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Analysis Corporate Social Responsibility and Environmental Performance Report Forward Financial Performance on Proper Ranking Companies in Indonesia

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***Abstract*—Profit is not the sole purpose of the company. An established company must be able to provide benefits to the owners and stakeholders. Therefore, the company must maintain relationships with stakeholders and maintain the sustainability of the existence of resources so that the company grows sustainably along with the benefits for stakeholders and the balance of nature. To that end, companies must carry out Corporate Social Responsibility (CSR) activities as evidence of corporate responsibility to stakeholders and maintain the availability of sustainable natural resources. Therefore, the company will make environmental performance reports, namely Sustainability Reporting, and Financial Statements to shareholders and stakeholders. For this environmental performance, the government will give a rating in environmental management known as PROPER. This research was conducted to see whether the company's financial performance as measured by Return On Assets is influenced by CSR activities, and Sustainability Reporting for companies that have received PROPER ratings from the government. Research on 45 manufacturing companies listed on the Indonesia Stock Exchange during 2014-2015 shows that CSR activities do not affect financial performance, while Sustainability Reporting has an influence. Thus, manufacturing companies are expected to make CSR activity plans in line with the company's mission and objectives that are sustainable, and maintain the honesty of sustainability reporting as a control and reference tool to maintain the sustainability of the company's business.**

Keywords—corporate social responsibility, environmental performance, return on asset, PROPER, Indonesia

I. INTRODUCTION

The growth of companies in this modern era cannot ignore its role in the environment in which the company operates. The role of the company for the country is not only to contribute economically but also to improve the welfare of society from various aspects such as environment, education, health, and nature. Any business will affect the environment. Also, the types of products and services will use or relate to natural resources. Natural resources are limited while the company's need for natural resources is unlimited. The companies will take as many resources as possible to produce products to sell to people whose needs are increasing and unlimited. This condition can lead to an imbalance between the available natural resources and the needs of industry needs.

An environmental performance report (EPR) is generated by the company to inform stakeholders what has been done to the environment and natural resources through its Corporate Social Responsibility (CSR) program. Therefore, CSR activities must be sourced from corporate profit. Based on this report, it is expected that stakeholders have clear information about corporate responsibility and social activities so that they can support the company's operations. On the other side, this report for the company is a self-reflection to further enhance its role in the environment in which they operate. Ultimately with the support of stakeholders, it is expected that the company has a sustainability operation. Not all CSR activities are in line with the purpose of this activity for the company and the environment. There is a phenomenon when companies are running CSR well but companies do not grow or increase profits. For example, Martina Berto Tbk which earned a "Blue" award of PROPER (corporate performance rating in environmental management) has suffered losses in 2015 of fourteen billion rupiahs (www.menlh.go.id). The "blue" category is a rating given to companies that have made efforts to comply with the applicable requirements for environmental management (meeting all aspects of the requirements).

According to this case above, do an implementation of CSR for a company that has a PROPER award had affected their financial performance? This study tries to find out the influence of CSR and EPR on Financial Performance. The limitation of this research is data used in the year 2014 and 2015 for manufacturing listed companies in Indonesia Stock Exchange. The year that we choose, because the General Reporting International (GRI) was changed the standard in 2016, move to G4 GRI Standard.

II. Literature Review

A. Stakeholder Theory

Stakeholders are parties with an interest in a company that can influence or are influenced by the achievement of the organization's objectives [1]. Stakeholder theory states that a company has a goal to create value for its stakeholders. The company always wants to achieve success and sustainability all the time. Stakeholders are groups that are the main force for the sustainability and success of the company [2]. If the manager fails to perform activities that reach all of these interests, then the stakeholder may sue against the manager. Therefore, stakeholders can affect companies' operations. On the other hand, the manager should act based on company goals on ethical principles. Corporate responsibility which was originally only measured in terms of economic indicators, contained in the financial statements. Now it is currently the responsibility of the company that has shifted to social dimensions, or stakeholders. Thus, the company must keep the relationship with stakeholders by meeting their needs, especially those who have power over the resource requirements for company operational activities. In other words, the uniqueness of stakeholders' expectations leads to CSR's reporting practices in which information from the report is required by stakeholders [3].

B. Legitimacy Theory

The theory of legitimacy comes from the idea of a "social contract" between the organization and the public in where the organization operates [4] and the company uses the economic resources which are available in the community. The theory explicitly states that the business is bound by social contracts approved by the company to take the desired social action, which will ultimately ensure the sustainability of the enterprise [5]. The company must disclose the company's social activities to the public so that it will guarantee the survival of the company [5]. The theory of legitimacy also argues that the company must implement and disclose CSR activities to the maximum possible corporate activity acceptable to society. This disclosure is used to legitimize corporate activity in the public because the disclosure of CSR will indicate the level of compliance of a company [6]. The company is voluntarily reporting its operation if management feels that information is demanded by the public [4].

C. Corporate Social Responsibility (CSR)

The theory about CSR was first expressed by Bowen in 1953 which states the relationship between companies and society. Companies must establish policies relating to the social value of society to achieve the goals of the company. CSR is an organizational activity that voluntarily integrates social and environmental issues in a company's operations, and its interactions with stakeholders are not only on organizational relationships but exceed the responsibilities of legal organizations. The more companies give reports on the detailed CSR, the more companies invest in companies running CSR programs [7]. CSR terminology is often associated with the "triple bottom line reporting (People, Planet, Profit) concept", Every business cannot be separated from the use of natural resources and profit, and peoples. The triple bottom line concept deals with the sustainable development concept with the premisses that improvement should be done in a way which is following the needs of the same time opportunities in the future, so companies should disclose their SCR activities to stakeholders Corporate CSR disclosures by using indicators that established by the Global Reporting Initiative (GRI) [8]. GRI provides guidance to address environmental concerns to better connect to the fundamental aspects of supporting sustainable community development. GRI consists of 91 disclosure items divided into three categories: economic, environmental, and social [9], under Triple Bottom Line Elkington.

D. Environmental Performance Reporting

The reporting of environmental performance will signal the transparency and reputation of managers in managing the company. Information on significant environmental performance will reduce uncertainty and will give the company a competitive edge. Investors will need valuable narrative and numerical disclosure of risk and environmental options and risk management policies [10]. Environmental Performance Reporting (EPR) or Sustainability Reporting is a corporation's performance in keeping and maintaining in around its environment. The measurement of corporate EPR in Indonesia is facilitated by The Ministry of Environment and Forestry of the Republic of Indonesia through the Rating Program in Environmental Management for corporate is called PROPER. PROPER is a pre-eminent program of the Ministry of Environment and Forestry which is packaged in the form of supervision activities and giving advantages and or disadvantages to the company. The rating of environmental performance in PROPER is divided into gold (best ranking), green, blue, red, and black (the worst rating). EPR will affect the measurement using the PROPER rating [11]. The greater the share of companies in environmental activities, the better the company image on the stakeholders. With a positive image, it can attract the attention of stakeholders as well as the users of financial reports.

E. Financial Performance

CSR has been one of a dimension that has evolved in accounting concepts and practices since the 1970s, and the accounting profession has struggled to ensure that social expenditures or responsibilities have been adequately calculated and disclosed in the financial statements. Currently, investors also see indicators or information components that show business sustainability [12], not just the numbers that are in the financial statements. Managers consider CSR as a necessity of business growth or expansion although others consider CSR as a waste of company [8]. Revenue requires sacrifice. Thus, CSR is the cost of the company that should be treated as a sacrifice to generate income. In meanwhile productivity is measured by measuring the effectiveness and efficiency of companies in using company resources to generate revenue. This research uses Return on Assets (ROA) as a measurement indicator for the company's financial performance. ROA can measure the effectiveness of the utilization of assets by management in generating profits based on the amount of available assets [13].

F. Corporate Social Responsibility and Financial Performance

A study was done by Belkaoui [14] and Patten [15] states that investors will make investment decisions in companies that have a high level of attention in the environment as well as have high levels of social responsibility to stakeholders. Companies that have implemented CSR can inform the implementation of the CSR through the disclosure of social information. Research conducted by Patten [15] and Bragdon and Marlin [16] show that social responsibility has a positive influence on firm performance. Meanwhile, other studies have shown that there is no influence between them [17,18].

G. Environmental Performance Reporting and Financial Performance

Some studies have been conducted on the effect of environmental performance on the company's financial performance. The results showed different results. The previous study by Austin et al. [19] and Hart and Ahuja [20], stated that environmental performance has no significant positive influence on financial performance. Besides, research conducted by Salama [21] explains that their environmental performance does not influence financial performance. A company that cares and has an environmental responsibility will enhance the company's image and reputation in the public. Companies that have good maintain environmental performance could be easy to get capital access in the capital market. This resulted in the company obtaining additional funds to finance the operations of the company that will generate greater profits. In conclusion, companies with better environmental performance will improve company performance with greater profits.

H. The Effect of Corporate Social Responsibility on Financial Performance

The company is always in contact with the stakeholders in running the company's operational activities. Companies must have the support and approval from stakeholders for the existence of the company can be maintained. According to stakeholder theory, companies should be able to choose in response to many demands made by stakeholders. If the company can respond to the needs of the stakeholders then this will increase the company's performance. Research conducted by Heal and Paul [22] shows that CSR activity is one of the strategic factors that can be done by companies that will bring long-term benefits to the company. CSR activities can make a useful contribution to managers in risk management. On the other side, research conducted by Siegel and Paul [23] states that CSR activity has a significant productive impact on efficiency, technical change, and economies of scale. CSR conducted by the company can create a good image and is favored by investors. A good corporate image will increase customer loyalty. Increased consumer loyalty can increase sales. Finally, increased sales will push up profitability. Therefore, this research hypothesis is:

Ha_1: Corporate Social Responsibility has a positive influence on a company's financial performance

I. The Effect of Environmental Performance Reporting and Financial Performance

The company encountered many claims from stakeholders. It is not only responsible to the shareholders, but it must also be responsible to employees, consumers, and the public. Companies sometimes neglect social responsibility to the public because the company assumes that it does not contribute to the survival of the company. The relationship between the company and the environment is non-reciprocal. This is a relationship that does not generate mutual achievement. On the theory of legitimacy, companies have high profits do not need to report something related to corporate social performance and other information that may disrupt information about the company's financial success [24]. However, the improvement of financial performance will be had from higher environmental. Companies that have high levels of environmental performance will have a positive response and accepted by the capital market. A positive response can increase the stock return. The research conducted by Bragdon and Marlin [16] shows that environmental performance ratings have a positive influence on profitability in paper companies. On the other hand, research conducted by Al-Tuwaijri et al. [25] shows environmental performance has a positive effect on economic. This result is in line with the stakeholder theory that companies that produce environmentally friendly and environmentally responsible products will attract consumers and other stakeholders so that the company has a distinct competitive advantage with other companies. Therefore this research hypothesis is:

Ha_2: Environmental Performance Report has a positive influence on a company's financial performance.

III. METHODS

Research methods in this study is a quantitative study that uses data of financial statements of public companies that have been published by the Indonesia Stock Exchange, and environmental performance reports obtained from the website of the Ministry of the Environment and Forestry. This research is done through observation of the publication of the company's financial report and company environmental performance report. Unit analysis of this research is manufacturing companies listed during the period 2014-2015 which are running CSR and have the PROPER award. The sampling method in this research is non-probability sampling with a purposive sampling method. The qualified sample in this research as much as 45 companies.

A. Operationalization of variables

1) Corporate social responsibility: The Corporate Social Responsibility Index (CSRI) is a disclosure of information relating to CSR to stakeholders regarding economic, environmental, and social measurements using CSRI that components are taken from the Global Reporting Initiative (GRI). GRI assessment is grouped into three categories of 91 one disclosure consists of economic, environmental, and social categories. The CSRI calculation is performed using a dummy variable, which uses the dichotomy approach, i.e. each CSR item in the research instrument is given a value of 1 if there is SCR disclosure, and a value of 0 if it is not disclosed. The CSRI calculation formula as follows:

$$CSRIij = \frac{\sum Xij}{Nj} \quad (1)$$

Where CSRIij: Corporate Social Responsibility Index of a company i in period j, nj: total items CSR disclosure based on GRI (91 items), Xij: total CSR disclosure of company i in period j. Therefore, $0 \leq CSRIj \leq 1$.

2) Environmental performance reporting: Environmental performance reporting (EPR) is the company's performance in looking after a good environment Corporate EPR is measured through company ratings based on PROPER results. The objective of PROPER is to encourage good corporate governance in environmental management through some instruments. The PROPER rating system is divided into five color levels: Gold (veriest good) with a score of 5, green (very good) with a score of 4, blue (good) with a score of 3, red (bad) with a score of 2, and black (very bad) with a score of 1.

3) Corporate financial performance: Financial performance in this study is measured by the return on asset ratio (ROA). The ROA formula used is :

$$ROA = \frac{\text{Net Income}}{\text{Total Assets}} \quad (2)$$

B. Data Analysis Method

Analysis of the data used in the study is descriptive analysis and multivariate regression analysis. Testing the hypothesis used to explain the influence of independent variables on the dependent variable. Data must pass the test classic assumptions to be used in testing the hypothesis. The classical assumption in this research is included in the normality test, multicollinearity, heteroscedasticity test, and autocorrelation test.

C. Panel Regression Analysis

Panel regression test was conducted to determine the effect of independent variables on the dependent variable with the following equation as follows:

$$Yi = a + b1X1i + b2X2i + \varepsilon \quad (3)$$

Where Y is corporate financial performance, X1 is Corporate Social Responsibility (CSR), X2 is Environmental Performance Reporting (EPR).

IV. Results and Discussion

A. Results

The classical assumption test included the normality, multicollinearity, heteroscedasticity, and autocorrelation tests. There are the results of tests performed classical assumption in this study. Table 1 appears that this research escaped from the classical assumption that can be used to test the hypothesis.

TABLE I. RESULTS OF CLASSIC ASSUMPTION TEST

Normality Test		
Kolmogorov-Smirnov Test	***Unstandardized Residual***	
Asymp.Sig. (2-tailed)	0.200	
Multicollinearity Test		
Model	Tolerance	VIF
CSR	0.730	1.370
EPR	0.730	1.370
AutocorrelationTest		
Durbin Watson (D-W)	1.6660	
Heteroscedasticity Test		
Model	Sig	
CSR	0.939	
EPR	0.311	

The results of panel data regression analysis based on Table 2 below in this research as follows:

$$Y1 = -0{,}221 + 0{,}228CSR + 0{,}071EP + e$$

TABLE II. RESULTS OF REGRESSION

Variable	Regression Model
(Constant)	-0.221 (0.001)
CSR	0.228 (0.054)
EP	0.071 (0.006)

B. Discussion

The hypothesis of CSR's influence on corporate financial performance is measured by ROA. Test results show that CSR has no significant effect on ROA. This result is in line with research [26]. Their studies have shown that there is no influence between CSR disclosure and firm performance. This research is not in line with research by Patten [15], Bragdon and Marlin [16], Sane and Spricer [27], and Pan et al. [28]. The differences in this study with others, this study conducted on the manufacturing industry has been assessed or ranked PROPER by The Ministry of Environment and Forestry of the Republic of Indonesia. The conclusion shows the implementation of CSR does not affect the company's financial performance, meaning that CSR can improve the company's performance. So that Investor does not get social activity information done by the company. Companies fall to give this information to investors.

The second hypothesis of EPR influence on ROA, that EPR has a significant effect on ROA. The result of this research is in line with Bragdon and Marlin [16], and Beurden, and Goessling [29]. This research showed that environmental performance was a positive effect on financial performance (ROA). According to Kai [30], companies which earned Gold ratings, EPR has a significant influence effect on the financial performance, but for companies have Green and Red rating show that EPR does not affect the company's financial performance according to ROA. This result is not in line with the results of Rockness et al. [24] and McGuire et al. [31]. According to the theory of legitimacy, companies have high profits do not need to report something related to corporate social performance and other information that may disrupt information about the company's financial success. According to the stakeholder theory shows that those companies produce environmentally friendly and environmentally responsible products that will attract consumers and other stakeholders so that the company has a distinct competitive advantage with other companies.

V. Conclusion

CSR has not affected the company's financial performance (ROA) occurs although the activities of environmentally friendly result in increased costs that are not relevant in the company's activities. This resulted in a high cost. The higher cost the lower profit. CSR does not affect ROA because investors get information from third parties and governments. This situation can result in asymmetry information. Environmental performance reporting has a significant effect on the company's financial performance (return on assets) because corporate environmental activities affect the company's image. Higher environmental performance can improve the financial performance of the company. The capital market will respond positively to the disclosure of environmental information issued by the firm.

This research suggests that investors can make the right investment decisions and carefully consider the CSR disclosure and environmental performance issued by the company. The investor should know the company's CSR information and consider the company's activities' impact on the environment and society. Companies are advised to have a high social responsibility and disclose the activity in the company reports so that they will be considered by investors in making decisions for investment.

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