

Does CSRD moderate the effect of financial performance on stock return? Evidence of Indonesian mining companies

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ABSTRACT

The purpose of this study is to examine the effect of financial performance on stock returns with corporate social responsibility disclosure as a moderating variable in mining companies listed on the Indonesia Stock Exchange (IDX) 2014-2016 period. This study used multiple linear regression to examine the corporate social responsibility disclosure in moderating the effect of financial performance on stock returns. The measurement of financial performance uses financial ratios, namely return on equity. The test results showed that partial return on equity had a positive and significant effect on stock returns. Furthermore, corporate social responsibility disclosure strengthens the effect of return on equity on stock returns. The implication of this research is for potential investors who want to invest in stocks should consider more disclosure of corporate social responsibility, because disclosure of corporate social responsibility is proven to be able to strengthen the effect of return on equity on increasing stock returns.

Introduction

At present the capital market has become one of the benchmarks for economic development in a country, both in developed and developing countries. The capital market is a means of mobilizing funds from parties who have excess funds (investors) to those who need funds (companies). The presence of the capital market increases the choice of sources of funds for investors, so the opportunity to get returns is even greater.

Investments in stocks in companies that have been publicly listed have a high level of risk because they are very sensitive to changes both inside and outside the company. This shows that investors need to take a cautious attitude in investing in stocks to prevent possible losses that will be received. One of the efforts to prevent losses in investing in stocks is to predict the stock returns that investors will receive in the future. Stock return prediction can be done by analyzing company performance. One of the main things that are often used to analyze company performance is by analyzing the company's financial performance. Analysis of the company's financial performance requires benchmarks. The benchmark that is often used is the financial ratio or index that connects one financial data with other data.

One of the ratios used in analyzing a company's financial performance to predict stock returns is the profitability ratio. Profitability ratios describe the company's ability to generate profits from the sources of funds owned (Sivathaasan et al., 2013). The higher the profits earned by the company, the higher the stock price of the company (Sucuahi & Cambarihan, 2016). One of the profitability ratios that is often used to measure a company's ability to generate profits is return on equity (ROE). ROE is a ratio that shows the company's ability to generate net income by using its capital and generating net income available to the owner or investor (Riyadi, 2017). The higher the ROE value reflects the greater the profit generated from the investment so that the profitability of the company gets better (Tugas, 2012). ROE is the ratio most often used by investors as the basis for making investment decisions (Ahsan, 2013). Besides, ROE is also often used by stockholders to find out the number of profits that will be obtained through the funds invested (Hamidah, 2015).

Since a long time ago the development of the mining industry that has become a prima donna in several regions in Indonesia is one of the pillars in the development of the national economy. However, on the other hand the development of the mining industry has also led to various problems, such as environmental damage, mining without permits, poor communication between the government and the community or between companies and communities, conflicts over land ownership, and others. These problems if not handled properly can become obstacles that at times can damage the existence of the company. The community demands the company to run its business responsibly and

make a positive contribution to the surrounding environment. These demands increase the awareness and sensitivity of the company, thus giving birth to the concept of corporate social responsibility (CSR).

According to Boeva et al. (2017) the CSR is closely related to sustainable development, which means that the company before carrying out a business activity must be based on a decision that is not only oriented to the economic aspects but also must consider the social and environmental impacts caused by the decision. Sustainable development as promoted by the Global Reporting Initiative (GRI) Standard is transparent organizational reporting practices regarding its economic, environmental, and/or social impacts, and therefore also includes its contribution (positive or negative) to sustainable development goals (www.globalreporting.org).

Corporate social responsibility disclosure (CSRSD) is believed to be able to increase investor confidence to invest funds in the company. According to Fontaine (2013), CSRSD has two characteristics, namely: 1) the willingness of the organization to consider social and environmental aspects in the decision-making process, and 2) the willingness of the organization to be responsible for the impacts arising from the decisions taken in its organizational activities towards community and environment. According to Valenti et al. (2014) in the research concluded that CSRSD has benefits and objectives in its implementation. Benefits of CSRSD include: 1) improving the good image of the company, 2) developing cooperation between companies, 3) strengthening the company's brand, 4) differentiating companies with competitors, and 5) providing innovation for companies. While the objectives of CSRSD include: 1) contributing to the development of the environment and the community, 2) obtaining potential human resources, 3) reducing the company's risk of loss, 4) being a characteristic or characteristic of the company, 5) fostering good relations with the community, 6) reduce the amount of tax paid by companies, and 7) establish good relations with stakeholders.

Many of the phenomena that occur today are related to CSRSD, namely, the assumption that CSRSD is a burden and costs that have implications for causing losses to the company (Oh et al., 2011). Besides, according to Weber (2008), CSRSD is seen as an activity that will increase costs for the company. On the other hand, CSRSD is viewed positively by investors because it shows the company's commitment and responsibility to the community and the environment. Based on the phenomenon described above, researchers suspect that CSRSD is an important element that will affect the increase in the company's stock return.

Therefore, researchers are interested in testing whether ROE affects stock returns and whether CSRSD can moderate the effect of ROE on stock returns.

Literature Review

Financial Performance

According to Kotane and Merlino (2012), financial performance is a measure of performance that uses financial indicators. The method that is widely used in financial performance measurement is the financial ratio method (Myšková & Hájek, 2017). A financial ratio is a financial analysis tool of a company to assess the performance of a company based on the comparison of financial data contained in the financial statements, both balance sheet, income statement, and cash flow repor. In this study, the ratio used is the return on equity (ROE).

Return on Equity (ROE)

ROE is a ratio that shows the company's ability to generate net income by using its capital (Riyadi, 2017). The higher ROE will be better for the company because it provides a larger rate of return for stockholders (Toit & Wet, 2007). According to Heikal et al. (2014), the results of the calculation of ROE that is close to one indicate the more effective and efficient use of corporate equity to generate profits.

Stock Returns

Stock returns are the results of capital gains or losses (capital losses) obtained from the results of investments or trading stocks within a certain period. Stock returns or return on investment is one of the most important aspects in carrying out investment analysis. According to Bello and Adedokun (2017), stock returns are the difference between the stock price in period t minus the stock price in the period $t-1$. The higher the difference or change in stock prices, the higher the stock returns generated. The higher the stock return, the better the investment made because it can generate profits (Bello & Adedokun, 2017).

Stakeholder Theory

Socially responsible companies must pay attention to the interests of stakeholders (Kakabadse et al., 2005). Stakeholder groups are taken into consideration for company management in disclosing or not disclosing information in company reports. The main objective of stakeholder theory is to assist company management in enhancing value creation as a result of activities carried out and minimizing losses that may be experienced by stakeholders.

Corporate Social Responsibility Disclosure (CSRD)

CSRD is prepared based on the GRI reporting framework. GRI is a non-profit organization that aims to promote economic, environmental, and social. GRI is an organization-based network that has pioneered the development of the world by using the sustainability reporting framework and is committed to continually improving and implementing throughout the world. The GRI standard uses 79 items of disclosure consisting of economic indicators (9 items), environment (30 items), labor (14 items), human rights (9 items), social (8 items), and products (9 items).

Research Hypothesis

ROE affects stock returns

Saragih (2018) states that high ROE levels indicate the company's ability to generate high profits for stockholders. If a company can generate high profits, then the demand for stocks will increase and then will have an impact on rising stock prices. As stock prices increase, stock returns will also increase. This is in line with the research conducted by Kamar (2017) that ROE has a positive effect on stock returns. Based on the above description, can be formulated the following hypothesis:

H₁: ROE has a positive effect on stock returns.

CSRD moderates the effect of ROE on stock returns

Corporate profits are measured using ROE. ROE is the ratio of net income to equity, which is used to measure the rate of return of the stockholders or ROE indicating the company's ability to generate profits that can be shared with stockholders. The higher ROE is better because the company is effectively able to use equity to generate profits. With the increase in ROE, investors become interested in buying the company's stocks, thus impacting the increase in stock prices and followed by a high rate of return on stock returns.

The company chosen as the sample used in this study is the mining companies. Mining companies are very vulnerable to environmental damage, so there must be good interaction between the company and the surrounding environment. These demands increase the awareness and sensitivity of the company, giving birth to the concept of social responsibility or CSR and become an integral part of the growth and survival of the company in the future. CSR must be widely disclosed as a form of information interaction between companies and stakeholders. CSRD is the company's future investment to create sustainable development.

CSRD is predicted to be able to strengthen the effect of ROE on stock returns because the wider the information conveyed to stakeholders, the more information received by stakeholders (Dewi, 2013). This will increase stakeholder trust in the company, thus impacting the maximum increase in return (Barić, 2017). Based on the above description, can be formulated the following hypothesis:

H₂: CSRD moderates the effect of ROE on stock returns.

Research Framework

The variables related to this study are formulated in the following research framework:

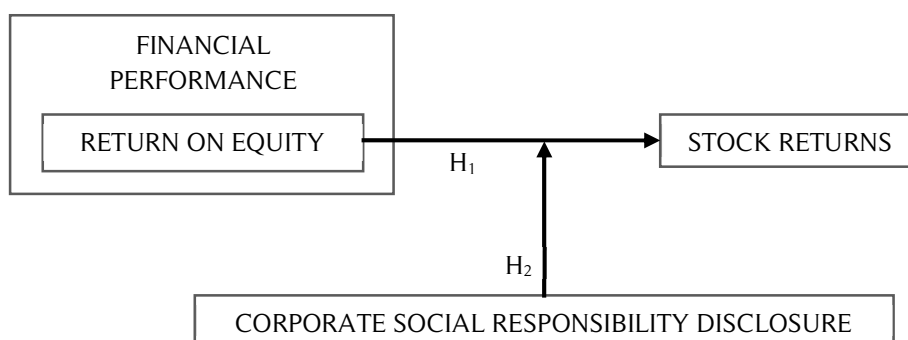


Figure 1. Research Framework

Research Method

Types of Research

This type of research used in this study is causal associative research. Associative research is research conducted to analyze the relationship or effect between two or more variables. If what is analyzed is the relationship between variables, it is called correlational research. If research aims to analyze the effect between variables, it is called

causal research. Therefore, this study is referred to as associative cause and effect research because this study was conducted to analyze the effect of two or more variables.

Independent Variables

According to Brauer and Judd (2000), independent variables are types of variables that affect other variables. In this study, the independent variable used is financial performance. Financial performance is measured by profitability ratios. According to Sivathaasan et al. (2013), profitability is a measure of the ability of individual companies or business entities to generate profits. As a basis for evaluating a company's financial performance, an assessment of profitability is very important. Profitability in this study was calculated using ROE obtained from mining companies' financial statements during the study period.

Dependent Variables

The dependent variable is the type of variable that is explained or affected by the independent variables (Brauer & Judd, 2000). In this study, the dependent variable used is the stock return. Stock returns can be formulated as follows:

$$\text{Stock Return} = \frac{(P_t - P_{t-1})}{P_{t-1}} \dots\dots\dots (1)$$

Moderation Variable

According to Namazi and Namazi (2016), moderating variables are variables that affect the relationship between the independent variable and the dependent variable. This study uses CSRD as a moderating variable. The CSRD indicator in this study refers to the Global Reporting Initiative (GRI) standard. The GRI standard uses 79 disclosure items. Disclosure of social responsibility based on GRI standards can be measured by proxy for social responsibility index or corporate social responsibility disclosure index (CSRDI). The following is the social responsibility index formula for calculating corporate social responsibility disclosures:

$$\text{Corporate Social Responsibility Disclosure Index} = \frac{\sum \text{Score}}{79} \dots\dots\dots (2)$$

According to Elo and Kyngäs (2008), CSRDI measurements are carried out using content analysis. This approach uses a dichotomous approach, i.e. each CSRD item in the research instrument is given a value of 1 if disclosed and a value of 0 if not disclosed. Next, the scores of each item are summed to get the overall score of each company.

Types and Data Sources

The type of data used in this research is quantitative data, namely data in the form of numbers. The company's annual report data are taken from the official website of each mining company and the official IDX website.

Population and Research Sample

According to Etikan et al (2016), the population is the overall subject to be studied. The population used in this study are mining sector companies listed on the Indonesia Stock Exchange in 2014-2016 which amounted to 41 companies. The sample is one element of the population that will be used as the object of research. The sample selection method used in this study is purposive sampling.

The sample criteria in this study are as follows: 1) Companies listed on the IDX during the study period from 2014 to 2016, 2) During the study period, companies made annual reports and were widely publicized, and 3) Companies disclosed CSR in their annual reports during the study period.

Research Sample

The samples obtained in this study are presented in Table 1.

Table 1. Research Samples

No.	Description	Amount
1.	Mining sector companies listed on the IDX in the research period from 2014 to 2016.	41
2.	Mining sector companies which during the research period from 2014 to 2016 did not submit annual reports regularly.	8
3.	Mining sector companies that do not disclose CSR in annual reports and official websites of each company from 2014 to 2016.	0
4.	Mining sector companies that have complete data following the existing criteria.	33
5.	The total sample used in the study for three study periods (33 x 3)	99

Method of Data Collection

In this study data collection was carried out using the literature study method. Literature study is a search for expert sources or opinions about a matter related to research objectives. In this case, researchers collect data through books, the internet, and notes relating to the problems in this study.

Analysis Method

Descriptive statistics

Descriptive statistics are methods related to the collection and presentation of a data cluster. Descriptive statistics in this study are used to describe the character of the research variables using a frequency distribution table.

Classic assumption test

This study will be conducted testing the deviation of classical assumptions on the regression model that has been processed, including normality test, multicollinearity test, autocorrelation test, and heteroscedasticity test.

Interaction test

According to Russell and Bobko (1992), the interaction test or often referred to as moderated regression analysis (MRA) is a special application of multiple linear regression which in the regression equation contains elements of interaction (multiplication of two or more independent variables). The regression equation used in this study is as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_1X_2 + \epsilon \dots\dots\dots (3)$$

Description:

- Y = Stock return
- a = Constanta
- X₁ = Return on equity
- X₂ = Corporate social responsibility disclosure
- ε = Residual value or error term (error rate)

Determination Coefficient

The coefficient of determination (R²) is used to measure the ability of the model to explain the variation of the dependent variable. The coefficient of determination is between zero and one. A small R² value means that the ability of the independent variable in explaining the variation of the dependent variable is very limited, while the R² value that closes to one means that the value of the independent variable provides almost all the information needed to predict the variation of the dependent variable.

Hypothesis Testing

F test (simultaneous test)

According to Foguet et al. (2016), simultaneous testing is to test all independent variables as a whole and together in a model. Simultaneous testing was conducted to examine the effect of the overall independent variable on the dependent variable. The model is said to be significant if the significance value (%) < α.

The T-test (partial test)

This test is done by comparing the value of t_{count} with t_{table}. If t_{count} > t_{table} with a significance below 0.05, then partially or individually the independent variables have a significant effect on the dependent variable, and vice versa.

Results and Discussion

Descriptive Statistics

Based on the results of descriptive statistical analysis, the following is presented the characteristics of ROE, CSR, and stock returns for 99 data which includes the number of samples (N), mean (mean), maximum value, minimum value, and standard deviation for each variable. Descriptive statistical test results are presented in Table 2.

From the table 2, it is known that the amount of data used in this study is 99. Based on the calculation results during the observation period, it appears that the lowest stock return (minimum) is -0.85 and the highest (maximum) is 1.02. From the above data it can be seen that the average stock return is -0,0006 and the standard deviation of stock returns is 0.28243.

Table 2. Descriptive Statistics Results

	N	Minimum	Maximum	Mean	Std. Deviation
RETURN	99	-.85	1.02	-.0006	.28243
ROE	99	-.74	.75	.0372	.21556
CSR	99	.04	.68	.2921	.17635
Valid N (listwise)	99				

The lowest ROE (minimum) is -0.74 and the highest value (maximum) is 0.75. From the above data it can be seen that the average ROE is 0.0372 and the standard deviation of ROE is 0.21556. The lowest CSR (minimum) is 0.04. The highest value (maximum) is 0.68. From the above data it can be seen that the average CSR is 0.2921 and the CSR standard deviation is 0.17635.

Classical Assumption Test Results

Normality test results

The results of the normality test are shown in Table 3 as follows:

Table 3. Normality Test

		TRANS_RES
N		99
Normal Parameters (a, b)	Mean	.3987
	Std. Deviation	.23822
Most Extreme Differences	Absolute	.128
	Positive	.117
	Negative	-.128
Kolmogorov-Smirnov Z		.841
Asymp. Sig. (2-tailed)		.479

Data normality test was carried out using the Kolmogorov-Smirnov test (K-S test). From the test results above, it is known that the significance value (Asymp. Sig) is greater than α ($\alpha = 0.05$) which is $0.479 > 0.05$, so it can be concluded that the data is normally distributed.

Multicollinearity test results

The results of the tolerance calculation are shown in Table 4 as follows:

Table 4. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
1	ROE	.922
	CSR	.954

Source: SPSS Output

Based on the above table, it is known that there is no independent variable that has a tolerance value of less than 0.10, which means there is no correlation between the variables. The results of the VIF calculation also show that there is no independent variable that has a VIF value of more than 10. Therefore, it can be concluded that there is no multicollinearity between the independent variables in the regression model based on the test of tolerance value.

Autocorrelation Test Results

The results of the autocorrelation test are shown in Table 5. Based on the output in Table 5, it is known that the value of Asymp.Sig. (2-tailed) is 0.479, meaning that the value is greater than α of 0.05 ($0.363 > 0.05$). Therefore, it can be concluded that there are no symptoms or problems with autocorrelation.

Table 5. Autocorrelation Test

	Unstandardized Residual
Test Value(a)	-.00512
Cases < Test Value	49
Cases >= Test Value	50
Total Cases	99
Number of Runs	55
Z	.910
Asymp. Sig. (2-tailed)	.363

Source: SPSS Output

Heteroscedasticity Test Results

The data output below shows that the calculation results of each variable show sig level > α, which is 0.825 for the ROE variable and 0.138 for the CSRD variable. Therefore, it can be concluded that this study is free from heteroscedasticity and deserves to be studied. Heteroscedasticity test results are shown in Table 6.

Table 6. Heteroscedasticity Test

			ROE	CSRD	Unstandardized Residual
Spearman's rho	ROE	Correlation Coefficient	1.000	.158	-.023
		Sig. (2-tailed)	.	.119	.825
		N	99	99	99
	CSRD	Correlation Coefficient	.158	1.000	.150
		Sig. (2-tailed)	.119	.	.138
		N	99	99	99
Unstandardized Residual		Correlation Coefficient	-.023	.150	1.000
		Sig. (2-tailed)	.825	.138	.
		N	99	99	99

Source: SPSS Output

Interaction Test Results

According to Russell and Bobko (1992), moderated regression analysis (MRA) is a special application of linear multiple regression tests in which the regression equation contains elements of interaction (multiplication of two or more independent variables). The interaction test results are shown in Table 7.

Table 7. Interaction Test for Moderating Variables

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
		B	Std. Error	Beta	B	Std. Error
1	(Constant)	.038	.048		.776	.440
	ROE	.532	.567	.400	.939	.030
	CSRD	-.166	.158	-.132	-1.053	.296
	MODERATION	.387	.842	.110	.459	.007

Source: SPSS Output

Based on the above results of the regression tests, it can be formed an equation as follows:

$$Y = 0,038 + 0,532X_1 - 0,166X_2 + 0,387X_1X_2 + \varepsilon \dots\dots\dots(4)$$

Determination Coefficient Test Results

The results of testing the coefficient of determination can be seen in Table 8.

Table 8. Coefficient of Determination

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.297(a)	.088	.059	.25617

Source: SPSS Output

The value of an Adjusted R Square (R²) is 0.059, meaning 5.9% variation of Y can be explained by independent variables X1, X2, and Moderation. The remaining 94.1% (100% - 5.9%) is explained by other reasons outside the model.

Hypothesis Test Results

F test results (simultaneous test)

Table 9. Anova (B)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.596	3	.199	3.027	.033(a)
	Residual	6.169	79	.066		
	Total	6.765	82			

a Predictors: (Constant), MODERATION, CSRD, ROE

b Dependent Variable: RETURN

Source: SPSS Output

The above table shows that the calculation of the Anova test or F test produces an equation model that has a significant level of 0.033, which is smaller than the significance level of 0.05. Therefore, it can be concluded that the variables X1, X2, and Moderation together have a positive and significant effect on variable Y.

T-test results (partial test)

Table 10. T-Test

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.038	.048		.776	.440
	ROE	.532	.567	.400	.939	.030
	CSRD	-.166	.158	-.132	-1.053	.296
	MODERASI	.387	.842	.110	.459	.007

Source: SPSS Output

The ROE has a positive and significant effect on stock returns with a t_{count} of 0.939 and a significance level of 0.030 ($p < 0.05$). Thus H_1 is supported. CSRD moderates the effect of ROE on stock returns with a t_{count} of 0.459 and a significance level of 0.007 ($p < 0.05$). Thus H_2 is supported.

Discussion

The effect of ROE on stock returns

The study results show that ROE has a positive and significant effect on stock returns. ROE is a ratio that divides net income after tax with capital. High ROE shows the efficiency of the company in generating profits for stockholders. The high ROE value is attractive to investors because it shows that the income received by investors is greater, thus affecting the increase in stock returns. This means that ROE was responded positively by investors. The results of this study are in line with the study of Rosikah et al. (2018) which states that the price-earnings ratio (PER), return on equity (ROE), and earnings per stock (EPS) have a positive and significant effect on stock returns.

CSRD moderates the effect of ROE on stock returns

The study results showed that CSRD moderated the effect of ROE on stock returns. This means that the more CSR disclosures, the higher the stock return. Investors see the financial performance (ROE) as one of the considerations in determining their investment decisions. The existence of CSRD as a moderating variable further strengthens investors' confidence to invest in the hope of getting the maximum return.

In general, mining companies are large-scale companies because they have large investment value. Many investors want to invest their funds in mining companies because they hope they will get maximum profit. The study results show that mining companies have a large commitment and social responsibility to the environment and surrounding communities. The company builds good relationships with investors and other parties with an interest in the company to create better interaction between the company and stakeholders. CSR activities carried out are then disclosed as a form of corporate accountability to stakeholders, to increase investor confidence in the company's good reputation. CSRD is a process of communicating the social and environmental impacts of the organization's economic activities on society as a whole. CSR activities are very important for mining companies because the mining company's activity is closely related to environmental damage.

The average CSR disclosure in this study was 29%. This encourages investors to provide a positive perspective on the company. CSR disclosure is a strong reason for investors to invest their funds in companies and it is expected that stock returns will also increase. Therefore, it can be concluded that CSRD can strengthen the

effect of ROE on stock returns. The role of CSRD in strengthening the effect of ROE on stock returns proves that external parties in assessing the company not only look at the financial aspects but also consider the disclosure of corporate activities and social responsibility.

Conclusion

Based on the results of data analysis and previous discussion, the test results show that ROE has a positive and significant effect on stock returns with a significance level of 0.030 ($p < 0.05$). The test results show that ROE is responded positively by investors because the company can generate profits for stockholders. CSRD moderates the effect of ROE on stock returns with a significance level of 0.007 ($p < 0.05$). The test results show that investors do not make ROE as the sole determinant of investment decisions, but investors also consider CSRD in determining their investment decisions. Besides, the existence of CSRD as a moderating variable can change the views of investors towards the company. The existence of CSRD as a moderating variable further strengthens the investors' view of the company, so investors are willing to invest their funds in the company and result in an increase in stock returns.

The object of this research is a mining company listed on the IDX. The number of samples used in this study is relatively small, only 99. The low adjusted R^2 in this study shows that there are still many other variables not used in this study that have a greater effect on increasing stock returns.

Suggestion

Based on the limitations of this study, the next researcher should extend the research period to obtain a clearer and more accurate picture of financial performance, stock returns, and CSRD. For researchers with similar topics, it is recommended to conduct further studies by including other independent variables not only limited to profitability ratios, but also other financial ratios such as leverage ratios, activity ratios, solvency ratios, and liquidity ratios so that a broader picture can be obtained concerning the effect of financial performance on stock returns and a higher adjusted R^2 value is obtained.

Implication

This research has implications that CSRD moderates the effect of ROE on stock returns. The company carries out CSRD because the company pays attention to the interests of stakeholders, one of which is providing care in various forms of social activities as a form of its responsibility to the community and the surrounding environment. This form of responsibility is seen positively by investors, so CSRD strengthens investors' views to invest in mining companies and can provide economic benefits for investors through maximum return increase. In other words, for potential investors who want to invest in shares, it is better to consider disclosure of corporate social responsibility or CSRD because CSRD is proven to have a significant effect on increasing stock returns.

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