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Determinants of corporate social responsibility and corporate governance on stock returns through financial performance and company size

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Abstract

This research aims to analyze the determinants of Corporate Social Responsibility and Corporate Governance on Company Stock Returns with Financial Performance and Company Size as Mediator and Intervening. The population of this research uses companies operating in the financial sector and listed on the Indonesia Stock Exchange in 2019-2022. The sampling technique used was the census technique. The research sample consisted of 168 companies. The data source used is secondary data from companies registered in 2019-2020. Corporate Social Responsibility (CSR) is measured using the CSR report disclosure index carried out by the company in the year concerned. Financial Performance is measured using Return on Assets (ROA). Stock returns are measured using the average annual Composite Stock Price Index. Newness and Novelty In this research, there are two mediating variables, namely Company Size and Financial Performance, which are not found in previous studies.

Keywords: corporate social responsibility, corporate governance, stock returns, financial performance, company size

Introduction

Corporate Social Responsibility (CSR) is a corporate social obligation in carrying out social and community responsibility towards the environment around the company. CSR integrates social activities and economic activities (Moser & Martin, 2012) [8]. Emphasizes that when a company establishes its business, the company automatically has an obligation to carry out its social obligations. The concept of CSR was first described by Howard R. Bowen in 1953. In Indonesia, the obligation to carry out CSR has also been regulated in statutory regulations, namely Law Number 40 of 2007 which is then outlined in Government Regulation (PP) Number 47 of 2012. In Article 3 paragraph (1) states that CSR is an obligation for companies that carry out business activities in the field and/or related to natural resources. Then in paragraph (2) it is explained that CSR obligations are carried out both inside and outside the company environment. Meanwhile, article 6 explains that the implementation of social and environmental responsibility is included in the Company's annual report and is accounted for at the General Meeting of Shareholders (GMS).

This CSR obligation requires companies to have good financial performance by providing information about CSR activities that have been carried out by the company and the impact they have on social life, society and the surrounding environment. The benefits of CSR must be felt by the community, such as assistance in increasing the buying and selling production of small businesses around the company and increasing the level of education in the community around the company. CSR is closely related to the company's financial performance. CSR information has a positive impact on the company's financial performance where it can increase stakeholder trust, increase and build the company's legitimacy with various stakeholders. Company performance is a company's performance in a certain period which shows adequacy in providing funds (Suharsono *et al.*, 2020) [12].

The relationship between CSR and company financial performance is widely supported by several previous studies such as research (Dura *et al.*, 2021) [4]. CSR is one of the GCG practices, entities that carry out good corporate governance should carry out CSR activities because Both mutually aim to optimize company value. Corporate Social Responsibility (CSR) in this study is measured using the company's annual disclosure report index. Financial performance in this research is measured using Return on Assets (ROA).

The Corporate Governance variable is measured through Managerial Ownership.

Managerial ownership is the size of shares owned by management from the total share capital in the company. The measurement of Corporate Governance in this research uses managerial ownership indicators. Stock Return in this study is measured using the annual average of the Composite Stock Price Index divided by the average profit in one year. Newness and Novelty In this research, there are two mediating variables, namely Financial Performance and Company Size, which are not found in previous studies.

Background Theory

The theory used in this research (Grand Theory) of the relationship between the variables studied uses Stakeholder Theory, Signaling Theory, and Legitimacy Theory.

Stakeholder Theory

Stakeholder Theory is a theory which states that a company (entity) not only does business for its own interests, but also brings benefits to its stakeholders or stakeholders. Therefore then the company must be able to provide benefits to its stakeholders, because Companies really need the support of their stakeholders (Deegan, 2004) ^[3].

Signal Theory

Signal Theory (Signaling Theory) is a grand theory developed by Ross which describes a company's action in providing signals or instructions to investors and other outside parties regarding management's way of managing and management's perspective in the future. This signal in the form of information describes the company's goals and desires and is important because it influences investors and other outside parties in viewing the company's prospects. Information signals from the company are used by investors, creditors and perpetrators other businesses because information from the company provides notes, information and descriptions regarding the results of the company's performance, both the company's performance in the past Then, the current condition of the company, as well as the company's hopes for the future coming.

Legitimacy Theory

Legitimacy theory states that companies must be able to adapt to the value system that society has implemented. Expressed the definition of legitimacy theory as a condition or status exists when a company's value system is in line with a more social value system of which the company is a part. When a real or potential difference exists between the two value systems, a threat to the company's legitimacy will arise. By making disclosures social, the company feels its existence and activities are legitimate

Corporate Social Responsibility (CSR)

CSR is a form of corporate social responsibility towards its stakeholders, namely the environment, society and the community around the company, both directly and indirectly affected. (Aigner, 2016) ^[2]. CSR activities carried out Companies can provide scholarships to underprivileged people, provide educational assistance, provide funds for public facilities, build facilities that are useful for the community at large.

Financial performance

Financial performance is the result of several people who are produced continuously in management where these results are analyzed in depth and have an impact on financial and economic decisions using certain measurements. (Helfert, 2001) ^[6] (Dura & Suharsono, nd) ^[4]. The company's strategy to survive financial problems will be reflected in the company's performance (Oktavia & Suharsono, 2022) ^[1].

Stock returns

Return is the profit obtained by companies, individuals and institutions from the results of their investment policies. According to Shook Return is an investment profit, either through interest or dividends. Returns can be realized returns and expected returns. According to Jogiyanto, realized return is a return that has occurred which is calculated using historical data, useful for measuring company performance and determining expected returns. Expected return is a return that has not yet occurred and is the return that investors hope to obtain in the future.

Corporate Governance

Corporate governance is a system for controlling and directing companies. Corporate Governance places greater emphasis on efforts to create and implement governance within an organization by paying attention to factors that influence organizational processes, therefore controllers and regulators are urgent substances in building GCG. GCG is a governance system, implemented by considering all factors that influence institutional processes, including factors related to the function of the regulator.

Hypothesis

CSR is basically a company's social activities that have an impact on society, society and the environment. The resulting impact will positively improve the company's image among its stakeholders. Support from these stakeholders is expected to bring financial benefits and confidence in using the company's products (Deegan, 2004) ^[3]. This support will have an impact on the company's financial performance. Sustainable reports from CSR will have an influence on capital injections from investors. CSR activities carried out by companies are expected to bring a positive image to the company (Dura *et al.*, 2021) ^[4]. The company's relationship will improve with creditors, investors and also the government, which will bring economic benefits to the company. The company's economic profits will increase profits and will be followed by an increase in Return on Assets (ROA). On the basis of this, a hypothesis is formulated, namely:

H1 =Corporate Social Responsibility (CSR) is thought to have an influence on stock returns?

H2 = Corporate Governance is it thought to have an influence on stock returns?

H3 =Corporate Social Responsibility (CSR) and *Corporate Governance* is it thought to have an influence on stock returns?

H4 =Corporate Social Responsibility (CSR) and *Corporate Governance* is it suspected to have an influence on stock returns through financial performance?

H5 =Corporate Social Responsibility (CSR) and *Corporate Governance* is it thought to have an influence on stock returns through company size?

H6 =Corporate Social Responsibility (CSR) and *Corporate*

Governance is it suspected to have an influence on stock returns through financial performance and company size?

Research Method

This research uses secondary data sources where researchers will collect supporting and complementary data from manufacturing company time series data and information about closing company share prices at the end of the year for the period 2019 to 2022, the data of which is sourced from the Indonesian Stock Exchange. The data used in this research is quantitative data, which is data in the form of numbers and shows the value of the magnitude or representation of the variable. This research data is secondary data in the form of further data processing in the form of graphs, tables, diagrams and other informative forms.

Population and Sample

Population is a generalization area consisting of objects and subjects that have certain qualities and characteristics determined by researchers to be studied and then conclusions drawn. The population used in this research is manufacturing companies listed on the Indonesia Stock Exchange from 2019-2022, totaling 168 companies.

Variable Operations

a. Corporate Social Responsibility Variable

CSR is a company's commitment to integrating social and environmental aspects into business operations in a sustainable manner to improve stakeholder welfare. CSR is measured based on the disclosure of CSR information in the company's annual report according to 4 disclosure items.

$$\text{Formula: } \text{CSRI}_j = \frac{\sum X_{ij}}{N_j}$$

Information

CSRI_j: Corporate Social Responsibility Disclosure Index company j

N_j: Number of disclosure items, n: 32

X_{ij}: 1 = if item i is disclosed; 0 = if item i is not disclosed

b. Good Corporate Governance Variable

GCG is corporate governance to reduce conflicts of interest between stakeholders, regarding their rights and obligations. Managerial ownership is measured by the percentage of shares owned by management out of the company's total outstanding share capital. Independent commissioners are measured by the percentage of commissioners who come from outside the company out of all members of the company's board of commissioners. The audit committee is measured using the percentage of audit committee members who come from outside the independent commissioners compared to all audit committee members. Institutional ownership is measured based on the percentage of shares owned by institutional investors in the company out of the company's total outstanding share capital.

c. Financial Performance Variables

Financial performance is the achievement of an organization which is measured based on financial aspects. The company's financial performance is measured using Economic Value Added (EVA).

Formula: $EVA = \text{NOPAT} - \text{Cost of Capital After Tax}$

Information

NOPAT: Net Operating Profit after Tax

Cost of Capital after Tax: WACC x Invested Capital

d. Stock Return Variable

Return shares are rewards for a certain amount of funds invested in shares. The stock return used is abnormal return (market adjusted model). The optimal time period for calculating returns is 15 months.

Formula:

$$R_{it} = P_t - P_{t-1}$$

$$R_{mt} = \frac{IHS_{Gt} - IHS_{Gt-1}}{IHS_{Gt-1}}$$

$$AR_{it} = R_{it} - R_{mt}$$

e. variable Size

Size measured by total assets. The median value of all sample company assets is used as a classification standard. Median value assets are included in the large size category, and vice versa.

Data analysis method

The stages in analyzing this research data are:

1. Descriptive Analysis

Analysis that describes the causal relationship between variables Financial Performance and Company Size in measuring the influence of Corporate Social Responsibility (CSR) and Corporate Governance on Stock Returns. The model used assumes the classical assumption requirements where the data is interval scale, normal distribution, meets linearity, normality, is homogeneous and free from multicollinearity problems.

2. Validity test

The validity test is used to measure whether a questionnaire is valid or not. A questionnaire is said to be valid if the questions in the questionnaire are able to reveal something that the questionnaire will measure. Validity testing should be carried out on each question item. The criteria for assessing validity tests are as follows:

- If $r_{table} < r_{count}$ (at a significance level of 5%), then the questionnaire item is valid.
- If $r_{table} > r_{count}$ (at the 5% significance level), then the questionnaire item is invalid.

3. Reliability Test

Reliability testing is a tool for measuring a questionnaire which is an indicator of a variable or construct. A questionnaire is considered reliable if a person's answer to the statement is consistent or stable over time. Reliability testing will be carried out using Cronbach Alpha (α) statistical test. quoted in Ghozali states that a construct or variable is considered reliable if Cronbach alpha value > 0.70 .

4. Classical Assumptions

The classical assumption test is used if there is more than one independent variable so it is necessary to test the independent variables from the test results regression of each independent

variable on the dependent variable. In this research there are three types of classical assumption tests will be carried out, including normality tests, multicollinearity tests, and tests heteroscedasticity.

5. Multiple Linear Regression Test

Multiple linear regression analysis is a regression in which two or more independent variables are related to one dependent variable. Multiple linear regression analysis was carried out to determine the effect of the independent variable (X) on the dependent variable (Y).

The regression equation are as follows:

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + e$$

Y = Dependent Variable (Share Return)

a = Constant

b₁, b₂, b₃... = Regression Coefficients

X₁ = Independent Variable (Corporate Social Responsibility)

X₂ = Independent Variable (Corporate Governance)

X₃ = Independent Variable (Financial Performance)

X₄ = Independent Variable (Company Size)

e = Error

To analyze influence *Corporate Social Responsibility*(X₁), *Corporate Governance* (X₂), *Financial Performance* (X₃), *Company Size* (X₄) on *Stock Returns* (Y), statistical methods are used with a significance level of $\alpha = 0.05$. This means that the degree of error is 5%.

6. T test

According to Ghazali, the t statistical test shows how much influence an independent variable individually has in explaining variations in the dependent variable. This test was carried out using a significance level of 0.05. If the significant value of $t < 0.05$ means that there is a significant influence between one independent variable and the dependent variable. Thus Ho is rejected and Ha is accepted. If the significance value of $t > 0.05$ means there is no significant influence of one independent variable on the dependent variable. Therefore Ho is accepted and Ha is rejected.

7. F Test

The f statistical test shows whether all independent variables included in the regression model have a reciprocal influence on the dependent variable. This test is carried out by comparing the calculated f value with the table f value. The significance level used is $\alpha = 0.05$. If f count > f table then it

can be interpreted that all independent variables are able to explain the dependent variable together. The f test conditions are as follows:

- If the significance value of $f < 0.05$ then Ho is rejected and Ha is accepted. This means that the independent variables influence the dependent variable together.
- If the significance value $f > 0.05$ then Ho is accepted and Ha is rejected. This means that the independent variable does not influence the dependent variable together.

8. Coefficient of Determination Test (R²)

The coefficient of determination (R²) is used to measure how far the independent variable is able to explain the dependent variable. The R² test provides an overview of the total variables in the dependent variable which are explained by the independent variables. The coefficient of determination ranges from 0 to 1. The higher the coefficient of determination, the stronger the relationship between the independent variable and the dependent variable.

Results and Discussion

This research uses the results of inner model tests for structural equations for large companies and structural equations for small companies. The following is the formula for the structural equation.

Equality Structural Large Companies

$$CSR = -0.209 GCG + \zeta_1$$

$$EVA = 0.317 GCG + 0.539 CSR + \zeta_2$$

$$AR = -0.002 GCG + 0.550 CSR - 0.115 EVA + \zeta_3$$

Structural Equations Small Company

$$CSR = -0.040 GCG + \zeta_1$$

$$EVA = -0.279 GCG + 0.102 CSR + \zeta_2$$

$$AR = 0.278 GCG - 0.288 CSR + 0.600 EVA + \zeta_3$$

Based on the results of the outer model test, GCG indicators for large companies, namely (X₁), (X₂) and (X₃), were removed from the model because their loading values were <0.5 so that GCG in large companies only has 1 indicator, namely X₄. Meanwhile, in small companies, the GCG indicators that are excluded from the model are X₁ and X₃, so that GCG in small companies has two indicators, namely X₂ and X₄. Next, re-estimation of the model is carried out. From the re-estimation results, GCG indicators for both large and small companies meet convergent validity, discriminant and composite reliability.

Table 1: Measurement Model Value (Loading)

Construct	Indicator	Large companies	Small company
	X ₁ = Corporate Social Responsibility	0.2954	-0.3899
	X ₂ = Corporate Governance	-0.4813	0.5675
GCG	X ₃ = Financial Performance	0.0587	0.5978
	X ₄ = Company Size	0.5859	0.6783

Table 2: Large Company Inner Model Test Results

Hub Var	Est. Sample	T-Statistics	T-Sample	R-Square	Note
CSR > AR	0.450	0.369	2,045	0.256	Sig.
GCG > AR	-0.002	-0.018	2,045	0.256	Sig.
EVA > AR	-0.125	-0.756	2,045	0.256	Sig.
CSR > EVA	0.459	3,633	2,045	0.320	Sig.
GCG > EVA	0.357	1,759	2,045	0.320	Sig.
GCG > CSR	-0.259	-1,162	2,045	0.045	Sig.

Table 3: Small Company Inner Model Test Results

Hub Var	Est. Sample	T-Statistics	T-Sample	R-Square	Note
CSR > AR	-0.378	-2,420	2,045	0.393	Sig.
GCG > AR	0.288	1,743	2,045	0.393	Sig.
EVA > AR	0.578	4,121	2,045	0.393	Sig.
CSR > EVA	0.123	0.817	2,045	0.090	Sig.
GCG > EVA	-0.265	0.172	2,045	0.090	Sig.
GCG > CSR	-0.035	0.123	2,045	0.002	Sig.

Based on tables 1 and 2, it can be seen that in large companies CSR has a significant positive effect on abnormal returns. In small companies, CSR has a significant negative effect on abnormal returns. There are differences in hypothesis testing, so the first hypothesis (H1) is accepted. Large companies that implement CSR will receive a positive response from market players, especially investors. Meanwhile, in small companies, CSR creates additional costs that can put the company in an economic disadvantage compared to other companies that are less socially responsible. Investors assume that CSR activities burden small size companies. This will bring a negative response with falling share prices.

In large companies, GCG has a significant negative effect on abnormal returns. In small companies, GCG has a significant positive effect on abnormal returns. There are differences in hypothesis testing, so the second hypothesis (H2) is accepted. The negative influence on large size category companies is caused by institutional ownership as a measure of GCG. These institutional investors generally consist of holding companies that are affiliated with each other. Even though they are very dominant, they are not independent so that institutional ownership as a monitoring function cannot work well. Therefore the public responded negatively to this. In small companies, GCG is also measured by the percentage of independent commissioners. Independent commissioners are members of the board of commissioners who are not affiliated with the company. With the existence of an independent board of commissioners, the monitoring function in company management can run. However, the influence of GCG on abnormal returns, both in large and small companies, is considered unimportant, because it is significant, so the third hypothesis (H3) is accepted

In large companies, EVA has an insignificant negative effect on abnormal returns. In small companies, EVA has a significant positive effect on abnormal returns. In large companies, EVA has an insignificant negative effect on stock returns. States that companies with negative EVA can have positive market performance, if investors have hope for better changes in the company in the future. However, this influence on large companies is considered unimportant, because the results are not significant. Meanwhile states that EVA is a performance measure that is directly related to shareholder prosperity. If EVA increases, the return that shareholders will receive will also increase. This is proven by the results of research on small size category companies.

In large companies, CSR has a significant positive effect on EVA. In small companies, CSR has an insignificant positive effect on EVA. There are differences in hypothesis testing, so the fourth hypothesis (H4) is accepted. The more CSR activities carried out by large companies and disclosed in annual reports, the more significant the financial performance will be. According to Monika CSR can increase employee and consumer loyalty, so that it can support companies in generating operating profits. Meanwhile, the positive and

insignificant effect of CSR on financial performance in small size companies is caused by the very low quantity of CSR disclosure in small size companies. The average disclosure will only be 23.19% in 2022.

On large size company, GCG has an insignificant positive effect on EVA. Meanwhile, in small size companies, GCG has an insignificant negative effect on EVA. There are differences in hypothesis testing, so the fifth hypothesis (H5) is rejected. The positive sign of the influence of GCG on financial performance in large companies is due to greater foreign institutional ownership compared to small companies. According to Hapsoro foreign institutions are better at monitoring companies, this can encourage an increase in the company's financial performance. In small size companies, the majority of institutional ownership is domestic institutions. Hapsoro states that in developing countries, large domestic institutional ownership actually represents their own interests and sacrifices the interests of minority shareholders. This study shows that domestic institutional ownership has a negative effect on company performance. However, the influence of GCG on financial performance is considered unimportant, because it is not significant.

Conclusion

Return Shares and financial performance in large companies can be improved through implementing and disclosing CSR activities in annual reports. Meanwhile, for small companies, CSR activities cannot be used to increase stock returns, because these CSR activities can reduce stock returns and CSR also has no effect on their financial performance. Increasing stock returns and financial performance cannot be done through implementing GCG which is only measured by institutional ownership and independent commissioners. Increasing financial performance in small companies will result in an increase in company stock returns.

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