CORPORATE SOCIAL RESPONSIBILITY AND FIRM SPECIFIC FACTORS

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ABSTRACT

The research examines the relationship of corporate social responsibility to several firm specific factors such as profitability (ROA and ROE), firm risk (standard deviation of return), and market value (PE ratio and Q). This research tests three hypotheses which are the positive relationship of CSR to profitability, the negative relationship of CSR to firm risk, and the positive relationship of CSR to market value. The research uses data from PROPER (environmental ministry) and 1994 to 2004 period of analysis with cross-sectional data analysis. The result showed mix result. CSR have statistically insignificant positive relationship between CSR and profitability. CSR have statistically significant negative relationship between CSR and firm risk (support the hypothesis). The result partially support for hypothesis of CSR to market value. CSR have statistically significant positive relationship with PE ratio (support the hypothesis) and statistically insignificant relationship with Q.

Keywords: corporate social responsibility, profitability, risk, market value

1. INTRODUCTION

In recent years, academics in fields of business administrations have studied the economic and managerial implications of Corporate Social Responsibility (CSR). CSR may be defined, consistent with McWilliams and Siegel (2001), as actions on the part of a firm that appear to advance the promotion of some social good beyond the immediate interests of the firm or shareholders and beyond legal requirements. That is, CSR activities of companies are those that exceed compliance with respect to, e.g., environmental or social regulations, in order to create the perception or reality that these firms are advancing a social goal.

CSR is concerned with treating the stakeholders of the firm ethically or in a responsible manner. Ethical or responsible means treating stakeholders in a manner deemed acceptable in civilized societies. Meanwhile, social goal includes economic responsibility. Stakeholders exist both within a firm and outside environment. The natural environment is also a stakeholder. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation.

Companies that are socially responsible in making profits also contribute to some, although obviously not all, aspects of social development. Every company should not be expected to be involved in every aspect of social development. That would be ludicrous and unnecessarily restrictive. But for a firm to be involved in some aspects, both within the firm and on the outside will make its products and services (for example financial services) more attractive to consumers as a whole, therefore making the company more profitable. There will be increased costs to implement CSR, but the benefits are likely far outweigh the costs.