

## Effect of CSR Disclosure on Survey Profitability of Food and Beverage Sub-Sector Companies on the Stock Exchange in 2019-2021

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### ABSTRACT

CSR is a business commitment to contribute to sustainable economic development through collaboration with local communities and the general public to improve a decent life. The concept of CSR involves partnership responsibility between the government, community resource organizations and local (local) communities. This partnership is not static and passive. The purpose of this study was to determine the effect of CSR disclosure on profitability as measured by the variables ROA, ROE and EPS. The statistical method used in this research is inferential statistics, while the type of research used is descriptive verification research. The sample in this research is a manufacturing company in the food and beverage sector from 2019 to 2021. The sample used is a saturated sample. The analytical tool used in this study uses multiple regression analysis. The results showed that CSR disclosure had a significant effect of 52.6% on ROA, ROE and EPS

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## INTRODUCTION

The development of the global business world is followed by an increase in public awareness of corporate responsibility. Now the company does not only aim to achieve profit and growth, but also sustainability where to achieve this, companies are required to show a sense of responsibility and concern for social issues both within the company and those developing in society. CSR is a business commitment to contribute to sustainable economic development through collaboration with local communities and the general public to improve a decent life.

According to Anggraini, 2006 Corporate Social Responsibility (CSR) is an organizational mechanism for voluntarily integrating environmental and social concerns into its operations and interactions with stakeholders, which goes beyond organizational responsibilities in the legal field. Corporate social responsibility is disclosed in a report called Sustainability Reporting.

Sustainability Reporting is reporting on economic, environmental and social policies, influences and performance of organizations and their products in the context of sustainable development. Sustainability Reporting includes reporting on economic, environmental and social influences on organizational performance (ACCA, 2004). The Sustainability Report must be a high-level strategic document that addresses the issues, challenges and opportunities of Sustainable Development that bring it to its core business and industrial sectors.

Referring to Government Regulation no. 47 of 2012 contained in article 4 states that Social and Environmental Responsibility is carried out by the Board of Directors based on the company's annual work plan after obtaining approval from the Board of Commissioners or the General Meeting of Shareholders (GMS) in accordance with applicable regulations. with the company's articles of association. The company's annual work plan contains activity plans and budgets required for the implementation of Social and Environmental Responsibility. Implementation of Social and Environmental Responsibility is contained in the company's annual report and is accountable to the GMS (Article 6 PP 47 of 2012). The concept of CSR involves partnership responsibility between the government, community resource organizations and local (local) communities. This partnership is not static and passive.

The implementation of CSR in Indonesia is getting firmer with the issuance of Law Number 25 of 2007 concerning Investment. Article 15 letter b Law 25/2007 stipulates that every investor is required to carry out Social and Environmental Responsibility. What is meant by Environmental Social Responsibility according to Article 15 letter b of Law 25/2007 is the responsibility inherent in every investment company to continue to create harmony, balance and in accordance with the environment, values, norms and culture of the local community. Public.

Rina Tresnawati (2008) conducted research on PT TELKOM, specifically the income statement and balance sheet. This study makes a comparison before the implementation of CSR and after the implementation of CSR. The results of the study concluded that the average company profitability (measured by ROA) before CSR implementation was 7.90%, while after CSR implementation it was 13.91%. So the percentage increase in profitability (measured by ROA) is 7.55%

Arif Fahruri (2009) tried to measure the effect of implementing CSR in the field of employee and community welfare on the financial performance of companies listed on the IDX in 2007. From the results of tests conducted on 93 sample companies it was found that employee welfare costs and costs for society simultaneously had a significant effect on financial performance (ROE).

## LITERATURE REVIEW

### Basic theory of research

a. Legitimacy Theory (Legitimacy Theory) Legitimacy is a psychological state of partiality of people and groups of people who are very sensitive to the symptoms of the surrounding environment, both physical and non-physical. (O'Donovan, 2002 in Hadi, 2011: 87)

b. Stakeholder Theory Stakeholder theory says that a company is not an entity that only operates for its own sake but must provide benefits to its stakeholders (Ghozali and Chariri, 2007 in Kusumadilaga, 2010).

c. Social Contract Theory (Social Contract Theory). The social contract arises from interrelation in the social life of society, so that there is harmony, harmony and balance, including towards the environment (Hadi, 2011: 95).

Corporate Social Responsibility (CSR). CSR is an integrated concept that combines business and social aspects in harmony so that companies can help achieve the welfare of stakeholders, and can obtain maximum benefits for the company. CSR is closely related to sustainable development. Sustainable development includes three policies, namely economic development, social development, and environmental protection.

According to Dazahro (2012) states that the CSR program is an investment for the company for the growth and sustainability of the company and is no longer seen as a cost center but as a profit center. The CSR program is the company's commitment to support the creation of sustainable development. CSR is now an obligation for companies to implement it. This is regulated in Law Number 40 of 2007 concerning Limited Liability Companies (UU PT) which was passed on July 20, 2007. Social and environmental responsibility is contained in article 74 of the Company Law. The contents of article 74 states that "Companies that carry out their business activities in the field and/or related to natural resources are obliged to carry out social and environmental responsibility"

Kotler and Lee (2010) state that "corporate social responsibility is a commitment to improve the welfare of society through free business practices and the contribution of company resources". The World Business Council for Sustainable Development (WBCSD, 2011), explains that "corporate social responsibility as a 'business' commitment to contribute to sustainable economic development, working with employees, their families, local communities, and society at large to improve their quality. quality. life"

According to the World Business Council for Sustainable Development (2011) CSR is not just discretion, but a commitment aimed at good companies as an improvement in the quality of life. Philosophically, if a company seeks to be useful to humanity, in the long run it will definitely exist.

Companies need to disclose CSR activities carried out by stakeholders. According to Rosita (2010), regarding the implementation of CSR, it must be

included in the company's annual report submitted by the directors and reviewed by the board of commissioners, which requires a report on the implementation of social and environmental responsibility. (Article 66 paragraph (2) letter c UUPU).

The Limited Liability Company Law requires every company that carries out business activities in the fields related to natural resources to carry out social and environmental responsibilities. This is confirmed in Article 74 paragraph (1) UUPU which states that companies that carry out their business activities in fields related to natural resources are required to carry out social and environmental responsibility.

Corporate social activities are one of the components used in the annual report. The absence of standard standards governing the reporting of corporate social activities results in various forms of social disclosure carried out by companies. Each company has a different policy regarding social disclosure according to the characteristics of the company. This raises problems in measuring social disclosure with company characteristics. Therefore, social measurement is carried out using a research instrument in the form of a list of social disclosure items based on research conducted by Hackston and Milne (Utami, 2008).

The social responsibility report is a report on social responsibility activities that have been carried out by the company, both related to attention to social and environmental impacts. The report is an integral part of the annual report which is accounted for by the directors before the General Meeting of Shareholders (GMS). This report contains reports on corporate social and environmental programs that have been implemented during the last financial year (Nor Hadi 2011:206).

Brigham and Houston (2006:17) explain, Profitability is the net result of a series of policies and decisions. Profitability can be determined by calculating various relevant benchmarks. One of the benchmarks is financial ratios as one of the analyzes in analyzing the financial condition, results of operations and level of profitability of a company.

Several indicators that can be used to measure profitability are Gross Profit Margin, Operating Profit Margin, Net Profit Margin, Return On Investment, Return On Equity, Return on Common Stock Equity, Earning Per Share, and Basic Earning Power [(Lukman Syamsuddin, 2009): 61-69), (Kasmir, 2014:199), (Gitman, 2008:65), (Munawir, 2004:86), and (Brigham and Houston, 2006:107).

### **Hypothesis:**

Before we propose a hypothesis, we summarize the research framework of this study. Accordingly, the main objective of the research is to test whether CSR disclosure can increase ROE, whether CSR disclosure can increase ROA and whether CSR disclosure can increase EPS. Based on this framework, it can be described as follows:

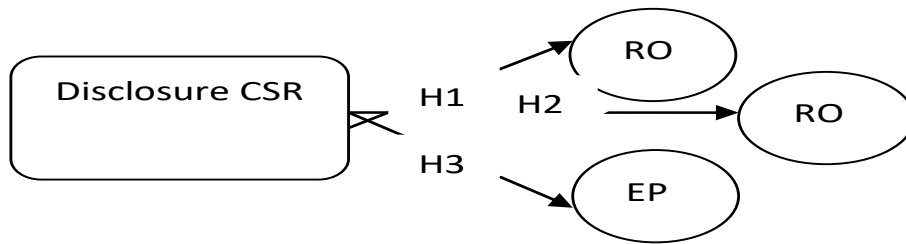


Figure 1. Research Framework

### CSR Disclosure Relationship to ROE.

CSR reports are useful for identifying companies that have a high CSR commitment. The company's advantage in implementing CSR makes the company stronger. If the company maintains good relations with the community it will also be better maintained. With these advantages, investors will consider the CSR reports disclosed by the company. Investors think that their investment is much safer because the sustainability of the company is also guaranteed, so that information from CSR reports can provide new discourse for investors and reduce the use of profit information which may also contain biased information (Kurniawan and Nugrahanti, 2012).

Measuring profitability will enable the company, in this case the management, to evaluate the level of income in relation to sales volume, total assets and certain investments of the company owner. Profitability is considered very important, because to carry out its life a company must be in favorable conditions. Without profits it will be difficult for companies to attract capital from outside. Directors, company owners and most importantly company management will try to increase this profit, because they are very aware of the importance of profit for the company's future. (Astri Puspita Sari, 2012). ROE is a ratio that shows what percentage of net profit is earned if measured from the owner's capital. This ratio is a measure of profitability from a shareholder's point of view and is the tool most often used by investors in making investment decisions. According to Lukman Syamsuddin (2009:65), (Kasmir, 2014:204), (Gitman, 2008:69), and Brigham and Houston (2006:109).

This leads to the hypothesis that CSR disclosure will support an increase in ROE. H1: Disclosure of CSR has a positive effect on increasing ROE.

### CSR Disclosure Relationship to ROA

According to Syafri Harahap (2008: 219), profitability describes a company's ability to earn profits through all existing resource capabilities such as sales activity, cash, capital, number of employees, number of branches and so on. The definition of profitability according to Brigham and Houston (2006:17) is as follows: "Profitability is the net result of a series of policies and decisions. Profitability can be determined by calculating various relevant benchmarks. One of the benchmarks is financial ratios as one of the analyzes in analyzing the financial condition, results of operations and level of profitability of a company.

ROA or commonly called Return on Total Assets (ROA) is a measure of a company's overall ability to generate profits with the total assets available in the company. Earnings per share or EPS is derived from the profits available to common stockholders divided by the average number of common shares

outstanding. Lukman Syamsuddin (2009:66), Kasmir (2014:207), and Gitman (2008:68).

Tsoutsoura (2004) also looks at the relationship between CSR and financial performance. This study examines the measurement of CSR using the CSR index and measurement of financial performance proxied by ROA, ROE, and ROI. This study states that CSR disclosure has a positive effect on financial performance, which can provide benefits in the form of a good reputation, and increase the level of profitability of a company due to the trust of consumers and investors. This leads to the hypothesis that CSR disclosure will support an increase in company assets (ROA).

Hypothesis 2: Disclosure of CSR has a positive effect on increasing ROA.

### **CSR Disclosure Relationship to EPS**

Reporting on CSR activities is expected to motivate investors to increase their interest in buying shares due to the emergence of stakeholder confidence in the company's sustainability. As the company's main goal is to make a profit without ignoring the interests of stakeholders and environmental sustainability as a form of responsibility for the impacts that have been caused due to the company's operational activities.

The measure of profitability for investors leads to EPS. The level of profit that shows the net income earned by investors or shareholders from each share. With an increase in profits, the implementation of CSR will be carried out better. The higher the CSR activities, the higher the value of profit per share. Common shareholders and prospective shareholders are very interested in Earning Per Share because this illustrates the amount of rupiah earned for each common share (Syamsuddin, 2011:66). This provides support to the hypothesis that CSR disclosure will increase earnings per share (EPS).

Hypothesis 3: Disclosure of CSR has a positive effect on increasing EPS.

## **METHODOLOGY**

In this study the main objective is to determine the effect of CSR disclosure on profitability as measured by the variables ROE, ROA and EPS both simultaneously and partially. The statistical method used in this research is inferential statistics, while the type of research used is descriptive research. verification. The sample in this research is a manufacturing company in the food and beverage sector from 2019 to 2021. The sample used is a saturated sample. The analytical tool used in this study uses multiple regression analysis.

The research hypothesis is as follows:

H1: Disclosure of CSR has a significant positive effect on increasing capital investment

(ROE)

H2: Disclosure of CSR has a significant positive effect on increasing assets (ROA)

H3: Disclosure of CSR has a significant positive effect on increasing earnings per share

(EPS)

## RESEARCH RESULTS AND DISCUSSION

Based on the descriptive statistical test table, the company's ROE has an average of 0.268473. The maximum ROE value is 0.8360 and the minimum value is 0.1294. This means that the sample company has an ROE of 83.60%, the higher the company's ROE value means the greater the opportunity for investors to obtain net profit from each invested capital so that the market will respond positively. And sample companies have a minimum ROE value of 12.94%, which means that the lower the company's ROE means the smaller the opportunity for investors to benefit from net income for each capital invested so that the market responds negatively.

ROA is used as a tool to measure company performance. In the descriptive statistical test, the ROA value obtained an average value of 0.155961 with a maximum value of 0.4038 and a minimum value of 0.0208. This means that the sample companies have a maximum ROA value of 40.38% and a minimum value of 2.08%. The higher the ROA value, the better the investor's assessment of the company's financial performance, and the higher the ROA value is a good thing for the company to make decisions.

On the results of the descriptive test, the average EPS value of the sample companies is 859.6288, the maximum and minimum values of the sample companies are 4393.14 and 47.47. The EPS obtained from the investment will affect the risk accepted by the company. The higher the EPS value, the greater the company's risk, conversely the lower the company's EPS value, the lower the risk level.

### **Hypothesis test**

Hypothesis 1 test the effect of CSR disclosure on ROE.

Based on the test results on the H1 hypothesis, this study found that there was an influence between CSR disclosure on ROE. The CSR variable on ROE has a significance value of 0.001. So it can be concluded that CSR disclosure affects ROE. The higher the CSR disclosure index carried out by the company, the more significant the increase in return on equity or ROE (return on equity) obtained by the company.

The results of this study are in accordance with the hypothesis proposed, namely H1, then H1 in this study is accepted. The results of this study are supported by research by Fitri Ayuning P (2014), Wiwik Rahayu (2014), and Melisa Syahnaz (2013) which state that disclosure of corporate social responsibility (CSR) has a significant effect on ROA. This research is in line with Lindrawati, Felicia and Budianto (2008), Titisari et al (2010) and Fauzi et al (2007) in Yaparto Marissa et al (2013) explained that this might be because CSR is a relatively new issue in Indonesia, causing most investors to have a low perception of CSR disclosure because companies generally disclosing CSR only as part of an advertisement and avoiding providing relevant information.

This study refutes the research results of Rosiliana Kadek et al (2014) in their research using company data included in LQ45 during the 2008-2012 period with a population of 40 companies showing that CSR has a negative effect or has an inverse relationship and is not significant on ROE. The conclusion in this study is that the more companies carry out CSR, the lower the ROE value.

The results of this study successfully support the legitimacy theory put forward by Donovan and Gobzon (2000). Profitability has a positive effect on disclosure of corporate social responsibility. When a company has a high level of profit, the company (management) considers it necessary to report things that can improve the image and information about the company's finances. ROE can be influenced by other factors. In the research of Stenly Robby (2008) it is stated that other factors such as net profit margin, total assets turnover, and equity multiplier have a positive relationship to ROE in automotive companies.

**Hypothesis 2 examines the effect of CSR disclosure on ROA**

Based on the test results on H2, this study found that there was an influence between CSR on ROA. The CSR variable on ROA has a significance value of 0.03. With a regression value of  $Y = 198 + 0.511$ , it can be concluded that CSR disclosure has a positive and significant effect on ROA. The higher the CSR disclosure index by the company, the significant effect it has on increasing the return on assets for the company's operating activities or ROA (return on assets) obtained by the company.

The results of this study are in accordance with the H2 hypothesis in the study so that H2 is accepted. This can be interpreted that the higher the disclosure of CSR that is carried out has a significant effect on increasing assets for the company's operating activities or the ROA obtained. An increase in assets if not matched by an increase in profit will result in a low ROA ratio.

This research succeeded in supporting the stakeholder theory in Septiana and Nur (2012) which states that a company is not an entity that only operates for its own sake but must provide benefits to its stakeholders. Companies with responsible behavior may have a competitive advantage, because they will provide services to the environment and stakeholders. This is what causes company profits to increase and will be followed by a significant increase in ROA as stated by Wijayanti et al (2011), Sarumpaet (2005) and Indriana et al (2008).

The results of this study are not in line with the research of Fiori et al (2007) in Dipraja (2014) which states that corporate social responsibility with environmental themes does not affect company performance in manufacturing companies in Italy. Widaryanti (2007) the effect of CSR disclosure on environmental and energy, labor, consumer and product themes, as well as social themes does not show a significant effect on the company's financial performance.

**Hypothesis 3 examines the effect of CSR disclosure on EPS**

Based on the test results on H3, this study found that there was an influence between CSR and EPS. The CSR variable on EPS has a significance value of 0.007. The significance value of 0.007 is less than  $= 0.05$ . So it can be concluded that CSR disclosure affects EPS. However, the regression equation shows  $Y = 198 + 0.229$ , which means that CSR disclosure has a positive effect on EPS. This means that the higher the company's disclosure of CSR activities will have an impact on increasing the value of EPS. Vice versa, companies that do not disclose CSR activities will reduce the value of EPS.

This can be explained if the company carries out CSR activities to provide comfort to the community and employees. CSR costs will become a burden but will indirectly provide public trust and sales and income, so that profits will

increase. Investors will be attracted to companies that have high profit levels, if the profit rate rises, investors will add shares to invest in these companies, resulting in an increase in the EPS value.

By disclosing CSR, the company's good image will be higher and more recognized by the public so that consumer loyalty will be higher. And vice versa if the company sees bad things because of a decrease in profits, the company will reduce the costs that must be incurred by the company, one of which is reducing CSR costs so that CSR activities become limited. Due to the lack of CSR activities, the company's good image is not so visible compared to companies that disclose CSR activities with wider disclosure.

Investors feel held accountable by the company and the EPS value will increase. From this equation, Hypothesis 3 is accepted. Disclosure of CSR has a positive effect on EPS. This research is not in line with Hackston & Milne's (1996) research in Anggraeni (2006) which failed to find a relationship between profitability and corporate social information disclosure. This is possible because the company's EPS increase is not only influenced by CSR activities but can be influenced by other operational activities as revealed by Putri (2014).

## CONCLUSIONS AND SUGGESTIONS

This research was conducted to determine the effect of corporate social responsibility (CSR) on the profitability of companies in the consumer goods industry sector in the 2019-2021 period. This study uses the independent variable, namely corporate social responsibility (CSR) and the dependent variable, namely profitability proxied by Return on Equity (ROE), Return on Assets (ROA), Earning per Share (EPS). The results of data processing provide the following

### Conclusions:

- a. CSR disclosure has a significant effect on ROE. This shows that the disclosure of CSR by the company and included in the annual report, the company's equity will increase.
- b. CSR disclosure has a significant effect on ROA. This shows that CSR disclosure to the company and included in the annual report, the company's profitability will increase.
- c. CSR disclosure has a significant effect on EPS. This shows that the more companies carry out CSR and it is mentioned in the annual report, the company's profitability will increase.

### Suggestion

The company is not an entity that only operates for its own interests but must provide benefits to its stakeholders. Companies with responsible behavior may have a competitive advantage, because they will provide services to the environment and stakeholders.

CSR costs will become a burden but will indirectly provide public trust and sales and income, so that profits will increase. Investors will be attracted to companies that have high profit levels, if the profit rate rises, investors will add shares to invest in these companies, resulting in an increase in the EPS value.

When a company has a high level of profit, the company (management) considers it necessary to report things that can improve the image and information about the company's finances.

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