust because it weakens the control of the company's internal and reduces profits owned by the company (Nordiana, 2017).

A company must also supervise the use of fixed assets in conducting its operations. Efficiency in the use of fixed assets can increase sales which will produce greater profits and increase the satisfaction of investor (Oktavianto, 2017).

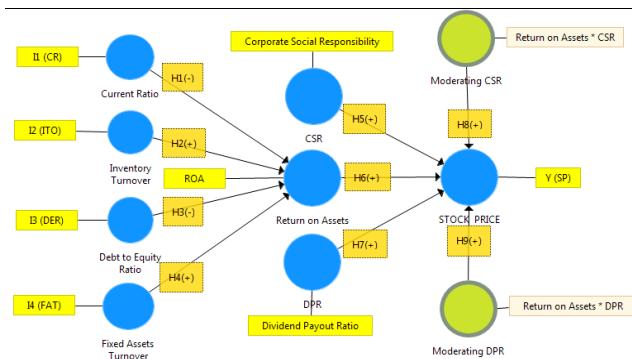


Fig. 1. A Framework of Research (Source: Data Processing, 2019)

III. METHODS AND DISCUSSION

The quantitative research method was used in the present study. The research data were collected from the Indonesia Stock Exchange on the website www.idx.co.id. The research samples were 12 consumer goods industry companies. The type of data collected was secondary data, such as the company's financial statements for five years in the period of 2013-2017. Therefore, the number of data sources were seventy audited financial statements of companies which became the research samples.

$$\text{Return on Assets}_{i,t} = \beta_0 + \beta_1 \text{CR}_{i,t} + \beta_2 \text{ITO}_{i,t} - \beta_3 \text{DER}_{i,t} + \beta_4 \text{FAT}_{i,t} + \varepsilon_{i,t} \quad (1)$$

$$\text{Stock price}_{i,t} = \beta_0 + \beta_2 \text{CSR}_{i,t} + \beta_1 \text{ROA}_{i,t} + \beta_1 \text{DPR}_{i,t} + \beta_1 \text{ROA}_{i,t} \text{CSR}_{i,t} + \beta_2 \text{ROA}_{i,t} \text{DPR}_{i,t} + \varepsilon_{i,t} \quad (2)$$

The data analysis method used in the research was SmartPLS version 3 software to regress the path analysis model with Pls-algorithm, bootstrapping, and blindfolding (Ghozali, 2016).

All variables are measured by the indicator such as :

The stock price which was used as an indicator in this study was the closing price of the stock at the end of the year.

Return on assets = earning after tax / total assets

Corporate social responsibility with indicators:

$$CSDI = \frac{\sum xip}{np}$$

Dividend payout ratio = cash dividend / earning after tax

Current ratio = current assets / current liabilities

Inventory turnover = cost of gold sold / inventory

Debt to equity ratio = total debt / total equity

IV. RESULTS AND DISCUSSION

Data of financial statements for five years which have been inputted were processed using the path analysis method with SmartPLS.

TABLE 1. R SQUARE

	R Square	R Square Adjusted
Return on Assets	0.447	0.407
Stock Price	0.333	0.271

Source: Data Processing, 2019

Table 1 shows the following results:

- a. R square of return on assets 0.447 means that the variability of the ROA construct can be explained by the disclosure construct of CR, ITO, DER, FAT, and its interaction by 44.7%.
 - b. R square of stock price 0.333 means that the variability of stock price construct can be explained by the disclosure construct of ROA with the moderation of CSR, DPR, and its interaction by 33.3%.

The results of the R square value showed that the value of the ROA formation from the disclosure variables of CR, ITO, DER, and FAT was 44.7%. It was categorized high because the R square value should be closer to 100% so that the disclosure variable has a greater variability formation.

The R square value for the stock price 33.3% which had the variability of disclosure variable of ROA with the moderation of CSR and DPR has been able to play a role in explaining the stock price, whereas the remaining

66.7% was explained by other variables which were not examined in this study.

TABLE2. PATH COEFFICIENT VALUES

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STD EV)	P Values
CSR -> Stock Price	-0.522	-0.518	0.179	2.916	0.004
Current Ratio -> Return on Assets	-0.225	-0.231	0.078	2.873	0.004
DPR -> Stock Price	-0.232	-0.214	0.270	0.861	0.390
Debt to Equity Ratio -> Return on Assets	0.609	0.557	0.212	2.880	0.004
Fixed Assets Turnover -> Return on Assets	-0.006	-0.002	0.106	0.058	0.953
Inventor y Turnover -> Return on Assets	-0.205	-0.180	0.128	1.609	0.108
Moderating CSR -> Stock Price	-0.509	-0.503	0.357	1.425	0.155
Moderating DPR -> Stock Price	-0.510	-0.482	0.295	1.733	0.084
Return on Assets -> Stock Price		1.274	0.570	2.347	0.019

(Source: Data Processing, 2019)

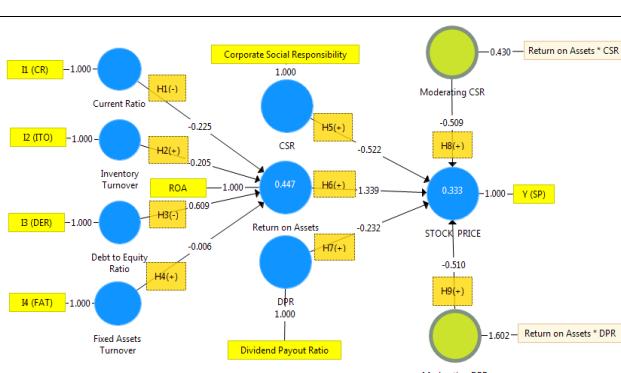


Fig. 2. Bootstrapping Plsoutput (Source: Data Processing, 2019)

Table 2 and Figure 2 provide information on the results of the path coefficient values, T-statistics, and the significance level of variables. To determine whether the variable has an effect, the value of $T_{\text{statistics}} > T_{\text{table}}$ in which the T_{table} used was 1.96, while the significance value was seen from the p-value < 0.05 . The results obtained were as follows:

- H1 : The path coefficient value of CR on ROA was 0.225, and CR had a negative and significant effect on ROA with $T_{\text{statistics}}$ value = 2.873 and p-value = 0.004.
- H2 : The path coefficient value of ITO on ROA was 0.205, and ITO had no direct and significant effect on ROA with $T_{\text{statistics}}$ value = 1.609 and p-value = 0.108.
- H3 : The path coefficient value of DER on ROA was 0.609, and DER had a positive and significant effect on ROA with $T_{\text{statistics}}$ value = 2.880 and p-value = 0.004.
- H4 : The path coefficient value of FAT on ROA was 0.006, and FAT had no direct and significant effect on ROA with $T_{\text{statistics}}$ value = 0.058 and p-value = 0.953.
- H5 : The path coefficient value of CSR on the stock price was -0.522, and CSR directly had a negative and significant effect on the stock price with $T_{\text{statistics}}$ value = 2.916 and p-value = 0.004.
- H6 : The path coefficient value of ROA on the stock price was 1.339, and ROA directly had a positive and significant effect on the stock price with $T_{\text{statistics}}$ value = 2.347 and p-value = 0.019.
- H7 : The path coefficient value of DPR on the stock price was 0.232, and DPR had no direct and significant effect on the stock price with $T_{\text{statistics}}$ value = 0.861 and p-value = 0.390.
- H8 : The path coefficient value of ROA on the stock price moderated by CSR was 0.509, and it had no significant effect with $T_{\text{statistics}}$ value= 1.425 and p-value = 0.155.
- H9 : The path coefficient value of ROA on the stock price moderated by DPR was 0.510, and it had no significant effect with $T_{\text{statistics}}$ value= 1.733 and p-value = 0.084.

The research equation model produced was as follows:

$$\begin{aligned} \text{Return on Assets} = & -0.522 \text{ CR} - 0.205 \text{ ITO} + 0.609 \\ & \text{DER} - 0.006 \text{ FAT} \end{aligned} \quad (1)$$

$$\begin{aligned} \text{Stock price} = & 1.339 \text{ ROA} - 0.522 \text{ CSR} - 0.232 \text{ DPR} - \\ & 0.509 \text{ ROA*CSR} - 0.510 \text{ ROA*DPR} \end{aligned} \quad (2)$$

The present research demonstrates that CR and DER were the factors which had a significant effect on the level of ROA . This result is in line with the research

conducted by Mardian (2017) and Nordiana (2017). CR has a negative effect which indicates companies in consumer goods industry must decrease the liquidity to increase profits. DER has a positive effect, the using of debt with the accurate prediction can impove the profitability for company.

This study also provides evidence that the profitability of consumer goods industry companies had a direct and significant effect on the stock price. However, the study results showed different results in the effect of moderating variables in which the moderation variable of CSR and DPR had no significant effect. Therefore, the study results are not consistent with the research conducted by Lioew (2014) and Vira (2019).

An interesting result found from the study was that the company profits which were distributed in the form of dividends and CSR activities had a different impact on the stock price of consumer goods industry companies in Indonesia. The profits generated by the company had a direct impact on increasing the stock price.

The company's decision to share company profits as cash dividends to the shareholders of consumer goods industry companies had no effect to stock price. It indicates that the behavior of shareholders in the consumer goods industry companies does not focus on cash dividends every year but rather analyze changes in the stock price due to market demand and supply as many investors are interested in consumer goods industry sector companies. This is in line with the irrelevance dividend proposition theory by Miller and Modigliani (Gumanti, 2013).

The level of compliance with CSR activities showed the results in which CSR directly had a negative and significant effect on the stock price, whereas ROA moderated by CSR had no significant effect on the stock price. In this case, CSR activities would have a different effect on the stock price depending on the motives of the policies adopted by the company.

CSR had a negative effect on the stock price which means that more CSR activities carried out by companies will reduce the stock price of the company. Thus, the company does not need to conduct many CSR activities when the stock price is stable or in good condition because many CSR activities can raise different perceptions in the community such as issues that the company only wants to improve their image. However, if the policy of CSR activities is based on the distribution of the company profits, it will no significant effect directly to the stock price. It can be considered because incidentally action of CSR. This provides empirical evidence that CSR activities of the company must be well planned. At the end of the year, when the profits generated by the company will be reported, the company can directly determine the budget allocation for CSR activities in the following year which will

provide a positive image for the company and has an impact on increasing the stock price. This is in accordance with the theory proposed by Imran (2017) that CSR provides benefits in enhancing the company's image.

V. CONCLUSIONS

The research results showed that CR and DER had a significant effect on ROA. While ROA had a direct effect on the stock price, CSR had a negative direct effect on the stock price. Moreover, CSR and DPR have been shown no significantly mediate ROA and the stock price in the consumer goods industry sector companies in Indonesia.

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