THE RELATIONSHIP BETWEEN CORPORATE SOCIAL PERFORMANCE AND FINANCIAL PERFORMANCE: EVIDENCES FROM INDONESIA AND TAIWAN

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ABSTRACT

Corporate Social Responsibility (CSR) has become a crucial issue
since the awareness from many parties to do sustainable
business in the world. Many companies try to adopt CSR as their
responsibility toward their companies' life. Since many researches try
to figure out the effect of CSR for a company's performance, this study
will focus on doing comparison about the effect of CSR practice in
Indonesia and Taiwan.

*This research document the relationship of between CSR and financial
performance in Indonesia and Taiwan in selected companies. The
empirical result shows that both of Indonesia and Taiwan companies
have significant correlation with financial performance. Specifically,
the effect of CSR in Taiwan is higher than in Indonesia so it indicates
that CSR activities give beneficial for companies' financial
performance. This result will bring contributions toward CSR
literatures and any parties about the growth of CSR in Asia's countries.*

***Keywords: Corporate Social Responsibility, Financial
Performance, Indonesia, Taiwan***

1. Introduction

Nowadays, social activities held by companies tend to be as big consideration of some investors. According to business news daily, CSR is becoming more popular as forward-thinking companies embed sustainability into the core of their business operations to create shared value for business and society. Companies who implement CSR have positive value of shareholders. Hence, many companies may consider the importance of CSR activities to disclose as information for the investor and any parties who needs the information.

The history of CSR comes from stakeholder theory brought by Freeman, who stated that the company is not focused only to make the shareholder happy, but the other parties should have the same right to enjoy the prosperity of the company itself. The other parties are stakeholder in general, for instance employments, environment, communities, and costumers. Another concern is, the third parties (consumers and investor) now consider how the companies responsible with their business. Hence, they believe that by take care doing ethics in their business brings positive value to those companies. Furthermore, many companies in this world, especially in the largest companies use CSR as the center of their business strategy.

This practice of CSR becomes more popular not only in developed countries as the founder of this idea, but also in developing countries initially begun this issue. These are supported by many scholars who study about issues. The result explained that CSR gives a positive value for companies. Some studies, Fiori, et al. (2007) taken example from Italy, Siregar and Bactiar (2010) examined Indonesia Stock Exchange, Kanwal, et al. (2013) studied about Karachi Stock Exchange, Ahamed, et al. (2015) use Malaysian stock exchange, had concluded that CSR gives better performance for companies.

Indonesia and Taiwan have different economic and population development. The growth of population in Indonesia is higher than Taiwan, whereas the economic level of Taiwan is better than in Indonesia. Additionally, the development of CSR in Indonesia has started in 2007 since the government release the regulation (the article No.74 about CSR implementation) which obliges companies doing CSR. In Taiwan, CSR issues rose up since in 2007 signified by the awarding from the Taiwan Citizenship Magazine, which select and appraises the CSR performance of Taiwan Firms. Accordingly, it may interest to study further about CSR implementation both of these two countries and how the impact of CSR it does.

The objective of this study is to figure out of how the CSR strategy can bring beneficial for financial performance since we know that corporate governance issues always have appeal to discuss. The findings of this result will fill the gap on describing the CSR implication In Asia's countries. Taiwan and Indonesia are chosen as the comparison since the evidence document that they have both the same start to apply CSR regulation.

There are several contributions of this research. First, it may contribute to the business practice of Indonesia and Taiwan as consideration, especially non-CSR companies to apply CSR as a part of their business strategy. Then, this result will add the CSR literature, especially the development of CSR in Asia's countries since there has been no research comparison between two countries before.

This paper structure as follows. Section 2 presents the history of CSR in two countries and creates the hypothesis for this study. Section 3 describes the samples, the methodology and the model of this study. Then, in section 4 tells the summary of the comparison results. Finally, the conclusion explains in section 5.

2. Literature Review

2.1 Corporate Social Responsibility Concept

Since many literatures discuss about this issue, CSR has gradually exponent and become a fundamental thing to be sustainability in this business world. The concept of CSR developed from the idea arose in the 1950's brought by Bowen in "The Social responsibilities of a Businessman". There are some definitions developed from this issue. According to Mwangi and Jerotich (2013) in Ahamed, et al. (2014), CSR is the activities which focus on responsible for society beyond making a profit. This concept aims to propose the companies merely profitable, also make contributions within the society.

Nevertheless, the idea of CSR is closed with the concept of corporate governance. This notion was brought by the OECD, which encourages companies to apply five principles which consist of accountability, responsibility, transparency, fairness, and independence. This means that companies should do sustainable development profitable and responsible in their business activities. Thus, the concept of CSR has still changed based on situation and regulation.

In Asian countries, since the Asia crisis happens in 1997, the governments try to tight the regulation of business companies and encourage companies applying good corporate governance. The CSR application is affected by the culture of Asia's society. According to Sharma (2013), the implication of CSR in some Asian countries depends on the culture in the region for instance, in Indonesia well known with A *Gotong Royong* CSR, in Thailand is that a Sufficient Economy, and in Taiwan is that riding the CSR Supply Chain. Hence, the application of CSR in Asia relates to classical philanthropy, voluntary action, and business models.

2.2 *CSR in Indonesia*

Recently, Indonesia has become one of the developing countries which the growth of gross domestic product gradually increases after the crisis in 2008-2009. It indicated by the data which shows Indonesia is one of emerging economies in CIVETS groups (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa). From this data, this is the opportunity of the government and Indonesia companies to manifest the best bargain and supporting regulation about the company's investment to increase the foreign investors.

The growth of CSR in Indonesia started from 2007 which emphasized by regulation from government. According to article 74 of the 2007 Law on Limited Liability Companies (40/2007) and article 66 of the 2007 Limited Liability Company Law (40/2007) which requiring companies to invest in CSR and making CSR Reporting Mandatory particularly for natural resource firms. This rule underline toward companies which related to natural resource activities should spend the cost for social responsibility. However, according to Waagstein (2011) the mandatory of CSR in Indonesia still unclear since only some companies, voluntary disclose their CSR activities particularly the real amount of CSR expenditure. Therefore, people cannot know clearly about CSR company information.

In addition, there is some organizations concern about giving knowledge, guidance, and assestment for firms who implement CSR, one of them is SRI Kehati. SRI (Sustainable Responsible Investment) Kehati is one organization which focuses on green investment. By this organization, they cooperate with Indonesia Stock Index to select the companies which fit the criteria. The Sri Kehati Index is one of stock market indexes that consist of 25 Indonesia Firms that have excellent performance in promoting sustainable business, as well having an awareness of environmental, social and good corporate governance.

Since the rule of CSR encouraged by the government, some companies initially consider applying CSR as their part of management strategy. The implementation of CSR in some companies has different rules. Then, many researchers try to figure out the relationship of CSR and financial performance. According to prior research from Fauzi et al. (2007) studied about the link between CSR and corporate financial performance finding that CSR had a significant positive moderating effect of company performance. Bidhari et al. (2013) examined the Effect of CSR information disclosure on financial performance and firm value in the banking sector, there is a significant positive association CSR and ROA. Another result from Afiff and Anantadjaya (2013) studied about CSR and performance evidence Indonesian LQ45 Index concluded that CSR had a significant effect toward firm's stock price. Conversely, there are some researches show different outcomes. Kurniasari and Yusni (2014) examined the influence of CSR disclosure on firm value on SRI Kehati Index from 2009-2011 have concluded that CSR disclosure has no effect toward firm value. Other research by Yaparto et al. (2013) in Kamatra and Ely (2015) showed that CSR has no significant effect on ROA, ROE and earnings per share (EPS).

From those results, we can conclude that CSR in Indonesia initially developed. Many studied had pointed out the relationship of CSR and firm performance with varied results. The mixed result comes from different samples and measurement. Based on the information and empirical studied the positive effect outweigh the negative effect of CSR. Thus, the following hypothesis proposed:

H1: Indonesia's Companies who adopted CSR have better financial performance

2.3 CSR in Taiwan

Recently, Taiwan has become one of the fastest growing countries In Asia especially in East Asia. Many emerging companies, particularly in technology industries rise up in Taiwan and become popular in Asia market. Thus, it may trigger the government and also the firms to make a sustainable investment for their firms by implementing CSR. Furthermore, Taiwan is relatively small, open economy, and really tight competitiveness both local and international business trigger many companies to do corporate governance as their priority (Wu; 2014).

The issue of CSR in Taiwan began in 2007 when the government and supported by World Citizenship Magazine since 2007 concern about the sustainable development. This magazine always makes awarding to select and rank 100 top companies started from large firms until small enterprises. Therefore, from this result we can also see the rank of each CSR company, so Taiwan really cares about the development of CSR. Furthermore, the interesting thing about CSR in Taiwan is the information about CSR activities open to access in public area. It shows from some website announced the rank and the value of CSR expenditures.

*Many scholars had examined the relationship of CSR and firms' performance in Taiwan companies. One of them is Lin, et al. (2009) which studied about the impact of CSR on financial performance in Taiwan manufacture companies using ROA, CSR and R&D as a measurement. The result found that performance of higher-CSR portfolio is better than lower-CSR portfolio in manufacturing industries. It meant that the more firm, invest in CSR activities, the better financial performance over the long-term. Another study from Chang (2007) examined t*he relationships among corporate social responsibility, corporate image and economic performance of high-tech industries in Taiwan *stated that High-tech industries can increase their economic performance by taking on social responsibilities first, and then improving the corporate image. Yang, et al. (2010) examined the linkage between corporate social performance and corporate financial performance and had the result that corporate social performance has a positive impact to ROA companies. According to that information and those empirical studies, the hypothesis proposed:*

H2: Taiwan Companies who adopted CSR have better financial performance.

2.4 CSR and Financial Performance

The relationship of CSR and financial performance had examined by many researchers and they found mixed results. Base on Anglo-American investigation (1970) in Soana (2008), there are four types hypothesis of the relationship between CSR and corporate financial performance which are positive, negative, mixed and no relationship.

The positive relationship stated that there is there is a direct and growing relationship between CSR and firm performance (Freidman (1970) in Soana; 2011). This opinion supported by some studies. According to Chen and Xiayang (2011) studied which measured ROA and ROE as dependent variable and Corporate Social Responsibility Disclosure Index as independent variable have a positive significant effect on the financial performance. The other studies Rajput, et al. (2012) examined Indian companies, Kanwal, et al. (2013) studied about Pakistan stock exchange, Ahamed, et al. (2014) examine Malaysia companies, concluded that there is a positive correlation between CSR expenditure and financial performance. From this empirical result, it proved that CSR activities bring positive value for financial performance.

On the other hand, the assumption of negative correlation between CSR and financial performance had argued that CSR will produce additional cost for companies and it will decrease financial performance. This is supported by some studies from Vance (1975); Davidson and Worrell, (1988); Becchetti and Ciciretti (2006) in Chen and Xiayang (2011) which argued that increasing responsibility by doing CSR will add additional cost compared to less social responsible firms. Moore (2001) in Trang and Sina (2014) stated that the implementation of CSR requires businesses to make additional investment and the consequent is it will bring negative profitability.

Then, mixed correlation explained by some scholars that the relationship of CSR and financial performance will not consistent tend to make U shape. This happens because the implementation of CSR consists of three sections which are in the early stage, medium, and the up stage. Furthermore, no relationship indicates CSR and financial performance have no association so that there is no impact on financial result.

In conclusion, the existing results explain there are varied result of the relation between CSR and financial performance. This may happen because the implementation of CSR in every company is different, particularly, the size of companies and the time they start doing CSR. Also, the perspectives of measurement to explain the association between these correlations are different. However, the positive association results outweigh the other results.

3. Research Methodology

Data and sample size, which used in this study and the measurement CSR and financial performance as well, are described in this section.

3.1 Sample and Data Size

In the current study, panel data for the (2009-2014) period is applied to investigate the relationship CSR and financial performance Indonesia and Taiwan Companies. The samples used from Indonesia and Taiwan companies are 284 and 386 respectively.

In Indonesia, CSR companies was collected from SRI Kehati Index, which represent companies who have excellent performance in promoting sustainable business, good corporate governance, and concern with the environmental issues. This index has published 25 companies every six months since 2008. The secondary data were taken from annual report in Indonesia Stock Exchange.

On the other hand, the samples from Taiwan companies were selected from Common Wealth Magazine who had been chosen as the best companies who have the commitment on green environment. Then, financial performance data were financial data was retrieved from the *Taiwan Economic Journal Databank.*

3.2 Measurement of CSR

Many previous studies use the CSR index as the measurement. For example, Ahamed et al. (2014) used CSR disclosure (Environment, Community, Workplace, and Marketplace). Other researchers used, the amount of money, which disclose in the financial report (Murtaza,et al., 2014). Note that the measurement of amount spends or donation on CSR will be more accurately the link to the firm financial performance, however, it is hard and difficult to get the exact amount spend for a corporation investing in CSR especially in Indonesia. Therefore, The CSR companies were measured based on SRI Kehati Indonesia and CSR magazine Taiwan selection.

3.3 Measurement of Financial Performance

Most of the studies use two kinds of measurement approach which is accounting-based financial performance and market-based financial performance. This study use ROA (accounting-based) as the measurement of financial performance. ROA is suitable for describing the condition of the companies. Following the previous studies, Fauzi et al. (2008) used ROA as the dependent variable to represent the financial performance. Also, Chen and Xiang (2011) their study used dependent variables are ROA and Tobin's Q as the parameter. Furthermore, others parameter used in this study are size, growth of revenue (GR), and the ratio of shareholder (BR). These are related to prior study as their control variable to avoid the size gap.

In summary, this paper employs the following variables: dependent variables, namely ROA. The independent variables include CSR Company. The controls of the effects of the firm-specific variables are as follows: firm size (SIZE), Growth of revenue (GR), and the largest shareholder (BR).

3.4 Model and definition of variables

To examine the relationship between CSR and financial performance by using a regression analysis for 6 year samples, we construct the model which is used in the prior studies. Therefore, the relationship of CSR Company and financial performance illustrated by this model:

$$ROA_{it} = \beta_0 + \beta_1\ CSR_{IND_{it}} + \beta_2\ SIZE_{it} + \beta_3\ BR_{it} + \beta_4 GR_{it} + \varepsilon_{it}\ (1)$$

$$ROA_{it} = \beta_0 + \beta_1\ CSR_{TW_{it}} + \beta_2\ SIZE_{it} + \beta_3\ BR_{it} + \beta_4 GR_{it} + \varepsilon_{it}\ (2)$$

Where:

ROA_{it} is the dependent variable, Return on Asset for Company (i) at time (t)

CSR_{INDit} is dummy variable for Indonesia's Company(i) at time (t), if adopted CSR = 1 otherwise = 0

CSR_{TWit} is dummy variable for Taiwan Company (i) at time (t), if adopted CSR = 1 otherwise = 0

$Size_{it}$ is control variable, calculated by log of total asset company (i) at time (t)

BR_{it} is control variable, big shareholder company (i) at time (t)

GR_{it} is control variable, Growth of sales company (i) at time (t)

ε_{it} is the error term

Table 1. Definition of Variables

Variables	Definition	Source of Reference
ROA	Profit before interest and taxes per average total asset	Weigandt (2013)
CSR	Companies that implement and disclose CSR items that exist in the financial statements or the sustainability report is numbered 1, while there is no disclosure of CSR given the number 0. Measurements then done using the CSR Index	Angelia & Suryaningsih (2015)
Size	The natural log value of the total assets is used as a measure of the size of the company.	Nasdeeq Iqbal (2012)
GR	Growth of revenues	Ross, et al, (2008)
BR	Ratio of the largest shareholder	Investopedia

4. Analytical Result

4.1 Descriptive Analysis

　　Table 2 and 3 denote descriptive statistic of Indonesia and Taiwan companies. From these two tables, it shows that the mean value far less than the standard deviation which mean these samples are normal distribution. Another thing that the mean and median are closely the same and it indicates the samples of Indonesia and Taiwan companies are close to being a symmetric distribution. The mean of size both Indonesia and Taiwan companies almost similar. On the contrary, the big shareholder (BR) and growth of sales (GR) these two samples show the difference. The biggest shareholder of Indonesian companies two times higher than Taiwan companies while the growth of sales of Indonesia companies smaller than Taiwan companies. From this analysis, it can conclude that the size of samples used in this study relative the same and ideal to be compared.

Table 2. Descriptive Statistic of the variables Indonesia's Companies

Variables	Standard Deviation	Minimum Value	Maximum Value	Mean	Median
ROA	0.141	-0.198	0.607	0.126	0.099
CSR_{IND}	0.501	0.000	1.000	0.504	1.000
SIZE	0.797	3.841	8.932	7.270	7.254
BR	0.189	0.072	0.972	0.586	0.595
GR	0.823	-0.959	9.373	.227	0.118

Notes: 1. Sample uses 284. The Explanation of variables, ROA: Return on total Asset; CSR_{IND}: Indonesia Companies measured by a dummy variable adopted CSR=1, if no = 0; Size: Log of total asset; BR: Ratio of the largest shareholder of environmental; GR: Growth of revenues.

Table 3. Descriptive Statistic of the variables Taiwan Companies

Variables	Standard Deviation	Minimum Value	Maximum Value	Mean	Median
ROA	7.792	4.213	12.955	9.060	7.770
CSR_{TW}	0.500	0.000	1.000	0.500	0.500
SIZE	0.725	7.004	8.147	7.586	7.593
BR	9.892	12.977	26.348	20.378	19.210
GR	23.890	-6.183	16.045	6.519	16.045

Notes: 1. Sample uses 386. The Explanation of variables, ROA: Return on total Asset; CSR_{TW}: Taiwan Companies measured by a dummy variable if adopted CSR=1, if no = 0; Size: Log of total asset; BR: Ratio of the largest shareholder of environmental; GR: Growth of revenues.

4.2 Correlation Matrix

Table 4. Correlation matrix of explanatory variables with Indonesia's Companies

Variables	CSR_{IND}	SIZE	BR	GR
CSR_{IND}	1	0.331**	-0.004	-0.085
SIZE	0.362**	1	0.006	0.068
BR	-0.023	0.098	1	-0.058
GR	-0.132	-0.133	-0.111	1
*** P <1%, ** P < 5%, *P<10%				
Pearson (Spearman) correlation coefficients are above (below) the diagonal of the table				
Notes: CSR_{IND}: Indonesia Companies who adopted CSR; Size: Log of total asset; BR: Ratio of the largest shareholder of environmental; GR: Growth of revenues.				

Table 5. Correlation matrix of explanatory variables with Taiwan's Companies

Variables	CSR_{TW}	SIZE	BR	GR
CSR_{TW}	1	0.236***	0.015	-0.102**
SIZE	0.253***	1	0.155***	0.05
BR	0.018	0.183***	1	0.089
GR	-0.074	0.063	0.072	1
*** P <1%, ** P < 5%, *P<10%				
Pearson (Spearman) correlation coefficients are above (below) the diagonal of the table				
Notes: CSR_{TW}: Taiwan Companies who adopted CSR; Size: Log of total asset; BR: Ratio of the largest shareholder of environmental; GR: Growth of revenues.				

Table 4 and 5 depict the correlation matrix of each variable according to Pearson and Spearman analysis. From these two tables we can see that some variables have positive and negative correlation. In Indonesia's result, CSR and size have positive significant correlation by probability <5%. This indicates that companies who applied CSR may have big size (total asset). On the other hand, Taiwan shows different outcomes, almost each variable show significant correlation. Specifically, CSR and size have positive significant correlation whereas CSR and GR have negative correlation. Then, ratio of big shareholder (BR) has a significant positive correlation with size

4.3 Regression Analysis

Table 6 and 7 represent regression analysis of relationship of CSR and financial performance of two models, Indonesia and Taiwan Companies. From table 6 we can see that CSR has a positive significant correlation to financial performance, which is the coefficient value is 0.093. It indicated that companies applied CSR give good contribution to firm performance. This result confirmed the hypothesis of H1 that Indonesia's companies who apply CSR will have better financial performance and it's consistent with previous studies. Afiff and Anantadjaya (2013) stated that CSR has a significant effect toward the financial performance (stock price) and another study from Bidhari et al. (2013) found the positive significant effect between CSR disclosure Index and ROA. Furthermore, all the control variables in table 6 show positive significant result except Size which shows negative correlation and growth rate does not have any significant correlation.

On the other hand, Table 7 denotes closely the same with table 6. The coefficient of CSR_{TW} is 2.140 which indicate positive significant correlation to financial performance. This is consistent with prior studies from Yang et al. (2010) and *Chang (2007)* had resulted, there is the positive correlation between CSR and ROA. The empirical result support the hypothesis of H2 that Taiwan's Company who adopt CSR has better financial performance**.** In other words, the implication of CSR in the business strategy of the company brings positive impact for company's financial performance. Then, all control variables Size, big ratio of shareholders (BR), growth rate (GR) has significant correlation. Particularly, two variables have a positive correlation while another shows inverse.

Finally, from these two tables we can see that both of Taiwan and Indonesia has same result which is CSR significant positive to financial performance. It means that the development of CSR in these two countries in up stage. They can experience the good impact of their company performance, especially in goodwill. Besides, the value of CSR coefficients of these two results shows differently. It represented from the coefficient of Taiwan companies twice bigger than Indonesia companies. This indicates that in Taiwan the attention of CSR activities higher than Indonesia, it shows from the information disclosed. Taiwan gives clearer information about CSR activities and opens to the public rather than in Indonesia.

Table 6. Summary of Regression Result of Indonesia Companies

$ROA_{it}=0.354+0.093\ CSR_{IND_{it}} - 0.047\ SIZE_{it}+0.109\ BR_{it}+0.009\ GR_{it}+\varepsilon$ (1)			
Variable	**Coefficient**	**t-value**	**p-value**
Intercept	.354	4.523	0.000***
CSR_{IND}	.093	5.413	0.000***
SIZE	-.047	-4.332	0.000***
BR	.109	2.558	0.010**
GR	.009	.896	0.371
R^2	0.126		
F	10.010		
P-value	0.000***		
*** P <1%, ** P < 5%, *P<10%			
Notes: ROA: Return on total Asset; CSR_{IND}: Indonesia Companies measured by dummy variable adopted CSR=1, if no = 0; Size: Log of total asset; BR: Ratio of the largest shareholder of environmental; GR: Growth of revenues.			
Variance inflation factors (VIF's) have computed. The VIF's is greater than 1.0. It indicates that there is no multicollinerity in each variable.			

Table 7. Summary of Regression Result of Taiwan Companies

$ROA_{it}=13.763+2.140\ CSR_{TW_{it}}-1.122\ SIZE_{it}+0.097\ BR_{it}+0.119\ GR_{it}+\varepsilon_{it}$ (2)			
Variable	**Coefficient**	**t-value**	**p-value**
Intercept	13.763	3.529	0.000***
CSR_{TW}	2.140	2.822	0.005***
SIZE	-1.122	-2.125	0.034**
BR	0.097	2.571	0.011**
GR	0.119	7.658	0.000***
R^2	0.157		
F	17.803		
P-Value	0.000***		
*** P <1%, ** P < 5%, *P<10%			
Notes: ROA: Return on total Asset; CSR_{TW}: Taiwan Companies measured by a dummy variable if adopted CSR=1, if no = 0; Size: Log of total asset; BR: Ratio of the largest shareholder of environmental; GR: Growth of revenues.			
Variance inflation factors (VIF's) have computed. None of the VIF's is greater than 1.5. This suggests that multicollinerity between the variables is not significant when the benchmark value of VIF is equal to10			

5. Conclusion

This study attempts to investigate the relationship of CSR and financial performance in Taiwan and Indonesia Companies. The empirical results show that there is positive significant relationship between CSR and financial performance. These results consistent with some studies and indicate that these two countries now in the upstage running the CSR. It is supported by the evidence that they have same start doing CSR and almost 8 years. Therefore, it proves that companies who make CSR as their part of business strategy will get a positive effect on their performance because the social cost spent in these activities will make their business more efficient and create better value. Thus, their companies will be more profitable.

Evidence found in this study is the differential impact of CSR in Taiwan and in Indonesia. The result documents that the effect of CSR in Taiwan higher than in Indonesia. This indicates that Taiwan's CSR more developed rather than in Indonesia. It shows from the disclosure the data about CSR activities in Taiwan can be accessed easily, so that society, investors, and any parties will know about their activities. Furthermore, this result can be a consideration for Indonesia companies to disclose their information able to open so that investor and society will be conscious of the company's social activities.

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