

THE EFFECT OF CSR DISCLOSURE ON COMPANY PERFORMANCE WITH CEO PROFICIENCY AS A MODERATION VARIABLE

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Abstract: This study aims to examine the impact of corporate social responsibility (CSR) on the financial performance of manufacturing companies in Indonesia and examine the role of CEO ability as moderating variable. Hierarchical regression analysis is used to test the effect of CSR on firm performance and test CEO ability as moderating variable. This study uses 213 samples observation data from manufacturing companies listed on Indonesia Stock Exchange (IDX) from 2019 until 2021. The results showed that CSR disclosures affect firm performance as measured by return on assets (ROA). The results of this study also showed that CEO ability as moderating variable unable to increase the influence of CSR on firm performance. These results indicate that when a firm performance has no significant growth and the firm has a problem that decreased the firm profitability for example COVID-19 pandemic, CEOs have a tendency not to carry out an activity that costs money for example CSR.

Keywords: CSR Disclosure; CEO Ability; Firm Performance.

INTRODUCTION

Company performance is the main indicator to determine the success of the company in achieving its goals. The company's performance can be seen from the financial condition analyzed using financial ratios so that the company's achievements in a certain period can be measured with valid results. The performance of companies that have increased will certainly also affect investor perception, so good performance will provide positive signals for the company's development in the future. Positive company performance will certainly also have a good impact on the company's management. One indicator in measuring a company's performance is to assess its profitability ratio.

Profitability is the company's ability to obtain profits so this indicator must get special attention because the profitability factor is the key for the company to continue to be sustainable without profit, it will be difficult for companies to get investment capital from outside. The profitability ratio is a ratio aimed at knowing how much the ability of a company to earn profits in a certain period and provide an overview of the level of management effectiveness in the company's operational activities. The types of profitability ratio measurements consist of Return on Assets (ROA), Net Profit Margin (NPM), (Kashmir, 2012)Gross Profit Margin (GPM), and Return on Equity (ROE) (Sanjaya & Rizky, 2018).

Return on Assets or ROA is often used as a tool to measure the condition of a company's financial performance in a

healthy state or vice versa. Companies that experience an increase in ROA will automatically increase the attractiveness for investors to invest because the rate of return is getting bigger and the stock price is certainly also increasing. This research takes one of the sectors on the Indonesia Stock Exchange, namely the manufacturing sector.

Companies listed on the Indonesia Stock Exchange certainly consist of various sectors, one of which is the manufacturing sector. The sector of companies engaged in manufacturing is the most strategic land to invest so it is expected to obtain high profits. The manufacturing company sector is one of the sectors that can boost the pace of the country's economy because the manufacturing sector can increase GDP by 20%, the tax sector by 30%, and exports by 74%. The operating activities of the manufacturing company sector have a positive impact on economic expansion and increase the country's foreign exchange so that of course the manufacturing sector also experiences good company performance (MINISTRY OF INDUSTRY, 2019).

The development of ROA in 9 largest manufacturing companies in Indonesia according to Bernas. id namely PT. Semen Indonesia (SMGR), PT. Japfa Comfeed Indonesia (JPFA), PT. Tjiwi Kimia Paper Factory (TKIM), PT. Indofood CBP Sukses Makmur (ICBP), PT. Gudang Garam (GGRM), PT. Kimia Farma (KAEF), PT. Unilever Indonesia (UNVR), PT. Astra International (ASII), and PT. Sri Rejeki Isman (SRIL) is calculated to have varying levels of ROA in

the period 2019 to 2021 as shown in the table below.

Table 1.

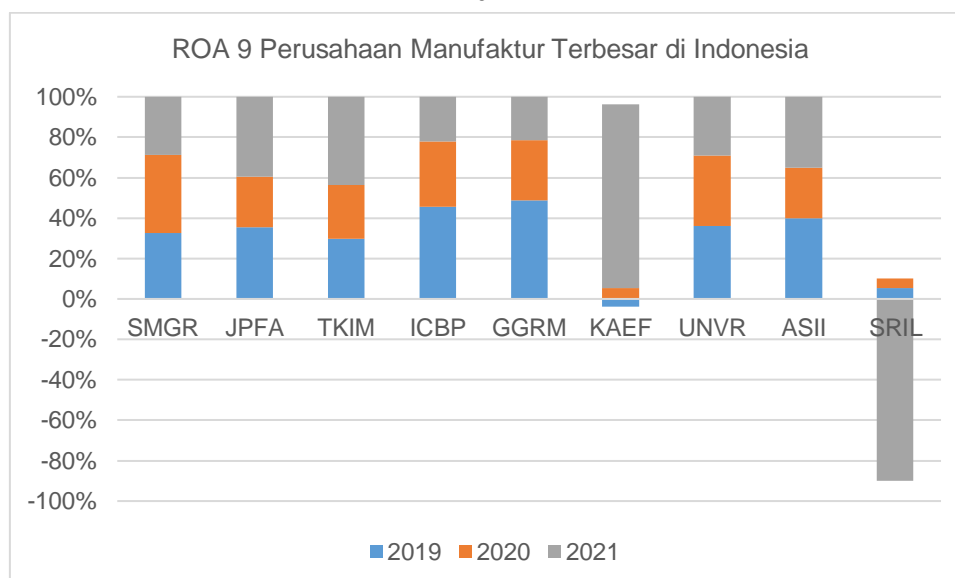
ROA 9 Manufacturing Companies for the period 2019 to 2021

Emit	ROA 2019 (in percent)	ROA 2020 (in percent)	ROA 2021 (in percent)
SMGR	3	3.58	2.64
JPFA	6.7	4.7	7.5
TKIM	5.4	4.8	7.9
ICBP	14.7	10.4	7.1
GGRM	21.4	13.1	9.5
KAEF	-0.07	0.1	1.7
UNVR	36.1	34.8	29.1
ASIA	8	5	7
SRIL	5.2	4.6	-87.6

Source: Researcher (Processed)

Table 2.

ROA Bar Chart of 9 Largest Manufacturing Companies in Indonesia for the period 2019 to 2021



Source: Researcher (Processed)

The table informs that it is known that 9 companies have quite fluctuating ROA values. A good ROA is at 5% while to be perfect the ROA level must be more than equal to 20%. The table provides information that even large companies experience problems related to their

financial performance which are known from the ROA level for the period 2019 to 2021 so companies need action to maximize company operations to obtain investments that aim to ensure that company operations are not hampered, one of which is by carrying out CSR

activities. (Birken & Curry, 2021)

The development of CSR in the 21st century has become a major focus in business activities around the world. CSR practices are often defined as corporate activities that not only focus on profit but also focus on social welfare. Davis (1973) also elaborated that CSR is not only used for profit motives but is also expected to be able to contribute to society in the long run. Companies that increasingly disclose CSR activities can earn more profits than companies that do not or even carry out CSR activities. The manufacturing company sector is the company that discloses the most social responsibility items as many as 567 items (Hadi, 2010) (Freeman & Hasnaoui, 2011) (Lambertini & Tampieri, 2015).

CSR disclosure is a rule set by the government to support the Partnership and Community Development Program (PKBL), but the reality on the ground is that only about 30% of companies have shifted from just fulfilling obligations from stakeholders to part of the company's strategy, the rest are just fulfilling requirements and void obligations (Hadi, 2011). Companies that disclose CSR activities should not only be void of obligations and report in annual reports but must also be integrated into strategic planning, and business practices, and must be by company objectives. The state of infrastructure that is still untouched in Indonesia, the situation of order, health problems, and education problems raises a fundamental question of whether only the government should address this, does the corporate sector also have the same responsibility in solving social problems where the company operates?

Today, companies that used to only focus on profits and increasing profitability are required to pay attention to social and environmental responsibility. This commitment is the main issue of the concept of corporate social responsibility. One of the legal umbrellas for the implementation of CSR in Indonesia itself is regulated in Law Number 40 of 2007 Article 74 which aims to improve the quality of life and the environment for the company, the community, and society in general.

Companies that carry out CSR activities can certainly reduce social turmoil and can improve their image for stakeholders, while companies that do not carry out CSR activities will get sanctions according to laws and regulations. Companies that do not carry out CSR activities will be subject to administrative sanctions in the form of written warnings, restrictions on business activities, and suspending, and revocation of business activities including investment facilitation activities.

This sanction is only regulated in Article 34 of the Capital Market Law, which means it seems unclear and makes the company seem careless in carrying out CSR activities even though this activity is carried out so that sustainable development can be created and it is hoped that the company's performance will have a positive impact so that the urgency in research that discusses CSR disclosure on performance is very important to be carried out based on these problems.

Corporate Social Responsibility is a non-financial factor that will affect the company's performance so the implementation of CSR consistently in the long term is expected to gain legitimacy

from the community which will improve the good image. Corporate social responsibility is a form of corporate commitment to behave ethically towards stakeholders either directly or indirectly to improve the quality of life and welfare by considering social, economic, and environmental aspects.

Awareness of the negative impacts that can occur at any time makes CSR a global trend by prioritizing the interests of stakeholders. CSR has become an activity that has become a concern since the issuance of the regulation of the Minister of Environment of the Republic of Indonesia number 3 of 2014 concerning the company's performance rating assessment program in managing the environment and Law number 40 of 2007 concerning Limited Liability Companies which requires all companies to report CSR activities in their respective annual reports.

The concept of CSR is a response from community groups who expect corporate responsibility to be able to participate in providing environmental improvements in disaster-affected areas, especially in a pandemic like today (Agoes & Ardana, 2011). The community response encourages companies to actively participate in activities that can improve social welfare (Anggraini, 2012). CSR is defined as corporate activities that not only pay attention to economic aspects but are also related to social welfare (Freeman & Hasnaoui, 2011; McWilliams & Siegel, 2001). Companies that carry out CSR activities will be viewed favorably by external parties, in this case, the stakeholders because they assume that the disclosure of CSR activities that are quite

complex will increase the legitimacy of stakeholders so that the company's reputation will increase and the impact of the revenue obtained increases and improves company performance (Rahman & Saraswati, 2016).

Several empirical studies that discuss the effect of CSR disclosure on company performance have been widely conducted both in Indonesia and abroad, for example, research conducted by Mahoney & Roberts (2007) which examined the effect of CSR on company performance showed positive results. Research by Fauzi, et al (2007) which examines the relationship of corporate social performance to corporate financial performance in companies listed on the IDX shows a positive influence.

Other studies that discuss the influence between CSR and company performance produce mixed results such as research from Cheng et al (2016), and Zhu et al (2014) states that CSR has a positive effect on company performance while research from Bromiley & Marcus (1989) and Wright & Ferris (1997) states that CSR does not affect company performance, while Aupperle et al's research., (1985), and Teoh et al., (1999) state that CSR and corporate performance have no influence.

The empirical research provides mixed results, causing research gaps where several studies state that managerial skills are one of the factors that greatly affect company performance (Kor & Mesko, 2012; Milbourn, 2003). CEOs with good managerial skills will tend to be conservative in their careers to be glimpsed by better companies that can provide higher salaries and obtain flawless assessments that affect their reputation.

Based on this understanding, researchers concluded that there is a relationship between managerial skills and the effect of CSR disclosure on company performance.

CSR is a long-term investment with uncertain returns (Falck & Heblich, 2007; Fieseler, 2011). High-ability CEOs tend to have fewer worries about the future than low-skilled CEOs, so more incentives will be used to invest in CSR in hopes of long-term benefits for the company (Fieseler, 2011).

This research is a development of research conducted by Iqbal et al, (2019) and Ting et al., (2021). Research by Iqbal et al., (2019) examines the influence of CSR on company performance in Indonesia with intellectual capital as moderation using 147 samples of manufacturing companies listed on the IDX which concludes that the influence of CSR on company performance is positively influenced by intellectual capital while Ting et al's research ., (2019) examined the effect of capital structure mediation on the effect of managerial skills on company performance using a sample of 6348 electronic industry companies in Taiwan in the period 2015 to 2018 which provided results that managerial skills positively affect company performance.

Researchers are interested in re-examining the effect of CSR disclosure on company performance because existing empirical research provides mixed results so that this study is expected to be able to fill existing research gaps in addition to differences in research samples and research periods are also a motivation for researchers to re-examine the effect of CSR disclosure on company performance. This study proxies CSR disclosure using the CSR index while managerial literacy is proxied

using data envelopment analysis (DEA) and company performance using return on assets (ROA) proxy.

This study aims to provide empirical evidence on whether CSR disclosure has a positive effect on company performance and examine the moderation effect of managerial skills on CSR disclosure on company performance.

Literature Review

Legitimacy Theory

Legitimacy or trust from the public towards the company is an important key for the company in developing the company so that this can be used as an effort for the company to continue to exist while still paying attention to the company's strategy so that every company's operations must go hand in hand with the expectations of the community (Hadi, 2011). The company certainly has the expected strategy and achievements and this does not rule out the possibility that there is a "legitimacy gap" between the desired company achievements and also the expectations of the community which will affect the company's operational activities.

Good legitimacy makes companies aware that the survival of society also depends on how the company relates to stakeholders so one form of activity to gain legitimacy is the disclosure of social responsibility or CSR activities.

Stakeholder Theory

Stakeholders or stakeholders are internal and external parties of the company such as the government, competing companies, surrounding communities, institutions outside the

company, environmental observers, company workers, and so on that affect or are influenced by the company. The company is natural to pay attention to stakeholders and if not done it will result in stakeholder legitimacy. Companies need to maintain stakeholder legitimacy for decision-making and achievement of company goals (Hadi, 2011).

The company's strategy in this case CSR activities will provide non-financial information to stakeholders and the better disclosure of CSR will make stakeholders give full attention to the company so that the goal is to improve performance and obtain profits as planned.

Corporate Social Responsibility

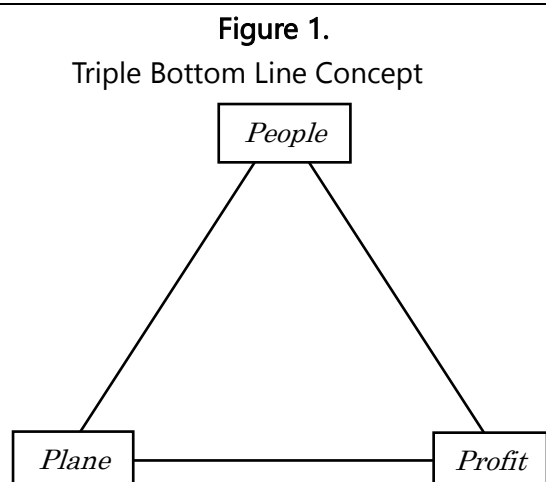
Corporate Social Responsibility (CSR) menurut The World Business Council for Sustainable Development (WBCSD) dan ISO 26000 adalah "Corporate Social Responsibility is an ethical behavior that contributes to sustainable development, including health and the welfare of society complies with applicable law and consistent with international norms of behavior. The responsibility of organization for the impacts of its decision and activities on society and the environment is integrated throughout the organization and practiced in its relationship" yang bermakna bahwa komitmen dalam dunia usaha untuk bertindak secara etis, legal, dan berkontribusi untuk peningkatan ekonomi dengan juga meningkatkan kualitas hidup karyawan sekaligus komunitas lokal dan masyarakat secara luas (Wibisono, 2007; Prastowo & Huda, 2011).

CSR is a tool used by company management to show all stakeholders including potential investors about the

surplus value possessed by the company to its concern for economic, social, and environmental impacts as part of the company's activities.(Lindawati & Puspita, 2015)

The existence of CSR certainly has regulations regulated by the government such as Law Number 40 of 2007, Law Number 25 of 2007, and PP Number 47 of 2012. The development of CSR in Indonesia is seen from 2 perspectives, namely the implementation of CSR is a voluntary business practice (discretionary business practice) which means that the implementation of CSR is a company initiative and is not an activity required by the laws and regulations of the Republic of Indonesia, the second is that the implementation of CSR is no longer discretionary business practices but it becomes regulated by laws and regulations or mandatory (Solihin, 2008).

John Elkington through his book entitled "Cannibals with Fork, the Triple Bottom Line of Twentieth Century Business" developed the concept of the triple bottom line, namely economic prosperity, environmental quality, and social justice. Companies certainly focus on profit, but must also pay attention to the welfare of the community (people), and participate in preserving the environment (planet). (Wibisono, 2007). The concept of the triple bottom line is illustrated in Figure 2.1 below:



Source: Wibisono (2007)

This research is a development research conducted by Iqbal et al., (2019) and Ting et al., (2021). This research uses financial data and sustainability report data for all companies listed on the Indonesia Stock Exchange for the 2020 and 2021 periods which are used as research samples. Previous research that became a reference in this study gave mixed results.

Research that examines the relationship between CSR and company performance is quite widely carried out, such as research conducted by Waddock and Graves (1997), Cheng et al (2016), Manoney & Roberts (2007), Fauzi et al

MATERIALS AND METHODS

Research design is a detailed framework or blueprint for obtaining data, measuring data, and analyzing data to answer the formulation of research problems (Sekaran & Bougie, 2016). The first step in conducting research is to establish problem identification so that research objectives are achieved and on target. The next step is to describe the background of the problems and phenomena that occur in the field and the

(2007), and Zhu et al (2014) provide results that CSR has a positive effect on company performance. Research by Parengkuan (2017), Bromiley & Marcus (1989), and Wright & Ferris (1997) that examined the effect of CSR on the performance of manufacturing companies stated that CSR does not affect company performance. Karyawati et al (2018) also concluded that CSR is influenced by the characteristics of a country and the dimensions of CSR will also change which results in changing relationships.

CSR is an activity carried out by companies to meet stakeholder requests with long-term investment goals but full of uncertainty (Falck & Heblich, 2007; Fieseler, 2011). The most likely action for companies to minimize risk is to have a capable CEO. High-ability CEOs tend to have fewer worries about the future than low-skilled CEOs, so more incentives will be used to invest in CSR in hopes of long-term benefits for the company (Fieseler, 2011).

last is the subject matter of research formulated in question sentences so that they can be identified in the research results. This research is an empirical study that aims to test the hypothesis of the effect of CSR disclosure on company performance, as well as the effect of moderation of CEO proficiency on the effect of CSR disclosure on company performance in manufacturing companies listed on the Indonesia Stock Exchange.

The research method used in this study is inferential research type. Inferential research is research that aims to conclude population characteristics expressed by population parameters in inferential research there are parameter estimation, hypothesis tests, and prediction of associations between variables (Nalim & Salafudin, 2012).

Data Types and Sources

The data in this study is secondary data. Secondary data is data that has been processed by other parties whose sources can be obtained from government

publications, internet sites, books, journals, articles, and others. Secondary data in this study is in the form of financial statements, annual reports, and sustainability reports of all companies listed on the Indonesia Stock Exchange for the period 2019 to 2021 using archival data collection techniques (Ajayi, 2017). Secondary data in this study was obtained through the Indonesia Stock Exchange website.

The data analysis method used in this study has been explained in the next chapter, starting with descriptive statistical analysis, then continuing with hypothesis testing, then classical assumption testing is carried out to ensure the data is not biased

RESULTS AND DISCUSSION

The discussion of the research results is based on the decision to reject or accept the hypothesis so this sub-chapter is intended to elaborate on the discussion of the effect of CSR disclosure on company performance and how the role of moderation of CEO skills affects CSR disclosure on company performance. This sub-chapter will be divided into two, namely the first to explain the effect of CSR disclosure on company performance and the effect of moderation of CEO proficiency on the effect of CSR disclosure on company performance.

The Effect of CSR Disclosure on Company Performance

Hypothesis one in this study reads that there is a positive influence of CSR disclosure on company performance and after being tested using linear regression analysis, it is found that hypothesis one is

accepted. The results of this study support previous research such as research from Russo & Fouts (1997), Waddock & Graves (1997), and Akpınar et al., (2008) which showed that CSR disclosure can improve company performance.

The results of hypothesis one confirm that CSR can make the image of companies that carry it out good and can make the company's name good in the commodity market and capital market. A good company image will certainly be more attractive to investors and increase consumer loyalty so that the company's performance will increase. The implementation of CSR carried out by the company will be able to have a positive impact on the continuity of the company's operations in the long term or the company will achieve good sustainable development. Companies that have experienced stable growth in company performance from

2019 to 2021 proxied in ROA include ADES, ALKA, ARNA, BTON, BUDI, MARK, SKBM, SPMA, UNIC, and WOOD.

The Effect of CEO Proficiency Moderation on the Effect of CSR Disclosure on Company Performance

Hypothesis two states that CEO proficiency strengthens the effect of CSR disclosure on company performance and after being tested by MRA regression analysis, the results of hypothesis two were rejected where the results of MRA regression testing obtained the result that the moderation of CEO proficiency weakens the effect of CSR disclosure on company performance. The low quality of CSR in Indonesia causes a CEO's lack of understanding about how CSR is implemented besides that CSR programs required by the government are only limited to maintaining the company's reputation.

Indonesia is one of the first countries in the world to introduce laws and regulations on CSR to ensure corporations carry out their social responsibility. This law is contained in Law number 40 of 2007 concerning limited liability companies where CSR is defined as the company's commitment to play a role in sustainable economic development to improve the quality of life and the environment that benefits the company, the local community, and society in general. (Rosser & Edwin, 2010)

CSR in its implementation is still many companies that are "reluctant" to implement CSR programs and are only voluntary and many are misguided just by

distributing necessities, this is because CSR is considered an expense that must be made by the company and is mathematically unprofitable as evidenced by the determined value of the low influence of CSR on company performance plus the observation period made by researchers is the period before the pandemic, pandemic period, and post-pandemic where companies will tend not to do something that does not generate profits in the short term so that the assumption that CSR is a burden and CSR investment will be able to be enjoyed by the company in the future makes the CEO lack of attention to CSR obligations that must be carried out by the company to fulfill obligations to stakeholders.

Companies that during the observation period tend to experience a decrease in company performance marked by a decrease in ROA include AGII, AISA, ALDO, ASII, BAJA, BRPT, CAKK, CAMP, CEKA, CPIN, DLTA, DMND, DPNS, DVLA, EKAD, FASW, GJTL, GOOD, HMSP, HOKI, ICBP, IGAR, INAI, INCI, INDF, INDS, INTP, IPOL, ISSP, JPFA, KDSI, KINO, KLBF, MDKI, MLBI, MOLLI, MYOR, PBID, PEHA, PTSN, PYFA, SCCO, WTON.

Research Implications

The results of this research can have implications in terms of theory, practice, and policy. The following are some of the implications of the results of this study.

a. Theoretical Implications

Top managerial decisions in companies are complex by considering many things, including how the company's

financial performance and the company's external conditions. Managers who only use power on CSR disclosure that aims to gain legitimacy from stakeholders, especially government, investors, and the public to improve company performance will tend to fluctuate because there will be many factors that affect company performance.

Stakeholders have a vital role in the life of the company because stakeholders have the power to manage the resources needed in company operations so the company must always maintain its relationship with stakeholders. Managerial companies that maintain their relationships with stakeholders will carry out all their obligations, including CSR obligations so that this does not violate Law Number 40 of 2007.

The concept of the Resource Based View explains that CSR is a sustained competitive advantage or CSR is a means to obtain a competitive advantage. This theory states that when companies can maximize resources to implement CSR, it will have an impact on increasing the company's competitive advantage, but the fact on the ground that occurs is that in the observation period 2019 to 2021, many companies did not experience an increase in company performance, which was marked by a not too significant increase in ROA during the period 2019 to 2021, which resulted in that CSR was only carried out by companies to meet obligations from stakeholders so that management does not focus too much on CSR activities to improve company performance

b. Practical Implications

This research contributes to company

management that indeed the existence of CSR can positively improve company performance so that companies are expected to have capable managers in the hope of being able to utilize CSR as well as possible because it is undeniable that CSR is a burden incurred by the company but with capable managerial decisions this will be expected to be able to improve company performance in the form of long-term investments.

c. Policy Implications

Based on the results of this study, shows that CSR disclosure has a positive effect on company performance, but when moderated, it gives results that CEO proficiency weakens the effect of CSR disclosure on company performance. Companies that carry out CSR obligations aim to fulfill their obligations to stakeholders so as not to violate CSR-related regulations.

The disclosure of CSR made by the company when referring to the GRI standard which amounts to 157 items is still below the items that have been regulated in the GRI standard, this indicates that the implementation of CSR by companies in Indonesia is still uneven. The top managerial or CEO also interprets CSR as a burden borne by the company so that it must carry out strategies to continue implementing CSR but not to negatively affect the company's performance. The company's performance is not only influenced by internal factors but also influenced by external factors such as the COVID-19 pandemic that hit the company to experience a decrease in profitability so carrying out its own CSR obligations which are considered a burden still seems

perfunctory because CSR is not able to provide benefits in the short term.

CONCLUSIONS

This study aims to empirically examine the effect of CSR disclosure on company performance and examine how the role of CEO skills in moderating the effect of CSR disclosure on company performance. This study uses CSR Index to measure CSR disclosure made by companies while CEO proficiency is measured using Data Envelopment Analysis using the help of DEAP software. The object of this study is all manufacturing companies listed on the Indonesia Stock Exchange for the period 2019 to 2021.

The findings in this study show that empirically CSR disclosure is proven to be able to affect company performance observed in the observation period from 2019 to 2021 where the period before and after the COVID-19 pandemic where all companies, including manufacturing companies, experience difficulties so inevitably companies that are required to fulfill their obligations to stakeholders must participate in helping to recover the effects. One of them is the implementation of CSR. Companies that implement CSR will certainly gain positive legitimacy from various sectors and stakeholders.

The company also has an organizational structure where the CEO is the managerial leader of the company who has the right to intervene in any company policy, including CSR. CEOs who consider CSR a burden coupled with the COVID-19 pandemic where the company itself experiences difficulties in company

performance marked by a decrease in ROA value will make CEOs tend not to do or only slightly implement CSR points in the GRI standard which only functions so as not to be subject to administrative sanctions from the government. CSR which aims as a forum for corporate social responsibility will also affect the community as a company partner in carrying out sales

The community that is a consumer of the company will be an important component for the company in a long-term relationship. Consumer trust or loyalty to the company is influenced by the value of sharing. The pandemic that occurs will be momentum for companies to share in CSR programs to increase consumer loyalty and attract investors and certainly lead to improved company performance (Sarwar, Abbasi, & Pervaiz, 2012).

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