

CSR: The Impact on Long-Term and Short-Term Company Performance

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Abstract—Implementing Corporate Social Responsibility (CSR) is not just an obligation for the company, but must be based on that it is a responsibility in the interests of many parties, including the company itself. Although in Indonesia has issued an Act to regulate the implementation of CSR, but the implementation of CSR by companies not optimal yet. Companies are still reluctant to implement CSR. One factor is that most companies still consider that implement CSR is a burden and does not provide benefits for companies. Therefore, this study will examine the positive impact of CSR on company performance both short and long term. Hypothesis testing is done by using partial least squares (PLS), involving 125 data taken from 2007 to 2012. The results showed that CSR has a long-term impact, especially on the operating cash flow and Reduced-costs in long-term. The impact to operating cash flow in the first year and reduced cost in the second year, explain that CSR effect tend to long-term performance measure.

Keywords—CSR, financial performance measure, non-financial performance measure, short-term performance and long-term performance.

I. INTRODUCTION

Corporate Social Responsibility (CSR) was born around since 1700. Modern CSR began in the 1950s. At first time known as “Social Responsibility” (SR instead CSR), according to Howard R. Bowen’s book: “Social Responsibility of the Businessman”. [1]

CSR development in Indonesia starting from the historical development of the Partnership and Community Development (CSR) . The government began to issue regulations on CSR , among others, Act 40 of 2007 Article 74 (2). “*Social and Environmental Responsibility (CSR) referred to in paragraph (1) is the obligation of the Company are budgeted and accounted for as expenses of the Company which are carried out with due regard to decency and fairness*” [2]

The implementation CSR (Corporate Social Responsibility) does not optimal yet in Indonesia. It was happened cause by

several factors first, Companies was imagined that CSR implementation will increase expense but not have direct effect to financial performance especially in short-term. If the company realizes that there is a close link between environmental performance and social perspective on financial and nonfinancial aspects it is expected that the company can change the mindset that the implementation CSR is not a burden but a form of investment.

In response to the implementation of CSR in Indonesia Ministry of Environment is also a strategic movement, they launched Proper. Proper award aims to encourage companies to adhere to environmental regulations and achieve environmental excellence. Participants Proper is increasing but the compliance is decrease starts from the period 2006/2007 to 2010/2011. In the year 2011/2012 as many as 1,317 participants Proper companies only 12 (0.91%) have gained Gold, Green ranked totaled 119 (9.04%) of the company, Blue totaling 771 companies (58.54%), Red totaling 331 companies (25.13%) and Black totaling 79 companies (6.38%) [3]. CSR implementation does not provide direct benefits (short-term) on the company's financial performance. The previous research support that CSR unsuccessful short-term impact, especially on financial performance. [4 & 5]

Based on the description above can be concluded that: the first, implementation of CSR in Indonesia is less than optimal until today. One factor is the company still is not sure of the impact on the implementation of CSR. Particularly its impact on the company's performance both financially and non-financially. If company realized that there is an impact CSR to financial and nonfinancial aspects it is expected that the company can change their mindset that the implementation CSR is not a burden but an investment .

Based on the description above, the researchers wanted to test the impact of CSR on company performance both short and long term, both financial and non- financial performance .

II. LITERATURE REVIEWS

II.1 Corporate Social Responsibility (CSR)

Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large [6]. The trend of the implementation CSR as a form of implementation of Good Corporate Governance (GCG).

The scope of social and environmental responsibility (CSR) among others: [7]

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- a) Basic Responsibility, liability arising due to the existence of the company. For example, the obligation to pay taxes, obey the law, employment standards, and satisfy shareholders
- b) Organizational Responsibility, the responsibility of the company to meet the interests of stakeholders, namely employees, customers, shareholders and society.
- c) Societal Responsibility, responsibility which explains the stages when the interaction between business and the community so that the company can grow and evolve continuously .

II.2 Triple Bottom Line Concept

The concept of the triple bottom line gives the view that a sustainable company that wants to be noticed 3P (Profit, People, Planet). In addition to the pursuit of profit (profit), the company must pay attention to the welfare of the local community (people), and also to preserve the natural environment (planet). The company no longer subscribes to the single bottom line where only economic aspects are reflected in the financial perspective of the company, but it rests on a triple bottom line which the company must also consider the social and environmental aspects.[5]

II.3 Law No. 40 Year 2007

As stipulated in the Law No. 40 of 2007, Chapter V of the Social and Environmental Responsibility (Article 74), with each paragraph as follows: 1) Companies running their business activities in the field and/ or related to the natural resources required to implement the Social and Environmental Responsibility. 2) Social and Environmental Responsibility as referred to in paragraph (1) is the obligation of the Company are budgeted and accounted for as expenses of the Company which are carried out with due regard to decency and fairness . 3) The Company did not carry out the obligations referred to in paragraph (1) be sanctioned in accordance with the provisions of the legislation. 4) Further provisions on Social and Environmental Responsibility regulated by government regulation

II.4 Program Performance Rating (PROPER)

Program Performance Rating (PROPER) is one of the Ministry of Environment's efforts to encourage compliance of companies in environmental management through information instruments. Conducted through a variety of activities aimed at: (i) encourage companies to comply with the legislation through incentives and disincentives reputation, and (ii) to encourage companies that have good environmental performance to implement cleaner production (cleaner production).[3]

Based on this, the PROPER developed with a basic principles, which are selective PROPER participants, namely for the industry have a significant impact on the environment and care about the image or reputation. PROPER utilize and market the community to exert pressure on the industry to improve environmental management performance. Community empowerment and market by distributing information that is credible, so as to create the image or

reputation. Information on the company's performance is communicated by using colors to facilitate the absorption of information by the public. Rating and business performance or activities provided comprising:[3]

- a) Gold is for business and / or activities that have consistently demonstrated environmental excellence in the production process or services, implementing ethical business and responsible towards social
- b) Green is for business and / or activities that have environmental management more than required under the rules (beyond compliance) through the implementation of environmental management systems , efficient use of resources and social responsibility efforts with good
- c) Blue is for business and / or activities that have environmental management efforts are required in accordance with the provisions or regulations in force .
- d) Red is the environmental management measures that do not conform with the requirements stipulated in the legislation.
- e) Black is for business and / or activities that intentionally or negligent acts that result in pollution or environmental damage and violations of the laws and regulations applicable or not imposing administrative sanctions.

II.5 Hypothesis

The triple bottom line concepts, that view a sustainable company that wants to be noticed 3P (Profit , People , Planet). Companies must consider the welfare of the local community (people), and also to preserve the natural environment (planet) to profit (profit) which became the main source of a company's life. Previous research indicates corporate social responsibility towards the environment surrounding a positive impact, which in the long term will be reflected in the company's profit (profit) and improved financial performance.[9] So, if companies are increasingly concerned and manage the environment properly it will improve the performance of the company's financial performance, reflected in an increase in sales, cash flow from operating activities, and return on assets.[4]

H1a : CSR have positive effect on Revenue

H1b : CSR have positive effect on COCF

H1c : CSR have positive effect on ROA

Stakeholder theory says that the company is not the only entity that operates for its own sake, but must provide benefits to the stakeholders so that the existence of a company is strongly influenced by the support given by the company's stakeholders. [10] Stakeholders basically can `control or have the ability to influence the use of economic resources used by the company. One strategy to maintain relationships between the stakeholders and the company is to implement CSR. The CSR implementation is expected willingness of stakeholders can be accommodated so that it will produce a harmonious relationship between the company and its stakeholders. From the harmonious relationship that will give benefit to the company, the company can achieve sustainability.[11]

According to the Regulation of the Minister of Environment No. 5 of 2011 on Guidelines for Performance Rating in Environmental Management, more aspects of the assessment criteria required (more than mere obedience) demanded the efficiency of the company in managing its business. Thus, if the companies are getting better at managing the environment means companies do use, regulation, maintenance, monitoring, control, recovery, and development environment that will result in environmental quality is better, so that in the end the performance of the company will be more efficient because it can reduce costs (reduce cost) are not required. In addition, the company will have a competitive advantage that will increase employee productivity, so the company will have added value in the eyes of its stakeholders, including the public, customers, and investors.

H2: CSR have positive effect on Market Share

H3: CSR have positive effect on Productivity

H4: CSR have positive effect on Reduced Cost

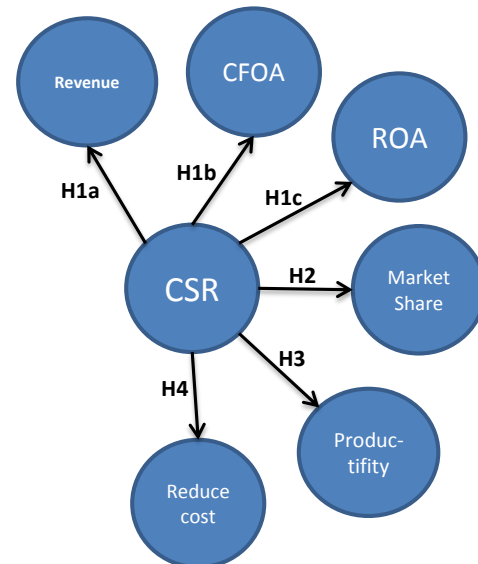


Fig 1: Research Model

III. RESEARCH METHODOLOGY

III.1 Research Design

The research design was explain about degree to which the research question has been crystallized until research environment. Degree of research question has been crystallized is formal study, because this research will be testing hypothesis. Data in this study count by observation secondary data from annual report. This research is ex post facto, the researcher not have power to produce effects in the variables under study. The purpose of this study is causal study, researcher examine the causal relationship between corporate social responsibility to financial and nonfinancial performance. Time dimension of this research is panel data and the topical scope is statistical study. [12]

III.2 Data Analysis

Hypothesis was tested by regression and the data analysis by PLS. The research model is to testing the effect of corporate social responsibility to the financial and non-financial performance measure. In this research, that model will be tested twice. The first was tested with data independent variable (CSR) and dependent variable in the same period. This testing for explain the short term effect of CSR. The second one that model will be tested with lag-1 data. That's mean the data of independent variable (CSR) and dependent variable in the different period. The CSR data was one year earlier than the dependent variable data. this testing is to explain the long term effect of CSR (lag-1). The research model presented as figure 1.

III.3 Variable Definition

Here is the operational definition and measurement of each variable research:

Corporate Social Responsibility (CSR)	Corporate social responsibility is the performance of companies in managing the environment that aims to boost the company's performance in environmental management. Measured using color rank PROPER assessment, using a ordinal scale of 0 to 4 with the composition of the score as follows: Gold = score of 4; Green = a score of 3; Blue = score of 2; Red = a score of 1; Black = 0. The higher the score the resulting score, the better the company's efforts in environmental management. Conversely, the smaller the resulting score, the more the lack of venture company in environmental management.
Revenue	Net sales (net sales) company located in the company's income statement for each year during the period, divided by the total assets of the company.
CFOA	Cash flows from operating activities (OCF), which is contained in the statement of cash flows for each year during the period, divided by the total assets of the company
ROA	ROA (Return on Asset) of the company that count by this formula: $ROA = \frac{Net\ Income}{Tot.Asset}$
Reduced Cost	Measurement for the efficiency was counted by the formula of reduced cost: $Reduced\ Cost = \left(\frac{COGS_{(tx-1)}}{Sales_{(tx-1)}} \right) - \left(\frac{COGS_{(tx)}}{Sales_{(tx)}} \right)$ The higher the value generated from the previous year means that there is a reduction in costs incurred by the company, so it can be said the company's business performance more efficient. Instead, The lower the value generated from the previous year means no reduction in costs by the company, so it can be said the company's business performance more inefficient.
Productivity	It is represent company's growth, this variable measured by the productivity per employee. The formula present below:

	$Productivity = \frac{Sales}{Number\ of\ Employees}$
Market Share	Market Share, one of customer performance measure, is the percentage of an industry or market's total sales that is earned by a the company over a specified time period. Market share is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period. The higher the percentage share of the market (market share) meaning the higher the ability of companies dominate the domestic market among competitors

IV. RESEARCH RESULT

This study was conducted with 125 Data. The data count from annual report and PROPER result from 2007 until 2012. Hypothesis testing is done twice. the first testing is for the data that same period and the second the model was tested with lag-1 data.

TABLE 1
THE RESULT OF PATH ANALYSIS MODEL 1

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (O/STERR)	P Values
csr -> cfoa	0.272	0.270	0.106	2.572	0.010
csr -> eprod	-0.008	-0.003	0.055	0.147	0.883
csr -> market share	0.074	0.071	0.080	0.934	0.351
csr -> redcost	0.094	0.087	0.132	0.715	0.475
csr -> revenue	-0.075	-0.075	0.084	0.896	0.371
csr -> roa	0.087	0.094	0.107	0.813	0.416

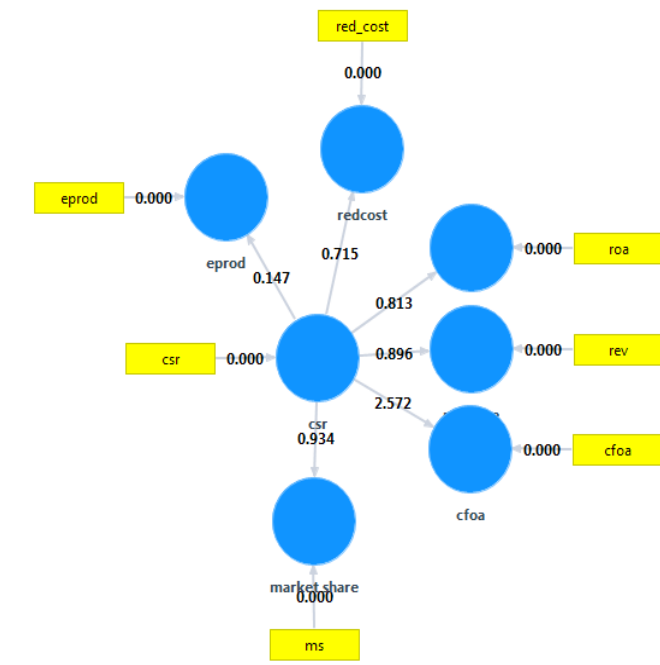


Fig 2: Model 1

The first test result showed that CSR have positive effect to the financial performance (operating cashflow and ROA) and non-financial performance (reduced cost, and market share). But CSR positive effect just significant with operating cash flow (p-value=0.010). These results indicate that the better and

consistent companies implement CSR, operating cash flow, much better. This is consistence with previous result [13] CSR will give the direct and indirect effect to company financial performance. CSR have direct effect to operating cash flow of a company, because in the operating cash flow, contain historical data from noncash transaction that happen in the past. It is very likely the result of what the company has done before.

TABLE II
THE RESULT OF PATH ANALYSIS MODEL 2 (LAG-1 DATA)

	Original Sample (O)	Sample Mean (M)	Standard Error (STERR)	T Statistics (O/STERR)	P Values
CSR -> CFOA	0.163	0.160	0.110	1.483	0.139
CSR -> EFF_PROD	-0.066	-0.053	0.116	0.570	0.569
CSR -> MARKET SHARE	0.114	0.103	0.118	0.965	0.335
CSR -> REDUCE COST	-0.254	-0.251	0.130	1.949	0.052
CSR -> REVENUE	-0.016	-0.024	0.100	0.160	0.873
CSR -> ROA	-0.019	-0.022	0.128	0.147	0.883

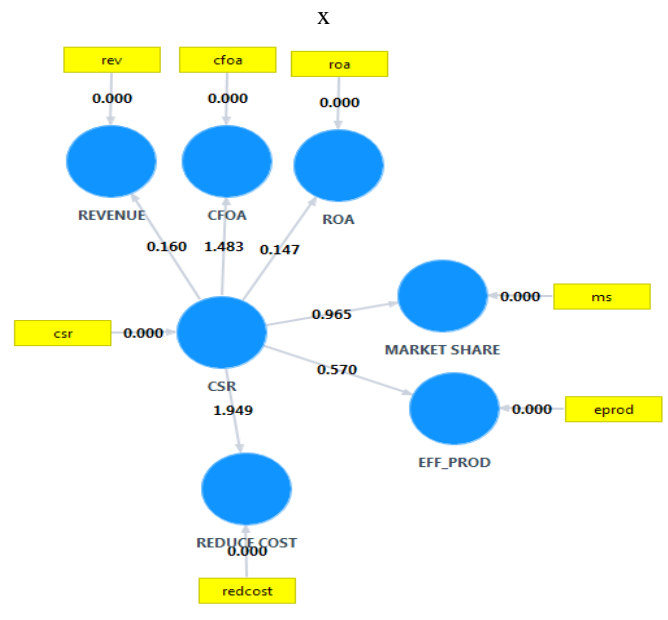


Fig 3: Model 2 (lag-1 data)

The second testing is use lag-1 data. This test is to prove the long-term impact of CSR on financial and nonfinancial company performance. When compared with previous results (table 1) it appears that CSR have impact to reduced cost (p-value=0.052). This is explains that if company implement CSR consistently in the future this company will enjoy the benefits. The company can more efficiently perform the business operations. The Company may deduct or cost savings of various kinds, one of which is the cost of goods sold. Based on the results of the above CSR does not provide financial results in the short term. However, CSR will give good results , directly or indirectly on the company's financial future. Thus, if a company conducts CSR programs are expected to sustainability will be ensured with good company. Therefore, CSR programs more appropriate if classified as investment and should be a business strategy of a company. This research was conducted with the data lag-1 and the relationship is direct effect CSR on each performance

measure. Variables studies seem not correlated with CSR, remains to be seen with another observation period. In further studies should be conducted the model testing with a longer lag data so that it can see the effects of other CSR on a longer observation period.

V. CONCLUSION

Companies that perform consistently in the CSR will get the benefit in long-term. The first results in this study demonstrate that there is a positive impact of CSR on company operating cash flow. However, these results confirm the existence long-term effect of CSR, as operating cash flow containing historical data from past credit sales.

The second results reinforce that CSR has a long-term impact that is a reduction in corporate expenses. Companies that implement CSR consistently be able to reduce the cost of operations so that in the long term (approximately 1-2 years) the company will be able to perform more efficient than before, so can reduce the cost of goods sold. So that in the future companies will increasingly competitive advantage.

In the future company should be aware to the environment. Implementation of CSR can be increased competitiveness so the companies can more effectively and efficiently resulting in cost reduction. In addition to the company and stakeholders, through Proper program the company can participate in saving the earth, because the program is to encourage companies to undertake pollution load reduction and the reduction of greenhouse effect.

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