SOCIALLY RESPONSIBLE INVESTING AND FIRM PERFORMANCE : PRELIMINARY FINDING IN INDONESIAN INDUSTRY DURING COVID-19

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ABSTRACT

Due to the financial crisis that impacted abnormal economy, the role of business in society increases and make firm should behaving socially responsible. Corporate Social Performance clearly important for establishing market proprtions and business development prospects. The study is aim to analyze social and financial performance in non-financial industrial companies listed on the IDX for the 2019-2020 period. This research uses purposive sampling approach and the sample included infrastructure, health, basic material, nom-primer, and insutrial sector of firm listed IDX during 2019-2020. We use corporate social responsibility as proxy social performance and return on asset also return on equity for measuring firm performance. The study results shows that CSR tent increasing during covid-19 and impact to firm performance. A firm should give more attention for CSR disclosure as reporting of firm's socially responsible investing. The firm facilitate social responsibility investing as well as giving assurance to other stakeholders that the firm is a trustworthy steward of those things stakeholders value.

1. Introduction

The firm's goal is to maximize the prosperity of shareholders and a public firm maximize it market value is the same as maximizing the stock market price. The rise and fall of a firm's stock price determine it value, therefore, the financial performance indicate changes in the firm's strategy and it potential in managing the assets. Financial performance is a description of firm achievement that can be interpreted as the results that have been achieved on various activities carried out. It can be explained that financial performance is an analysis carried out to see how far a company has implemented using financial implementation rules properly and correctly.

The economic conditions are experiencing a slowdown and pressure both regionally and nationally caused during covid-19 and this economic slowdown and anxiety were also followed by stock trading conditions on the Indonesia Stock Exchange since the beginning of 2020, which has experienced significant pressure as indicated by a decline in the Composite Stock Price Index (JCI) by 18.46%. On this basis and the condition of fluctuating stock movements, the government, through other specialized agencies or institutions, is trying to issue various policies in handling and restoring Indonesia's economic conditions, especially in preventing the decline in the JCI during the Covid-19 pandemic.

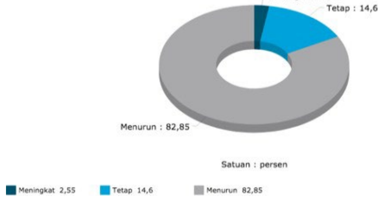


Figure 1. Company Revenue during the COVID-19 Pandemic
Source: Central Bureau of Statistics, 2020

The abnormal economy has an impact on company productivity. The figure 1 shows the results of a survey conducted by the Central Statistics Agency (BPS) in 2020, which 82.85% of firms in Indonesia experienced a decline in revenue during the Covid-19 and 2.55% of firms claim that their revenue is increasing. It means that financial performance information is needed to evaluate potential changes in economic resources to predict the production capacity of available resources so that firms can see prospects, growth, and possible developments that the company has achieved.

In addition, firms must be prepared and alert in responding to unpredictable things like this, such as through policies in their social responsibility. A firm must have some objective other than profitability for it sustainability. The extent of interest by investors for investing in firms that are sustainable in the long run and socially responsible investing has been a significant component of the investing (Bradfort et a, 2017). As the persistence of problems, most notably environmental ones associated with climate change, have made a business response more-and-more mandatory, the terminology of corporate social responsibility has evolved. As mentioned by Wahyudi (2008 in Wahyuningrum 2014) Corporate Social Responsibility or corporate social responsibility is a company's commitment to carry out its obligations. Based on decisions to take policies and actions by taking into account the interests of stakeholders and the environment where the company carries out its activities based on the provisions applicable law.

In connection with the current Covid-19 pandemic situation, firms are also forcing to adapt to uncertain conditions because the Covid-19 pandemic also impacts the implementation of CSR for several firms. Pramaditia & Paramita (2020) stated that during this pandemic, the firm primarily impacted recalculation of all CSR program designs prepared for the future because this pandemic affected the target recipients of CSR, which were increasingly expanded.

About the government, CSR is highly recommended for every firms. The government regulates social and environmental responsibilities aimed at realizing sustainable economic development to improve the quality of life and the environment beneficial for the local community and society in general. As well as the firm establishes a harmonious, balanced, and environmentally compatible Company relationship, values, norms, and culture of the local community.

Sustainability reporting has emerged as a friendly investment practice business because investors are becoming sensitive to how the firm in which they invest perform sustainably. An increasing number of firms are investing time and effort into producing reports that describe their sustainability practices (Bradfort et al, 2010).

In previous studies, it was said that the relationship of social performance to firm's financial performance in various perspectives. However, the research results have not shown a consistent relationship between the research variables. Rakhiemah and Agustia (2009) and Pujiasih (2013) reveal that environmental performance does not affect financial performance. However, Nurhudha and Suwarti (2015) prove that the ecological version has a significant positive effect on financial performance. Several studies show the inconsistency of the relationship between environmental performance and financial performance.

In this study, we analyzise firms in non-financial industrial sector listed the IDX that performing their social performance and managing CSR practise during the pandemic.. We examine the social practice on firm performance which using CSR as proxy social practice This study implicates the strongness of evidence the important role of firm's friendly investment practice in Indonesian industry for sustainability performance.

2. Literature Review

Firm Performance

Performance is the achievement of results on the implementation of specific tasks. Firm performance is the level of achievement of results to realize the company's goals. Performance management is the overall activity carried out to improve the performance of the firm or organization. The development of a company, performance determinant model, is urgent for corporate finance researchers. Repeated global crisis events have focused the focus on finding the detection of performance degradation factors to minimize the possible risks faced by the company.

According to Kaplan and Norton (2000), non-financial performance is a performance that shows firm growth. Firm can find out their level of success by using non-financial performance analysis. The firm's non-financial performance can be seen through employee performance analysis, work performance, product quality, firm development, and work environment. Non-financial measures cannot replace financial measures. They are complementary.

Financial performance is a description of the conditions and circumstances of a company that is analyzed with financial analysis tools to know the good and bad economic conditions and financial achievements of a company within a particular time (Wibowo and Faradiza, 2014). The company's financial performance is reflected in the financial statements of a specific year or used as a comparison with previous years so that developments or declines that occur from year to year can be seen and how much the difference is to determine the consistency of at least the firm (Soelistyoningrum and Prastiwi, 2011).

Other side, to meet stakeholder expectations, every firm tries to improve the company's social performance from time to time, and simultaneously the economy/finance can be improved. Waddock and Graves (1997) put forward two theories to explain deviant resource theory and good management theory. According to the eccentric resource theory, a firm is well-positioned to play a role in the company's social performance. The implementation of social performance requires some funding which results in successful financial performance. According to this theory, a firm seen by its stakeholders as having a good reputation will make it easier for the company to pass market mechanisms to get an excellent financial position.

Socially Responsible Investing

A new approach of sustainability investing is labeled environment, social, and governance (ESG) and firms being expected to provide detailed information about their accomplishments about the environment, the community and society that the way which they are governed Responsible investors recognize that sustainability encompasses these three areas, and are seeking to invest in companies that communicate clearly that they recognize this.

Concomitant to the growth in sustainability investing is the development of systems of reporting information about firm’s sustainability performance. Unlike financial reports, which have been shaped by centuries of business and financial practices, reports on the results of sustainability performance have yet to reach the structured status of financial report (Bradfort et al, 2017).

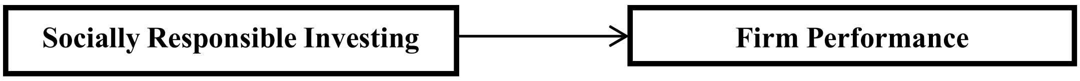
Socially responsible investing lead to corporate social responsibility (CSR) that is a mechanism for a company to voluntarily integrate attention to the social environment into its operations and interactions with stakeholders, which goes beyond social responsibility in the legal field (Darwin 2004). The firm's commitment to disclose CSR sustainably brings many benefits. First, as a social investment that becomes a source of competitive advantage to strengthen the firm. Third, accountability and positive appreciation from the investor community, creditors, suppliers, consumers, government, and society. Fourth, increasing commitment, work ethic, efficiency, and employee productivity. Fifth, decreasing resistance from the surrounding community. Sixth, improve reputation, goodwill, and long-term company value (Lako, 2011). Some of the disclosures are mandatory, i.e., disclosure of information must be carried out by companies based on specific regulations or standards. There are voluntary ones, which are disclosures of information exceeding the minimum requirements of the applicable rules.

Though the performance elements have changed over time and lead to the terminology “TBL”that emphasizes three basic elements of performance deemed most relevant for CSR/sustainability. TBL reporting is intended to provide information to the various stakeholders that will permit them to assess the performance of any corporation with respect to each of economic, social, and environmental performance (Bradfort et al, 2017)

The disclosure standards for corporate social responsibility (CSR) developing in Indonesia refer to the standards set by GRI (Global Reporting Initiatives). This responsibility's disclosure indicators include economic performance, environmental performance, and social performance measured by Corporate Social Responsibility Disclosure Index of companies (CSRDI).

Socially Responsible Investing and Firm Performance

The stakeholder theory expects firm management reporting activities to stakeholders, which contains the impact of these activities on their firm, even though they later choose not to use the information. Firm's operational activity certainly requires the best management in every aspect. The demands for disclosure of financial statements, annual reports, and the implementation of corporate sustainability require proper direction so that company goals can be achieved. Because of this, an efficient strategy in managing firm's activities needs to be carried out. Firm sustainability attempts to balance economic growth against issues such as environmental protection and social responsibility with the intent of achieving an improved quality of life for both current and future generation (Yilmaz, 2013)



Source: developed from Yilmaz (2013) and Bradford et al (2017)

Bradfort et al (2017) state that companies are encouraged to report their sustainability activities under the various dimensions in order to provide consistency and comparability with respect to assessing social and environmental values fulfillment. Socially Responsible Investing refer to CSR that demonstrating the inclusion of social and environmental concerns in business operation and in interaction with stakeholder (Kraus and Brtitzelmaier, 2012). Empirical studies in German show that only few state having a comprehensive implementation of corporate sustainability and there is an acute nedd for action, in order to avoid a loss of credibility.

In Indonesia, Rakhimah (2013) and Kamaludin (2010) examined corporate social responsibility (CSR) disclosure and financial performance of manufacture industry during normal period 2004-2006, with a and finds significant impact CSR disclosure on the financial performance. We develop the hyphotesis in this study that socially responsible investing affect firm performance.

3. Data and Methodology

This paper explores data from annual report and sustainability report of non-financial industry firms listed on the Indonesia Stock Exchange in 2019-2020 such data of CSR disclosure and finnacial performance . The sample selected by specific criteria consisted of new IDX-IC industry are non-primer sector, healthy sector, basic material sector, and infrastructure sector. As for delisting, relisting, moving other areas, mergers or acquisitions and no CSR disclosure excluded from the sample.

The dependent variable firm performance (FP) is measured by return on asset, and also return on equity (ROE) as proxies for firm's management efficiency of firm asset follow Yimaz (2013) Our independent variable is socially responsible investing which proxied by social responsibility index (CSRDI) for each aspects and also do robust test following Bradfort et al (2017).

The model expressed as follows:

$$FP_{i,t} = \beta_0 + \beta_1 SRI_{i,t} + \varepsilon_{i,t}$$

FP is the firm performance measured by ROA and ROE and SRI is the socially responsible investing proxied by CSR which measured CSRDI .

4. Results and Discussion

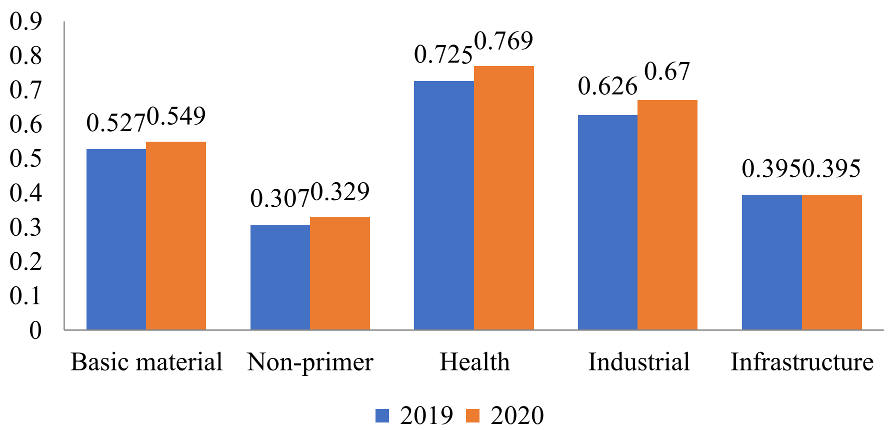
Table 1. present the detail reviews of the cross-industry distribution of the socially responsible investing. We observe data of CSR disclosure during 2019-2020 from basic material, infrastructure, health, industrial, and non-primer industry. Detailed three dimension of CSR descriptive data in those industry shows the average of Corporate Social Respobsible Disclosure Index (CSRDI) is 0,5292 and Indonesian industry seem get more attention of social aspect in CSR disclosure better than others, while the highest value of CSR's indicator is still about economic indicator. Specially, health sector has average CSR in all indicators of CSR.

Table 1. Industry Distribution of Social Responsible Investing

Industry	Economic	Social	Environment	Human Right	Society	Product Responsibility	CSRDI
Basic Material	0.769	0.662	0.536	0.448	0.378	0.399	0.538
Non Primer	0.33	0.31	0.29	0.16	0.54	0.33	0.318
Health	0.89	0.81	0.655	0.955	0.54	0.78	0.747
Industrial	0.725	0.68	0.67	0.67	0.495	0.385	0.648
Infrastructure	0.67	0.5	0.2	0.33	0.54	0.56	0.395
Mean	0.6768	0.5924	0.4702	0.5126	0.4986	0.4908	0.5292
Modus	0.89	0.75	0.58	0.58	0.45	0.56	-

CSRDI is corporate sustainability disclosure index based on GRI.G40

During covid-19 in 2020, socially responsible investing in Indonesia firms tend to increasing the participation. Bradfort et al (2017) state firm activities reported will describe the firm situation as a sustainable or socially responsible company just as an income statement permits situating the company as a profitable or unprofitable one. Many reports would facilitate social responsibility investing as well as giving assurance to other stakeholders that the firm is a trustworthy steward of those things stakeholders value. Activities reported should imply firms are pursuing the same objectives across stakeholder groups. Our data shows that the average CSR is 0,5292 which economic dimension is 0,6768, average environment dimension is 0,4702 and the social dimension is0,5924. Below the data of CSR in non financial sector of Indonesian industry.



Graph 1. Average CSR Per Sector
Source: Data Processing Results, 2021

For firm performance, our data shows that Indonesian industry had decrease it value during covid-2020 both ROA and ROE. The highest performance is health sector, while other industries had decreased their performance and infrastructure industry has the lowest average value (minus). Corporate sustainability implies are stakeholders have a moral relationship to firm, as well as whatever economic ones they might have. This moral relationship is the deciding factor for investors engaged in socially responsible investing. However, meaning of the socially responsible actions was important to the subjects and not simply those actions permissibility as actions contributing to corporate sustainability (Bradford et al, 2017)

Table 2. Industry Distribution of Firm Performance

Industry	ROA	ROE
Basic Material	0.001483	0.02145
Non Primer	0.0104	0.0134
Health	0.2225	0.251
Industrial	0.0823	0.153
Infrastructure	-0.1815	-1.232
Mean	0.0270366	-0.15863

ROA is return on asset and ROE is return n equity

The value of firm performance describes the effectiveness, efficiency, and stability of the firm. Tabel 2 shows that a firm with a negative value means that company is unstable but a positive performance refer to firm sustainability. ROA and ROE reflect the level of effectiveness of the company's management in using assets and equity for profit. The higher the percentage of ROA and ROE, of course, the more effective management performance, reflecting the company's excellent fundamentals.

Furthermore, the data of socially responsible investing (CSR) linked to ROA describes that the higest CSR in health sector and the lowest is infrastructure sector (minus). It is in line with concept of firm performance which health sector has the highest value. We argument the abnormal economy such covid-19 lead the firm have unpreditable risk linked to their market then deacrease their participation of CSR. Our data confirm that non financial sector of Indonesian industry tend decreased socially responsible investing during covid-19 in 2020.

Table 3. Results of regression and robust test analysis

Firm Performance	Dependent variable: ROA	Dependent variable: ROE
Socially Responsible Investing (CSR)		
economic	0,313	0,069
	(14.014)	(0,913)
social	0,272	0,408
	(0,779)	(0,585)
Society	0,566**	0,587**
	(0,768)	(0,596)
Human Right	0,557**	0,488***
	(0,362)	(0,301)
Product Responsibility	0,649**	0,559**
	(0,563)	(0,485)

* significant 1%, ** significant 5%, ***significant 10%, exposed values are standard errors.

Hypothesis testing shows socially responsible investing measured by CSRDI has postive effect on firm performance both ROA and ROE except economic and social indicator. The finding of this study is same with Yilmaz (2013) that firm's CSR activities not impact to firm performance. As previously stated above, the subjects of socially responsible investing evaluated sustainability efforts as primarily efforts of being a good citizen with sustainability an end in itself rather than as constraint to be respected in achieving profitability goals.

5. Conclusions

Based on the results and discussion of the research that has been done, it can be concluded that the socially responsible investing in this study tend increasing in abnormal economy such covid-19 period. The participation and responsibilities that the firm has carried out towards the surrounding it sustainability performance.

Corporate social responsibility as proxy of firm's socially responsible investing in this study show that Indonesia industry each has different values of CSR's indicators and the assessment is seen from the economic, social, environment, human right, product responsibility, and society elements. The high CSR value indicate that firm facilitate social responsibility investing as well as giving assurance to other stakeholders that the firm is a trustworthy steward of those things stakeholders value.

However, this study finds that a firm with a negative performance refer to unstable, while positive performance refer to firm sustainability. ROA and ROE reflect the level of effectiveness of the company's management in using assets and equity for profit. The higher the percentage of ROA and ROE, of course, the more effective management performance, reflecting the firm's excellent fundamentals. Furthermore, socially responsible investing (CSR) impact on firm performance both Return on Assets (ROA) and Return on Equity (ROE) especially linked to environment, human rights, society, and product responsibility aspect. This research implies that the proper application of Corporate Social Responsibility can help financial performance. Then the company can implement efficient management of each of its business activities.

There are very few companies that issue annual reports and Sustainability Performance consecutively from 2019-2020, so this study has limited the sample. Furthermore, in analyzing the data, several firm have incomplete data, so it must be calculated manually. It is recommended to develop this research further to know the extent of the influence of socially responsible investing on firm performance. Next research could add some control variable such firm characteristic, market risk, and other variabel into CSR model for better analysis about determinant of firm performance. In addition, it needed long periode for analyzing the difference of firm CSR activities during abnormal period and also do robust test of CSR measuring for next research.

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