Community Response to Corporate Social Action and Impact on Company Performance

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Abstract--- Every company has a moral responsibility to the surrounding community because its existence has an impact, both positive and negative. The purpose of the study was to determine the effect of corporate social action on company performance through community response. Research methods using a quantitative approach using the path analysis model. The research samples are 41 banking companies listed on the Indonesia Stock Exchange. The test results state the magnitude of CSR costs have a positive effect on public response, the second test, states the amount of CSR costs affect company performance and the third test states that public response influences company performance.

Keywords--- Magnitude of CSR Costs, Community Response, Company Performance.

I. Introduction

According to RI Law Number 10 of 1998 concerning Banking, the main function of Indonesian banking is as a collector and distributor of public funds. The function aims to support the implementation of national development, in order to improve the development of equity and its results, economic growth, and national stability, towards improving the standard of living of many people. In carrying out its functions, the Indonesian banking system is based on the principle of prudence because it is engaged in finance. In running their business activities, banking companies face various risks. Bank Indonesia Regulation No.11/25/PBI/2009, amendments to Bank Indonesia Regulation No.5/8/PBI/2003 concerning Application of Risk Management for Commercial Banks, several risks must be managed by banks, including credit risk, market risk, operational risk, and reputation risk.

As an intermediary institution, the main basis for banking activities is trust both in terms of raising funds and channeling funds in accordance with RI Law Number 10 of 1998 concerning Banking. As a service institution, banks are very vulnerable to reputation risk on issues that can cause a decline in public confidence in banks. The decline in the level of public confidence stems from negative perceptions of banks. To increase public confidence in banking companies, strategic steps taken by banks by improving company performance.

Company performance is an absolute measure used by entities to measure success in generating profits. The company's performance in question is what has been achieved by the company in accordance with existing standards or plans in the company. These behavioral standards are in the form of management policies or formal plans as outlined in the company's budget, according to Hariyati and Ongki (2013). Banks measure performance using a composite index that complexly measures how the bank's performance is seen from its financial and non-financial sectors, such as measuring profitability, ability to manage risk, ability to maintain capital, quality of management/governance, and so on. These matters are contained in regulations issued by Bank Indonesia (2007) and OJK (2014).

Corporate Social Responsibility is the disclosure of information relating to the environment in the company's annual report and the company's sustainability report. In this case, the company's involvement in carrying out social responsibility activities, due to two different motivations, namely, the company believes that if the company carries out social responsibility it will gain a competitive advantage that distinguishes the company from other companies so that it can achieve better economic results and can improve the company's image (Manurung &Rachmat, 2019). The application of corporate social responsibility for companies is considered important because of the new accounting concept, namely the transparency of social disclosures made by companies.
Transparency of information disclosed by the company today is not only related to financial information but also information about social and environmental impacts caused by company operations (Rakhiemah and Agustia, 2009; Manurung & Rachmat, 2019).

According to (Donald and Weygant 2010), financial performance is one of the benchmarks in assessing the performance of a company, and good financial conditions will give a signal to investors. The financial performance of a company can be assessed based on the analysis of financial statements and the analysis of the financial ratios of the company concerned. In PSAK 1: 2013, it is stated that the entity's management is responsible for the preparation and presentation of the entity's financial statements. PSAK 1: 2013 also explains the purpose of financial statements is to provide information about the financial position, financial performance, and cash flow of the entity that is beneficial for most users of financial statements in making economic decisions. There are financial and non-financial information indicators in the financial statements.

Banking company strategic steps in improving company performance, namely through non-financial information in the form of corporate social responsibility carried out by the company. Researchers argue that corporate social responsibility for the banking sector can form an excellent corporate image to gain the trust of the community, thereby contributing to improving company performance. Through social responsibility programs, the company's reputation and image can be improved. Because of this program, the community can benefit from the company's presence. A company's reputation is more easily maintained when many parties have a positive emotional attachment to the company. Which of course, this will bring significant benefits for the existence and sustainability of the company.

The banking sector must give a variety of impressions and trust so that people want to invest their funds as a form of positive public response to the bank. Fluctuations in public trust can be seen from how the community response. Community response means a response or reaction from the community. The response is a psychological term used to name reactions to stimuli received by the five senses (Poerwadarminta, 1987: 1012). The things that support and underlie the size of response are attitude, perception, and participation. A person's attitude precedes the response to the process because the attitude is a tendency or willingness to behave when faced with a particular stimulus. The response is a positive and negative reaction given by the community (Poerwadarminta, 1987: 1012). Community response is proxied through funds from the wider community, also known as Third Party Funds (DPK).

The number of deposits raised by banks is one measure of the success of the bank according to its function as a public fund collector; in this case, it means that the community gives a good response. It is important for banks to keep their profitability stable and even increase in order to fulfill obligations to stakeholders, increase investor attractiveness in investing and increase public confidence in storing excess funds held in banks (IBI and BARa, 2016). According to Kasmir (2004), the higher the number of third party funds, the better the level of public trust in the bank concerned. Corporate social responsibility activities are expected to be able to provide a positive response to the bank.

Research related to company performance with several approaches shows diversity by using different proxies, so researchers try to examine using community response as an intervening variable. The researcher assumes that this variable can be used as a signal of service companies on social activities that have been carried out and their impact on company performance (Davis, 1973; Chen & Wang 2011; Gadioux 2011; Weshah et al., 2012; Ahmed et al., 2012; Cornett et al., 2014; Wu & Shen 2013; Yaparto et al., 2013; Hana 2013; Astuti and Yeterina 2015; Septiana & Nur 2012). Signals can be in the form of promotions or other information, stating that the company is better than other companies (Falichin, 2011). Failure to get a positive response from the community makes the company identified as an average company just the same as other companies (Hakansson, 1983) like companies that do not carry out social responsibility (Drever et al., 2007). Dowling and Pfeffer 1975; Lako 2011), when there is a difference between the values held by the company and the values of society, the company will be in a position of being threatened.

Based on research results that are still being debated with different results, it is felt necessary for researchers to develop further research on corporate social responsibility variables on company performance through community response as a novelty element in this study which is considered capable of influencing the variables studied as a system that prioritizes community support, company operations must be congruent with the expectations of the community. This research focuses on banking companies. This is because banking companies have slightly different business activities compared to other sector companies. Banking companies have business processes that do not have a direct social and environmental impact. However, on the other hand, banking companies have an indirect social and environmental impact through their financial projects, this encourages banking companies to be required.
to carry out social activities, but it is still difficult to predict whether doing social responsibility will affect financial performance or not.

II. Methodology

The population in this study are banking companies listed on the Indonesia Stock Exchange for the period 2011-2015. The method of determining the sample size used is purposive sampling, where sampling is based on the following criteria, 1) Bank sub-sector companies listed on the Indonesia Stock Exchange in the period 2011 - 2015. 2) Companies that are not delisted in the 2011-2015 period. 3) Have complete research variable data (CSR costs, Third Party Funds, and ROA). Based on data from the Indonesia Stock Exchange, all banking companies in the 2011-2015 period were 41 companies. The companies were selected again in accordance with the predetermined purposive sampling criteria. The number of companies that met the research criteria was 28 companies from 2011 - 2015, so the number of observations was 140 observations (firm-years).

Based on the type, the data used in this study is quantitative. Quantitative data in this study are annual banking reports that are listed on the Indonesia Stock Exchange 2011-2015. In this study, the data were obtained from external data from the Indonesia Stock Exchange and the websites of related companies. The secondary data used in this study is the data of annual reports of banking companies listed on the Indonesia Stock Exchange in the period 2011-2015. The social responsibility variable is proxied using costs used for social activities (Corporate Social Responsibility = Total Cost of Corporate Social Responsibility), the community response variable is proxied using third party funds (Third Party Fund = Ln Total Third Party Funds and company performance is proxied using ratio (Return On Assets = Profit Before Tax / Average Total Assets).

The steps taken to produce information in this study are 1) Analysis of research data using descriptive statistics and test classic assumptions and path analysis. 2) Descriptive statistics use data of minimum values, maximum values, average values, and standard deviation values. 3) Before conducting the path analysis, first classical assumption tests are performed to test the quality of the data to be analyzed. 4) Data must meet the classical assumption test in the form of autocorrelation, normality, heteroscedasticity, multicollinearity. Data that has passed the classic assumption test then test the hypothesis using path analysis.

Path analysis examines whether there is a direct or indirect effect between corporate social responsibility variables on company performance through community response. The path coefficient is calculated by making two structural equations, namely the regression equation that shows the relationship of corporate social responsibility variables to company performance through community response, in this case there are two equations namely, structure model-1 (Community Response = α + p₁ the amount of the cost of CSR + e₁ ), structure model-2 (Company Performance = α + p₁CSR cost + p₂community response + e₂)

The amount of direct influence is obtained from the SPSS output while the magnitude of the indirect effect must be calculated by multiplying the indirect coefficient, that is, the indirect effect of the amount of CSR costs on company performance through community response = p₁ x p₂. The effect of mediation shown by the coefficient multiplication can be known as its significance by being tested using the Sobel Test (Ghozali, 2013).

III. Results and Discussion

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Source: Data processed (2017)

Based on SPSS output shows the amount of observational data on the amount of CSR costs of banking companies listed on the Indonesia Stock Exchange which is proxied by the amount of CSR costs (N) there are 140, from 140 data on the amount of CSR costs, the smallest (minimum) cost is 16.01 namely the amount of CSR costs issued by Bank Capital Indonesia Tbk. in 2013 and the largest amount of CSR costs (maximum) was 30.01 issued by the National Savings Bank Tbk. in 2015.
The average amount of CSR costs incurred by all companies based on 140 observational data was 21.2790, with a standard deviation of 2.80292. The standard deviation value is smaller than the average value. This condition shows that the data distribution of CSR costs is good for sample banking companies.

The smallest (minimum) public response is 22.70, which is the community response owned by Bank Nusantara ParahyanganTbk. in 2011 and the largest public response (maximum) was 34.14 owned by Bank Rakyat Indonesia (Persero) Tbk. in 2011. The average community response based on 140 observational data was 22.9531, with a standard deviation of 2.30735. The standard deviation value is smaller than the average value. This condition shows that good public response data spread in the sample banking companies.

The smallest (minimum) company performance is 10.28, which is the company's performance owned by Bank SinarmasTbk. in 2015, and the performance of the largest companies (maximum) was 77.39 owned by Bank Pundi Indonesia Tbk. in 2015. The average company performance based on 140 observational data was 22.9531, with a standard deviation of 10.12695. The standard deviation value is smaller than the average value. This condition shows that the spread of good corporate performance data in the sample banking companies.

The classic assumption test is performed to determine deviations in the research data so that the path model is BLUE (Best Linear Unlocked Estimated). The classic assumptions used in this study are multicollinearity, autocorrelation, heteroskedasticity, and normality tests. It can be seen that the tolerance value of the variable magnitude of CSR costs is 0.954 greater than 0.10, while the VIF value of the variable magnitude of CSR costs is 1.048 less than 10.00. The tolerance value of the variable magnitude of CSR costs, TPF is 0.927, and 0.934 is greater than 10.00 and 0.979, 1.071 smaller than 10.00. So it can be concluded that there is no multicollinearity between independent variables in the regression model.

Model 1 shows the DW value 2.002 is greater than the upper limit (du) 1.6950 and less than 4 - 1.6950 = 2.305 (4 - du), it can be concluded that there is no autocorrelation in model 1. Whereas in model 2, the DW value is 1.790 greater than the upper limit (du) 1.7678 and less than 4 - 1.7678 = 2.2322 (4 - du), it can be concluded that there is no autocorrelation in model 2. Regression model 1, with the independent variable the amount of CSR costs to the variable, the absolute dependent residual did not show any symptoms of heteroscedasticity with a significance value of greater than 0.05, respectively. Means it can be concluded that the regression model 1 does not contain heteroscedasticity. Regression model 2, with the independent variable, the amount of CSR costs and the community's response to the residual absolute dependent variable does not show any symptoms of heteroscedasticity with a significance value of each greater than 0.05. Means it can be concluded that the regression model 2 does not contain heteroscedasticity. Residual normality indicated by the unstandardized residual variable has a significance value greater than 0.05, which is significant at 0.709, so it can be concluded that the residual data is normally distributed.

Based on the two-equation models, things can be interpreted as follows, Model 1, the coefficient of the variable magnitude of CSR costs. Based on the results of the hypothesis test (t-test), the variable magnitude of CSR costs shows an unstandardized beta value of 0.278. The unstandardized beta coefficient value of 0.278 is the value of path or path p1: model 2, Variable coefficient of the amount of CSR costs. Based on the results of the hypothesis test (t-test), the variable magnitude of CSR costs shows an unstandardized beta value of 0.974. Unstandardized beta coefficient value -0.974 is the value of the path or path p3 — variable Coefficient of Community Response. Based on the results of the hypothesis test (t-test), the community response variable showed an unstandardized beta value of 2.491. The unstandardized beta coefficient value 2.491 is the value of path or path p2. The magnitude of \( e_1 = \sqrt{1 - 0.327} = 0.673 \) and the magnitude of \( e_2 = \sqrt{1 - 0.168} = 0.832 \)

The path analysis results show that the amount of CSR costs can directly influence the response of the community; the magnitude of the direct effect is -0.730. The amount of CSR costs can directly affect company performance; the magnitude of the direct effect is 0.974. Community response can directly influence company performance; the magnitude of direct influence is 2.491. The indirect effect of the magnitude of CSR costs on company performance through public response \((p_1 x p_2 = 0.278 \times 2.491 = 0.692)\) or the total effect of the magnitude of CSR costs on performance \(= 0.974 + 0.692 = 1.666\).

The effect of mediation shown by the coefficient multiplication can be known its significance by being tested using the Sobel Test (Ghozali, 2013) as follows: Calculate the standard error of the indirect effect coefficient. The indirect effect of the amount of CSR costs on company performance through public response \((Sp1p2)\).
explained in the previous chapter that based on signaling theory, the amount of CSR costs disclosed by the company wants to invest its funds as a form of public response to the bank. The results of this study support the theory benefit from the existence of the company. The bank can give a variety of impressions and trust so that the public response with a significance value of 0.000. This shows that through CSR programs, the community can great benefits for the existence and sustainability of the company. 

The public is interested in the social information reported in the financial statements. Which of course, this will bring in the annual report provides a positive image of the business being run as well as increasing public confidence. The community. Banks, as intermediary institutions, have a very large risk because of the inability to maintain the image, can be a signal by the company to attract investors to invest their funds in the company.

IV. Discussion

Based on the results of hypothesis testing, which shows that the amount of CSR costs has a positive effect on the public response with a significance value of 0.000. This shows that through CSR programs, the community can benefit from the existence of the company. The bank can give a variety of impressions and trust so that the public wants to invest its funds as a form of public response to the bank. The results of this study support the theory explained in the previous chapter that based on signaling theory, the amount of CSR costs disclosed by the company in the annual report provides a positive image of the business being run as well as increasing public confidence. The public is interested in the social information reported in the financial statements. Which of course, this will bring great benefits for the existence and sustainability of the company.

It can be concluded that CSR actions expressed through the amount of CSR costs in the annual report can give a good signal, and this is evidenced by the public response to the increase in TPF. Disclosure of the amount of CSR costs sends a positive signal that the company is better than other companies because it cares about the environmental, social, and economic impacts of the company's activities. This makes the community interested in funding their funds so that they can increase the number of TPF as a form of positive response and trust from the community. Banks, as intermediary institutions, have a very large risk because of the inability to maintain the image, will greatly affect the public response. This research is in line with Rohman's(2015), the application of CSR provides a positive response to the business environment and increases public trust, the development of TPF fluctuations increases after the holding of CSR. Katutisari and Nurul (2014) CSR disclosures in the annual report can be a signal by the company to attract investors to invest their funds in the company.

Based on the results of hypothesis testing, which shows that the amount of CSR costs has a positive effect on company performance with a significance value of 0.035. This means that CSR disclosure through the amount of CSR costs can provide a signal and thus improve company performance. The company gets a good image not only in the wider society of stakeholders with the disclosure of the amount of CSR costs as a form of corporate concern for the environment as described in stakeholder theory. This has prompted many banking companies to report the amount of CSR costs through their annual reports. As Carroll (1991) has revealed, there is a firm relationship between CSR and stakeholders through social responsibility that is spelled out in stakeholder theory. The company is not only responsible to shareholders (owners), but also to all stakeholders who have an important influence in improving company performance (Lech, 2011).

Conclusions can be drawn about the disclosure of CSR actions by companies through disclosure of the amount of CSR costs in the annual report. For the banking sector, this is a cost burden for companies. Still, on the other hand, CSR can shape the company's image in the eyes of stakeholders so that it contributes to making profits, which will ultimately improve the company's financial performance and maximize stakeholder wealth. This research is in line with the research of Astuti&Yeterina (2015); the application of CSR can improve company performance, where
people tend to invest capital in companies that carry out CSR activities. This has prompted many banking companies to report the amount of CSR costs through their annual reports.

Based on the results of hypothesis testing, which shows that public response has a positive effect on company performance with a significance value of 0.002. Supported by response theory can be interpreted in general terms as the results or impressions obtained from observations about the subject, event, or relationships obtained by concluding information and interpreting messages (Rahmat, 1999: 51).

Good company performance begins with the trust of the community towards a company that the funds they invest in safe conditions and are expected to provide good returns as well. Because as a service institution, banks are very vulnerable to issues that can cause a decline in public confidence. The banking sector gives a good image and trust so that the public wants to invest their funds in the form of third party funds as a form of positive public response to the bank. Increasing the number of TPF then channeled into credit. Loans disbursed by banks will get a rate of return in the form of interest. Furthermore, the size of the yield will greatly affect the company's financial performance.

Optimizing positive community responses through TPF is very important in improving company performance. Among them, when given information on the amount of CSR and GCG costs of the company, it was proven that the public responded positively to the increasing number of TPF in the company. This study supports research conducted by Sudiyatno (2010) and Kesowo et al., (2002), showing that TPF has a positive effect on Return on Assets (ROA).

Based on the results of tests conducted shows that the amount of CSR costs affect company performance through community response that has an indirect effect, this means that the information in the annual report about the disclosure of the exact amount of CSR costs and accordance with stakeholder expectations is a signal in the form of good news given by management to the community and shows that the company has good prospects in the future and ensures the creation of the company's business sustainability.

Signaling theory suggests how companies should also give signals to users of financial and non-financial reports. The signal is in the form of information about what management has done to realize the wishes of the owners, namely maximizing their profits. Signals can be in the form of promotions or other information, stating that the company is better than other companies (Falichin, 2011).

CSR disclosure is done to get a positive response and legitimacy from the community. Legitimacy is considered important by the company because it relates to the survival of the company. To gain legitimacy, the company carries out CSR activities that have accounting implications for reporting and disclosure in the company's annual report through social and environmental reporting published according to Vivi (2013).

The response is a positive and negative reaction given by the community (Poewadarminta, 1987: 1012). It can be concluded that the information in the annual report on CSR disclosures can provide a signal to get a good response from the public. The test results show the mediation coefficient of the magnitude of CSR costs on company performance through community response has a value of t arithmetic = 57.67 greater than t table value with a significance level of 0.05 which is 1.98, it can be concluded that the mediation coefficient is 0.692 significant which means community response is a mediating variable.

It can be concluded that through CSR programs, the reputation and image of the company can improve in the community. Because of this program, the community can benefit from the existence of the company. A company's reputation is more easily maintained when many parties have a positive emotional attachment to the company. Which of course, this will bring great benefits for the existence and sustainability of companies that get a good response from the community.

The public response through the existence of this TPF has an important role in increasing bank income, because of the TPF then channeled into credit. Loans disbursed by banks will get a rate of return in the form of interest. Furthermore, the size of the yield will greatly affect the size of the profitability. Of course, increasing profitability will improve the company's financial performance.

V. Conclusions and Recommendations

Conclusion

It can be concluded that the company's reputation is more easily safeguarded when many parties have a positive emotional attachment to the company. The greater the magnitude of the company's CSR costs, the greater the
response of the community to invest their funds. Based on the information in which states that the amount of CSR costs has a positive effect on community response, the truth is proven. Disclosure of CSR actions is carried out by the company through disclosure of the amount of CSR costs in the annual report. For the banking sector, this is a cost burden for companies. Still, on the other hand, CSR can shape the company's image in the eyes of stakeholders so that it contributes to making profits, which will ultimately improve the company's financial performance and maximize stakeholder wealth. Based on the information above, stating that the amount of CSR costs has a positive effect on company performance is proven true.

Good company performance begins with the trust of the community towards a company that the funds they invest in safe conditions and are expected to provide good returns as well. Because as a service institution, banks are very vulnerable to issues that can cause a decline in public confidence. The bank provides a good image and trust so that the public wants to invest their funds as a form of positive public response to the bank so that it can improve company performance. Based on the information above, stating that community response has a positive effect on company performance is proven true.

The magnitude of the cost of CSR has a positive effect on company performance with an intervening variable public response. A good response from the community was demonstrated through increased third party funds. This TPF has an important role in increasing bank income because the TPF is then channeled into credit. Loans disbursed by banks will get a rate of return in the form of interest. Furthermore, the size of the interest yield will greatly affect the size of the profitability that will affect the company's financial performance.

Based on the results of hypothesis testing, analysis, and research limitations, some suggestions that can be given are further research can add more than one exogenous variable that is financial and non-financial such as rating the soundness of banks. Measurement of the company's financial performance can be proxied by other ratios such as liquidity ratios, solvency ratios, efficiency ratios. Reporting good corporate governance according to can use the standards listed in the CGPI. Similarly, corporate social responsibility disclosure standards can refer to the standards listed in the GRI.

References


