The Association Between Corporate Social Responsibility And Corporate Financial Performance

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Abstract

The objectives of this study is to investigate the association between CSR and Corporate Financial Performance (CFP). This study investigates 800 firms listed on Indonesian Stock Exchange in 2010 - 2012. Financial performance is measured by accounting-based approach and stock-market-based approach. While, CSR practices is measured by Corporate Social Disclosure Index (CSRDI). Thus, the association was analyzed under multivariate linear regression by considering time difference. Firm size, growth, and risk are included as control variables. This study finds: (1) CSR provides positive impact on the financial performance until one next period; (2) financial performance measured by ROA influence positively CSR only the next two years; (3) there is significant positive relationship between firm size and CSR. The paper has implications in enhancing the understanding of company performance through understanding the association between CSR and CFP. This may increase the understanding of the association between CSR and CFP. The findings of this study contribute to the literature and regulator on CSR.

Keywords: Corporate Social Responsibility, corporate financial performance, sustainability

Introduction

Nowadays, business is not always associated with profit. According to Lindrawati and Budianto (2008), the existence of business cannot be separated with ethical and social responsibility issues. Corporate social responsibility (CSR) appears to have become more ubiquitous and perceived as being relevant to corporations all over the world (Aras et al., 2008). KPMG International’s survey (2013) report that 71% of the 4,100 companies surveyed in 2013 and 93% of the largest 250 global companies based on the Fortune Global 500 rankings have done and reported its corporate social responsibility activities. According to the survey, there is dramatic increase over the last two years in the numbers of Asia-Pacific companies that reported corporate responsibility activities. For the first time from 20 years survey (since 1993 there were eight times surveys), Indonesia companies are included in the survey. It may show international