Determination of Corporate Social Responsibility (CSR) and Environmental Performance on Profitability in Manufacturing Companies

by Anastasia

Determination of Corporate Social Responsibility (CSR) and Environmental Performance on Profitability in Manufacturing Companies

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Abstract

The purpose of this study is to empirically examine the effect of Corporate Social Responsibility (CSR) and Environmental Performance on the Profitability Level which is proxied by the Return On Equity (ROE) ratio in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange in 2019 – 2021. Using on 20 manufacturing companies, Corporate Social Responsibility and Environmental Performance being factor in affecting probability level. The type of data used in this research is quantitative data and the data source is secondary data. The data of research was analyse using SPSS software version 26 multiple linear regression analysis. The result of research shows that Corporate Social Responsibility (CSR) has a significant negative effect on the company's profitability level and Environmental Performance has a significant positive effect on the company's profitability level. Moreover, the significance of Corporate Social Responsibility (CSR) and Environmental Performance has important implications for the development of policies that aim to improve profitability among manufacturing companies.

Keywords: Corporate Social Responsibility (CSR), Environmental Performance, Profitability Level, Manufacturing Company

INTRODUCTION

Information on how the company's financial performance in obtaining profitability is needed by investors (shareholders) for investment decisions in the company. Investors or stock investors have high expectations for companies that have a good level of profitability because that way investors who invest their capital will be more confident that their funds will return with maximum profits. At this time,

information about financial performance alone in a company is considered irrelevant to read because to attract investors, additional information is needed in the annual report such as the implementation of Corporate Social Responsibility (CSR) activities which include the company's social responsibility to the community and the environment carried out by the company.

The level of profitability is an important point for a company because it is a guarantor of long-term survival for the company and an overview of how a company is able to manage its business. Companies need a helping hand from external parties in supporting their survival, while external parties prioritize companies that have a good level of profitability (profit) and corporate image. The level of profitability can be influenced by several factors, namely Corporate Social Responsibility (CSR) and environmental performance.

Corporate Social Responsibility (CSR) is a form of corporate social responsibility that not only refers to the company's finances but also to pay attention to its social and environmental responsibilities which is known as the concept of the Tripple Bottom Line which was first proposed by John Elkington (1994), in this concept there are 3 important aspects that need to be considered by the company, namely profit, people, and plant. Profit means improving the quality of the company, People is defined as society, especially the surrounding community, and Planet means the environment (Puspita & Jasman, 2022).

Previous research on Corporate Social Responsibility (CSR) determination and environmental performance on corporate profitability has not shown consistent results. Research conducted by Sri Padmantyo and Nita Dwi Aryati (2018) found that Corporate Social Responsibility has a significant influence on financial performance. The findings of this study are not in line with the research conducted by Parengkuan (2017) which shows that Corporate Social Responsibility has no influence on ROA (Return On Assets).

Environmental Performance is a mechanism for companies to voluntarily integrate environmental concerns intotheir operations and interactions with stakeholders, which exceeds organizational responsibility in the legal field, environmental performance is the work done by companies in creating a good and green environment (Tahu, 2019). Therefore, in a company, not only the disclosure of Corporate Social Responsibility (CSR) needs to be considered. On the other hand, environmental performance is also expected to affect financial performance. Good management of the corporate environment can increase the sense of trust of

stakeholders or investors in the company. The company's environmental performance can be assessed through the Company Performance Rating Assessment Program in Environmental Management (PROPER) organized by the Ministry of Environment and Forestry (MoEF) as a driver for companies in improving environmental management arrangements. Environmental performance can be measured by looking at the company's achievements in participating in the PROPER Program which is proxied using 5 colors, the colors include gold, green, blue, red and black.

The influence of environmental performance on corporate profitability has been researched by Shelinda Arisandi Putri and Shinta Dewi Herawati (2017), the study found that environmental performance does not have a significant effect on financial performance. The findings of the study are in line with those conducted by Kusuma & Lestari (2022) which found that environmental disclosure has no effect on company profitability, both studies are not in line with research conducted by Arofah & Maharani (2021) which shows that environmental performance has a significant effect on financial performance.

The purpose of this study is to empirically test the effect of Corporate Social Responsibility (CSR) and environmental performance on the level of profitability in manufacturing companies listed on the Indonesia Stock Exchange.

LITERATURE

Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is component for an organization to deliberately coordinated natural and social concerns into its operations and intuitive with partners, which surpasses the organization's duties within the legitimate field. Corporate Social Responsibility (CSR) could be a commitment of a company or the trade world to contribute to economical financial improvement by emphasizing a adjust between consideration to financial, social, and natural aspects (Parengkuan, 2017).

Environmental Performance

According to Putri et al, (2017) explained that environmental performance is a company's effort to create a good relationship by carrying out activities and using raw materials that do not damage the environment. Environmental performance describes concern for the surrounding environment for operational activities carried out by the company. If the environment and resources around the company are well maintained, then it is certain that the company's profitability will also be good. This is to avoid

demands from the public or stakeholders, so that the company's sustainability will continue.

Profitability

Profitability is a ratio to assess a company's ability to seek profits or profits in a given period (Kasmir, 2019). The profitability of a company is measured by the success of the company and the ability to use its assets productively, thus the profitability of a company can be known by comparing the profit obtained in a period with the number of assets or the amount of capital of the company.

RESEARCH METHOD

The.type of research used is quantitative research because the research data is in the form of numbers that will be measured using statistics as a calculation test tool, related to the problem being researched to produce a conclusion. The study population is manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange in 2019 – 2021. The method used in sampling in this study is to use the purposive sampling method of 20 companies. The criteria used as the basis for determining the sample in this study are as follows:

1. Manufacturing companies in the consumer goods sector listed on the Indonesia Stock Exchange in 2019-2021.
2. Companies that publish annual reports and report corporate social responsibility in 2019-2021.
3. Companies that participate in the Corporate Performance Rating in Environmental Management (PROPER) program for the 2019-2021.

Data was obtained from the Indonesia Stock Exchange in the form of company financial statements. Data analysis is a method used to answer problem formulations and test hypotheses through t-tests and multiple regression models that have been determined. In managing data and drawing conclusions, this study uses the application of SPSS and to test the hypothesis multiple linear regression analysis, t-statistical test, and f-statistical test are used.

RESULT AND DISCUSSION

T-test Result (Partial)

The statistical t-test was carried out to show how far the effect of one independent variable in explaining the dependent variable. The results of the t-test can be seen in table 1 below.

Tabel 1. T-Test

Coefficientsᵃ							
	Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
Model	B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1 (Constant)	9.668	6.772		1.428	.159		
CSR	-.170	.070	-.297	-2.416	.019	.988	1.012
KINERJA LINGKUNGAN	4.460	1.947	.282	2.291	.026	.988	1.012

a. Dependent Variable: ROE

Source: Author's processed data, 2024

Based on table 1 above, the results obtained are as follows:

1. The results of the t-test of the Corporate Social Responsibility (CSR) variable were produced that the value or -2.416 > 2.00247 and the significant value < 0.05 or 0.019 < 0.05 so that it can be concluded that it was rejected because Corporate Social Responsibility had a significant negative effect on the Company's Profitability Level as measured by ROE. 2. The results of the t-test of the Environmental Performance variable were produced as or 2.291 > 2.00247 and the significant value < 0.05 or 0.026 so that it can be concluded that it is accepted, which means that Environmental Performance has a significant effect on the Company's Profitability Level which is proxied with ROE.

F-Test Result (Simultaneous)

The F test is used to find out how far the independent variable affects the dependent variable. The results of the f test in this study can be seen in table 2 below:

Table 2. Test-F

ANOVAᵃ					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	559.949	2	279.974	4.992	.010ᵇ
Residual	3197.035	57	56.088		
Total	3756.983	59			

a. Dependent Variable: ROE

b. Predictors: (Constant), KINERJA LINGKUNGAN, CSR

Source: Author's processed data, 2024

Based on table 2, it shows that or 4.992 > 3.16 and a significant value < 0.05 or 0.10 so that conclusions can be drawn, which means that simultaneously Corporate Social Responsibility (CSR) and Environmental Performance affect the Company's Profitability Level which is proxied with ROE.

The Effect of Corporate Social Responsibility (CSR) on Profitability

The awareness of companies in carrying out Corporate Social Responsibility (CSR) activities or corporate social responsibility will cause the costs incurred to be even greater, so that it will become a financial burden for the company and coupled with the level of public awareness that is still quite low regarding the theme of Corporate Social Responsibility (CSR) which can be said to be still quite relatively new in Indonesia (Suaidah & Putri, 2020). The findings in this study are in line with the results of the study (Suaidah & Putri, 2020) that Corporate Social Responsibility has a significant negative effect on the company's financial performance.

The Effect of Environmental Performance on Profitability

The findings in this study are in line with the results of the study (Suaidah & Putri, 2020) which states that environmental performance has a significant positive effect on the company's financial performance because good environmental performance will get a good response from stakeholders, this will have an impact on the long-term increase in company revenue.

CONCLUSION AND RECOMENDATIONS

Based on the results of research on Corporate Social Responsibility (CSR), environmental performance, and the level of corporate profitability in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange (IDX) in 2019 – 2021, it can be concluded that Corporate Social Responsibility (CSR) has a significant negative effect on the company's profitability level, this shows that if Corporate Social Responsibility (CSR) increases, the cost of The company's expenditure on CSR activities is getting bigger so that it can create a financial burden that causes the company's profitability level to decrease.
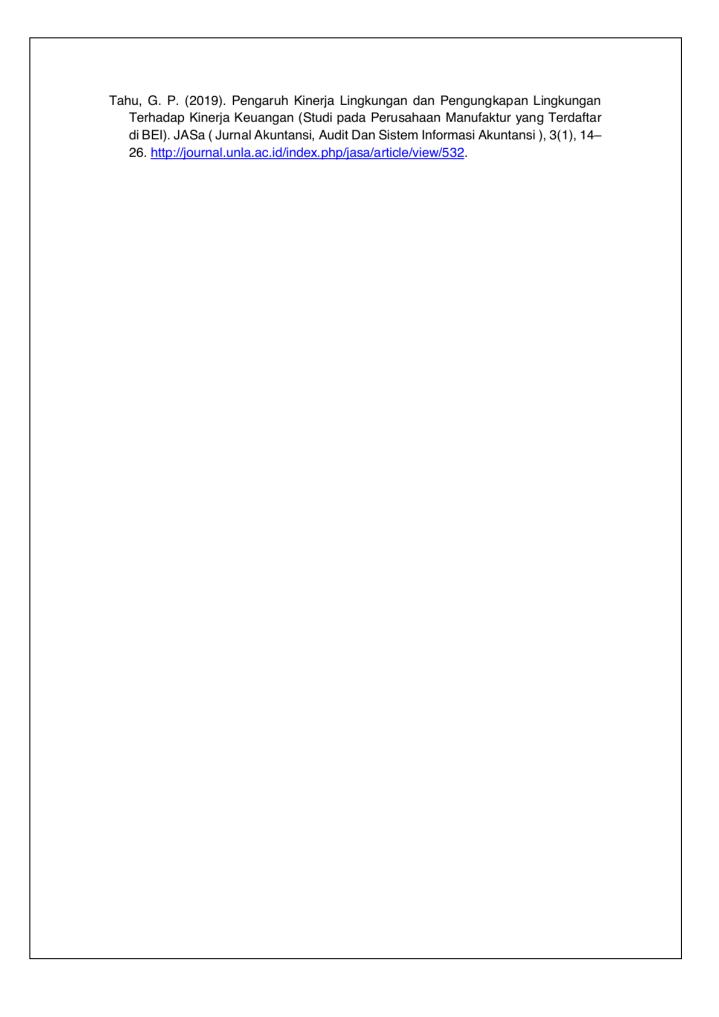
While environmental performance has a significant positive effect on the company's profitability level, this shows that companies that show good environmental performance results can increase the company's profitability level because investors are interested in companies that have a positive image in the eyes of the public. In

addition, the better the environmental performance, the higher the sense of trust and loyalty of consumers to the products produced by the company so that it can increase the company's profits.

In this research, several limitations were still found, so it is hoped that further research can develop and strengthen the results as improvements to the research that has been carried out at this time by expanding the research object or by adding other variables that have the same influence on the objects used in this research.

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