MOTIVES FOR ENGAGING CORPORATE SOCIAL RESPONSIBILITY PROGRAM

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Abstract

This study aims to determine the motive of company's Corporate Social Responsibility (CSR) activities in relation to the company's financial performance in the future. Motives for conducting and reporting their CSR activities is whether just for charity, investment, or a signaling about the company's financial performance in the future. This research uses quantitative approach in solving the research problem. This study took sample data from companies listed in the Indonesia Stock Exchange during 2012-2014, that were published a stand-alone CSR report or known as Sustainability Report. CSR variable is measured by indexing the Sustainability Report based on the CSR reporting standards issued by the Global Reporting Index (GRI) G4 for environmental and social categories. Firm's future financial performance is measured by changes of the Return on Asset (ROA) in year t + 1 and t, changes of Cash Flow from Operations (CFO) in year t + 1 and t, and the Average Stock Return (ASR) in year t + 1. The samples used in the study are 75 companies. The study's finding that there was no significant relationship between the indexes of CSR with the company's future financial performance. However, this study found that the motive of Indonesia's companies in conducting and reporting CSR activities is only for charitable purposes and the companies do not expect any reward. This is showed by most companies reported social criteria in their sustainability reports more than any other criteria. CSR activities are generally because of the good condition of the previous year company's financial performance. In addition, most companies in Indonesia still perform and report its CSR activities only as compliance with the applicable regulations.

INTRODUCTION

In this twenty-first century, attention and orientation of companies, especially large companies, are not only for financial profit. Especially, companies in large-interest business commit themselves to conducting business activities that bring economic, social, and environmental benefits to the society (Wang et al., 2015, p. 2232). Sustainable development has the objective to meet the need for humans now without sacrificing the capability of future generations in satisfying their needs, as cited from *National Center for Sustainability Reporting* (NCSR) website. Elkington (1998) in Santis et al. (2016, p. 736) affirmed that the future success key of companies depends on their ability to fulfill not only the traditional bottom line of profitability, but also the bottom lines related to environmental and social issues, Elkington constructed the concept of the Triple Bottom Line (TBL). According to Burritt (2016), sustainability concept is also relevant for modern accountants who care above and beyond money to the fundamentals of what makes the profession a credible force.

Companies' awareness to perform corporate social responsibilities is increasing from time to time. This is shown by the research and survey conducted by KPMG (2013, p. 11). The research shows that there are an increasing numbers of companies in doing the disclosure and reporting of CSR activities. The survey result noted that 93% of 250 world's largest companies (based on Global Fortune 250 Company) have disclosed their corporate social responsibility report. In Pacific Asia, the number of companies that publicize their CSR report is also increasing about 71% in two recent years. Most of the companies report their CSR report based on Global Reporting Initiative (GRI).

Waworuntu, et al. (2014, p. 498) conveys his research finding in International Conference on Accounting Studies 2014, which ASEAN large companies' awareness in voluntary disclosure of CSR report is increasing; even there is a moderate positive correlation between CSR activities and company's financial performance. This indicates that there is awareness of companies to report their business activity concerning with sustainability concept.

In Indonesia, according to the article in NCSR's website on December 10th, 2014, the first company that report their CSR activities was in 2005, then has grown to 60 profit and non-profit companies until 2014.

In conducting CSR activities, companies would expend some additional amount of their resources. Friedman (1970) in Lys et al. (2015, p. 56) suggests that CSR activities are wasting company's resources. Consistent with the study by Aras et al. (2010, p. 244), he finds no causal relation between CSR activities and company's financial performance, good company's financial performance has any impact to enhance CSR performance instead.

In contrast, there is other research finding that company's CSR activities have a correlation with company's performance. This fact is consistent with the research done by Chen and Wang (2011, p. 368) which find that CSR activities leads to improvement of financial performance, even in the next period and vice-versa.

While, research done by Lys et al. (2015, p. 70) explain that positive correlation between CSR activities and company's financial performance as believed by most people, in fact is a signal for future company's financial performance. Only company with strong future financial performance would undertake CSR activities.

Research gap from the prior studies leads people to mislead the company motive in doing CSR activities. Thus, this study aims to examine deeper about the company motive in conducting CSR activities related with company's financial performance. Moreover, this study also examines the direction of the causality between them.

In the literature review and hypothesis development section, the background of the emergence of research hypotheses which are charity, investment, and signals are described. In the research method section, the data and research design also hypothesis testing are described. In the result and discussion section, the findings and discussion of the findings are presented. In the conclusion and recommendation section, the findings and provide suggestions for related future research are concluded.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

According to Friedman (1970, p. 211), company's ultimate goal is enhancing the shareholders' wealth. If company used the invested money by the shareholders for public interest and CSR activities, that would be a stealing action of shareholders' money.

However, others suggest that company do the CSR activities for ethical reason. Consistent with the stakeholder theory, CSR activities is only a form of corporate responsibility towards the company's stakeholders, because company's stakeholders are important parties to the sustainability of the company. Only companies with excess current resources that will be asked to donate some of their resources as a corporate social responsibility contribution (Campbell, 2007, p. 952; Hong et al., 2012, p. 27).

Furthermore, research conducted by Aras et al. (2008) finds no significant correlation between CSR activities and company's financial performance. This leads to the first hypothesis that CSR activities is just for charity because of the good company's performance (Margolis et al., 2007), which company would not expect any rewards to their future financial performance (Lys et al., 2015, p. 58).

H1: CSR activities have no impact to the future company's financial performance. (Charity Hypothesis)

The concept of "doing well by doing good" encourages companies in doing CSR activities that bring benefit for the society (Lys et al., 2015, p. 58). Some of companies worried whether CSR activities would fail and ineffective. However, the result finding of Chen and Wang (2011, p. 368) research states those CSR activities will not only improve current company's financial performance, but also future company's financial performance.

Company's stakeholders are not only the external parties, but also the internal parties of the companies including the employee. CSR activities that satisfying company's stakeholders will lead to better contribution of the internal stakeholders, such as attract and retain good employee. Meanwhile, in the society, companies will have good image and improved product marketing, not only improving the company's brand image, but also building a better relationship between community and governments.

Besides, consumer will be more attracted to the company and desire to buy company products or services. This will impact to the company sales. Thus, company's financial performance will improve and build a good relationship with their stakeholders. Although companies should expend some additional resources for CSR activities, in the end companies also obtain the benefits.

According to Chen and Wang (2011, p. 368) research findings, CSR expenditures can be one of the company investments which not only bring benefits to current financial performance, but also to the future. Dhaliwal et al. (2011) find that voluntary CSR reporting leads to decreasing cost of capital, higher institutional investor ownership, and broader analyst scope. In addition, Suartana (2010, p. 112) states that corporate social responsibility is not only a management impression tool, but rather a long-term investment that ensures company's profitability and sustainability.

H2: CSR activities have impact to the improvement of future company's financial performance. (Investment Hypothesis)

Several studies about dividends state that dividend tends to change because of the future cash flow, even when there is no intention from the company to issue any information about future company's performance (Miller and Rock, 1985, p. 1037). This reasoning is also followed by Allen and Michaely (2003, p. 386) in their empirical study that cannot distinguish between the options to convey future company's financial performance through CSR activities (active signal) and the implications of CSR activities for the future company's financial performance (passive signal). This leads to the hypothesis that a good future financial performance will convince companies to do CSR activities in the current year.

H3: CSR activities become a signal of the good future company's financial performance (Signaling Hypothesis)

RESEARCH METHOD

This study uses multiple linear regression for the hypothesis testing.

Data

This study collects the CSR activities information from the stand-alone CSR report (Sustainability Report) that is issued in company's official website. CSR activities are measured only from social and environment categories, because those factors do not reflect financial performance or corporate governance. Financial and corporate governance factors do not include, because they are not related with social investments which benefit more in society rather than company's shareholder (Lys et al., 2015, p. 59). The sample of this study is companies listed in Indonesia Stock Exchange (IDX) during 2012 -2014. While, company's financial performance-related information is gathered from annual report of listed companies through web site IDX from 2011 – 2015 due to the research variables which cover t-1 and t+1. Stock price and return of the companies are obtained from Yahoo! Finance through its website (www.finance.yahoo.com).

Sample Selection

Data samples are selected using nonprobability sampling, i.e. purposive judgmental technique. Samples are considered as research object based on the criteria that have been determined by the authors. The criteria are as follow.

- Company presents its financial statement in Rupiah with accounting period starting from January, 1st and ends on December, 31st.
- Company annual financial statement published in www.idx.co.id.
- Company has a stand-alone CSR report (Sustainability Report) separate from the annual report and published through the official website of the company in 2012 – 2014
- All of the information needed is provided in company's financial statement.
- Company does not have negative equity and earning during 2011 – 2015, so this research focus in profit companies, because we assume that profit companies are more likely to do CSR activities.
- Stock prices and returns of the company are available in Yahoo! Finance website through www.finance.yahoo.com.

By these criteria, research samples that are selected are 75 companies from the research population which are 1,448 companies.

Table 1. Data Samples 2012 -2014

Description	Hypothesis 1		Hypothesis 2 and 3	
	Model 2	Model 3 and 4	Model 6	Model 7 and 8
Companies listed in BEI	1,448	1,448	1,448	1,448
Companies do not report stand-alone CSR report	(1,339)	(1,339)	(1,339)	(1,339)
Companies do not earn positive earnings or have positive equity in 3 consecutive years	(11)	(11)	(11)	(11)
Companies do not present their financial statements in Rupiah	(22)	(22)	(22)	(22)
Companies do not present their financial statements in one full year	(1)	(1)	(1)	(1)
Number of companies being researched	75	75	75	75
Outlier companies	(1)	-	(1)	-
Final samples	**74**	**75**	**74**	**75**

CSR Index

$$CSR_{t,j} = \frac{\sum_{i=1}^{j} x_{ij}}{n_j}$$ .... (1)

Description:

$CSR_{t,j}$ = CSR index of j company

N_j = number of total criteria that should be reported based on GRI-G4 (82 criteria from social and environmental categories)

X_{ij} = valued 1 if a criteria is reported or valued 0 if a criteria is not reported

Research models used in this research are as follow.

Regression Model 2

$$\Delta ROA_{t+1} = \alpha_{0a} + \alpha_{1a}CSR_t + \alpha_{2a}\Delta ROA_t + \alpha_{3a}ROA_{t-1} + \varepsilon_{1a} \dots\dots\dots (2)$$

Description:

ΔROA_{t+1} = change between income before extraordinary items measured in the end of year t+1 and year t divided by total assets

CSR_t = company's CSR index

ΔROA_t = change between income before extraordinary items measured in the end of year t and year t-1 divided by total assets

ROA_{t-1} = income before extraordinary items measured in the end of year t-1 divided by total assets

Regression Model 3

$$\Delta CFO_{t+1} = \alpha_{0b} + \alpha_{1b}CSR_t + \alpha_{2b}\Delta CFO_t + \alpha_{3b}CFO_{t-1} + \varepsilon_{1b} \dots\dots\dots (3)$$

Description:

ΔCFO_{t+1} = change between operating cash flow measured in the end of year t+1 and year t divided by total assets

CSR_t = company's CSR index

ΔCFO_t = change between operating cash flow measured in the end of year t and year t-1 divided by total assets

CFO_{t-1} = operating cash flow measured in the end of year t-1 divided by total assets

Regression Model 4

$$ASR_{t+1} = \alpha_{0c} + \alpha_{1c}CSR_t + \varepsilon_{1c} \dots\dots\dots (4)$$

Description:

ASR_{t+1} = average stock return for the 12 months beginning on the year t+1

CSR_t = company's CSR index

Financial performance indicators that are used in this research are Return on Asset (ROA), Operating Cash Flow (CFO) (Lys et al., 2015), and Average Stock Return (ASR). ROA is the most common financial performance indicator. According to Sloan (1996, p. 291), CFO is used as financial performance indicator because it is more persistent and difficult to manipulate. Meanwhile, ASR is used in semi-strong form market; the returns complement the company's financial performance measurement. Charity hypothesis as stated in hypothesis 1 is supported if α_{1a} in model (2) ,α_{1b} in model (3), α_{1c} in model (4) are equal to zero or negative at level of confidence 5%.. On the other hand, if α_{1a} in model (2) ,α_{1b} in model (3), α_{1c} in model (4) are positive at level of confidence 5%., investment hypothesis as stated in hypothesis 2 or signalling hypothesis as stated in hypothesis 3 are can be supported.

In order to find the optimum CSR activities based on current financial performance, the below regression is done.

$$CSR_t = \beta_0 + \beta_1 ATO + \beta_2 PM + \beta_3 CASH + \beta_4 CFO + \beta_5 LEV + \beta_6 MTB + \beta_7 Size + \beta_8 R\&D + \beta_9 ADV + \beta_{10} LIT + \varepsilon_2 \dots\dots (5)$$

Description:

CSR_t = company's CSR index

ATO = net sales divided by total assets, measured in the end of year t

PM = income before extraordinary items divided by net sales for the year t

$CASH$ = cash and cash equivalent divided by total assets, measured in the end of year t

CFO = operating cash flow measured in the end of year t divided by total assets

LEV = sum of short and long-term obligation divided by total assets, measured in the end of year t

MTB = sum of market value of equity, liability, preferred stock liquidation value, deferred taxes, and investment credit divided by total assets, measured in the end of year t

$Size$ = natural logarithm of total assets, measured in the end of year t

$R\&D$ = research and development expense divided by net sales for the year t

ADV = advertising expense divided by net sales for the year t

LIT = litigation expense divided by net sales for the year t

Regression Model (5) is used to obtain optimal CSR ($\widehat{CSR}$) and residual CSR ($\hat{\varepsilon}_2$) value to distinguish between CSR activities for investment or signaling motives. According to Lys et al. (2015, p. 60), CSR expenditures are influenced by company and industry factors. Higher advertising and research and development expenses show higher company's investment in CSR activities. Lys et al. (2015) also include litigation expense as CSR expenditure that act as reputation insurance. The natural logarithm of total assets is used as a measurement for the company size. Company with bigger size tends to have more resources to do more CSR activities. Leverage level and Market to book value are used to show company risk level. Company with lower risk level will be more stable and do more CSR activities. The level of cash and cash equivalent, operating cash flow, and ROA show the company's financial performance.

Regression Model 6

$$\Delta ROA_{t+1} = \gamma_{0a} + \gamma_{1a}\widehat{CSR} + \gamma_{2a}\hat{\varepsilon}_2 + \gamma_{3a}\Delta ROA_t + \gamma_{4a}ROA_{t-1} + \varepsilon_{3a} \ \ldots\ldots\ldots\ldots\ldots (6)$$

Description:

ΔROA_{t+1} = change between income before extraordinary items measured in the end of year t+1 and year t divided by total assets

$\widehat{CSR}$ = optimal CSR

$\hat{\varepsilon}_2$ = residual CSR

ΔROA_t = change between income before extraordinary items measured in the end of year t and year t-1 divided by total assets

ROA_{t-1} = income before extraordinary items measured in the end of year t-1 divided by total assets

Regression Model 7

$$\Delta CFO_{t+1} = \gamma_{0b} + \gamma_{1b}\widehat{CSR} + \gamma_{2a}\hat{\varepsilon}_2 + \gamma_{3b}\Delta CFO_t + \gamma_{4b}CFO_{t-1} + \varepsilon_{3b} \ \ldots\ldots\ldots\ldots\ldots (7)$$

Description:

ΔCFO_{t+1} = change between operating cash flow measured in the end of year t+1 and year t divided by total assets

$\widehat{CSR}$ = optimal CSR

$\widehat{\varepsilon_2}$ = residual CSR

ΔCFO_t = change between operating cash flow measured in the end of year t and year t-1 divided by total assets

CFO_{t-1} = operating cash flow measured in the end of year t-1 divided by total assets

Regression Model 8

$$ASR_{t+1} = \gamma_{0c} + \gamma_{1c}\widehat{CSR} + \gamma_{2c}\widehat{\varepsilon_2} + \varepsilon_{3c} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (8)$$

Description:

ASR_{t+1} = average stock return for the 12 months beginning on the year t+1

$\widehat{CSR}$ = optimal CSR

$\widehat{\varepsilon_2}$ = residual CSR

Signalling hypothesis as stated in hypothesis 3 is supported if γ_{2a} in model (6), γ_{2b} in model (7), γ_{2c} in model (8) are not equal to zero at level of confidence 5%. On the other hand, investment hypothesis as stated in hypothesis 2 is suported if γ_{1a} in model (6), γ_{1b} in model (7), γ_{1c} in model (8) are not equal to zero at level of confidence 5%.

All regression models are tested with four classic assumption tests except regression model 5, because it is only used to obtain $\widehat{CSR}$ and $\widehat{\varepsilon_2}$ variable value from the multiple linear regression result. After classic assumption test, hypothesis testing is continued by multiple linear regression analysis, consists of determination coefficient, F-test, and t-test. In this research, hypothesis testing uses Microsoft Excel 2010 and PASW Statistic 18 (SPSS 18) software. For determining whether the research hypothesis is accepted or rejected, it is based on the result of multiple linear regression especially t-test.

RESULT AND DISCUSSION

The results in Table 2 show that independent variable which is the main focus of hypothesis 1, CSR_t, has no significant relationship to the dependent variable in all regression model used in hypothesis 1. The dependent variables stand for company's financial performance as measured by ΔROA_{t+1}, ΔCFO_{t+1}, and ASR_{t+1}. However, there are several control variables that have negative significant relationship to the dependent variables which

are ROA_{t-1} has significant relationship to ΔROA_{t+1} with 0.025 significance value in regression model 2 and ΔCFO_t and ΔCFO_t have significant relationship to ΔCFO_{t+1} with 0 significance value in regression model 3. Based on the result of hypothesis testing, it can be concluded that hypothesis 1 is accepted.

Table 2. Result for H1, H2, and H3

Regression Model	Independent Variables	Coefficient	Sig.
Model 2	*Constant*	0	0.985
	CSR_t	-0.014	0.173
	ΔROA_t	-0.076	0.517
	ROA_{t-1}	-0.06	0.025*
Model 3	*Constant*	0.02	0.151
	CSR_t	0.006	0.857
	ΔCFO_t	-0.372	0*
	CFO_{t-1}	-0.221	0*
Model 4	*Constant*	0.006	0.423
	CSR_t	-0.008	0.566

*: Significance < 0.05

Table 3. Result for H2 and H3

Regression Model	Independent Variables	Coefficient	Sig.
Model 6	$Constant$	0.006	0.417
	$\widehat{CSR}$	-0.032	0.128
	$\widehat{\varepsilon_2}$	-0.009	0.404
	ΔROA_t	-0.074	0.528
	ROA_{t-1}	-0.043	0.162
Model 7	$Constant$	0.061	0.016*
	$\widehat{CSR}$	-0.108	0.099
	$\widehat{\varepsilon_2}$	0.037	0.285
	ΔCFO_t	-0.288	0.006*
	CFO_{t-1}	-0.138	0.055
Model 8	$Constant$	-0.001	0.963
	$\widehat{CSR}$	0.006	0.808
	$\widehat{\varepsilon_2}$	-0.016	0.387

*: Significance < 0.05

The results in Table 3 show that independent variables which are the main focus of hypothesis 2 and 3, $\widehat{CSR}$ and $\widehat{\varepsilon_2}$, have no significant relationship to the dependent variable in all regression model used in hypothesis 2 and 3. The dependent variables stand for company's financial performance as measured by ΔROA_{t+1}, ΔCFO_{t+1}, and ASR_{t+1}. This also supports the result findings in hypothesis 1 testing. However, there is a control variable which is ΔCFO_t that has negative significant relationship to the dependent variable, ΔCFO_{t+1}, with 0.006 significance value in regression model 7. Based on the result of hypothesis testing, it can be concluded that hypothesis 2 and 3 are rejected.
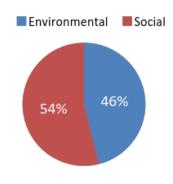
From Pearson correlation testing for CSR$_t$ variable, greater asset turnover, cash, operating cash flow, and market-to-book value lead to greater CSR index of the company. This indicates that company tends to do more CSR activities if it has good financial condition.

Furthermore, CSR aspect that we examined is only environmental and social categories. In Figure 1, it is shown that companies report more social criteria than environmental criteria, i.e. 54% from all of the reported criteria. This suggest that CSR activities doing by companies are intended for social purposes and do not expect any incentives for the companies. Thus, it supports the charity hypothesis.

Proportion of Environment and Social-under GRI G4

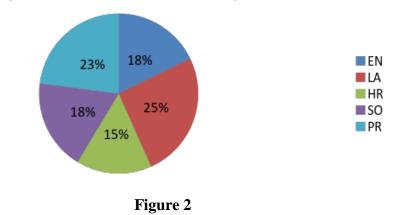■ Environmental ■ Social

54%   46%

Figure 1

In Figure 2, we show each category more specifically into subcategories. It is shown that Labor (LA) subcategory about labor practices and decent work is the most subcategory that has been reported. This subcategory has several aspects including employment, labor/management relations, occupational health and safety, training and education, diversity and equal opportunity, equal remuneration for women and men, supplier assessment for labor practices, and labor practices grievance mechanisms (GRI, 2013). Thus, CSR activities reported by companies are more oriented towards internal data which are more easily obtained because they are directly related to the employee. Then, the next most reported subcategory is Product Responsibility (PR). This subcategory addresses the customer health and safety, product and service labeling, marketing communications, customer privacy, and compliance. This also denotes that companies reported more CSR activities based on internal data which is more easily obtained.
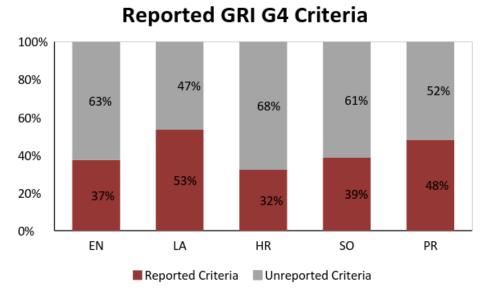
Reported GRI G4 Criteria Proportion

Figure 2

In addition, in Figure 3, the reported and unreported criteria from each subcategory are shown. It is noted that LA subcategory is the most reported criteria by 53% reported of all aspects that should be reported related to labor practices and decent work. In contrast, Human Rights (HR) subcategory is the least reported criteria that are only 32% of the total aspects that should be reported.

Reported GRI G4 Criteria

Figure 3

In Indonesia, reporting CSR activities is regulated in *UU No. 40 2007 about Corporation* article 66, which states every company shall submit the Annual Report

containing the implementation of Corporate Social Responsibility report. Also, article 74 is specifically regulated about Corporate Social Responsibility. Indonesia government also commits its concern about Corporate Social Responsibility (CSR) by issuing *Government Regulation (PP) RI No. 47 2012 about Social and Environment Responsibilities.* Most companies report their CSR activities only to meet its obligations under the applicable regulations which are limited in Annual Report. This fact also explains why only small numbers of listed companies in BEI disclose their CSR activities in stand-alone report called Sustainability Report.

This research finding is consistent to the research findings of Aras et al. (2008) that investigate the relationship between CSR and company's financial performance in listed companies in Istanbul Stock Exchange (ISE) 100 during 2005 to 2007. Measurement is based on company size, profitability, risk level, and CSR. Aras et al. (2008) finds that there is no significant correlation between CSR and company's financial performance in emerging countries. However, there is a relation between company size and CSR. Aras et al. (2008) also argue that the absence of this relationship is not due to the characteristics of emerging countries rather because CSR activities are still broad and many researches are still conducted in this topic. Thus, it is not surprising that there are some research findings are contradictory.

Apparently, research conducted by Aras et al. (2008) has similarity with this research which is also using companies in emerging country and has a limited number of samples, since not all of the companies reported their CSR activities. Moreover, reporting CSR activities in a stand-alone report called Sustainability Report is costly, even there is a separate audit for the report. Thus, there is a possibility that CSR activities' reporting has not become a major concern for companies that would affect their financial performance in emerging country.

A similar result is also found by Santis et al. (2016, p. 743) who do a research about the effect of CSR on company's financial performance that is listed on the Sao Paulo Stock Exchange Index during 2009 to 2013. Santis et al. (2016) find that more sustainable companies (having ability to generate profits, as well as concerning the environment and social) have no better financial performance. This fact suggests that there is no incentive generated for companies to adopt better sustainability strategies.

This research finding is not consistent with research conducted by Chen and Wang in 2011. Chen and Wang conduct a research to investigate the two-way relationship between CSR activities done by companies in Guangdong, China during 2007 – 2008 and the financial performance in the current or next period. The research is based on the theory that from strategic perspective, CSR activities can attract stakeholders' interest. Chen and Wang convey that CSR activities have a good impact to the company both in the current and even in the following period. In their arguments, they explain that this happens because the internal stakeholders are aware that CSR activities will bring positive effect for the parties around the companies. Thus, they would dedicate more to contribute in the community, so that the external stakeholders will also be interested to the company and the company has managed positive image in the community as well. This will bring good impact to the company's financial performance both in the current or following period.

This research finding is also not consistent with the research done by Lys et al. in 2015. Lys et al. (2015) conduct a research about CSR activities of companies listed in Russel 1000 during 2002 – 2010. In their research, they find that CSR reporting can be a signal for external parties which indicates a good financial future performance; although they do not distinguish the signal is active or passive. Financial performance measured by ΔROA_{t+1} and ΔCFO_{t+1}, while for ASR_{t+1}, Lys et al. (2015) also do not find any significant correlation between CSR activities and future stock return. These research findings are also relevant to the existence of some regulations for content and credibility of the company's accountability reporting. Meanwhile, there is still no regulation that requires companies in Indonesia to have a sustainability report to disclose CSR activities separately.

Regarding to stakeholder theory, CSR activities are only as a form of their social responsibility to stakeholders both internal and external which is needed to support company's sustainability. Although, these CSR activities are in contrast with the management's desires to maximize the profit because they have to set aside some funds for these.

Pearson correlation test is also performed and there is an indication that Indonesian companies have a weak prediction of their future financial performance through reported CSR activities. However, they tend to do more CSR activities if they have experienced a

good financial condition in the prior period, so that CSR activities are more as a form of feedback rather than a predictive tool for the company. It is shown from significant negative correlation between the change of ROA t+1 and t with CSR index, as well as a significant positive correlation between ROA t-1 and CSR index. This fact is also confirmed with significant negative correlation between CSR index and change of CFO t and t-1. This means that if companies do more CSR activities, the change between CFO in year t will be smaller. Furthermore, a positive correlation between CFO_{t-1} and CSR_t shows that when a company has a greater operating cash flow in prior year, the company tend to do more CSR activities in year t.

CONCLUSION AND RECOMMENDATION

Based on the research and analysis of the hypothesis testing, statistical test results show that CSR_t, the main focus of research, has no significant correlation with the dependent variable in all regression models. The dependent variables in this research stand for company's future financial performance. This proves that the Charity Hypothesis is accepted, whereas the Investment Hypothesis and Signaling Hypothesis is rejected. Adjusted R^2 value that describes the ability of the independent variables and the other factors affect the dependent variable are also considered low. From the Pearson test of CSR_t variable, CSR index has positive correlation with asset turnover, cash, operating cash flow, and market-to-book value.

CSR activities being researched only include environmental and social categories. Social criteria are reported more than the environmental criteria which is 54% that is shows that CSR activities is intended for social activities and do not expect any rewards for companies.

In Indonesia, which is also an emerging country, CSR reporting has not become a major concern for companies that would affect the financial performance and is only for regulations compliance. There is a weak tendency that companies undertake more CSR activities if they have experienced a good financial condition in prior year (measured by ROA and CFO t-1), so it is more as form of feedback. Thus, we concluded that the CSR activities

do not have significant correlation to the company's future financial performance and more likely due to charitable purposes (Charity Hypothesis).

Further research is expected to use another CSR activities measurement (other than content analysis), so that the number of samples will be greater and avoid too much biases. This will describe more real situation. The future research should cover a longer period of time, so that able to capture company motives indication in doing CSR activities more accurately. Further research can measure company's future financial performance using another proxy, besides ΔROA_{t+1}, ΔCFO_{t+1}, and ASR_{t+1}, and considering the industry condition, so that will improve the existed research.

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