
CSR and Profitability in IDX Agricultural Subsectors

Ghazali Syamni

Department of Management, Universitas Malikussaleh, Aceh, Indonesia

Wahyuddin

Department of Accounting, Universitas Malikussaleh, Aceh, Indonesia

Damanhur and Ichsan

Department of Economic, Universitas Malikussaleh, Aceh, Indonesia

CSR and
Profitability
in IDX
Agricultural
Subsectors

511

Abstract

Purpose – The purpose of this study is to examine the effect of corporate social responsibility (CSR) on profitability in agricultural sector companies, especially the agricultural sub-sector in the Indonesia Stock Exchange (IDX). These sub-sectors are designated as one sub-plantation group with one value and another valuable sub-sector. This study uses secondary data of financial statements for the period 2015–2016 accessed on the following website: www.idx.co.id.

Design/Methodology/Approach – The data analysis method used in this research, using dummy regression method with an independent variable, is called Corporate Social Responsibility (CSR); Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) are used as dependent variables. Besides this, this study included a sub-sector variable in agricultural sector as a dummy variable.

Findings – This study found that the ability to explain CSR is greater by the ROE on plantation companies. These findings indicate that CSR has a signal for investors when investing in capital markets.

Research Limitations/Implications – This study had restrictiveness in model that was used only profitability ratio as an independent variable. This study also used during a two-year period. Alongside that, the next study is needed to search in other sectors by entering a sector variable as a dummy variable.

Practical Implications – Implementation of CSR was a solution for company to repair organizational and financial performance. So, Properly Company Management uncertainly implement CSR on their environment.

Originality/Value – All sub-sectors in agriculture in the IDX did not have different viewpoints for the implementation of a CSR program to their environment.

Keywords Corporate, Social, Responsibility, IDX

All papers within this proceedings volume have been peer reviewed by the scientific committee of the Malikussaleh International Conference on Multidisciplinary Studies (MICoMS 2017).

1. Introduction

In 2007, the Indonesian government issued Law No. 40 of 2007 about Corporate Social Responsibility (CSR). The enactment of Law No. 40 of 2007 imply for all company listed in the Indonesia Stock Exchange (IDX). Nakashima and Ota (2016) defined CSR as a



© Ghazali Syamni, Wahyuddin, Damanhur, Ichsan. Published in the Emerald Reach Proceedings Series. Published by Emerald Publishing Limited. This article is published under the Creative Commons Attribution (CC BY 4.0) licence. Anyone may reproduce, distribute, translate and create derivative works of this article (for both commercial and non-commercial purposes), subject to full attribution to the original publication and authors. The full terms of this licence may be seen at <http://creativecommons.org/licenses/by/4.0/legalcode>

Emerald Reach Proceedings Series
Vol. 1
pp. 511–517
Emerald Publishing Limited
2516-2853
DOI 10.1108/978-1-78756-793-1-00034

responsibility of a company as a public organization, which hopefully gives benefit to a social community and environment, especially agricultural sector more active to implement CSR. The agricultural sector is also inseparable from the laws stipulated by the government. A good company can keep and defend company performance, is financial performance for certain time. Financial performance can forecast company profitability ratio and agreed generally (Galant and Cadez, 2017). Then, the benefit which people perceive can make the company more comfortable in its operation; so, the organization performs better. Of course, a better performance is reflected in the profitability ratio. Grahame (2016) said that the presence of CSR in a company makes the company's existence more reputable.

This traditional approach cannot be separated from proxy, such as sales turnover asset and capital (ROA and ROE), company growth, etc. Then, the effort to upgrade performance is did in a lot of ways, such as implementation of CSR (Aigner, 2016). A company that active to implement CSR programs can improve financial performance of the company. Forge (2016) defined CSR as an important science for people's lives in the world. Rhou *et al.* (2016) said that CSR as communication form by allocation company resource which is no relevancy with company profit but it is was company's donation or contribution to environment, the purpose of Implementation of CSR integrated economic, social, and ecological balance from company operational in long term (Reverte *et al.*, 2016). Even Galant and Cadez (2017) said that company who implement CSR effected on economic growth. Based on these so it can be concluded that CSR is certain (Rhou *et al.*, 2016; Reverte *et al.*, 2016; Galant and Cadez, 2017).

1.1. Company performance and corporate social responsibility

A good company is the one which can keep and defend company performance. one of company performances is financial performance for certain time, financial performance is the one which is able to forecast by company profitability ratio and agreed generally (Galant and Cadez, 2017). Profitability measurement as an indicator is still said to be short time performance and this is traditional approach (Reverte *et al.*, 2016). This traditional approach cannot be separated from represented, such as sales turnover asset and capital (ROA and ROE), company growth, etc. Then, the effort to upgrade performance is did in a lot of ways, such as implementation of CSR (Aigner, 2016). A company that active, to implement CSR programs, can improve company performance or financial performance of the company. John (2016) defined CSR as an important science for people's live in global.

Rhou *et al.* (2016) said that CSR as communication form by allocation company resource which is no relevancy with company profit but it is was company's donation or contribution to environment, the purpose of Implementation of CSR integrated economic, social and ecology balance from company operational in long term (Reverte *et al.*, 2016). Event Galant and Cadez (2017) said that company who implement CSR effected on economic growth. Based on these so it can be concluded that CSR is certain (Rhou *et al.*, 2016; Reverte *et al.*, 2016; Galant and Cadez, 2017).

1.2. Some previous studies

Recently, research of CSR is one of the most important topics for decision makers, students, and researchers (Zhu *et al.*, 2016) in China on Government Company found that Company who practiced CSR would expand supply chain management. Wang and Sarkis (2017) said that Companies in Chine has succeed to implement CSR program has relationship with company financial performance. Moreover in restaurant industries was important to implement CSR because it was a communication with stakeholders (Rhou *et al.*, 2016).

In capital market context, Choi and Moon (2016) said that Capital market companies that participated in CSR made a signal to re pain company quality earning. Martinez-

Conesa *et al.* (2017) has causality between CSR and Company performances that makes a strategy of both. Flammer (2015) that CSR made a good signal in better return content and financial statement performance. Moreover El Ghoul and Karoui (2017) said that consistent companies to implement CSR improved performance not only company performance attribute. Mehralian *et al.* (2016) in Pharmacy companies in Iran found CSR has causality with management quality program because of important to collaborate with stake holder.

Ozdora (2016) said that conceptually there was causality between CSR reputation and relationship with people community. Research in Gulf country in Banking Sector was found that CSR implement with Banking Financial performance (Platonova *et al.*, 2016). Companies implemented CSR and not implemented CSR influenced on company performance but CSR was no longer (Price and Sun, 2017). The company implemented social value has higher market and hopefully the growth and cash flow is higher (Qiu *et al.*, 2016). Banking Company had causality with company profitability. Higher profitability improved investment in Banking (Rahman, 2016). Micro and middle companies that implement CSR in Spain was more innovative and better performance (Reverte *et al.*, 2016).

Some researches in Indonesia also found that most of companies whom stated CSR got a better performance than they didn't. Concluded that CSR program effected on profitability positively (Syamni, 2012; Darmawati, 2017). But Purwanto (2011) had no causality between profitability and CSR program. In fact, the researches in Indonesian have different results about CSD and profitability. Based on literatures above, so the purpose of this result is to examine effect of CSR implement on agricultural company performance with plantation subsector has a dummy variable.

2. Method

This research used data of agricultural companies that in IDX in 2015–2016. In Agricultural Sector was classified in Industry in IDX that was accessed in www.idx.co.id there were some subsectors related in agricultural sector. First: Food plant subsector (PT. Bisi International Tbk). Second, Plantation Subsector (PT. Astra Agro Lestari Tbk, PT. Austindo Nusantara Jaya Tbk, PT. Eagle High Plantation Tbk, PT. Dharma Satya Nusantara Tbk, PT. Golden Plantation Tbk, PT. Gozco Plantation Tbk, PT. Jaya Agra Wattie Tbk, PT. London Sumatera Indonesia Tbk, PT. Multi Agro Gemilang Plantation Tbk, PT. Sampoerna Agro Tbk, PT. Salim Ivomas Pratama Tbk, PT. Sinar Mas Agro Resources and Technology Tbk, PT. Sawit Sumbermas Sarana Tbk, PT. Tunas Baru Lampung Tbk dan PT. Bakrie Sumatera Plantation Tbk. Third Animal Husbandry subsector PT. Japfa Comfeed Tbk). Fourth, subsector fisherish (PT. Central Proteinaprima Tbk, PT. Dharma Samudera Fishing Industries Tbk, PT. Inti Agri Resources Tbk) and the last other subsector is PT. Bumi Teknokultura Ungul Tbk. From the five subsectors above, plantation subsector was a subsector with fifteen companies and the most dominant subsector. So, to make this research different with the previous researches, so in this study used dummy variable. From the five subsectors above, plantation subsector was a subsector with fifteen companies and the most dominant subsector. So, to make this research different with the previous researches, so in this research used dummy variable. The dummy variable was plantation got 1 and other subsector got 0, based on that, so there were three models in this research:

$$ROA_{it} = a + \beta CSR_{it} + D_{dummyplantation} + \varepsilon_{it} \quad (1)$$

$$ROE_{it} = a + \beta CSR_{it} + D_{dummyplantation} + \varepsilon_{it} \quad (2)$$

$$NPM_{it} = a + \beta CSR_{it} + D_{dummyplantation} + \varepsilon_{it} \quad (3)$$

3. Finding

Based on the data of Table 1 it can be explained that the average ability to generate profit on the use of assets in the agricultural sector 22.01 percent, Minimum 7.89 percent and maximum 35.32 percent. This told that agricultural company performance created better ROA though in minimum score. Then ROE, had average score 1.74 percent, minimum score 0.15 percent and maximum score 5.23 percent. Other profitability, NPM had the least score 10.31 percent and highest 35.52 percent with the average 20.50 percent CSR had minimum score 10.31 percent and maximum 49.15 percent with the average score 26.50 percent. Based on the scores in Table 1 above can be concluded that standard deviation of ROA, ROE, and NPM and CSR was smaller than the averages scores. This indicated that fluctuation level of all variables was smaller on agricultural sector or subsector.

4. Effect of CSR on profitability where plantation subsector as dummy variable

After previously discussed the data description, then so discusses the results of research that examines the influence of the implementation of CSR to the profitability of the company. The selected companies to be sampled in this research are agricultural sector companies listed in Indonesia Stock Exchange. The results can be seen in Table 2.

Table 2, that was found three similarities, they were the following:

$$ROA_{it} = 32.71006 - 0.331578 \text{ CSR} - 2.673004D$$

$$ROE_{it} = 0.134614 + 0.074193 \text{ CSR} + 0.134614D$$

$$NPM_{it} = 0.181414 + 0.314617 \text{ CSR} + 0.181414D$$

Based on the above equation shown each independent variable that was CSR in explaining ability to influence dependent variable that is different profitability ratios. The three equation had R square 0.3315; 0.4650 and 0.2665. This told that ROE R square had ability in

Table 1.
Descriptive Statistics

Criteria/Variables	ROA (%)	ROE (%)	NPM (%)	CSR (%)
Minimum	7.89	0.15	10.31	10.31
Maximum	35.32	5.23	35.32	49.15
Mean	22.01	1.74	20.50	26.50
Standard deviation	7.400	1.26	6.99	11.41

Table 2.
Result Regression
CSR to Profitability

Dependent ROA	Coefficient	Dependent ROE	Coefficient	Dependent NPM	Coefficient
<i>C</i>	32.71006*	<i>c</i>	-0.318967*	<i>c</i>	12.03315*
<i>csr_x</i>	-0.331578*	<i>csr_x</i>	0.074193*	<i>csr_x</i>	0.314617*
Dummy	-2.673004	Dummy	0.134614	Dummy	0.181414
<i>R</i> -squared	0.331810	<i>R</i> -squared	0.465051	<i>R</i> -squared	0.266559
<i>F</i> -statistic	9.683296*	<i>F</i> -statistic	16.95209*	<i>F</i> -statistic	7.087019*

*Significant level 10%

explaining of CSR and profitability was the highest at 45.50 percent. Then it was followed by ROA R square whose score was 33.15 percent and NPM R squares had score little than others.

First, the statistics test result in this research found that CSR had significant effect on financial performance, especially on company profitability ratio. First on ROA variable was found CSR coefficient score -0.331578 with significance level 1 percent. This study told that CSR implementation caused decreasing of company profitability. If CSR is implemented as one point, so it decreased 0.3315 points. This happens because in company asset is still same but profit is made little alms voluntary. This study is consistent with Nakashima and Ota (2016) said that it had better if CSR is a company responsibility and it gives advantage to the people. Second, in ROE showed different result with ROA, where coefficient score 0.46050 with significance level 1 percent. This study told that CSR Implementation as 1 basis point would increase ROE 0.46050 basis point. This study indicated that companies what implement CSR give a sight to investors or investor candidates as a good company. So, it caused investors believe to invest better and it caused increasing stock price and company value. This study is consist to research by Wang and Sarkis (2017) in China told that there was relevancy between CSR and Company financial performances. Besides that, This study strength the research of Choi and Moon (2016) told that company listed in Capital Market has function as signal to fix company profit quality.

Finally, NPM with coefficient 0.2665 with significance level 1 percent. This score told that every company implemented CSR as 1 basis point would increase company advantage by 0.2665 basis point. This study indicated that company implemented CSR would up sales level caused investors are happier to buy products or result that was produced by the companies. This was caused that buyers thought that if the company got high profit so there was little part would give to donated for environmental care activities. This finding is consistent with (Mehralian *et al.*, 2016; Rhou *et al.*, 2016) who said that CSR as a form of communication with the stakeholders.

5. Conclusion

This research gave contribution that CSR was still hot topic for investors or investor candidates when they invested in capital market such as Indonesia stock exchange. This research showed that CSR effected on Company profitability. CSR implementation is not only to give signal to company in proving company profit but also as a communication with Company's Stakeholders. The other findings, operational activities or kind of other activity that was done by agricultural sector with 5 subsectors they are food plan subsector, plantation subsector, animal husbandry subsector, fishery subsector and other subsectors did not happen differential in CSR implementation among them. This study indicated that agricultural subsector in Indonesia Stock Exchange has implemented CSR well. This study has limitations in this study using only linear regression model with additional with activity or type of company activity. Besides that, this research also has restrictiveness in period are only 2 years. The further research is able to add other variables to make as independent variable such as, activity ratio, capital structure or time dummy like on crisis or not a crisis.

References

- Aigner, D.J. (2016). "Corporate Social Responsibility and Financial Performance". In R. Manos and I. Drori (Eds), *Corporate Responsibility: Social Action, Institutions and Governance*. Palgrave Macmillan, London (pp. 11–37).

- Andreas, H. H., Suchayo, U. S., & Elisabeth, D. (2015). Corporate Social Responsibility dan Profitabilitas. *Jurnal Manajemen Maranatha*, 15, 119–136.
- Choi, H. and Moon, D. (2016). “Perceptions of Corporate Social Responsibility in the Capital Market”. *Journal of Applied Business Research (JABR)*, Vol. 1532, No. 5, pp. 1507–1518. DOI: 10.19030/jabr.v32i5.9777.
- Darmawati, D. (2017). “Pengaruh tanggung jawab sosial perusahaan terhadap kinerja dan risiko perbankan di Indonesia”. *Jurnal Keuangan dan Perbankan*, Vol. 17, No. 1, pp. 83–97.
- El Ghoul, S. and Karoui, A. (2017). “Does Corporate Social Responsibility Affect Mutual Fund Performance and Flows?”. *Journal of Banking & Finance*, Vol. 77, Supplement C, pp. 53–63. doi: <https://doi.org/10.1016/j.jbankfin.2016.10.009>
- Flammer, C. (2015). “Does Corporate Social Responsibility Lead to Superior Financial Performance? A Regression Discontinuity Approach”. *Management Science*, Vol. 61, No. 11, pp. 2549–2568. DOI:10.1287/mnsc.2014.2038.
- Galant, A. and Cadez, S. (2017). “Corporate Social Responsibility and Financial Performance relationship: A Review of Measurement Approaches”. *Economic Research-Ekonomika Istraživanja*, Vol. 30, No. 1, pp. 676–693.
- John, F. (2016). “Science and Responsibility for the Well-Being of the Global Community. *Annals in Social Responsibility*, Vol. 2, No. 1, pp. 99–112. DOI:10.1108/ASR-10-2015-0012.
- Martinez-Conesa, I., Soto-Acosta, P., and Palacios-Manzano, M. (2017). “Corporate Social Responsibility and Its Effect on Innovation and Firm Performance: An Empirical Research in SMEs”. *Journal of Cleaner Production*, Vol. 142, Part 4, pp. 2374–2383. DOI:<https://doi.org/10.1016/j.jclepro.2016.11.038>.
- Mehralian, G., Nazari, J.A., Zarei, L. and Rasekh, H.R. (2016). “The Effects of Corporate Social Responsibility on Organizational Performance in the Iranian Pharmaceutical Industry: The Mediating Role of TQM”. *Journal of Cleaner Production*, 135(Supplement C), 689–698. DOI: <https://doi.org/10.1016/j.jclepro.2016.06.116>.
- Nakashima, M. and Ota, S. (2016). “Association Between Corporate Financial Performance and Corporate Social Responsibility in a Crisis: Focusing on the March 11 Disaster”. *Asia-Pacific Management Accounting Journal*, Vol. 11, No. 2, pp. 147–167.
- Ozdora Aksak, E., Ferguson, M.A. and Atakan Duman, S. (2016). “Corporate Social Responsibility and CSR Fit as Predictors of Corporate Reputation: A Global Perspective”. *Public Relations Review*, Vol. 42, No. 1, pp. 79–81. DOI:<https://doi.org/10.1016/j.pubrev.2015.11.004>.
- Platonova, E., Asutay, M., Dixon, R. and Mohammad, S. (2016). “The Impact of Corporate Social Responsibility Disclosure on Financial Performance: Evidence from the GCC Islamic Banking Sector”. *Journal of Business Ethics*. DOI:10.1007/s10551-016-3229-0.
- Price, J.M. and Sun, W. (2017). “Doing Good and Doing Bad: The Impact of Corporate Social Responsibility and Irresponsibility on Firm Performance”. *Journal of Business Research*, Vol. 80, Supplement C, pp. 82–97. DOI:<https://doi.org/10.1016/j.jbusres.2017.07.007>.
- Purwanto, A. (2011). “Pengaruh tipe industri, ukuran perusahaan, profitabilitas, terhadap corporate social responsibility”. *Jurnal Akuntansi dan Auditing*, Vol. 18. DOI: 10.14710/jaa.v8i1.4344.
- Qiu, Y., Shaukat, A. and Tharyan, R. (2016). “Environmental and Social Disclosures: Link with Corporate Financial Performance”. *The British Accounting Review*, Vol. 48, No. 1, pp. 102–116. DOI:<https://doi.org/10.1016/j.bar.2014.10.007>.
- Rahman, S. (2016). “Causality between Profitability and Corporate Social Responsibility: Evidence from Selected Banks in Bangladesh”. *Imperial Journal of Interdisciplinary Research*, Vol. 2, No. 10.
- Reverte, C., Gómez-Melero, E. and Cegarra-Navarro, J.G. (2016). “The Influence of Corporate Social Responsibility Practices on Organizational Performance: Evidence from Eco-Responsible Spanish Firms”. *Journal of Cleaner Production*, Vol. 112, Part 4, pp. 2870–2884. DOI: <https://doi.org/10.1016/j.jclepro.2015.09.128>.

- Rhou, Y., Singal, M. and Koh, Y. (2016). "CSR and Financial Performance: The Role of CSR Awareness in the Restaurant Industry". *International Journal of Hospitality Management*, Vol. 57, Supplement C, pp. 30–39. DOI: <https://doi.org/10.1016/j.ijhm.2016.05.007>.
- Syamni, G., Nurhayati, N. and Haykal, M. (2012). "Analisis perbedaan kinerja keuangan perusahaan sustainability dengan non sustainability reporting dalam pelaporan CSR di Bursa Efek Indonesia". *Semnas Fekon: Optimisme Ekonomi Indonesia 2013, Antara Peluang dan Tantangan*, pp. 90–104. Available: <http://repository.ut.ac.id/eprint/4862>.
- Wang, Z. and Sarkis, J. (2017). "Corporate Social Responsibility Governance, Outcomes, and Financial Performance". *Journal of Cleaner Production*, Vol. 162, pp. 1607–1616. DOI: <https://doi.org/10.1016/j.jclepro.2017.06.142>.
- Zhu, Q., Liu, J. and Lai, K.-h. (2016). "Corporate Social Responsibility Practices and Performance Improvement Among Chinese National State-Owned Enterprises". *International Journal of Production Economics*, Vol. 171, Part 3, pp. 417–426. DOI: <https://doi.org/10.1016/j.ijpe.2015.08.005>.

Corresponding author

Ghazali can be contacted at ghazali.syamni@unimal.ac.id