The Link between Social, Environmental to Financial Performances of Companies in Indonesia

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Abstract**—**Implementation of social and environmental performances as responsibilities by companies in Indonesia are assumed still thinking as an expense (cost). Though the companies fulfill its social and environmental responsibility well then established good relations with the community and the environment. This activity can be used as an investment that will provide benefits for the companies in both the short- term and long- term. It can maintain the company's sustainability so as to increase the profits of the companies. The objective of this study examines the relationship between social performance and environmental performance to financial performance. The Social and environmental performance are measured by corporate social responsibility disclosure score based on the guidelines known as Global Reporting Initiative (GRI) and financial performance measured by profitability, liquidity, activity, and leverage ratios. The samples are all the companies listed on the Indonesian Stock Exchange following on The Corporate Performance Rating Program (acronym in Indonesia is PROPER) at the ministry of environment in Indonesia and publish annual reports that are complete in 2009-2012. The method is used linear regression.

The results of this study show that there is no relationship between social, environmental to financial performance. However, there is positive relationships between social performance to financial performance. Then industry sectors have not impact in the relationship between social and environmental to each of financial performance.

Keywords**—**Social Performance, Environmetal Performance, Financial Performance, PROPER

I. Introduction

IN an attempt to achieve sustainable development, companies in Indonesia are not only required on the value of corporate responsibility which is reflected on the financial statement of the company but also must be based on the triple bottom line concept. This concept emphasizes responsible to people (social), planet (environment), and profit. Based on the concept, financial circumstance cannot guarantee the value of the company grows (sustainable). Corporate sustainability will be ensured if companies pay attention to the social and environmental dimensions.

In practice, based on [1], companies should carry out its responsibilities in accordance to the set of rules by government. Companies require to implement Corporate Social Responsibility (CSR) as existing on [2] and the formulation of a platform for practice based on economic environment used as a benchmark for companies in Indonesia. The government announced a ranking program was launched by the Ministry of Environment in the Republic of Indonesia is called by The Corporate Performance Rating Program (PROPER). PROPER award is given based on assessment ratings that are referred to [2] and [3]. This rating program is characterized as certain colors which it can create sustainability for the company as well as for the socials and environments around the company's operational area [4]. Until now, not all the companies in Indonesia register as a member of PROPER. This shows that companies in Indonesia have not fully realized the importance of the corporate responsibility for companies sustainability [5].

Corporate social responsibility disclosure is growing rapidly as a result of the insistence on the organizations regard to environmental and social networks. On a global level, CSR disclosure through such as the Global Compact, the Global Reporting Initiatives (GRI), and ISO14000 which suggests social and environmental responsibilities are crucial issues on global business agenda that should receive serious attention from business world.

However, there are companies that think that CSR is only as another way to force the company to spend money and do not provide benefits to the company so the company suffer losses. There are companies that have points of view to CSR program only generate cost. The cost will eventually become a burden that reduces the company's earnings so the rate of profit will fall [6]. In the implementation of social performance, companies need to increase the selling price of products and reduce costs such as reducing employee salaries. There are consequences that will be received by the company such as losing customers and losing a positive reputation especislly for employees and consumers. The greater consequence is companies go bankrupt. Then environmental performance is an opportunity for company to increase revenue. It can be done by environmental friendly production processes and produce environmental friendly products to target market who care about environment [7]. This action can reduce company costs compared with the costs related company's sanction from the government and the bad image that will be accepted if it does not perform environmental performance.

In fact, the disclosure of the Corporate Social Responsibility (CSR) activities is one of the important things to influence the public perceptions of the company's operations [8]. Then the social and environmental performances are part of the

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company's responsibility to serve as an investment for the company. The investment will be an advantage for the company such as geting a positive image, profit, and get social protection from the society. In addition, CSR also had a positive relationship to customer loyalty and corporate image [9]. So, this condition will increase sales of company products and revenues.

Thus, the implementation of social and environmental responsibility is not an activity which is generate cost or just complies with government regulations, but it is obligations for each company. Those activities become foundation for company sustainability and achieve company’s goals to maximize profits for shareholders that will affect the company's financial performance.

II. Hypothesis

Several studies had shown that social performance has positive impact on financial performance of the company. The term social is included by many practitioners to encourage companies looks at their social responsibilitity as well as their usual responsibilities [10]. According to [11], the relationship between corporate social and financial performance showed the solid supports to the hypothesis that the link between social and financial performance was positive. The evidence supports a positive Corporate Social Performance (CSP)- Financial Performance (FP) links to a unique operational setting. So it also supports the idea that positive CSP- FP link is a universal phenomenon. Basically, companies in various industry sectors expect have positive relationships to their stakeholders and environment. Companies with different industry sectors emphasis the implementation of its responsibilities accordance to their operational activities impact [12]. Refer to [13], their study used industry sectors as a moderating variable to explore corporate social responsibility for family business. This variable affects (strengthen or weaken) the relationship between independent and dependent variables. Then studied by [14] showed that there was a positive relationship between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP). His study used industry sectors as a boundary condition for exploring the relationship. The kind of industry sector determines the social performance activities. While [15] stated that the different industry sectors have different financial performance and research and development investment.

Same with social performance, environmental performance also affect the company's financial performance. According to [16], his study suggested that the increasing of environmental performance disclosure were measured by GRI - G3 Guidelines had a significant positive impact on the company profitability. Refer to [17], the effect of environmental performance on the environmental disclosure and environmental influences on the economic performance to performance conditions in Indonesia suggested that environmental performance had a significant positive impact on environmental disclosure. Then the second study showed that environmental performance had a significant positive effect on economic performance.

Therefore companies should to balance with social and environmental performances so the companies obtain a positive assessment from the stakeholders who will also have a positive impact on corporate earnings. It can improve financial performance of the companies.

Thus, the hypotheses of this study are formulated as follows:

a. H1: There is positive relationship between social performance and environmental performance to financial performances of companies in Indonesia.

b. H2: There is a positive effect (strengthen) of industry sectors as moderating variable in the relationship between social performance and environmental performance to financial performances of companies in Indonesia.

III. Measuring Financial Performance

Financial performance in this study is financial health of the company refer to table I. This financial health of the company consists of profitability, liquidity, and leverage ratio according to [18] with total asset turnover is in activity ratio [19].

TABLE I
Financial Performance

Financial Ratio	Type	Formula
Profitability	Return on Asset (ROA)	Net income divided to total asset
	Return on Equity (ROE)	Net income divided to total equity
Activity	Total Asset Turnover (ATO)	Revenue divided to total asset
Liquidity	Current ratio (CR)	Current asset divided to current liabilities
Solvency	Long term debt to total asset ratio (LTD_TA)	Long term debt divided to total asset

IV. Measuring Social And Environmental Performance

Social and environmental performances in this study based on assessment items disclosed in the Global Reporting Initiative (GRI) report according to [20]. Each company's performance is measured with some aspects of assessment. Social performance was measured by 24 aspects of assessment. While environmental performance was measured with 9 aspects of assessment.

The assessment of each aspect refers to the research that had been done by [21]. Each of the aspects is scored on a scale 0 to 3. Score 0, for the company does not have aspects valuation in question. Score 1, for the company is only mention the name of aspect valuation. Score 2, for the company has poor description, description unclear aspect on valuation. Score 3, for the company has complete description on aspect valuation. Then the total assessment is divided into two categories: low and high performances. In this study, the low social performance is company which has total score 6-33. Then the high performance company has 34-72. The low environmental performance is company which has total score 1-14. While high environmental performance is company which has 15-27. Then dummy variables are used to define the total assessment scoring both of the low and high performances [11]. A value of 0 for company has low performance and a value of 1 for company has high performance in each of the social and environmental performances.

V. Moderating Variable

In this study, industry sector as a moderating variable. Dummy variables used to define this qualitative data. A value of 0 for nonmanufacturing companies and 1 for manufacturing companies.

VI. Sample

The sampels of this study are 85 companies with the selection criterias are following:

a. Company had been registered as a member of Company Performance Rating Program in Environmental Management (PROPER) in 2009-2012.

b. Go public company and listed on the Indonesia Stock Exchange during 2009-2012.

c. Company published the annual report or sustainability report in the period 2009-2012.

VII. Data

Data use in this study is secondary data as the company's annual report during 2009-2012. The data are obtained from the official website of Indonesia Stock Exchange in [22]. While the determination of the sample derived from the database of The Corporate Performance Rating Program (PROPER) the ministry of Environment in Indonesia refers to [23].

VIII. Result

In this study, the correlation test performed using pearson correlations. The result shows that in this study has weak and very weak correlation. Weak correlation is for correlation value in the range 2.00-3.99 and very weak correlation is for the correlation value in the range 0.0-0.199 [24].

TABLE II
Correlations

	ROA	ROE	ATO	CR	LTD_TA
SP	0.352(**)	0.282(**)	0.184	0.217(*)	-0.267(*)
	(0.001)	(0.009)	(0.091)	(0.046)	(0.014)
EP	0.262(*)	0.186	0.015	0.208	-0.173
	(0.015)	(0.088)	(0.888)	(0.056)	(0.112)
SECTOR	-0.239(*)	-0.191	0.082	-0.268(*)	0.049
	(0.028)	(0.080)	(0.453)	(0.013)	(0.655)
SP*	0.246(*)	0.195	0.176	-0.010	-0.247(*)
SECTOR	(0.023)	(0.073)	(0.106)	(0.926)	(0.023)
EP*	0.134	0.089	0.034	-0.006	-0.128
SECTOR	(0.220)	(0.420)	(0.759)	(0.955)	(0.244)

*Correlation is significant at the 0.05 level (2- tailed).
**Correlation is significant at the 0.01 level (2- tailed).

Based on table II, there is a positif significant correlations between the SP variable to ROA, ROE, CR and negatif significant correlation to LTD_TA. It can be indicated by significant value < 0.05. EP variable has a significant positive correlation to the value of ROA. Then SECTOR variable has a significant negatif correlation to the value of the ROA and CR. For moderating variable, multiplication between SP variable and SECTOR variable, has a significant positive correlation to ROA and a significant negative correlation to the value of LTD_TA. Those correlations are low. Whereas moderator variable, multiplication between EP variable and sector variable, has no significant correlation with the dependent variables in this study.

Data processing method uses linear regression with a significant level at 5%. This method is used to determine the relationship between dependent variables and independent variables.

TABLE III
Summary Of Linear Regression Model

Variable	Coefficient	t- test	p- value
Model 1			
Dependen : ROA			
Independen : SP	0.075	2.281	0.025
EP	-0.001	-0.020	0.984
R square : 0.124			
t table : 1.989			
Model 2			
Dependen : ROE			
Independen : SP	0.128	2.037	0.045
EP	-0.022	-0.353	0.725
R square : 0.081			
t table : 1.989			
Model 3			
Dependen : ATO			
Independen : SP	0.458	2.438	0.017
EP	-0.320	-1.725	0.088
R square : 0.068			
t table : 1.989			
Model 4			
Dependen : CR			
Independen : SP	0.472	0.862	0.391
EP	0.345	0.639	0.525
R square : 0.052			
t table : 1.989			
Model5			
Dependen : LTD_TA			
Independen : SP	-0.128	-1.941	0.056
EP	0.024	0.366	0.715
R square : 0.073			
t table : 1.989			

Table III shows the results of regression models for the link between social and environmental to financial performance. Model 1 shows that SP variable has significant impact to the value of ROA. This is indicated by t test value for 2.281> 1.989 and p value < 0.05. Then the R-square is 0.124. It means that variation value of ROA can be explained by model 1 for

12.4%. The coefficient value of SP variable is 0.075. It means that any increase 1 score of social performance will increase the value of ROA for 7.5%.

Then model 2 also shows that SP variable has significant impact to the value of ROE. This is indicated by t-test value for 2.037 > 1.989 and p value < 0.05. Then the R-square is 0.081. It means that variation value of ROE can be explained by model 2 for 8.1%. The coefficient value of SP variable is 0.128. It means that any increase 1 score of social performance will increase the value of ROE for 12.8%.

While model 3 shows that the SP variable has significant impact to the value of ATO. This is indicated by t-test value for 2.438 > 1.989 and p value < 0.05. Then the R-square is 0.068. It means that variation value of ATO can be explained by model 3 for 6.8%. The coefficient value of SP variable is 0.458. It means that any increase 1 score of social performance will increase the value of ATO for 45.8%.

Model 4 and model 5 show that SP and EP variables have no significant impact to the value of CR and LTD_TA. This is indicated by p value > 0.05 for each independent variable.

Model 1, model 2, and model 3 show that there are relationship between social performance to the value of ROA, ROE, and ATO. Social performance as the responsibility for the company will give a positive image of the company in front of the market [25]. Social performance is an investment of the company. This is supported by activities related to community development. So it can improve welfare of the society. Increasing welfare of the society will encourage them to meet the needs for living. In this condition, the society purchase products of the company so it will increase sales and revenue for the company [26]. This result is consistent with some studies from [25]-[26]-[27]. So, the implementation of social performance makes the company get a positive response from stakeholders and shareholders. This social performance can increase brand awareness and reputation of the company. So it makes easy to attract consumers and can increase sales and revenues of the company. Then the shareholders will increase the investment because they trust with the company sustainability. So, it increases the value of ROE and gets greater return.

Refer to model 4 and 5, social and environmental performances have no significant impact to financial performance both of CR and LTD_TA. This study gives different results accordance to [18]. His study shows that CSR reputation affects corporate financial performance (liquidity, profitability, and leverage ratio) with different corporate responsibility scoring a system is KLD Research and Analytics. In his study, CSR reputation affects both the sort and long terms company's financial performances through market's perception. Then for this study shows that social and environmental performances for companies in Indonesia are an investment [28] that does not give sort term impact to the company's liquidity. In addition, the implementation of corporate responsibility is not the main factor determining the cost of debt paid by company. There are some factors of capacity, capital, collateral, competence, and condition [29].

Then the linear regression results with industry sectors as moderating variable reported on Table IV.

TABLE IV
SUMMARY OF LINEAR REGRESSION MODEL WITH INDUSTRY SECTOR AS MODERATING VARIABLE

Variable	Coefficient	t- test	p- value
Model 1			
Dependen : ROA			
Independen :			
SP	0.005	0.090	0.929
EP	0.022	0.402	0.689
SECTOR	-0.065	-1.575	0.119
SP_SECTOR	0.099	1.438	0.154
EP_SECTOR	-0.051	-0.745	0.458
R square : 0.171			
t table : 1.989			
Model 2			
Dependen : ROE			
Independen :			
SP	0.020	0.192	0.848
EP	0.015	0.140	0.889
SECTOR	-0.099	-1.227	0.223
SP_SECTOR	0.153	1.149	0.254
EP_SECTOR	-0.080	-0.612	0.542
R square : 0.112			
t table : 1.989			
Model 3			
Dependen : ATO			
Independen :			
SP	0.415	1.305	0.196
EP	-0.073	-0.230	0.819
SECTOR	0.288	1.186	0.239
SP_SECTOR	0.154	0.384	0.702
EP_SECTOR	-0.354	-0.894	0.374
R square : 0.092			
t table : 1.989			
Model 4			
Dependen : CR			
Independen :			
SP	1.098	1.220	0.226
EP	0.784	0.871	0.387
SECTOR	-0,073	-0.107	0.915
SP_SECTOR	-1.033	-0.912	0.365
EP_SECTOR	-0.540	-0.481	0.632
R square : 0.128			
t table : 1.989			
Model 5			
Dependen : LTD_TA			
Independen :			
SP	-0.014	-0.127	0.899
EP	-0.060	-0.538	0.592
SECTOR	0.012	0.139	0.890
SP_SECTOR	-0.187	-1.331	0.187
EP_SECTOR	0.146	1.049	0.297
R square : 0.094			
t table : 1.989			

Table IV shows the industry sector does not significant impact on the relationship between social and environmental to each of financial performance (ROA, ROE, ATO, CR, and LTD_TA). It is indicated by p value > 0.05 for each independent variable. So, the relationship between social and environmental performance to financial performance is not affected by industry sector, event whether it is a manufacturing or nonmanufacturing. This result is consistent with previous study from [13].

IX. CONCLUSION

This study attempts to examine the link between social performance, environmental performance to financial performance of companies in Indonesia. The result shows that social performance has significant impact on financial performance (value of ROA, ROE, and ATO). Then industrial sectors have not impact on the relationship between social and environmental performances to each of financial performance.

Limitation of this study is samples of the data. The samples are for 4 years but companies that meet the criteria as sample in these study only 85 companies because the most companies which listed as PROPER members are private companies. So, in this study determines the effect of industry sectors (manufacture and nonmanufacture) in the relationship between independent variables to dependent variables. So, for further to study are expected to be do with a longer time period in order to obtain more data. So the results will be more accurate, can be determined the magnitude of difference impact, in specify industry sector.

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