

THE IMPORTANCE OF *CORPORATE SOCIAL RESPONSIBILITY* IN IMPROVING CORPORATE VALUE: CASE STUDY OF PUBLIC COMPANIES IN INDONESIA

Supriyati

Study Program in Accounting, STIE Perbanas Surabaya
supriyati@perbanas.ac.id

Gunasti Hudiwinarsih

Study Program in Accounting, STIE Perbanas Surabaya
astit@perbanas.ac.id

Abstract: *Corporate value is a quality measure that indicates the consistency and sustainability of a company. Good corporate value can only be attained if the company has consistent financial performance, and that value will be used by decision makers inside or outside the company as the guide before making action. Attaining good corporate value should need comprehensive strategies integrated with company operation. Among those strategies is non-financial activity or social responsibility. This research expects that the disclosure of social responsibility by the company will adorn corporate image and give good impact on profitability and corporate value. This research is aimed to examine the effect of social responsibility disclosure on profitability and corporate value. Data testing was conducted using robust regression test and applied on 1306 data of public companies that are listed at Indonesia Stock Exchange on period 2015-2018. Result of the test shows that social responsibility affects profitability and corporate value.*

Keywords: *Corporate Social Responsibility, Profitability, Corporate value*

INTRODUCTION

The success of a company is measured from its capability to attain the expectations of *stakeholders*, mainly shareholders. This capability is represented by company's stock price. If stock price is high, it signifies that the company is capable to produce maximum profits and therefore easier to gain public trust. Strong public trust is associated with corporate performance in current days or in the future. Corporate performance can be in the form of financial performance and non-financial performance. Some stakeholders, particularly investors, use financial performance as the guide in making investment decision and in estimating the *return* of their investment. To facilitate its operational activity, the company must increase its profitability. High profit gives an indication that the company has good prospect. This situation surely convinces investors to entrust their funding to the company. If company stocks are highly demanded, then corporate value will rise.

Corporate financial performance can be improved through transparency of company's operational activity. For Indonesian public companies, the disclosure of social and environmental activities is still considered *voluntary* because there is no governmental decision yet in nature of mandatory that requires the company to submit such disclosure. As time goes, the implementation of the disclosure of social and environmental responsibilities is then known by the name *corporate social responsibility* (CSR). This kind of responsibility

indicates that the company has been practicing *charity* and *empowerment*. Moreover, many governments at the province, regency and city levels have stipulated laws regarding CSR. Hadi (2011) conducted a research in 2009 on 62 public companies that are listed at Indonesia Stock Exchange. It was found that there are 898 items in the disclosure made by these companies, and these items are arranged into 6 groups, namely environment, energy, community, employee, product and others (another social aspects). Referring to global reporting initiative (GRI-G4), the items are grouped into 91 indicators of measurement. Perhaps, this grouping gives a strong proof that governments and world societies are caring about social responsibility. Within Indonesia context, CSR activity was legalized through Article 74 of Law No.40/2007 that explains CSR implementation in public companies and requires them to enclose their reporting of CSR implementation in the annual report. It confirms that CSR implementation is important for public companies in Indonesia. If the number of company that discloses non-financial information is increasing, then it should improve public trust on corporate performance. The increase of public trust is indicated by the willingness of people to buy products or services offered by the company. Loyal buyers are always helpful to increase the sale or turnover of the company, which then enables the company to attain high profit. It can be said that the implementation of CSR will improve long-term financial performance of the company, and also increase corporate value.

Previous researches on this topic were not yet producing consistent results, and therefore, the effect of CSR on profitability and corporate value should be reexamined. Bhandari & Javakhadze (2017) discovered that most companies have allocated significant resources for CSR. It seems that CSR activity is the manifestation of agency problem that affects the company in improving the efficiency of resource allocation and corporate performance. It was also found that CSR has negative impact on financial sensitivity and investment. Different findings were given by Jian & Lee (2015) and Garcia-Benau et al. (2013) on the context of polluter companies that are listed at Chinese Stock Exchange on period 2008-2014, which involves 16 industries or 968 observation data. In general, their findings showed that CSR has negative effect on corporate value at short term. However, another findings conferred by Zeng, (2016), Needles et al. (2016), Rodriguez-Fernandez, (2016), Watson, (2015), Kadlubek (2015), and Siew et al. (2013), in contrast, indicated that high reputation on CSR will increase market value of the company.

Taking into consideration of the condition above, the importance of CSR role in public company dynamic and the inconsistency of results of previous researches become the background of the current research. That is why this research attempts to examine the effect of CSR on profitability and corporate value of public companies in Indonesia. It is expected that this research will provide a description about the map of social responsibility disclosure (CSR) in public companies that are listed at Indonesia Stock Exchange. Next researcher can use this research at least as an indicator to measure social responsibility disclosure (CSR) reported by Indonesia public companies. Also, this research contributes new review and new thought on social responsibility disclosure (CSR), financial performance, and corporate value as the parts of accounting development.

MATERIALS & METHODS

Corporate financial performance is a description about every economic output that is able to be achieved in effective and efficient ways by the company on certain period in order to produce maximum profits. The development of profits can be measured by analyzing financial data on financial statements. According to Supriyati & Tjahjadi (2017), financial performance is the description whether a company is health or not. To satisfy the expectations of company owners or shareholders, and also to achieve company goals, then the company should assess corporate financial performance. Result of this assessment helps the company to deliver good wealth to company owners or shareholders.

Performance assessment is an effective assessment on an organization, an organizational unit, and employees based on standards and criteria predetermined by the company. These standards and criteria are usually stated in managerial policy or company plan. Performance assessment can be used to enforce the expected behaviors. In this case, the company is assessing corporate performance by analyzing financial statements. There is a thought crossing the mind of company leaders that managing a company in modern age, along with dramatic advancement of technology, is a very complex matter. For the management, performance assessment is helping them to estimate the success level of company business and also to set strategic and operational planning bases for the future. For company owners, performance assessment is allowing them to ensure that their capital investment will be used in conformity to organizational goals. Information about performance assessment is important not only for investors or potential investors but also for creditors or potential creditors, as well as government. Specifically, creditors or potential creditors use the results of performance assessment as the base in making decisions regarding credit or credit-related agreement. The government usually uses the results of performance assessment as the base to set tax burden, to provide facility endowment, to make regulation policy, and to maintain national economic stability.

Every company or organization will assess and measure their financial performance in order to know how further they are in achieving the goals. The assessment is done by analyzing financial statements. Indeed, financial statements can be the source of information to understand and analyze work performance and corporate value. Financial performance is a factor that indicates how effective and efficient is an organization in achieving its goals. Financial statements structurally present financial position and financial performance of an entity in order to deliver information about financial position, financial performance, and cash flow, and those information are always meaningful to investors, creditors, and other users.

Corporate value is the sale value of a company as a business unit while still operating. If sale value of a company is higher than its liquidation value, then it represents the value of managerial organization that run the company (Sartono, 210: 487). Company owners always desire high corporate value because this will give them (or shareholders) a huge wealth. Besides, high corporate value will make market believe not only on current performance of the company but also on the future prospect of the company. Corporate value can be seen from company's stock price. It is also said that stock price is the reflection of decisions

concerning investment, funding, and asset management. Therefore, high stock price is always associated with high corporate value.

If company's stock price is high, then investors will perceive that the company has high performance, and therefore, they do not hesitate to invest. Conversely, if stock price is low, investors' perception is negative and they become hesitate to invest. High stock price gives an indication that the company has good performance and has attained its profit goals. Therefore, improving performance will surely increase stock price. Moreover, management as *agent* in *agency theory* will maximize performance to increase corporate value to ensure that *principal* or fund provider will get the wealth (Jensen & Meckling, 1976). The success of the management in running the company is often represented in annual financial statements, which are intentionally prepared to persuade investors to invest their funds, which later increases the needs for purchasing company stocks. The greater demand for stock purchase is usually followed by the rise of stock price, which surely gives good impact on corporate value.

Corporate value is measured with some indicators (Sartono, 2010: 493), and in the context of this research, the indicators are *Price Earning Ratio* (PER), *Tobin's Q* and *Price to Book Value* (PBV).

a. *Price Earning Ratio* (PER)

Price Earning Ratio (PER) is one of the most fundamental indicators in stock value analysis. This ratio is estimated by dividing company's stock price with net profit per sheet of share offered by the company in one period. This ratio is often used when the company insists on knowing investment opportunity. High level of PER is associated with high level of profit growth. Indeed, high profit will make investors perceive that the increase of corporate performance will be followed by the rise of corporate value.

b. *Tobin's Q*

Tobin's Q-based model defines corporate value as the combination value between tangible and intangible assets. Measuring corporate value with *Tobin's Q* will give descriptions not only about fundamental aspects but also about how far is the market in assessing the company from the perspective of externals, including investors. *Tobin's Q* can be used to represent variables that are involved in measurement of corporate performance and corporate value, such as company listed assets (tangible assets) and company prospect (intangible assets). Corporate value can also be calculated with *Tobin's Q*. *Equity Market Value* (EMV) is obtained by multiplying the closing price of company stock with the number of circulated stock in the end of the year. *Equity Book Value* (EBV) is the difference of total asset to total debt of the company.

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c. *Price to Book Value* (PBV)

Price to Book Value (PBV) is a fundamental indicator used to analyze stock value. This indicator is often operated to know the reasonable value of a stock. It must be noted that PBV also describes corporate performance. If PBV is high, then the wealth earned by *shareholders* is also high. Investors will perceive that corporate performance is improving and it drives corporate value to go upward. If PBV is lower than one, then it signifies that the company fails to create value for *shareholders*.

Main goal of the company is usually maximizing corporate value. The maximization of corporate value equals to the maximization of shareholder wealth. Conflict between *agent* and *principal* might influence the achievement of corporate performance (Jensen & Meckling, 1976). Each of the conflicted entities has desires that must be satisfied. Manager as the entity who run the company wants to deliver good corporate performance and high profit. In contrast, other stakeholders prefer to have high return on their investment. The assessment of financial performance is like the analysis tool to see how far or how proper is the company in enforcing financial regulations. Corporate performance is a description about financial condition that the company has and that has to be analyzed with financial analysis tools in order to know whether this financial condition is good or bad and also has been reflecting work achievement of manager on certain period. Such perspective must be taken into consideration at least to ensure that resources can be used optimally in dealing with environmental change.

So far, benefits coming from financial performance are explained as follows: 1) to measure organizational achievement in certain period to determine the success level of an activity; 2) to assess the contribution of corporate performance to the achievement of company goals; 3) to be used by the company as the base in setting up the future strategies; 4) to give clues for decision making and organizational activity in general, or for divisional or business unit activity in particular; and 5) to be the base in making policy regarding capital investment to increase company's efficiency and productivity (Munawir, 2012). Financial performance assessment becomes an important tool to mediate *conflict agent*.

Stakeholder theory explained that all *stakeholders* have right to obtain information regarding company activities that can influence their fate (Freeman & Evan, 1979). Main goal of the company is to maximize the wealth of the owners, who are not only shareholders, but also creditors, suppliers, government, community and others that become important consideration for the company. Social issue is always becoming an issue that attracts public conversation, and it is expected that this consideration will motivate the company to maximize its economical performance, at least to avoid public complaints. But, it must be noted that social, economical and environmental aspects are an integrated system (Rodriquez-Fernandez, 2016). The improvement of company's social aspects will give huge benefits to either company or community. Stakeholders require the manager to show transparency, efficiency and efficacy in order to ensure that they will get benefits and that the company is sustainable (Siew et al., 2013). Therefore, main intention behind the disclosure of corporate social responsibility (CSR) by the company is to show that the company is not only aimed to attain pecuniary benefits but also to care about social and environmental aspects.

There is an expectation that CSR disclosure can give the company a good image. If this good image is acquired, people will be easily convinced to invest to the company. Public investment is vital resources to the company in obtaining competitive advantage. The company must develop a long-term relationship with *stakeholders* (Kadlubek, 2015). The disclosure is the manifestation of legal obedience but it is still *voluntary* in nature. Despite this voluntary characteristic, there is a need to stipulate *statutory* base for long term strategy. From stakeholder perspective, however, the implementation of CSR makes the management

to spend another expenses that can reduce the desired profit. Two empirical examinations support this position (Duff, 2016; Watson, 2015). Essentially, it was said that *Corporate Social Responsibility (CSR)* is a process to communicate the social and environmental impacts of economical activity from the company either on the specific interest group or on the whole community. The company has wider responsibility than only seeking profits for shareholders (Indonesia, 2007). The Law No.40/2007 on Limited Company, especially in Article 66 verse 2 (c), had stated that annual statements must at least contain the reporting about the implementation of social and environmental responsibilities. Next, the *Government Regulation No.47/2012 on Social and Environmental Responsibilities of the Limited Company*, especially in Article 2, had explained that every limited company is a law subject, which therefore has social and environmental responsibilities that must written on annual statements. Both legal bases, however, do not mention the detail of CSR components because such information is still *voluntary* in nature. The purpose of CSR disclosure includes to improve corporate image, to strengthen organizational accountability by assuming that there is social contract between organization and community, and to deliver information to investors (Kabir & Thai, 2017; Esteban-Sanchez et al., 2017; Oh & Park, 2015). In the other hand, the reasons why the company does social responsibility disclosure are to ensure that the company has given the best social performance, to know what the company has been done to improve its social performance, and to understand the implication of this social performance (Liu & Zhang, 2017), especially to company sustainability (Siew et al., 2013).

Ideally, the company should have commitment to implement, to present and to disclose the information regarding social and environmental responsibilities. Such commitment gives benefits to the company (Watson, 2015; Lech, 2013), such as: (1) improving profitability and corporate financial performance; (2) strengthening corporate accountability and convincing investors, creditors, suppliers, and consumers to give positive appreciation to the company; (3) developing emphasis on work ethos, efficiency and productivity; (4) reducing social hostility and community resistance because the company respects and cares about community issue; and (5) building company reputation, corporate branding, goodwill (intangible asset) and long term corporate value. Therefore, CSR disclosure is the disclosure of information concerning social activity done by the company, which is intended to influence not only people perception on the company but also corporate financial performance (Rodriquez-Fernandez, 2016; Zeng, 2016).

The term "*sustainability reporting*" was introduced in 1997 by *United Nations Environment Programme (UNEP)*, *Coalition for Environmentally Responsible Economies (CERES)* and *Tellus Institute* when they made agreement to establish *Global Reporting Initiative (GRI)* by the year of 2000. First initiative, or GRI G1, was started in 2006, followed by GRI G2 in 2011, and GRI G3 in 2013. Thereafter, GRI G4 was launched in Amsterdam on 22 May 2013 at Global Conference for Sustainability Reporting, which was attended by 1,600 participants from 70 states, and the result was planned to be implemented in Southeast Asia region by the year of 2017. The change of each GRI is intended to accommodate the companies' intention to report as much as possible indicators in their sustainability reporting. The focus of this sustainability reporting is given on the aspects of economic, society, and environment around the company and other interest group. The GRI G4 covers 91 disclosure

items that are grouped into economic, environmental and social aspects. Each aspect is explained as follows: (1) Economic Aspect, comprising of issues such as financial performance, market existence, economic impact, and procurement, which is indicated by 9 items; (2) Environmental Aspect, consisting of issues such as material, energy, water, biology, emission, waste, product & service, obedience, transportation & others, supplier assessment, and community complaint service, which is indicated by 34 items; and (3) Social Aspect, containing issues such as employment (16 items), community (11 items), human right (12 items), and product responsibility (9 items).

Type of this research is quantitative. Data type is secondary data, which are in the form of financial statements prepared by public companies that are listed at Indonesia Stock Exchange. This research attempts to design the map of Corporate Social Responsibility (CSR) disclosure done by public companies that are listed at Indonesia Stock Exchange. The resultant map will be the useful guide for the stakeholders in measuring CSR. This research is done on public companies that are listed at Indonesia Stock Exchange on period of 2015-2018, and from these companies, there are 1,478 data obtained. However, of these data, there are 172 data that cannot be processed because it is not available, and the remaining data for processing are 1,306. The companies are mostly coming from industry sector and grouped into some sub-sectors. The sample is determined through *purposive sampling*. Two criteria are used, which respectively are: 1) that the company publicizes its annual financial statements; and 2) that the company does not have negative profit.

Three variables are observed in this research, namely CSR, profitability and corporate value. Alternately, variable CSR refers to the disclosure of social responsibility conducted by the companies for the community around them. This variable is measured by 91 disclosure items, which comply with the number of disclosure items in GRI G-4 (91 items). Variable Profitability is measured with two approaches, which respectively are: 1) Return on Assets (comparison between EBIT and Total Asset), 2) Return on Equity (comparison between EBIT and Total Equity). Variable Corporate Value is measured with also two approaches, precisely: 1) Tobin's Q (comparison between stock market value and equity book value), and 2) Price to Book Value (comparison between equity market value and equity book value). To add the estimation of variables beyond dependent and independent variables, then three control variables are included, namely leverage, company size (*SIZE*), and audit report lag (*ARL*).

RESULT & DISCUSSION

As explained in previous sections, three variables are examined in this research, namely corporate social responsibility (CSR), profitability (measured by ROA and ROE), and corporate value (measured by PBV and Tobin's Q). Results of descriptive test are shown as following:

Table 1. Descriptive Test on Variables

Description	CSR	ROA	ROE	PBV	TBQ	SIZE	LEV	ARL
Max	1.00	9.42	210.04	1412.50	695.57	35.77	1107.60	502
Min	0.44	-0.78	-862.79	-7.08	-1.64	11.54	-30.64	0
Average	0.70	0.06	-0.78	3.26	3.18	26.84	2.80	70
Std	0.11	0.28	34.21	39.95	32.50	4.56	16.08	28

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Regarding to the results of the table above, for *Corporate Social Responsibility (CSR)*, the average value of CSR disclosure is 70%, which signifies that CSR has wider effect than the other two variables. For *Profitability*, the average value of *return on asset (ROA)* is higher than that of *return on equity (ROE)*, although the average value of both are below zero. Financial performance is mostly produced from better asset management, but the capitalization from internal sources is still low. For *Corporate Value*, the average values of PBV and Tobin's Q indicate that stock value is better than stock's book value after stock issuance. The average value of *Leverage* signifies that debt structure of the companies is greater than internal capitalization. Public companies usually rely greatly on creditor capitalization, and this situation influences profitability.

Table 2. Average Values of Variables per Industry Sector

Sub-Sector	CSR	ROA	ROE	PBV	TBQ	SIZE	LEV	ARL
Mining	0.69	0.08	0.10	15.54	13.72	29.02	8.80	81
Manufacture	0.77	0.08	0.39	1.42	1.28	28.17	1.91	68
Property	0.57	0.05	1.75	1.22	1.22	28.47	0.93	77
Agriculture	0.68	0.01	0.06	4.04	2.88	28.90	1.12	77
Infrastructure	0.74	0.06	-0.01	2.07	1.54	28.98	1.32	59
Finance	0.65	0.03	-8.15	2.39	1.06	17.14	8.53	64

The average values of each variable for the companies in various sub-sectors have been obtained. As shown in the table above, the sub-sector that is the most diligent in disclosing CSR is manufacture, followed by infrastructure and mining, especially on the disclosure of environmental aspect. Concerning with profitability, the most profitable sub-sector, with ROA measure, is manufacture, followed by infrastructure and mining, while the best sub-sector based on ROE measure is property. Despite having good financial performance, these sub-sectors' profits are not yet optimum. In regard of corporate value, mining and agriculture sub-sectors are quite promising for investors. The biggest asset is owned by mining sub-sector with its fixed asset greater than other sub-sectors. Mining and finance sub-sectors need great capitalization, and most of its proportions are acquired from debt or creditors. The most diligent sub-sector in financial reporting and auditing is mining sub-sector. Auditor, which in this context is represented by Public Accounting Office, seems find difficulty in auditing all companies in the observed sub-sectors. Specialized competence is required and sometimes, the Office need quite long time to audit financial statements prepared by the companies in the sub-sectors.

The examination over the effect of CSR and profitability on corporate value is done using regression test. Initially, the testing is carried out using classical assumption test. One component of classical assumption test, which is normality test, shows that error is not normally distributed. Based on this result, therefore, hypothesis test is conducted, which uses regression robust test. Referring to this regression test type, MM Method is then used as regression method because it is considered more proper than other method in this research context. The operation of all tests is supported by statistical application software (SAS). The following is the summary of results of regression test.

Table 3. Summary of Regression Test Results

Hypothesis	OLS			Robust MM		
	Beta	Sign	R2	Beta	Sign	R2
CSR-ROA	0.021	0.423	0.000	0.006	0.000	0.006
CSR-ROE	-7.893	0.229	0.001	0.107	0.410	0.000
CSR-PBV	15.127	0.146	0.002	0.892	0.597	0.000
CSR-TBQ	3.785	0.913	0.000	0.456	0.000	0.009
ROA-PBV	3.472	0.186	0.001	0.949	0.160	0.000
ROA-TBQ	2.936	0.216	0.001	0.964	0.003	0.004
ROE-PBV	3.823	0.950	0.000	0.964	0.989	0.000
ROE-TBQ	3.173	0.947	0.000	0.990	0.762	0.000

First hypothesis says that CSR affects financial performance. Result of hypothesis test shows that CSR has significant effect on profitability, which therefore, this hypothesis is accepted. Profitability always becomes the company's achievement target because it is the measurer used in the assessment of corporate financial performance. Profitability is also the part of corporate strategy, especially for the users of financial statements before they make decisions or policies regarding the future wealth. The companies do a lot of activities to improve their profitability, including facilitating human resource management, improving management mechanism, and making the precise marketing strategies to increase business turnover. All these activities are culminated at making company operation more efficient and effective. Besides developing strategies to attain short term performance, the company also sets long term strategies but with contribution to short term goals. One of such strategies is CSR disclosure activity. In the context of this research, CSR disclosure encumbers the company although the nature is *voluntary*. The intention behind CSR disclosure is directed toward building network with other entities, especially community. It is hoped that CSR disclosure will adorn corporate image either in current days or in the future. If the company is frequently disclosing its CSR, the existence of the company will be highlighted by stakeholders who then become more loyal and care about company sustainability. Direct benefit acquired by the company from CSR disclosure is the increase of company turnover and company profit in long term. This benefit will continue if the company can maintain its operational sustainability.

Second hypothesis states that CSR disclosure affects corporate value. In this context, corporate value is defined as a sustainability strategy to keep the company consistent in achieving long term profit. This definition aligns with the intentions and benefits of CSR

disclosure where the impact of CSR is only felt by the company at long term. Result of hypothesis test indicates that CSR disclosure has significant effect on corporate value at the proxy of Tobin's Q, which based on this result, the second hypothesis is accepted. In one hand, CSR disclosure is an element of operational cost, but in the other hand, it helps improving company's business turnover. The increase of operational cost for disclosing CSR can still be compensated by the increase of business turnover, which becomes the reason why company profit is still high despite spending money for CSR disclosure. High profit will attract investors and others to invest to the company. Consequently, it will influence market value of company stocks, which then increases the value higher than the previous. The increase of corporate value derives from such condition.

Third hypothesis declares that profitability affects corporate value. *Return on asset* (ROA) is one of general measures for profitability that can be used for all sectors in Indonesia. Profitability can influence corporate value at long term. Result of hypothesis test (with statistic tool) has proven that profitability (ROA) has significant effect on corporate value at the proxy of Tobin's Q. High profit describes the capability of the company in delivering high return for investors. Besides, high profit is considered by investors as good news, which then convince them to buy company stocks on high price. If now the company has good profitability, then the company will have high corporate value in the future.

Fourth hypothesis asserts that control variables (leverage, company size, and audit report lag) affect profitability and corporate value. Result of hypothesis test shows that control variables have significant effect profitability and corporate value, which consequently, the hypothesis is accepted. So far, profitability and corporate value are measurers that are frequently used for the achievement of corporate financial performance. *Corporate Social Responsibility (CSR)* is not the only one non-pecuniary aspect because there are few variables influencing the situation, such as company size, leverage and audit report lag. *Company size* is determined from total asset that the company has. Precisely, it is about the level of resource that the company can manage to produce profit at short term and long term. The company with high level of total asset will produce high profit if compared to the company with low resource. *Leverage* illustrates the capital structure of the company. Capital structure of public companies mostly derive from creditors rather than from owners or internal entities. Capitalization ratio of the company can influence profitability and corporate value. If *leverage* is high, then the company tends to focus on delivering returns to the creditors, and this action can influence the profit that the company gets. *Audit report lag* is the length of time needed by auditors from Public Accounting Office to complete audit process of financial statements. If auditors can complete audit process faster, it will impact their fee. Therefore, auditors' fee is a component of operational cost that affects profitability and corporate value.

4 CONCLUSION

This research is aimed to examine the effect of *Corporate Social Responsibility (CSR)* on profitability and corporate value. Secondary data was used, and the data were collected from public companies that are listed at Indonesia Stock Exchange on period of 2015-2018. There were 1,306 data available for processing and also testing with regression. Result of the test shows that: 1) CSR disclosure has significant effect on profitability and corporate value; 2)

profitability has ¹ significant effect on corporate value with Tobin's Q as proxy; and 3) control variables, which include company size, capitalization structure, and length of time of audit process (SIZE, LEVERAGE and ARL), have significant effect on profitability and corporate value. This research only used data of financial statements from the companies. Some problems emerge, such as: 1) The companies that disclose their social and environmental activities in separate report (*CSR reporting*) are still few; 2) CSR disclosure is still *voluntary*, and this activity needs great cost allocation, which therefore, not all companies are able to enforce this non-pecuniary aspect; and 3) This research uses data of all public companies without separating companies at finance sector from those at non-finance sector, which therefore, disregards different indicators and rules that identify each sector. Therefore, it is not surprising if this research only focuses on the indicator that measures financial performance (only on ROA).

Taking into consideration of the limits above, some suggestions are proposed. Next researcher (or reader of this research) who has interest on *financial reporting* issue should focus on relevant sector in order to help researcher to generalize the results. Research period can be extended, for instance, to 10 years and observation area can be enhanced by including other states. Profitability and Corporate Value as the measurer of corporate financial performance may not only involve ROA and Tobin's Q as proxy but also the sector where the companies belong to.

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