The Relationship between Corporate Social Responsibility, Environmental Performance and Financial Performance at Mining Companies listed in Indonesia Stock Exchange

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Keywords: corporate social responsibility, environmental performance, financial performance, mining companies

Abstract: The objective of this study is to examine the relationship between corporate social responsibility, environmental performance, and financial performance. The sample of this research is the mining sector at Indonesia Stock Exchange especially coal mining companies.The data is the period of 2015-2017 from the annual report from Indonesia stock exchange or company website. The stakeholder theory and resource based view theory use in this study. The results research show corporate social responsibility have a positive and significant effect on financial performance. Environmental performance has a positive and significant link on financial performance. The limitation of this study uses only one sector, mining sector, from Indonesia Stock Exchange. This study also use two variables such as corporate social responsibility and environmental performance as independent variables. The suggestion for future research uses other variables such as firm value, corporate governance. Another suggestion is to conduct the research in other sectors such as banking, manufacturing etc.

1 INTRODUCTION

Corporate social responsibility is a process with the aim of embracing responsibility for the actions of the company and encouraging a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other parties members of the public space who may also be considered stakeholders (Tai & Chuang, 2014). Furthermore, Kabir & Thai (2017) revealed that corporate social responsibility activities are increasingly attracting the attention of investors, customers, suppliers, employees and governments around the world (Kabir & Thai, 2017).

The relationship between corporate social responsibility and financial performance are still debatable until now (Beck, Frost, & Jones, 2018). Previous reseach related to this relationship showed mixed results.

Researchs on corporate social responsibility influences financial performance debates still occur (Lu, Chau, Wang, & Pan, 2014) Results that show a positive influence between corporate social responsibility and financial performance (Reverte, Gómez-Melero, & Cegarra-Navarro, 2016;Wang & Sarkis, 2013). However, the results also show no significance (Barnett & Salomon, 2012).

This study examines the relationship between corporate social responsibility, environmental and financial performance at mining companies that are listed on the Indonesia Stock Exchange. The reason why this study chooses the mining companies as a sample is that they refer to several laws. First, Law No. 40 of 2007 concerning Limited Liability Companies. In the Law, there is an obligation for all companies that relate to and / or natural resources to carry out social and environmental responsible activities. Second, Law No. 25 of 2007 concerning Investment. This law also has an obligation for all investors to carry out corporate social responsibility (article 15 b). Finally, Law No. 32 of 2009 concerning Environmental Protection and Management. There is an obligation for all businesses and / or activities that affect the environment to have an Analysis of Environmental Impacts (article 22 paragraph 1).

Previous reseach related to corporate social responsibility, environmental performance and financial performance from different countries. Turkey (Aras, Aybars, & Kutlu, 2010); Brazil

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(Crisostomo, Freire, & Vasconcellos, 2011); Nigeria (Uadiale & Fagbemi, 2012); Jordan (Alafi & Al Sufy, 2012);Pakistan (Mujahid & Abdullah, 2014); South Africa Chetty, Naidoo, & Seetharam, 2015); Romania (Dobre, Stanila, & Brad, 2015); United States (Kim, Kim, & Qian, 2015;Lu & Taylor, 2018).Indian(Das & Bhunia, 2015;Maqbool & Zameer, 2018); Spanish (Rodriguez-Fernandez, 2016); Nigeria (Dlamini, 2016); Indonesia(Firli & Akbar, 2016;Handayani, Wahyudi, & Suharnomo, 2017); Vietnam (Kabir & Thai, 2017; Australia, Hong Kong, and United Kingdom (Beck, Frost, & Jones, 2018); United Kingdom (Ramanathan, 2016);

This research focuses on three relationships among corporate social responsibility, environmental performance and financial performance on Indonesia mining companies listed in Indonesia Stock Exchange.

2 LITERATURE REVIEW

2.1 Corporate Social Responsibility

Corporate Social Responsibility (CSR) is recognized as one of the most important components in the company's strategy to ensure long-term value and sustainable growth of a company(Suto & Takehara, 2016).Furthermore, Kabir & Thai (2017) revealed that corporate social responsibility (CSR) activities increasingly attract the attention of investors, customers, suppliers, employees and governments throughout the world(Kabir & Thai, 2017).

2.2 Stakeholder Theory

This theory is a theory that illustrates all parties related to corporate responsibility (Freeman, 1984).There are two models in stakeholder theory, namely business policy and planning models and corporate social responsibility models of stakeholder management. In this policy and business planning model, the focus is on developing and evaluating the agreement of corporate strategic decisions with groups whose support is needed for the continuity of the business. The model shows ways to manage the relationship between the company and its stakeholders. This second model has external influences in corporate planning and analysis. Groups that can be opposite are the government with special interests related to the pain of social problems. Companies need to disclose in meeting information needs for stakeholders(Donalson & Preston, 1995).

The shareholder theory supporting argument can be fulfilled in a way that companies that implement the concept of corporate social responsibility work for stakeholders such as customers, employees and the environment in which they operate that contribute to long-term success and profitability because customers are the basic source of profit-making companies effectively (Mujahid & Abdullah, 2014).

2.3 Resource Based View Theory

The resource based view theory in explaining the relationship between environmental performance and company financial performance (Russo & Fouts, 1997). Based on this theory, resource based view theory, environmental performance has a positive link with financial performance(Russo & Fouts, 1997).They find evidence environmental performance has a relationship with financial performance strengthens the industries with higher growth. Thus, the higher environmental performance, the higher financial performance.

The Resource Based View helps in understanding the development of newer, proactive technologies by companies who want to improve their Environmental Performance. Even if the technology is obtained from the market (which might not directly result in a competitive advantage because the same technology will be available to competitors as well), the Resource Based View will help explain the efforts of operationally efficient companies to adopt technology to increase efficiency(Russo & Fouts, 1997).

Based on the Resource Based View theory, the literature studying the relationship between Environmental Performance and financial performance always highlights examples when increasing knowledge about Environmental Performance can lead to more effective investment, which in turn leads to further improvements in financial performance(Ramanathan, 2016).

2.4 Hypotheses Development

2.4.1 Corporate social responsibility and financial performance

Based on stakeholder theory, the stakeholders of companies improve their reputation and also financial performance(Donalson & Preston, 1995). Based on stakeholder theory describes that stakeholders both inside and outside the company give pressure on the company to disclose their corporate social responsibility (Donalson & Preston, 1995).Stakeholder theory pays attention to the interests, rights, and needs of various stakeholders of a business as a good way to instill social responsibility behavior among companies(Alafi & Al Sufy, 2012).The shareholder theory supporting argument can be fulfilled in a way that companies that implement the concept of corporate social responsibility work for stakeholders such as customers, employees and the environment in which they operate that contribute to long-term success and profitability because customers are the basic source of profit-making companies effectively (Mujahid & Abdullah, 2014).

Previous studies have different result research. The result research showed a positive effect between corporate social responsibility and financial performance (Alafi & Al Sufy, 2012;Moser & Martin, 2012;Mujahid & Abdullah, 2014;Kim et al., 2015; Rodriguez-Fernandez, 2016;Firli & Akbar, 2016;Famiyeh, 2017; Handayani, Wahyudi, & Suharnomo, 2017;Kabir & Thai, 2017;Beck, Frost, & Jones, 2018; Maqbool & Zameer, 2018).Several studies showed corporate social responsibility have a negative impact on companies financial performance (Guidry & Patten, 2012;Lungu, Caraiani, & Dascalu, 2011;Lu & Taylor, 2018). Following studies showed corporate social responsibility did not impact on financial performance (Das & Bhunia, 2015;Chetty, Naidoo, & Seetharam, 2015;Dlamini, 2016).

Based on the 203 respondents from banks' customers in Jordanian Housing banks(Alafi & Al Sufy, 2012). Alafi & Al Sufy (2012)research reveal corporate social responsibility impact on financial performance. The research in Pakistan, Mujahid & Abdullah, 2014 reveal that corporate social responsibility has a positive and significant with financial performance. From 113 companies listed the United States from software industry (Kim et al., 2015). Kim et al., 2015found positive corporate social responsibility increase financial performance, it is high, but negative corporate social responsibility improves financial performance, it is low. Rodriguez-Fernandez, 2016 the result research from companies listed in the Madrid Stock Exchange, Spanish, showed that corporate social responsibility is profitable. Firli & Akbar, 2016 research in Indonesia telecommunication industry show that corporate social responsibility impact positively on financial performance (Return on Asset).

Famiyeh, (2017) research in Ghana show the result that corporate social responsibility support financial performance in term of return on investments. Based on 173 respondents from manufacturing of large scale (Handayani, Wahyudi, & Suharnomo, 2017). Handayani, Wahyudi, & Suharnomo (2017) reveal corporate social responsibility has a positive and significant on firm performance. The result of research from Vietnamese listed companies (Kabir & Thai, 2017).Kabir & Thai (2017) reveal corporate social responsibility relationship with financial performance.Maqbool & Zameer (2018) research 28 commercial banks listed in Bombay stock exchange, India. Their finding gave a great insight for management of banks to integrate corporate social responsibly with the strategic of business (Maqbool & Zameer, 2018).Beck et al., (2018)reveal the positive relationship between corporate social responsibility and financial performance from three reporting jurisdiction include Australia, Hong Kong, and the United Kingdom.

H1: Corporate social responsibility has a positive impact on companies financial performance.

2.4.2 Environmental performance and financial performance

Previous studies that found a positive relationship between Environmental Performance and companies Financial Performance include(Lisi, 2015; Ramanathan, 2016; Beck, Frost, & Jones, 2018;Lu & Taylor, 2018). The following studies reported that have a negative impact between environmental performance and companies financial performance include (Crisostomo, Freire, & Vasconcellos, 2011;Dobre, Stanila, & Brad, 2015). The following research found did not have a significant effect between environmental performance and financial performance (Aras, Aybars, & Kutlu, 2010;Chetty, Naidoo, & Seetharam, 2015).

The result shows the positive link between environmental performance and corporate performance. This results from 91 companies in Italy (Lisi, 2015).The survey comes from 135 respondents from manufacturing companies in the United Kingdom. The higher environmental performance, the higher company performance (Ramanathan, 2016).

However, from 450 sample show a negative impact between environmental performance and financial performance (Lu & Taylor, 2018). Based on the content analysis, environmental performance has a negative impact on firm value (Crisostomo, Freire, & Vasconcellos, 2011). Dobre, Stanila, & Brad (2015) show a negative impact between environmental performance and financial performance.

Based on 100 index companies in Istanbul Stock Exchange (ISE) show does not significant between corporate social responsibility and financial performance(Aras, Aybars, & Kutlu, 2010).This result similar to the previous research from Chetty, Naidoo, & Seetharam (2015) revealed corporate social responsibility do not significant with financial performance.

The resource based view theory in explaining the relationship between environmental performance and company financial performance (Russo & Fouts, 1997). This theory supports the resources in the company are used to achieve a competitive advantage. This relates to the relationship between environmental performance and financial performance(Russo & Fouts, 1997).

Based on the explanation above, thus our hypothesis is in the following:
H2: Environmental performance has a positive impact on companies financial performance.

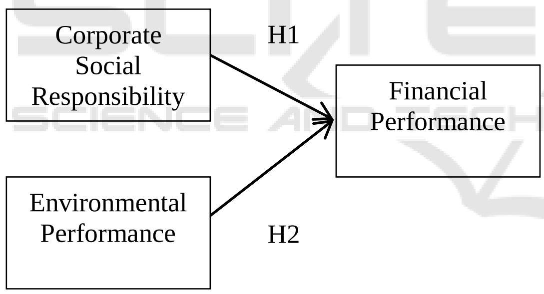

Figure 1: The Research of Framework

3 METHOD

3.1 Sample

This study uses all mining companies listing on the Indonesia Stock Exchange, especially coal mining companies. The reason why researchers choose mining companies.Thus, this research refers to several laws. First, Law No. 40 of 2007 concerning Limited Liability Companies. In the Act, there are obligations for all companies relating to and/or natural resources to carry out social and environmental accountability activities. Second, Law No. 25 of 2007 concerning Investment. Finally, Act No. 32 of 2009 concerning Environmental Protection and Management. There is an obligation for all businesses and/or activities that affect the environment to have an Environmental Impact Assessment (article 22 paragraph 1). All in mining companies, especially coal mines, are used as samples. The data taken is the period of 2015-2017 from the Indonesia Stock Exchange. The data is about 66 observation.

3.2 Data Collected Technique

The collection technique is by collecting all the data. Data obtained from Indonesia stock exchange related to our framework. The data is obtained from Indonesia Stock Exchange via the internet or obtain data from each the annual report of mining companies.

Table 1: Definition of Variables

Variables	**Measurement**
Corporate Social Responsibility	% Disclosure = Item Disclosure / Total item Disclosure.
Environmental performance	1 = good related environmental performance; 0 = do not have any information related environmental
Financial performance	Ratio of return on asset

3.3 Analysis

The hypotheses developed were examined by using Partial Least Square (PLS).
The model of this study is:

$$ROA_{it} = \alpha + \beta 1\ CSR_{it} + \beta 2\ EP_{it} + \varepsilon t$$

Where:
i, t = sector *i*, *Year t*,
α= intercept
B = independent variable coefficient
ε=error term
CSR = Corporate social responsibility
EP = Environmental performance
ROA = Return on Assets

4 RESULT AND DISCUSSION

4.1 Result

The results research show that all hypotheses proposed are accepted. The first hypothesis is accepted (p= 0,04), it is less than 5%. However, the second hypothesis is accepted (p = 0.08), it is less than 10%. It can be seen from table II.

Table 2: The hypothesis Result

Hypothesis	Coefficient	p Value	Result
H1	0,48	0,04	Accepted
H2	0,15	0,08	Accepted

4.2 Discussion

The first hypothesis (H1) which states Corporate social have a positive effect on financial performance. Result research shows H1 is accepted.It is accepted (p= 0,04), it is less than 5%. This finding inline with (Alafi & Al Sufy, 2012; Moser & Martin, 2012; Mujahid & Abdullah, 2014;Kim et al., 2015; Rodriguez-Fernandez, 2016; Firli & Akbar, 2016;Famiyeh, 2017; Handayani, Wahyudi, & Suharnomo, 2017; Kabir & Thai, 2017; Beck, Frost, & Jones, 2018; Maqbool & Zameer, 2018). Previous studies revealed that corporate social has a positive effect on financial performance. They reveal that the more their disclose corporate social responsibility, improve their financial performance. This theory support companies to disclose their corporate social responsibility affect positively on financial performance. This finding support stakeholder theory. Based on the stakeholder theory, corporate social responsibility has a positive and significant affect on financial performance.

The second hypothesis (H2) which states environmental performance has a positive effect on financial performance. The result of research shows H2 is accepted. Itis accepted (p = 0.08), it is less than 10%. This result suport previous research showed the same result (Lisi, 2015; Ramanathan, 2016; Beck, Frost, & Jones, 2018).This finding support the resource based view theory. Based on the resource based view theory, environmental performance has a positive and significant on financial performance.

5 CONCLUSION

The results from this study indicate evidence regarding the relationship between corporate social responsibility, environmental performance and financial performance at mining companies listed in Indonesia Stock Exchange. This study indicates the corporate social responsibility in Indonesia effect on financial performance. The environmental performance effect on financial performance.

The limitation of this study uses only one sector, mining sector, from Indonesia Stock Exchange. This study also use two variables such as corporate social responsibility and environmental performance as independent variables. The suggestion for future research uses other variables such as firm value, corporate governance. Another suggestion is to conduct the research in other sectors such as banking, manufacturing etc.

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