International Journal of Business and Management Invention (IJBMI)
ISSN (Online): 2319 – 8028, ISSN (Print): 2319 – 801X
www.ijbmi.org || Volume 7 Issue 12 Ver. IV ||December 2018 || PP—62-67

The Mechanism of Corporate Social Responsibility Program,Firm Performance and Firm Value

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ABSTRACT: *This article aims to conduct a literature review related to the impact of the implementation of Corporate Social Responsibility programs on the performance and value of the company. This article conducts a literature review based on legitimacy theory and signal theory. The results of the literature review that have been conducted show that the Corporate Social Responsibility program carried out by companies can improve company performance because of the legitimacy of the stakeholders. This legitimacy causes support for operational activities carried out by the company, thus increasing the company's performance. Companies that have good performance eventually become a signal to investors, causing the company's value to increase. Therefore, this shows that the CSR program and good performance of the company can be good news for investors, so as to make the company's value increase.*

KEY WORDS: *Firm Performance, Firm Value, Corporate Social Responsibility*

Date of Submission: 15-12-2018 Date of acceptance: 31-12-2018

I. INTRODUCTION

The Corporate Social Responsibility (CSR) program is a program carried out by companies to show their concern for social and environmental conditions. The CSR program carried out by the company basically starts from the triple bottom line concept made by John Elkington in 1970, namely profit, planet, and people. The concept explains that in carrying out its operations a company does not only pay attention to profit but also people (stakeholders) and also environmental conditions (planet).

The triple bottom line concept emerges as a reason for implementing CSR programs because every company that conducts its business activities will definitely have an impact on the surrounding environment (planets and people) which must also be considered. Azheri (2011) revealed that the production process of a company or a process of business activities of the company produces an impact on the surrounding environment where it will create poor communication between the surrounding community and the company. Thus, this CSR program needs to be carried out by the company to neutralize the negative impact.

The implementation of the company's CSR program is a form of fulfilling the interests of all existing stakeholders. CSR programs do not only have economic and legal obligations to shareholders (stakeholders), but the company also has obligations to other interested parties (stakeholders) (Pasaribu, 2016). Thus, the CSR program carried out by the company will cause the company and its business activities to be accepted and legitimized by all relevant stakeholders.

Legitimacy for companies through giving values and behavior through the implementation of corporate CSR programs will lead to achieving stakeholder expectations. Fontaine (2013) explains that CSR is a way of how a business can create values and behavior that are in accordance with the expectations and needs of various stakeholders as a whole. In addition, CSR programs carried out by companies are also considered capable of creating a legitimacy for companies because CSR programs can create a good image of corporate behavior towards the social environment. Wahyu and Prima (2012) explained that social responsibility programs are one way that companies can use to gain legitimacy. Therefore, this CSR program is an important thing to do by the company.

The CSR program is not only a form of program that is used to fulfill obligations, but also for a strategy for companies to create a good image that can improve the performance and value of the company in the future. Kadlubek (2015) states that social responsibility plays an important role by maximizing products in the current conditions of business competition to attract consumers. Therefore, now corporate social responsibility has become a form of investment in improving the performance and value of the company, which leads to the development of positive relationships and strengthening its competitive advantage.

The performance of the company which is increasing from the result of the implementation of CSR programs will eventually become a positive signal for the market when published in financial statements. Sutrisno (2009) explains that information on financial statements describes information related to the condition of the company's financial development. Information on company performance will be a source for the market to describe the company's prospects. Thus, investors will be able to determine whether they want to invest in the company or not.

A good signal from the company's positive performance continuously can ultimately result in the company's value increasing. This is because the market believes that the company is able to generate profits from investments made in the future. Goodfrey et al (2010: 375) stated that if investors believe the signal related to positive information from the company will be able to increase the price and volume of stock trading. Thus, company performance has an influence on company value.

The explanation in the previous paragraph shows that there is an assumption that CSR programs can influence the value of the company through improving company performance. Therefore, this paper will discuss further the mechanism of the impact of CSR programs on the performance and value of the company. This paper will justify based on the literature review that has been carried out on several reference sources used. The purpose of this paper is to provide an initial picture of the impact of CSR on the performance and value of the company, so that it can become a research opportunity in the future.

Corporate Social Responsibility (Csr) Concept

The Corporate Social Responsibility (CSR) program was introduced in 1953 by Howard R. Bowen. CSR at the time began with a concept which later became a literature on CSR that is currently developing. CSR began to develop even more when John Elkington's book Cannibals With Forks: The Triple Bottom Line in 21st Century Business was published in 1998. Elkington introduced the triple bottom line concept as a basis for conducting CSR activities. The triple bottom line focuses on 3P, namely profit, planet, and people. The 3P concept has the intention, namely that the company in carrying out its operations should not only focus on maximizing profits (profit), but also must be able to contribute / positive impact to the planet and people (stakeholders).

Corporate social responsibility (Corporate Social Responsibility) is a concept that reveals a company has various forms of responsibility towards all stakeholders and their environment. These responsibilities cover economic, social and environmental aspects, so that CSR has a close relationship with sustainable development (Iswandika et al, 2014). Corporate Social Responsibility (CSR) is a concept in which there is the essence that is right and in accordance with the desired business behavior. Fontaine (2013) explains that corporate social responsibility is a business way of aligning company values and behavior with the expectations and needs of stakeholders, not only customers and investors, but also employees, suppliers, communities, regulators, and society as a whole.

CSR is a form of the company's commitment to be responsible to stakeholders in managing the economic, social and environmental impacts of their operations to maximize benefits and minimize losses. The Corporate Social Responsibility (CSR) program is able to contribute to the development of the social environment in which the company operates.

The World Business Council for Sustainable Development (1998) explains that CSR can contribute to sustainable economic development, so that it can improve the quality of life. In addition, the company's CSR activities can also be a means for companies to gain legitimacy for the activities of business operations carried out. Haniffa and Cooke(2005) explained that CSR information is a way for companies to develop, maintain and legitimize companies both economically and politically.

Firm Performance

Company performance is a form of description of the level of achievement of the company in a certain period. Companies must be able to maintain that the company's performance remains stable in each period. This is because the company continues to get a good image from the stakeholders. Sutrisno (2009) states that information and description of the condition of the company's financial development are based on financial statement information. The bad performance of the company will be immediately known when the users of financial statements interpret the information contained in the financial statements.

Company performance is the basis of the assessment of the condition of a company, so it takes a measuring instrument to determine the level of company performance. The measuring tool to find out the company's performance most often used is the profitability ratio. Bringham and Houston (2006) state that profitability is the end result of all policies and decisions that have been taken by the company in a certain period. The level of profitability can be described by several ratios such as Profit Margin on Sales, Return On Assets (ROA), Return On Equity (ROE), Basic Earning Power (BEP), and others. The profitability ratio suitable for use today is Return on Equity (ROE) because the impact of the influence of CSR carried out by the company will increase the interest of investors to carry out investments that can increase company capital.

Firm Value

Company value is an important thing for the operational survival of a company. According to Sartono (2010: 487), Company value is the selling value of a company as a business that is operating. The higher the value of the company, the higher the selling value of the company. The excess selling value above the value of liquidation is the value of the management organization that runs the company.

The value of the company owned by the company is basically caused by the performance of the company produced in a certain period. Company value is a company performance that is reflected in the stock price due to the level of demand and supply of capital markets which reflects the community's assessment of the company's performance (Harmono, 2009: 233). Therefore a company that has good performance will have a high level of company value because of good judgment from the community.

The value of the company that is owned by the company will be higher when good performance occurs continuously for several accumulations of certain time. According to Noerirawan (2012) explained that company value is a condition that has been achieved by a company as an illustration of public trust in the company after going through an activity process for several years, that is, since the company was established until now. Therefore, the company must be able to create good performance since the beginning of the operation so that it can create good judgment from the community from the start. Thus, the value of the company owned will always continue to grow from year to year.

II. DISCUSSION

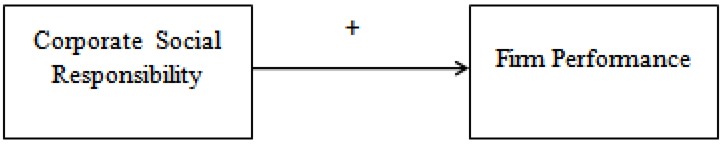
1. Impact of CSR Programs on Company Performance

The implementation of CSR programs by companies will result in the emergence of support from the internal and external stakeholders of the company. This is because the CSR program carried out by the company will show that the company has a concern to participate in improving the welfare of the surrounding community. Thus, the company will get support from the company's stakeholders. Ghozali and Chariri (2007) explain that the existence of a company is strongly influenced by the support provided by stakeholders to the company. The support of these stakeholders will ultimately cause the company to gain legitimacy for the business operations carried out.

Companies that have gained legitimacy from stakeholders will be able to have a positive impact on the company. Improving the welfare of company employees will have a positive impact on the company through improving company performance. One example of a company that issues CSR costs for employee welfare will be able to improve the work ethic of employees, so as to improve company performance. Irman and Julianti (2017) state that employee welfare costs have a significant effect on return on assets. This is due to the emergence of a high work ethic from employees to create maximum performance. The CSR program carried out by the company is also able to increase interest in the products sold. This is because companies that carry out CSR programs will be considered to have environmentally friendly products. Kadlubek (2015) states that social responsibility plays an important role by maximizing products in the current conditions of business competition to attract consumers. Thus, an increase in the work ethic of employees and an increase in the interest of company products as a result of the CSR program will be able to make the company's profits higher, so that the company's performance increases.

The explanation of the previous paragraphs shows that the CSR program carried out by the company has a positive influence on the company's performance. This is supported by some of the results of research that has been conducted related to the influence of CSR programs on company performance. The results of the study from Asatryan and Brezinova (2014), Basuony et al (2014), Chou et al (2017) found a positive effect of the company's CSR program on company performance. Therefore, the relationship of influence between CSR programs and company performance can be described as follows:

Figure 1. Relationship between CSR Programs and Firm Performance



2. Impact of CSR Programs on Corporate Values

Corporate social responsibility (Corporate Social Responsibility) is a concept that reveals a company has various forms of responsibility towards all stakeholders and their environment. Fontaine (2013) explains that corporate social responsibility is a business way of aligning company values and behavior with the expectations and needs of stakeholders, not only customers and investors, but also employees, suppliers, communities, regulators, and society as a whole. CSR is a form of the company's commitment to be responsible to stakeholders in managing the economic, social and environmental impacts of their operations to maximize benefits and minimize losses.

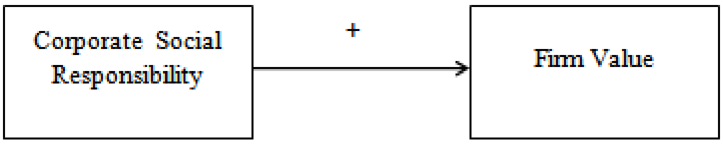
The Corporate Social Responsibility (CSR) program is able to contribute to the development of the social environment in which the company operates. The World Business Council for Sustainable Development (1998) explains that CSR can contribute to sustainable economic development, so that it can improve the quality of life. In addition, the company's CSR activities can also be a means for companies to gain legitimacy for the activities of business operations carried out.

The CSR program carried out by the company will be conveyed to the market as a signal. This is because the company's CSR program is a positive signal for the company. Epstein and Friedman (1994) explain that individual investors are currently more interested in the social information reported by companies in annual reports. The costs of the CSR program issued by the company are also one of the efforts of managers to show the company's prospects in the future. Company managers try to provide a guide for investors regarding the value of prospects from the company (Bringham and Houston, 2011: 86). Thus, investors will be able to determine whether they want to invest in the company or not.

Information signals related to the implementation of CSR from company managers that are responded well by the market will result in consequences for the value of the company. Goodfrey et al (2010: 375) stated that if investors believe signals related to positive information such as the possibility of future profits can increase the price and volume of stock trading. Thus, the better the information published by the company, the higher the performance of the company's shares.

The explanation in the previous paragraph shows the existence of an alleged influence between the implementation of the company's CSR program on the value of the company. The results of the study from Fatemi et al (2015), Nguyen et al (2015), Sudha (2015), Tjipto and Januarti (2016), Lenz et al (2017), and Singh et al (2017) prove that CSR programs affect value company. Thus, the implementation of CSR programs is directly aligned with the value of the company. Therefore, the relationship between CSR programs and company values can be drawn as follows:

Figure 2. Relationship between CSR Programs and Firm Value



3. Mechanism of CSR, Performance and Corporate Value Programs

The implementation of CSR programs by companies will result in the emergence of support from the internal and external stakeholders of the company. Ghozali and Chariri (2007) explain that the existence of a company is strongly influenced by the support provided by stakeholders to the company. The support of these stakeholders will ultimately cause the company to gain legitimacy for the business operations carried out.

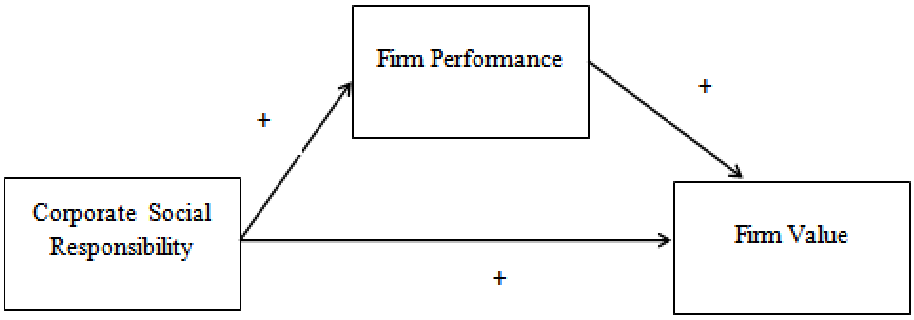
Companies that have gained legitimacy from stakeholders will be able to have a positive impact on the company. Improving the welfare of company employees will have a positive impact on the company through improving company performance. Irman and Julianti (2017) state that employee welfare costs have a significant effect on return on assets. The CSR program carried out by the company is also able to increase interest in the products sold. Kadlubek (2015) states that social responsibility plays an important role by maximizing products in the current conditions of business competition to attract consumers. Thus, an increase in the work ethic of employees and an increase in the interest of company products as a result of CSR programs can make the profits made higher, so that the company's performance increases.

The increasing performance of the company will eventually become a positive signal for the market when published in financial statements. Sutrisno (2009) explains that information on financial statements describes information related to the condition of the company's financial development. Information on company performance will be a source for the market to describe the company's prospects. Thus, investors will be able to determine whether they want to invest in the company or not.

A good signal from the company's positive performance continuously can ultimately result in the company's value increasing. Company value is a company performance that is reflected in the stock price due to the level of demand and supply of capital markets which reflects the community's assessment of the company's performance (Harmono, 2009: 233). This is because the market believes that the company is able to generate profits from investments made in the future. Goodfrey et al (2010: 375) stated that if investors believe the signal related to positive information from the company will be able to increase the price and volume of stock trading. Thus, company performance has an influence on company value.

The explanation in the previous paragraph explains that CSR programs indirectly affect the value of the company through performance. Several previous studies have proven the indirect influence of CSR on company value. The results of the research from Haryono and Iskandar (2015) found that CSR has an indirect effect on firm value through performance. Based on the explanation of the theory and the support of some of the results of previous studies, the relationship between CSR programs, performance, and company values can be described as follows:

Figure 3. Relationship between CSR Programs, Firm Performance and Firm Value



III. CONCLUSION

The purpose of this article is to do proof of the impact of implementing CSR programs on the performance and value of the company. The results of the review literature that have been conducted show that CSR programs can create a legitimacy for operational activities carried out by the company. This ultimately causes the company to get support from stakeholders, so that the company's performance is good. The good performance of the company will then become a signal for the market that the market will respond to. A positive response from the market causes the company's value to increase. Thus, CSR programs, performance, and company values have a positive relationship with each other. The results of the literature review conducted in this article show a good opportunity for researchers to empirically prove the relationship between CSR programs, performance, and company value. This is because research on this theme is still rarely found, especially in Indonesia.

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Imamatin Listya Putri" The Mechanism of Corporate Social Responsibility Program,Firm Performance and Firm Value"International Journal of Business and Management Invention (IJBMI), vol. 07, no.12, 2018, pp 62-67