Asian Journal of Economics, Business and Accounting

Volume 23, Issue 20, Page 184-191, 2023; Article no.AJEBA.102358
ISSN: 2456-639X

Abnormal Effect of CSR on Company Financial Performance

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Authors' contributions

This work was carried out in collaboration among all authors. All authors read and approved the final manuscript.

Article Information

DOI: 10.9734/AJEBA/2023/v23i201103

Open Peer Review History:
This journal follows the Advanced Open Peer Review policy. Identity of the Reviewers, Editor(s) and additional Reviewers, peer review comments, different versions of the manuscript, comments of the editors, etc are available here: https://www.sdiarticle5.com/review-history/102358

Original Research Article

Received: 02/05/2023
Accepted: 07/07/2023
Published: 22/09/2023

ABSTRACT

Purpose: The purpose of this study is to determine the effect of Abnormal CSR on the Company's Financial Performance
Research Method: This study uses a quantitative approach. The type of research used is causality research. The population that is used as the research subject is related to manufacturing companies that are listed on the Indonesia Stock Exchange and publish consistent and complete financial reports during the 2014-2019 period. Manufacturing companies listed as go public companies on the Indonesia Stock Exchange during the 2014-2019 period were 139 companies, then reduced by 10 unusable data because they did not meet the specified criteria so that the total sample used was 129 companies. The source of data used in this research is financial statements consisting of balance sheets, profit/loss reports, and financial ratios.
Results: The results of this study show the results of the t test, namely abnormal CSR has a significant positive effect on profitability, leverage has a significant positive effect on profitability, and company size has no significant effect on profitability. The results of the f test produce abnormal CSR, Leverage, and company size which together have a significant influence on profitability. And the results of the r-square test have abnormal results CSR, Leverage, and company size has an effect of 72% on profitability.

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Conclusion: Based on the study results, it can be concluded that abnormal CSR has a significant positive effect on profitability.

Keywords: CSR; performance; company.

1. INTRODUCTION

Financial performance is used as a reflection of the condition of a company. The process of achieving stable performance and continuing to grow is difficult [1]. Companies are faced with fluctuating or up and down performance conditions, as happened in manufacturing companies from 2020-2022. The condition of the performance of manufacturing companies tends to experience instability. The pace of the manufacturing industry decreased in 2020 to minus -2.93%, then in 2021 it increased to 3.39% and in 2022 to 4.89% [2]. This indicates that there may be problems experienced by the company's management in maintaining stable performance in terms of profitability.

Good performance will assist management in achieving company goals. The company's goals are closely related to achieving optimal financial performance so that the higher the financial performance [3]. Financial performance is one of the determining factors for investors to be able to invest their funds. In profit-oriented companies, company performance is measured based on the company's ability to maximize profits [4].

The first factor affecting company performance is related to company operations, the second is related to the accuracy of company strategy. Companies faced with strategies in order to generate maximum profits, are required to be able to maintain concern for the surrounding environment to be able to continue to maintain a business [5]. Social interests involved in various social activities are also a manifestation in the implementation of CSR [6]. CSR activities can improve the company's image so that future economic benefits can be received by the surrounding community and all stakeholders involved [7].

The company carries out various opportunist projects in the perception of CSR. One example is the implementation of various CSR projects only to seek profit incentives, for example carrying out training activities but these activities are only intended for the company's internal without involving the community as an external party [8]. This shows that the implementation of CSR is not appropriate as a form of corporate social responsibility. Companies that have opportunistic goals in managing corporate image or corporate reputation without thinking about the needs of the stakeholders involved are therefore considered to be less invested in CSR [9].

The implementation of CSR can affect the sustainability of a company. CSR is a form of corporate concern in various aspects such as economic, environmental and socio-cultural aspects. CSR provides an overview of the company's business character and forms of responsibility regarding the impacts that may be detrimental to society and the environment in which the company operates [10].

The opportunistic activities carried out by management in the perception of CSR make the purpose of CSR not entirely in the context of accountability but as a factor to increase profits. This condition illustrates that the implementation of CSR can be conditioned in an abnormal condition or not in accordance with its designation [11]. Corporate CSR is divided into normal and abnormal CSR components. Normal CSR captures the optimal level of corporate CSR while abnormal CSR captures the advantages and disadvantages of investment in CSR. Abnormal CSR can be used to identify corporate CSR inefficiencies [12].

Research on abnormal CSR still needs to be developed, such as research that develops measures of CSR, especially abnormal CSR. Various deviations from the equilibrium point as abnormal proxies for CSR that are negatively related to short-term company financial performance, namely profitability [13]. The results of the study show that there is a negative impact of abnormal CSR on the company's financial performance while company size has a positive impact and leverage also has a negative impact on the company's financial performance. Explanation of research related to the influence of corporate social responsibility on corporate financial performance in multinational companies in the US. Various research findings show that CSR has the power to impact the company's financial performance [12].

Garp's research shows that research has the opposite result [14] that abnormal CSR does not have a significant effect on the company's financial performance as assessed by stock returns. Disclosure of CSR can create more value for the company's shareholders. Researchers found that companies with low CSR disclosure tend to have lower returns on shareholders while companies with high CSR disclosure generally get higher returns [15]. “The influence of social responsibility or CSR on shareholder value. Researchers argue that long-term investors can ensure that managers choose the amount of CSR that maximizes shareholder value” [16].

Corporate responsibility and corporate financial performance have a positive relationship for companies with high financial awareness. CSR has an inverse relationship with companies that have had a bad reputation before. The results of this study are in line with the view that CSR activities can increase a company's financial performance under certain conditions. Based on the explanation above, this study will discuss the abnormal impact of CSR on company performance, hence the title of this study "The Abnormal Effect of CSR on company financial performance".

2. THEORETICAL REVIEW

Legitimacy Theory: Legitimacy is a psychological state of alignment with people and groups of people who are very sensitive to the symptoms of the surrounding environment, both physical and non-physical. Organizational legitimacy can be seen as something given by society to companies and something that companies want or seek from society [17]. Legitimacy theory recommends companies to ensure that their activities and performance are acceptable to society. Companies use their annual reports to portray the impression of environmental responsibility, so that they are accepted by society.

Organizational legitimacy can be seen as something given by society to companies and something that companies want or seek from society. Corporate Social Responsibility practices carried out by companies aim to align themselves with societal norms. Disclosure of good Corporate Social Responsibility, it is hoped that the company will gain legitimacy from the community so that it can improve performance aimed at achieving company profits.

Agency Theory (Agency Theory): Agency theory is a relationship based on a contract that occurs between members in a company, namely between the principal (owner) and the agent (agent) as the main actors (Jensen & Meckling, 1976) in [18]. The owner is the party that mandates the agent to act on behalf of the owner, while the agent is the party that is mandated by the owner to run the company. The company has a relationship between principal and agent which is manifested in the relationship between shareholders and managers (Christiawan & Tarigan in [19]). Shareholders act as principals while managers act as agents.

Stakeholder Theory: Stakeholder theory is a theory that explains how company management meets or manages stakeholder expectations. The occurrence of a shift in orientation in the business world from shareholders to stakeholders is referred to as the cause of the emergence of corporate social responsibility. Stakeholders are parties who have an interest in a company that can influence or be influenced by company activities, stakeholders include employees, suppliers, investors, government, consumers, and society [20].

Abnormal Corporate Social Responsibility (CSR): Various previous studies have described that the idea of considering CSR disclosure has financial benefits for companies, especially in the long term and can even improve operating performance, increase sales [13]. Corporate Social Responsibility (CSR) has normal and abnormal CSR components. Normal CSR captures the company's optimal CSR level, while abnormal CSR captures the advantages and disadvantages of CSR disclosure beyond the optimal limits of the company's normal CSR. Previous research provides an explanation of the agency problem associated with abnormal CSR as less than optimal CSR disclosure [21]. Various potential reasons related to managerial opportunism and agency problems are part of the abnormal implementation of CSR.

Financial performance: Financial performance is an analysis carried out to see how a company has performed by using financial implementation regulations properly and correctly. Financial performance is the goal of every company to achieve these goals, so the company can be assessed as having good financial performance [22]. Companies that cannot achieve their goals need to analyze how the financial performance is so that they can seek steps that can be used to make financial performance even better so that not only for the company itself but also for various company stakeholders, financial performance analysis is considered important [23].

3. METHODS

This study uses a quantitative approach which according to Sugiyono, [24] suggests that a quantitative approach is a research approach that uses data in the form of survey answer numbers which are distributed to research samples and analyzed using statistical analysis techniques. A quantitative approach is used because the data used in this study will be processed using statistics. The type of research used is causality research. This research has a background problem that will lead to explanatory research. Explanatory research aims to obtain an explanation of the relationship (causality) between variables through testing the hypotheses that have been set. According to Sugiyono, (2020) explanatory research is research that intends to explain the position of the variables studied and explain the relationship between one variable and another in order to confirm the relationship between these variables (confirmatory research).

The population companies that are used as research subjects are related to manufacturing companies listed on the Indonesia Stock Exchange and published consistent and complete financial reports during the 2014-2019 period. Based on the fact book data for 2014-2019 there were 139 registered manufacturing companies from various sectors such as agriculture, mining, chemicals, electronic equipment and consumer goods. Manufacturing companies listed as go public companies on the Indonesia Stock Exchange during the 2014-2019 period were 139 companies, then reduced by 10 unusable data because they did not meet the specified criteria so that the total sample used was 129 companies.

The data sources used in this study are financial reports consisting of balance sheets, income statements, and financial ratios during the 2014-2019 observation period for manufacturing companies listed on the Indonesia Stock Exchange (www.idx.co.id) and fulfilling the requirements which has been set.

4. RESULTS AND DISCUSSION

Descriptive analysis: Based on the results of the descriptive analysis, data were obtained from 60 of the 10 manufacturing companies in 2014-2019. The Abs CSR variable obtained a minimum value of 0.29, a maximum value of 0.60 with an average of 0.4203, and a standard deviation of 0.08459. The DER variable obtained a minimum value of 7.43, a maximum value of 290.95 with an average of 98.3157, and a standard deviation of 84.76332. The company size variable obtained a minimum value of 13.13, a maximum value of 17.22 with an average of 15.4950, and a standard deviation of 1.33667. ROA variable obtained a minimum value of 2.16, a maximum value of 44.68 with an average of 14.5715, and a standard deviation of 10.77795.

Analysis results: Before carrying out the analysis, this study conducted a classic assumption test consisting of normality, multicollinearity, heterolinearity, and autocorrelation. The results of this study show that they are free from normality, multicollinearity, heterolinearity, and autocorrelation. So that it can be done to test the hypothesis.

Based on the Table 2, the regression equation is obtained as follows:

ROA: -32.439 + 0.859 abnormal CSR + 0.309 DER – 0.023 SIZE + 10.291

Based on the results of the analysis, it is known that abnormal CSR has a sig value of 0.000 which is smaller than 0.05, and a t table value of 11.849 which is greater than 1.67065 or (t> 1.67065) which indicates the results of CSR abnormal analysis have a significant positive effect on profitability.

Table 1. Result of descriptive statistics

	N	Minimum	Maximum	Means	std. Deviation
abs csr	60	.29	.60	.4203	.08459
DER	60	7.43	290.95	98.3157	84.76332
Company Size	60	13.13	17.22	15.4950	1.33667
ROA	60	2.16	44.68	14.5715	10.77795
Valid N (listwise)	60				

**DER(Debt to Equity Ratio); *ROA(Return on Assets)*

Table 2. Result of Co-efficient correlation

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	std. Error	Betas			tolerance	VIF
1	(Constant)	-32,439	10,291		-3.152	003		
	abs csr	109,413	9,234	.859	11,849	.000	.953	1,049
	DER	039	010	.309	3,961	.000	.823	1.215
	Company Size	-.183	.619	-.023	-.296	.768	.850	1.176

F sig : 0.000; F count : 47.915; R square : 0.720

Based on the results of the analysis, it is known that Leverage has a sig value of 0.000 which is smaller than 0.05, and the t table value is 3.961 which is greater than 1.67065 or (t> 1.67065) which shows the results Leverage analysis has a significant positive effect on profitability.

Based on the results of the analysis, it is known that company size has a sig value of 0.768 which is greater than 0.05, and the t table value is -0.296 which is smaller than 1.67065 or (t <1.67065) which is shows the results of the analysis of company size has no significant effect on profitability.

The results of the f test show a sig result of 0.000 and a calculated f value of 47.915 which this value is greater than 2.76 (f-count> 2.76) these results indicate that abnormal CSR, Leverage, and company size together have significant influence on profitability.

The R-square test result is 0.720, where CSR, Leverage, and company size have an influence of 72% on profitability. Which is the remaining 28% influenced by the results of other studies.

5. RESEARCH DISCUSSION

The abnormal influence of CSR on the company's financial performance: Based on the results of the analysis, it is known that abnormal CSR has a sig value of 0.000 which is smaller than 0.05, and a t table value of 11.849 which is greater than 1.67065 or (t> 1.67065) which indicates the results of CSR abnormal analysis have a significant positive effect on profitability.

The results of this study are in line with research conducted by McWilliams & Siegel (2000) in [25] providing the opinion that there are important factors that need to be considered in examining the relationship between the influence of CSR disclosure and financial performance. Lopatta et al., (2022) illustrates that there are research assumptions on CSR disclosure that are divided into normal and abnormal CSR components which allow for the potential for a non-linear relationship between normal CSR, abnormal CSR and company profitability.

Normal CSR captures the company's optimal CSR level, while abnormal CSR captures the advantages and disadvantages of CSR disclosure beyond the optimal limits of the company's normal CSR. Normal CSR is determined by economic determinants such as company size, financial constraints and company growth. Abnormal CSR is considered as a deviation from the company's optimal CSR level related to agency and managerial problems that tend to be opportunistic [26] thereby reducing financial performance in the short term. Abnormal CSR causes profitability to decrease because managerial incentives such as prestige, power, status and compensation are not aligned with shareholder profits. The link between CSR disclosure and financial performance has a close relationship. According to [27] “a number of large companies are increasingly disclosing CSR but various studies are still inconclusive because a number of results show a negative relationship, there is no relationship with various results of the relationship between CSR disclosure and financial performance”.

Effect of Leverage on the company's financial performance: Based on the results of the analysis, it is known that Leverage has a sig value of 0.000 which is smaller than 0.05, and the t table value is 3.961 which is greater than 1.67065 or (t> 1.67065) which shows the results Leverage analysis has a significant positive effect on profitability.

The results of this study are in line with [28] in his research which states that leverage has a negative effect on the company's financial performance. Nguyen et al., [29] in his research stated that leverage has no significant negative effect on the company's financial performance. Wahyuni et al., [30] in his research stated that leverage has a negative effect on the company's financial performance. According to [31] in his research, leverage has a negative effect on financial performance. The results of this study indicate that there are different considerations by some investors in looking at leverage.

By some investors, leverage is seen as the magnitude of the company's responsibility to third parties, namely creditors who provide loans to the company so that the greater the leverage value, the greater the company's responsibility. Leverage is obtained by comparing the company's total debt with company equity. The company has a total debt that is greater than the equity it has, so it will reduce investor interest in investing their capital. This will reduce company profits, the greater the leverage reflects the relatively high company risk, as a result investors tend to avoid companies that have high leverage, this gives a bad signal to investors, which can result in lowering the price of these shares in the market which makes company profits. decreased [13] .

Effect of company size on the company's financial performance: Based on the results of the analysis, it is known that company size has a sig value of 0.768 which is greater than 0.05, and the t table value is -0.296 which is smaller than 1.67065 or (t <1.67065) which is shows the results of the analysis of company size has no significant effect on profitability.

The results of this study are in line with the research of Veronika & Munandar, [32] in his research which stated that the company size variable does not affect the company's financial performance so that it can be said that the company is not effective in empowering assets to earn company profits. The results of this study contradict Veronika & Munandar, [32] in their research stating that the company size variable does not affect the company's financial performance so that it can be said that the company is not effective in empowering assets to earn company profits.

“Company size as an indicator measures the level of efficiency of the company in the use of all assets to generate sales. If the company is more efficient in using all assets, the company's sales will increase. Companies that can use all assets efficiently and result in increased sales and attract investors to invest in the company because according to investors it will improve the company's financial performance” [13]. The higher the size of the company, the more efficient a company is in utilizing its assets. The higher the value of the firm size is a positive signal and will attract investors to continue to invest in the company and will increase the company's profits.

6. CONCLUSION

The results of this study show the results of the t test, namely abnormal CSR has a significant positive effect on profitability, leverage has a significant positive effect on profitability, and company size has no significant effect on profitability. The results of the f test produce abnormal CSR, Leverage, and company size which together have a significant influence on profitability. And the results of the r-square test have abnormal results CSR, Leverage, and company size have an effect of 72% on profitability.

COMPETING INTERESTS

Authors have declared that no competing interests exist.

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Peer-review history:
The peer review history for this paper can be accessed here:
https://www.sdiarticle5.com/review-history/102358