

Journal of Contemporary Accounting

Volume 4 | Issue 3

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Ni Komang Apriliani Selumbang, and I Putu Sugiarta Sanjaya. (2022). The effect of corporate social responsibility disclosure on the company's financial performance with environmental uncertainty as a moderating variable. *Journal of Contemporary Accounting*, 4(3), 151-168. doi:[10.20885/jca.vol4.iss3art2](https://doi.org/10.20885/jca.vol4.iss3art2)

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JEL Classification:

M14, G32

Keywords:

Corporate social responsibility, environmental uncertainty, financial performance, return on equity

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DOI:

[10.20885/jca.vol4.iss3.art2](https://doi.org/10.20885/jca.vol4.iss3.art2)

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Abstract

This study aims to provide empirical evidence regarding the effect of Corporate Social Responsibility (CSR) disclosure on financial performance. This study also examines the effect of Environmental Uncertainty (EU) as a moderating variable on the relationship between CSR disclosure and the financial performance of companies listed on the Indonesian Stock Exchange (IDX) in 2019-2020. The study's secondary data is from annual reports, sustainability reports, and financial information. This study measures CSR disclosure by the Global Reporting Initiative (GRI) G4 standard, return measures financial performance on Equity (ROE), and the EU is measured using a dummy variable. The observations (firm-years) in this study were 673. This study tests the hypothesis by multiple linear regression analyses. This study provides two results. First, CSR disclosure has a positive effect on financial performance. Second, the EU as a moderating variable does not affect the relationship between CSR disclosure and financial performance.

Introduction

Companies in the current era are more than profit oriented. Companies must also pay attention to social and environmental aspects. The company operates a business activity based on moral values or behaves ethically. The company's concern for the environment will create a positive image. This image will positively contribute to the company, society, and the environment through Corporate Social Responsibility (CSR) activities. CSR is a form of corporate responsibility for the impacts caused by its business activities both inside and outside the company (Mahendra, 2016). Companies need to make harmonious relationships with the community as stakeholders because one of the benefits of CSR is to increase the company's reputation (Sakti & Pudjolaksono, 2017). Companies with good reputations will attract the public to use their products to improve their financial performance.

Much research researched on the effect of CSR on financial performance, including Ahyani and Puspitasari (2019), Wulandari (2020), Fatah and Haryanto (2016), and Pulungan and Krisnawati (2021). The inconsistent results from previous research and the COVID-19 pandemic in Indonesia in 2020 prompted researchers to conduct this research by adding Environmental Uncertainty (EU) as a moderating variable. The EU is a change in the environment that is unpredictable and difficult for companies to predict (Milliken, 1987; Goll & Rasheed, 2004). The COVID-19 situation caused the EU in 2020 to be higher than in 2019.

The government is trying to reduce the increase in Covid-19 cases in Indonesia by imposing restrictions on community activities. It impacts the economy because it basically depends on people's mobility (Arieza, 2021). According to the Gross Domestic Product (GDP),

the Indonesian economy in 2020 experienced a growth contraction of 2.07% compared to 2019, which experienced growth of 5.02% (BPS, 2021). Growth contraction means a decrease in GDP compared to the previous period. This decline results from the COVID-19 pandemic (CNN, 2021). Declining GDP indicates a reduction in people's purchasing power. Data processed by the Central Statistics Agency (BPS) shows that Indonesia's Open Unemployment Rate in 2020 was 7.07%, an increase from 2019 of 5.23% (BPS, 2020). The rising unemployment rate is one of the reasons people's purchasing powers is declining.

When Environmental Uncertainty (EU) increases, companies can use CSR as added value or differentiation from other companies to produce a better company reputation that will convince stakeholders and help companies overcome conditions that may be detrimental to the market (Sun & Price, 2016). It is the same as Goll and Rasheed (2004), which state that in a dynamic and rapidly changing environment. Therefore, CSR can improve company performance because it helps companies gain stakeholder support.

This study aims to provide empirical evidence regarding the effect of CSR disclosure on financial performance and examine the impact of environmental uncertainty as a moderating variable on the relationship between CSR disclosure and the financial performance of companies listed on the Indonesian Stock Exchange (IDX) for the 2019-2020 period.

Literature Review

Stakeholder theory is used in this study because it states that companies must consider the consequences of their operational activities on stakeholders. Companies should focus on more than just increasing profits (Rankin et al., 2018). One way companies can meet stakeholders' needs and expectations are to provide information about the company's performance and activities. It is essential to get support from stakeholders (Rankin et al., 2018). CSR disclosure is one of the parts of information that the company can provide. The implementation and disclosure of CSR can help companies build harmonious relationships with their stakeholders.

Another theory used is the legitimacy theory. This theory states that a company can continue its business if the community where it carries out its operational activities judges the company to operate according to the law and values in society. Companies must consider the rights of the public at large, not just shareholders (Owen & Adams in Rankin et al., 2018). One way companies can gain legitimacy from society is by carrying out social activities and complying with applicable laws.

Corporate Social Responsibility (CSR) is the company's responsibility for the impact of its activities and decisions on society and the environment (Mahendra, 2016). The implementation of CSR in Indonesia is in Law No. 40 of 2007, article 74 concerning Limited Liability Companies (Ltd.), which states that companies that carry out business activities in the field of natural resources are required to carry out social and environmental responsibility. Since this law's enactment, CSR implementation is no longer voluntary. However, it has become an obligation for companies in Indonesia, especially for limited liability companies engaged in and related to natural resources. Disclosure of CSR is essential for companies because, with this disclosure, stakeholders can find out what companies carry out social and environmental activities. The benefits that companies get from CSR include reducing business risk, maintaining relationships with stakeholders, increasing the company's reputation and brand image, and the opportunity to win awards (Sakti & Pudjolaksono, 2017).

Financial performance describes the company's financial condition at a certain period. Financial performance can be a financial benchmark for company success from a financial standpoint that stakeholders can consider in making decisions (Yadnyana & Damanik, 2017).

Environmental Uncertainty (EU) is an unexpected and challenging environmental change for companies to predict (Milliken, 1987; Goll & Rasheed, 2004). Milliken (1987) divides the EU into three types: state uncertainty, effect uncertainty, and response uncertainty. State uncertainty

occurs when individuals or companies feel that the company's environment or particular components of the environment are unpredictable. The effect of uncertainty is related to the difficulty of predicting the impact of future environmental conditions or changes on the company. Response uncertainty or response uncertainty occurs when a company has difficulty predicting the consequences of a decision taken by the company.

Research by Fatah and Haryanto (2016) examined the effect of CSR disclosure on the financial performance of manufacturing companies in the basic and chemical industry sectors listed on the IDX in 2012-2015. This research shows that CSR disclosure does not significantly influence financial performance. This study states that most investors perceive companies disclosing CSR only as part of advertising. Therefore, it is common for only good things. Investors still consider the quality of CSR disclosure. It causes the effect to be insignificant.

Research by Pulungan and Krisnawati (2021) examined the effect of CSR on the financial performance of food and beverage sub-sector companies listed on the IDX in 2015-2019. This research results show that CSR has no significant effect on financial performance.

Research by Ahyani and Puspitasari (2019) examined the effect of CSR on the financial performance of the property and real estate companies listed on the IDX in 2013-2017. The result of this research is that CSR has a positive effect on financial performance. This study states that companies that have good environmental and social performance will be responded to positively by stakeholders so that companies can increase company profits, which will lead to improved company performance.

Research by Wulandari (2020) examined the effect of CSR disclosure on the profitability of plantation sub-sector companies on the IDX in 2016-2018. The results of the study are that CSR disclosure has a positive effect on company profitability.

Research by Goll and Rasheed (2004) examined the moderating effect of environmental responsibility and dynamism on the relationship between CSR and the performance of manufacturing companies in the United States in 1985-1986. The results of the study show that environmental energy has a significant effect on the relationship between CSR and company performance. This research states that one way for companies to overcome environmental uncertainty is to increase social legitimacy through social activities.

Muriithi et al. (2020) research examines CSR, environmental uncertainty, and the financial performance of companies in the United States that appear consistently in the Kinder, Lydenberg, and Dominic (KLD) database in 2001-2010. The result of this study is that environmental uncertainty does not affect the relationship between CSR and financial performance.

Hypothesis

Companies must positively contribute to the social environment in which they operate. This positive contribution can be made by disclosing CSR activities. Harmonious relations between the company and the community as stakeholders will enhance the company's reputation. If a company has a good reputation, people will choose to use the company's products to increase sales, which will affect the company's financial performance. Based on legitimacy theory, a company can survive in running its business if it operates according to the law and values in society (Owen & Adams in Rankin et al., 2018). Based on the description above, the first hypothesis in this study is as follows:

H1: CSR disclosure positively affects the company's financial performance.

Environmental Uncertainty (EU) is a change in the company's environment that is unexpected and difficult for companies to predict. When the EU increases, companies can use CSR as an added value to produce a better company reputation, which will convince stakeholders and help companies overcome adverse conditions in the market (Sun & Price, 2016). It is consistent with

Goll and Rasheed (2004), which state that in a dynamic and rapidly changing environment, CSR can improve company performance because it helps companies gain stakeholder support. Companies are looking more for social legitimacy because this legitimacy provides companies with protection from the uncertainties they face. Based on the description above, the second hypothesis in this study is as follows:

H2: Environmental uncertainty as a moderating variable positively affects the relationship between CSR disclosure and company financial performance.

Research Method

The population used in this study are companies listed on the IDX in 2019-2020. Sampling used a purposive sampling technique with the following criteria: (1) companies registered on the IDX in 2019-2020; (2) publish the complete annual report for 2019-2020; (3) disclose CSR activities in 2019-2020. Based on these criteria, this study has 787 observations. The data in this study is secondary data in the form of annual reports, sustainability reports, and financial reports obtained from the IDX and company websites.

Research Variable

The dependent variable in this study is financial performance as measured using Return on Equity (ROE). ROE can be used to determine the efficiency of a company in earning profits using equity. Shareholders or investors will use ROE to evaluate and compare with industry averages to determine how well the company performs to generate profits. ROE measures a company's ability to generate profits using capital from shareholders (Sarafina, 2017). This study calculates ROE by formulated as follows:

$$ROE = \frac{\text{Net Income}}{\text{Total equity}}$$

The independent variable in this study is CSR disclosure. The amount of CSR disclosure is measured using the Global Reporting Initiative (GRI) G4 standard. GRI-G4 has three categories, namely economic, environmental, and social, with 91 indicators. The score is 1 for indicator CSR and 0 for no indicator CSR. Calculation of CSR disclosure is as follows:

$$CSR_{it} = \frac{\sum X_{it}}{91}$$

Where:

CSR_{it}: CSR index of a company I in period t

∑X_{it}: Total score obtained by a company I in period t

The moderating variable in this study is Environmental Uncertainty (EU). The EU measurement in this study uses a dummy variable where 1 represents 2020 and 0 means 2019. In 2020, the EU was high due to the COVID-19 pandemic, and in 2019 the EU was low without the COVID-19 pandemic.

The control variable in this study is firm size. The size in this study uses the natural logarithm of total assets with the following formula:

$$\text{Size} = \ln(\text{total assets})$$

Testing Models

Model I : $KP_{it} = \alpha + \beta_1 CSR_{it} + \beta_2 SIZE_{it} + e$

Model II: $KP_{it} = \alpha + \beta_1 CSR_{it} + \beta_2 EU_{it} + \beta_3 CSR_{it} * EU_{it} + \beta_4 SIZE_{it} + e$

Where:

KPit : Financial Performance of a company I in period t.

CSRDi : CSR Disclosure of a company I in period t.

EUit : Environmental uncertainty of company I in period t.

SIZEit : Company size i in period t.

eit : Error

Results and Discussion

The descriptive statistical shows in Table 1.

Table 1. Descriptive Statistic

	ROE	CSR	SIZE	EU
Mean	0.043	0.075	28.285	0.480
Std. Deviation	0.063	0.045	1.643	0.500
Minimum	-0.117	0.000	23.977	0
Maximum	0.202	0.198	32.726	1

Table 2. Analysis of Multiple Regression

Variable	Model I	Model II
Constant	-0.158	-0.143
CSR	0.104*	0.099
SIZE	0.007***	0.007***
EU		-0.025***
CSR*EU		0.061
F-test	20.062	15.758
Adjusted R Square	0.046	0.070

Significance levels are indicated as: ***p < 1%; **p < 5%; *p < 10%

Discussion

Corporate social responsibility disclosure has a positive and significant effect on financial performance. These results support the first Hypothesis (H1) of this study. Companies must positively contribute to the social environment. These positive contributions include conducting CSR disclosures. The company discloses CSR as a form of responsibility to stakeholders for the impact caused by its business activities. Disclosure of CSR by the company shows the company's commitment to sustainable development and long-term business continuity. One of the benefits of CSR disclosure is a good reputation. A company with a good reputation will attract people's interest in using the company's products. Increasing consumers can increase sales, affecting the company's financial performance. This study's results align with research conducted by Ahyani and Puspitasari (2019) and Wulandari (2020), which state that CSR disclosure positively affects financial performance.

The results of this moderation test do not support the second Hypothesis (H2). It is because of the implementation of CSR in Indonesia in Law no. 40 of 2007 article 74 concerning limited liability companies, which states that companies that carry out business activities in the field of or related to natural resources are required to carry out Social and Environmental Responsibility. Since this law's enactment, CSR implementation is no longer voluntary. However, it has become an obligation for companies in Indonesia, minimal liability companies engaged in and related to natural resources. Because of this law, companies must carry out CSR, including when environmental conditions change quickly and are difficult to predict, such as in 2020 due to the COVID-19 pandemic. Companies carry out CSR to get a good reputation so that people buy

and use company products that will improve the company's financial performance. In the model I, CSR influences financial performance. However, the EU as a proxy for environmental uncertainty due to COVID-19 causes the EU and SIZE to affect financial performance. The COVID-19 factor is in the second equation, which dominantly influences financial performance. CSR cannot play an essential role in financial performance because, at the macro level, people's purchasing power has experienced a sharp decline.

The arrival of COVID-19 in Indonesia in 2020 made the situation in 2020 change more rapidly and difficult to predict than in 2019. The rapidly evolving and difficult-to-predict condition is called Environmental Uncertainty (EU). The high EU in 2020 caused a decline in GDP in 2020 which reached -2.07%, compared to 2019, which was 5.02%. The results of this study in the second equation indicate that the EU significantly negatively affects a company's financial performance. It is consistent with the general phenomenon that COVID-19 has impacted decreasing company financial performance and macroeconomic performance. It shows a decrease in GDP, indicating a decline in people's purchasing power. The government has issued various policies such as Pre-Employment Cards, basic food social assistance, electricity discounts, and tax incentives to address this (Kominfo, 2020). Because of these policies, people's purchasing power will improve, and buying and selling activities can continue to run so that companies can still make sales to maintain and improve their financial performance, even though there are indications of a high EU.

The control variables in the two equations above significantly affect the company's financial performance. It means that the larger the size of the company, the greater the company's financial performance.

Conclusion

This research provides empirical evidence regarding the effect of CSR disclosure on financial performance and tests the impact of EU moderation on the relationship between CSR disclosure and the financial performance of companies listed on the IDX in 2019-2020. Based on the results of the data analysis, CSR disclosure has a positive effect on financial performance. This research also concludes that the EU as a moderating variable does not affect the relationship between CSR disclosure and the company's financial performance.

This research implies that companies can increase CSR activities in other forms, such as medical devices. CSR also needs to be improved in spraying disinfectants in the villages in collaboration with the communities in the villages. CSR that companies must carry must be extraordinary because the condition of COVID-19 is also remarkable.

The limitation of this research is the subjectivity of researchers when conducting CSR disclosure assessments because not all companies carry out detailed CSR disclosures. Suggestions for further research are that researchers need to be more thorough and careful in understanding and interpreting CSR disclosure information carried out by companies so that they can better and more accurately assess CSR disclosure. Companies and regulators should pay more attention to the clarity of CSR implementation and disclosure to help stakeholders better understand what social and environmental activities reduce researchers' subjectivity in future studies.

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