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Research Article

Antecedents and Consequences of Corporate Social Responsibility Disclosure in Perspective Legitimation Theory

Ponny Harsanti*, Retno Tri Handayani, Diah Ayu Susanti

Economics and Business Faculty, Universitas Muria Kudus, Indonesia

ORCID
Ponny Harsanti: http://orcid.org/0000-0001-7147-9379

Abstract.
Corporate social responsibility can affect financial performance and indirectly provide positive social information to keep corporate legitimacy in society. The current research aims to empirically demonstrate the impact of environmental performance and environmental costs on financial performance through the disclosure of corporate social responsibility. The research population is primary consumer goods companies listed on the Indonesia Stock Exchange in 2017–2021. The sampling technique was purposive sampling. The analytical methods used were descriptive statistical analysis, classical assumption tests, and hypothesis tests. Results show that environmental performance has no impact on financial performance. Meanwhile, environmental costs have a positive impact on financial performance; corporate social responsibility disclosure has a positive impact on financial performance; and environmental performance has no impact on financial performance through corporate social responsibility disclosures. Corporate Social Responsibility discloses environmental costs and financial performances.

Keywords: environmental performance, environmental costs, disclosure of corporate social responsibility and financial performance

Corresponding Author: Ponny Harsanti; email: ponny.harsanti@umk.ac.id

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1. Introduction

Corporate social responsibility (CSR) is a form of corporate commitment to its stakeholders in accountability for the impact of the company's operational activities. CSR is a process of communicating the environmental and social impact of a company's economic activities to stakeholders and society as a whole. Environmental responsibility companies can be judged by their environmental performance company. Stakeholders can assess how by far performance of the enterprise environment by looking at color rankings obtained by the company through the Performance Ranking Assessment Program Company (PROPER) organized by the Ministry of Environment (KLH). Based on ISO 14001, environmental performance describes how well an organization manages the environmental aspects and impacts of its activities, products, and services. In Indonesia, environmental performance can be measured with PROPER. The PROPER index is as follows: Gold (5), Green (4), Blue (3), Red (2) and Black (1).

Environmental performance is the performance of a company that cares about the environment. When the environment and resources around the company are in good condition, then it can be assured that the company's financial results will also be good(1)(2)(3)(4)(5). It avoids the demands of the public or stakeholders to continue the sustainable development of the company. Therefore, the government through the Ministry of Environment and Forestry (KLHK) is engaged in environmental protection and environmental monitoring, as well as overseeing the operation of natural resource mapping companies (4). During the years 2017- 2022, companies in the primary consumer goods companies listed on the Indonesian stock exchange in 2017-2021 were not fully implemented as expected. This is because there are still companies that fall into the red and black categories. It shows that the company has not undertaken environmental management following the law.

Disclosure of environmental performance as corporate social responsibility can affect financial performance. A company that has good environmental performance and indirectly has good social information can increase the value of the company. This view is expected to be an investor's consideration for investing capital. Investors should not only look at the company's financial performance but also its environmental performance. Environmental costs can be classified into each or all categories of different companies. Companies need to focus on environmental costs for management decisions until conventional environmental cost usage can be clearly described. Disclosure of environmental performance as corporate social responsibility can affect financial performance. A company that has good environmental performance and indirectly has good social information. The better environmental activities carried out by the company will lead to increased confidence in the eyes of stakeholders, thus affecting financial performance.

Corporate responsibility is addressing environmental issues through a holistic approach to the operations, products, and areas of the company, all of which represents corporate responsibilities to the environment or can be called Corporate Social Responsibility (CSR). Social performance reporting is divided into three social audits, social reports, and social reports in annual reports (4). Corporate social responsibility is the process of communicating the environmental and social impact of the company's economic activities to the stakeholders and society as a whole (6).To assess the level of corporate environmental protection, the government has established the Environmental Management Rating Assessment Program (PROPERA) through the Ministry of Environment since 2002. This program is one of the attempts to drive corporate management towards environmental management with the help of information media. The rankings are divided into five color classifications, starting from the best gold, green, blue, red, and worst black. With PROPER, the public can judge which environmental management companies have a good reputation and which are poorly reputed(7).

Financial results are the performance a company achieves over a certain period, which can reflect the level of corporate health. There are several measures to evaluate a company's financial performance, such as liquidity, leverage, activity, profitability, growth, and market value. In this study, financial performance is measured by profitability metrics, which can measure management effectiveness in generating profit relative to sales and investments (8). Research by (9) showed that environmental conservation efforts by companies would provide some benefits, including the interests of shareholders and stakeholders over corporate profits caused by responsible environmental management, according to public perception. Other research suggests that good environmental management can avoid public and government claims while improving product quality and thus boosting corporate financial returns. Many pieces of literature reveal the relationship between environmental performances to corporate financial performance from a variety of different perspectives. Some studies showed inconsistencies in the relationship between the environment and financial performance.

Environmental costs include internal and external costs and refer to all costs incurred in connection with environmental damage and protection. Environmental costs can also be defined as costs incurred as a result of the presence or potential decline in the quality of the environment and incurred in the prevention of environmental harm, environmental detection or detection activities, and processing activities consisting of costs, waste (internal failure) and the environment, the cost of action to eliminate damage to the environment (8).

The theory of legitimacy states that organizations are part of society and must therefore take into account social norms of society. The theory of legitimacy related to economic performance and financial performance is that when there is an imbalance between the corporate value systems and the social value systems then the company may lose its legitimacy, which would further threaten the survival of the company (10). The basis of this theory is that an organization or company will continue to exist if the public realizes that the organization operates for a system of values that corresponds to the system of value of the society itself. The theory of legitimacy encourages companies to ensure that their activities and performance are acceptable to society. Companies use their annual reports to describe the impact of environmental responsibility so that companies can be accepted by society. The existence of legitimacy in the business world can be a reporting of corporate environmental activities. By revealing good environmental performance, it is expected that the company will acquire social legitimacy and maximize its financial strength in the long term. The study aims to re-test the impact of environmental performance and environmental costs on financial performance using corporate social responsibility (CSR) disclosure from the perspective of legitimacy theory. The theory of legitimacy states that the organization is part of society, so it threatens the survival of the company.

Hypothesis Development:

H1: Environmental performance has a positive impact on financial performance

H2: Environmental costs have a positive effect on economic performance

H3: Environmental performance positively affects financial performance through Corporate Social Responsibility (CSR) disclosure.

H4: Environmental costs impact positively on financial performances through corporate social responsibility disclosures.

H5: Corporate Social Responsibility (CSR) disclosure has a positive impact on financial performance.

2. Method

This research is quantitative research using secondary data. The population used in this study

99 primary consumer goods companies listed on the Indonesian Stock Exchange (BEI) 2017-2021. Sampling technique using purposive sampling. The sample characteristics required to support the research results are (a) primary consumer goods companies listed on the Indonesian Stock Exchange and publishing financial statements and annual reports for the period from 2017 to 2021 (b) companies reporting environmental disclosures (c) companies participating in the PROPER program for 2017 to 2021. The total of samples is 90 samples. The analysis tools in this study are as follows: descriptive analysis and classic assumption test. Simple regression is based on functional or causal relationships of one independent variable with one dependent variable (11). The steps in simple regression analysis are as follows: the coefficient of determination, partial regression test, the t-test statistic, and path analysis test. This research uses path analysis tests in SPSS.

3. Result and Discussion

3.1. Descriptive Statistic

TABLE 1: Descriptive Statistic.

	N	Min	Max	Mean	Std. Deviation
Environment Performance	90	2	5	3,02	0,675
Cost Environment	90	2,0002	0,3542	0,070877	0,1099344
CSR	90	0,0000	0,4066	0,169738	0,1026958
Economic performance	90	0,0000	0,7650	0,094123	0,1293029

The mean for environment performance is 3.02, where the maximum value is 5 so it can be said to be quite high for this variable. But on the other hand, the CSR variable has a mean of 0.169. This shows a fairly low value when compared to the maximum value.

3.2. Classical assumption tests

3.2.1. Classical assumption tests are conducted to determine the accuracy of the regression model in producing the best and unbiased estimates.

TABLE 2: Normality Test.

Normality test	Sig	Result
One-Sample Kolmogorov-Sminov Test	0,060	Normal

The test results show that the obtained sig value of Kolmogorov Sminov Sig. is 0.06 which is greater than 0.05, so it can be concluded that the regression residual value is normal. Thus the assumption of normality is fulfilled.

TABLE 3: Multicolinearity Test.

Variable	Tolerance	VIF
Environment Performance (X1)	0,886	1,009
Cost Environment (X2)	0,911	1,066
CSR (Y1)	0,909	1,078

The results of the multicollinearity test show the size of the whole variable VIF value < 10 and the tolerance > 0.1 or 10%. This means that there is not a too high correlation between independent variables, so it can be said that this study model is free of multicollinearity.

Table 4: Heterosdastisity Test.

Variable	Nilai Sig.
Environment Performance(X1)	0.700
Cost Environment(X2)	0,522
CSR (Y1)	0,536

3.2.2. Based on the heterosdastisity test showed that on the variables of environmental performance, environmental cost, and corporate social responsibility (CSR), the value of significance indicates a value greater than 0.05, meaning that there is no heteroscadasty between the independent variable and the dependent variable i.e. the residual variance of one observation to another observation is different.

Table 5: Autocorrelation Test.

Du	Durbin watson	4-du
1,776	2,066	2,280

3.2.3. Based on the results of tests with Durbin Watson's table values, the comparator has an autocorrelation test of du=1,650; dl=1,353, and 4-du=2,180. Can be known when the free autocorrelation criterion is met with du < dw < 4-du. This means that the data is free of autocorrelation where there is no correlation between the residues of one security and the other observation

3.3. Hypothesis testing

3.3.1. Path Analysis

Path analysis is an extension of multiple regression analysis. Path analysis is used to examine the relationship between the independent variable and the dependent variable through the intervening variable.

Table 6: Path Analysis.

Variable	Direct	Indirect	Result
Environment Performance	2,051	0,194	No Mediation
Cost Environment	0,329	0,731	Mediation

From the results of path analysis, it can be said that the direct effect of environmental performance on financial performance is 2,051 while the indirect effect of environmental performance on financial performance through corporate social responsibility is 0.194. So it can be stated that the CSR variable is non-mediating(12). Companies with good environmental performance always implement environmentally friendly products to preserve the environment, usually use environmentally friendly products as well as implement CSR well that ends up having more expensive costs so the presence of high added costs will reduce the company's profits. So either badly the achievement of environmental performances in the company does not affect the financial performance, because investors only pay attention to the company's condition in the market whether profitable or not when investing.

Environmental costs have a 0.,329 percent direct impact on financial performance, whereas its 0.731 percent indirect impact results from corporate social responsibility. So it can be stated that the CSR variable is mediating. Under the theory of legitimacy because environmental costs that companies spend on environmental damage prevention activities, as well as supported by the implementation of corporate responsibility in addressing the environment will impact increased public confidence so that product sales increase which means increased financial performance.

3.3.2. Partial Statistical Test (t Test)

The significance test of the environmental performance variable on financial performance showed a significance value of 0.155 larger than 0.05. This shows that the hypothesis is rejected so that it can be concluded that environmental performance does not influence on financial performance(12)(13)(14)(15). In the theory of legitimacy, the influence of the wider public can determine the allocation of financial resources and economic resources. Companies tend to use environmental-based performance and disclosure of environmental information to justify or legitimize public corporate activities. The results of this study also do not support the legitimacy theory, where the main paradigm of this theory is corporate social responsibility towards the community and the surrounding environment. The company must be extra in building a positive image. The positive image of the company is very important for the sustainability of the company, therefore the company must strive to gain legitimacy from the community, because this legitimacy is the company's strategy in order to develop the company in the future.

Table 7: Hypothesis Test.

Hypothesis	t Count	Sig.	Result
H1 :	1,416	0,155	Rejected
H2 :	2,533	0,012	Accepted
H5 :	2,522	0,022	Accepted

The significance test of the environmental cost variable on financial performance showed a significance value of 0.012< 0.05. This shows that the hypothesis is accepted so that it can be concluded that environmental performance has a positive effect on financial performance. The results of this research are in line with the theory of legitimacy that the company is an entity that is in the middle of society so it has to pay attention to the norms that apply in society. One of them is to take care of environmental protection by providing funds dedicated to environmental allocation. Companies that charge environmental charges will attract investor interest in investing capital so that performance improves. This is different from research results where environmental costs do not affect financial performance (16)(17)(18).

The significance test of the corporate social responsibility variable on financial performance showed a significance value of 0.022< 0.05. This shows that the hypothesis is accepted so that it can be concluded that corporate social responsibility has a positive effect on financial performance (19). The results of this study are in line with the theory of legitimacy that good practices of accountability toward stakeholders will improve the relationship of the company with the stakeholders. This is because in CSR activities there are activities that relate to social responsibility as well as responsibility for the environment. Such activities will generate a better reputation of the company in the eyes of investors so affecting the financial performance that will increase in the long term. This result also follows previous research that has been carried out (20)

Table 8: Determinan Coefficient Test.

R	R Square	Adjusted R Square
0,340	0,303	0,281

From a determination coefficient test of the Adjusted R square of 0.281, which means that 28.1% of the large variation in financial performance can be explained by environmental performance, environmental cost, and corporate social responsibility (CSR).

4. Conclusion

Based on the results of the research analysis, several conclusions that can be drawn from this study include; that environmental performance has no impact on financial performance. Environmental costs have a positive impact on financial performance. Corporate social responsibility disclosure has a positive impact on financial performance. Environmental performance has no impact on financial performance through corporate social responsibility disclosures. Corporate Social Responsibility discloses environmental costs and financial performances. The theory of legitimacy has been proven to support the existence of a link between environmental costs and the disclosure of corporate responsibility directly and indirectly to financial performance.

For future research, it is suggested to add other variables that also influence financial performance such as capital structure as in (21). Capital structure affects financial performance because if corporate capital comes from debt and the debt rate rises, it will result in a decrease in financial performance due to the corporate focus on increased productivity and debt disbursement. For future research, it is suggested to increase the number of samples of the company, for example by adding a company that is engaged in nature.

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