
THE EFFECT OF THE IMPLEMENTATION OF CORPORATE SOCIAL RESPONSIBILITY ON RETURN ON EQUITY: CASE STUDY OF STATE OWNED RAILWAY COMPANY IN INDONESIA

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Abstract

This study aims to see whether partnership funds and environmental development funds as CSR indicators can influence significantly on return on equity (ROE) on transportation service companies, namely PT. Kereta Api Indonesia (Persero), in the period of 2008-2019. Data is collected through annual reports of PT. Kereta Api Indonesia in the period of 2008–2019. The method of analysis is multiple linear regression analysis. The results of this study indicate that the partnership funds and community development funds are negative and significantly associated with ROE.

Keywords: corporate social responsibility, return on equity, transportation.

1. Introduction

In today's era, companies must be able to survive and be able to compete in applying the agreed business strategies. Companies can do business which in turn can provide benefits to the company and have a positive impact on the environment and society as part of the stakeholders. Community and its environment are two elements that have a competitive relationship related to operating the company's business, namely a relationship of mutual need and acceptance. Corporate social responsibility (CSR) is one form of activity that can have a positive impact on the company. CSR is a stage for an organization that voluntarily integrates views of the environment and social activities in its business operations, stakeholder interactions, which go beyond the duties and responsibilities of the organization in legal matters (Septiana and Nur, 2012). CSR is a form of financial and non-financial business as well as organizational responsibility for the impacts that can occur from the consequences of policies and activities that have been agreed upon and carried out by the organization, which of these impacts will be enjoyed by the community and the surrounding environment in the future.

In achieving its growth, the company will try its best to maintain its business differences in adding value to the company. Firm value is a concept that needs to be considered for investors considering that it is a measure against the market to assess the company as a whole (Nurlela and Islahuddin, 2008). The form of attention from the business world to prepare funds for CSR activities in a sustainable manner basically will bring many benefits to the business world itself.

CSR can be used for new marketing media if the provision has followed the vision and mission of the organization and is also carried out on an ongoing basis, then the value of the organization will improve and customer loyalty will get better as well (Wijayanti and Mutmainah, 2012). Increasing customer loyalty, in the long run, will have an impact on the level of sales and the level of company profits will also increase. Handoko (2010) states that the higher the profitability of a company, the higher the profit level achieved by the company and the higher the position of the company in using its assets.

PT. Kereta Api Indonesia (PT KAI) is one of the public transportation companies that have intensive CSR programs. PT KAI is a state-owned company that monopolizes rail transportation services in Indonesia. AS regulated by the BUMN Regulation No. Per-05/MBU/2007 regarding the Partnership Program of State-Owned Enterprises with Small Businesses and Community Development Program (SBCDP). PT KAI has CSR programs that provide benefits to the community and small-medium enterprises as well (see Figure 1). There are two main CSR programs, namely partnership programs, and community development programs. The partnership programs are such as providing soft loans to small and medium enterprises (SME), small and medium industries (SMI), and grants, while community development programs are such as donations for natural disasters, education or training, health improvement, religious facilities and infrastructure, public facilities and infrastructure, nature conservation, and social assistance for poverty alleviation. If the community receives benefits from its CSR program, PT KAI expects that the company's performance will also improve. However, to the best of the writer's knowledge, not many studies have tested it.

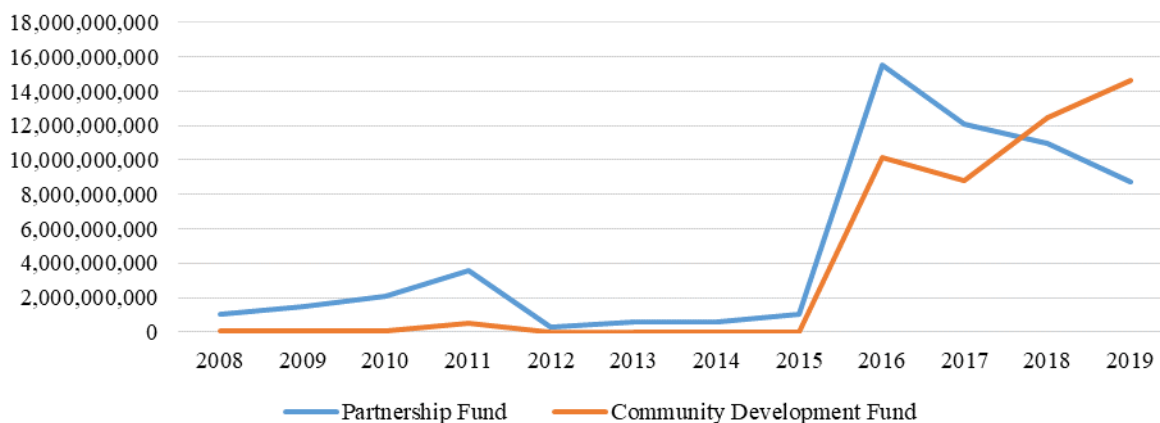


Figure 1 Partnership Fund, Community Development Fund, and ROE PT. KAI

Prior studies on the relationship between CSR and ROE indicate mixed results. Some studies that CSR does not have a significant effect on ROE such as Lestari (2016), Hadiyati (2018), and Jafar, Chalid, and Budianriani (2020). Nistantya (2010) reveals that CSR in the form of partnership funds and worker welfare funds have a positive and significant effect on ROE, whereas, CSR in the form of community development funds has a positive but not significant effect on ROE. On the other hand, some prior studies reveal that CSR has a significant effect on ROE, such as Kartini, Maiyarni and Tiswiyanti (2019), Caesara (2016), Primayudhana (2015),

Heryanto (2017), Sari and Azizah (2019), Lestari, Slamet and Alipudin (2019), Tanod, Nangoi and Suwetja (2019) and Zulaika and Sihombing (2020). The inconsistency of the results provides an opportunity to re-examine this issue.

In terms of the research object, most prior studies employ banking companies (Razak, Pasigai and Khatimah, 2020; Lestari, 2016; Hadiyati, 2018; Zulaika and Sihombing, 2020), mining (Jafar, Chalid, and Budiandriani, 2020; Lestari, Slamet and Alipudin, 2019), manufacturing companies (Caesara, 2016; Heryanto, 2017; Tanod, Nangoi, and Suwetja, 2019), agricultural companies (Sari and Azizah, 2019). Thus, there are no prior studies that examine transportation companies such as PT KAI that intensively doing CSR programs. Therefore, the objective of this study is to examine the effect of CSR of PT KAI on profitability.

2. Literature Review and Hypotheses Development

2.1. Corporate Social Responsibility (CSR)

There are some definitions of CSR. Kotler and Nancy (2005) define CSR as a company's commitment to improving community welfare through good business practices and contributing a portion of the company's resources. CSR can have a form of corporate openness in maintaining moral values and upholding respect for employees, communities, and the environment (Wibisono, 2007). From a social responsibility perspective, companies can integrate CSR funds into operating costs and interactions of stakeholders with the community and the surrounding environment (Darwin, 2004). More firmly, Johnson and Johnson (2009) have defined that CSR is about how companies manage the business processes to produce an overall positive impact on society.

CSR can influence a good social picture for the community with good public clarity, such as transportation services. This is due to the openness and interaction of the surrounding community to form a sense of attachment to mutual care between the community and the company through community social activities. With the emergence of these activities, efforts have been made to make people very interested in caring and being part of the company, as consumers and investors (Sulistiyowati, 2018). Besides, to generate a profit, an organization must pay attention to the concern for the surrounding community and its environmental sustainability because an organization in its business organization, either directly or indirectly, will be an organization between one organization and one organization.

Bradshaw and Vogel (1981) state that there are 3 dimensions in the discussion of the scope of CSR, including 1) corporate philanthropy is an effort to socialize an organization, in which this activity does not directly intersect with the company's main activities. This social activity can be realized in a special body, for example, a foundation which is a social activity, 2) corporate responsibility is an effort to realize an organization's sense of social responsibility when meeting profit targets and 3) corporate policy is an activity that is related between an organization and the government related to government regulations and policies that affect the organization and its surrounding community as a whole. Then Kotler and Lee (2005) divide CSR into six groups as follows (1) cause promotion, which is an organization preparing funds to support public awareness of social activities, (2) cause-related marketing, namely organizations preparing funds

for CSR based on the number of sales of their business products within a certain time, (3) corporate social marketing is an organization that prepares CSR funds for campaigns to change people's habits, such as health campaigns, love for a healthy environment, (4) corporate philanthropy, an organization that prepares CSR funds in the form of free donations/services to certain communities, (5) community volunteering, an organization preparing CSR funds to spur the spirit of entrepreneurship or local organizations and (6) socially responsible business practice, an organization that prepares CSR funds for community welfare in the business field.

2.1.1. Profitabilitas

According to Kasmir (2012), profitability is the main objective expected of an organization is to get profit and maximize profit. Meanwhile, Fahmi (2012) states that profitability is the ratio of the effectiveness of managing the organization as a whole through feedback on profit levels to sales and investment. Another opinion from Warda (2013) has stated that the application of profitability ratios can be carried out by comparing several components listed in the financial statements for a certain period.

Kasmir (2012) states that there are several objectives of profitability ratios, including (1) to calculate or measure the profit obtained by the company in a certain period, (2) to assess the company's profit position from the previous year to the current year, (3) to assess the amount of profit net after-tax with own capital, (4) to assess the development of profit from time to time and then (5) to measure the productivity of all company funds used both loan capital and own capital.

2.1.2. Return On Equity (ROE)

Kasmir (2012) has stated that the return on equity ratio is a ratio to measure the level of net profit after tax with its capital. Return On Equity (ROE) ratio has reviewed an organization using its resources to get a return on equity (Fahmi, 2012). This ratio is to measure and to compare profitability performance (Kuncoro and Suhardjono, 2012).

2.2 Hypotheses Decwkopmwnt

CSR Affects the Partnership Fund

CSR is a form of morally and economically corporate responsibility to the company's customers and it might have positive and negative impacts associated with the company's business activities. In maintaining the continuity of business processes, the company will seek to approach the economic sector in the form of providing partnership funds to Micro, Small, and Medium Enterprises (MSME) and Small and Medium Industries (SMI). The provision of partnership funds is expected to provide prosperity and welfare for business people around the company environment. Several previous research results such as Kartini, Maiyarni, and Tiswiyanti (2019), Caesara (2016), Primayuhdana (2015), Heryono (2017), and Sari and Azizah (2019) have proven that providing company partnership funds will increase ROE. Therefore, the hypothesis in this study is as follows:

H1: Partnership fund has a significant effect on Return on Equity

CSR Affects the Community Development Fund.

In addition to partnership funds, companies in providing CSR can also take the form of environmental development funds to residents near the company's location. Community development funds tend to be social, such as donations for religious facilities, sports, and village activities. From the provision of environmental development funds, it is hoped that the community around the company can have a sense of concern in maintaining the security and continuity of the company's business processes. The more effective the provision of CSR funds, the higher the level of community care and participation towards the company. This condition is in line with the findings of Lestari, Slamet, and Alipudin (2019), Tanod, Nangoi, and Suwetja (2019), and Zulaika and Sihombing (2020) that environmental development funds have a significant effect on company ROE. Therefore, the following hypothesis can be drawn:

H2: Community Development Fund has a significant effect on Return on Equity

In this study, the independent variable is CSR with indicators: partnership funds and community development funds. Meanwhile, the dependent variable is ROE.

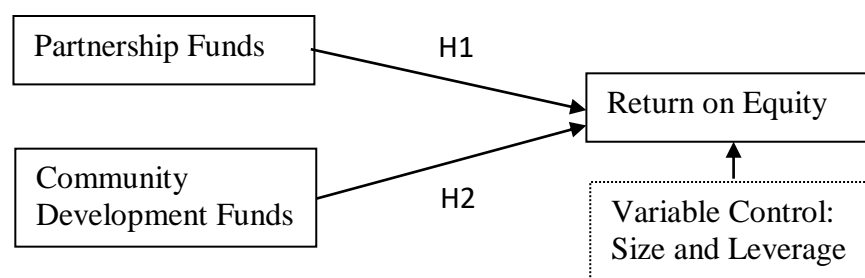


Figure 2. Research Framework

3. Research Method

Data

Researchers have chosen the transportation service company PT Kereta Api Indonesia (Persero) which has nine operational areas on the island of Java and four regional divisions on the island of Sumatra. Data is taken by downloading from annual financial reports that have been published in 2008 – 2019 (www.kai.id).

Method of Analysis

Method of analysis employs regression analysis. The independent variables are partnership funds, environmental development funds, and control variables. Partnership funds are funds used for community economic development efforts, such as loans, grants for Micro, Small, and Medium Enterprises (MSMEs), Small and Medium Enterprises (SME), and Cooperatives, while environmental development funds are funds used for the development of organizational social activities, such as donations and facilities for the construction of public facilities and infrastructure. Furthermore, the dependent variable is ROE as the proxy of profitability.

$$\text{Formula: } Y = a + b_1x_1 + b_2x_2 + b_3x_3 + b_4x_4 + e$$

- Y = Return On Equity
- A = Constant
- b1, b2, b3, b4 = Regression coefficient
- x1 = Partnership fund
- x2 = Community development fund
- x3 = Ln Asset
- x4 = Leverage

4. Results

4.1. Descriptive Statistics

Table 1. Descriptive Statistic

Variable	Mean	Median	S.D.	Min	Max
Log_Partnership	21.6	21.3	1.35	19.5	23.5
Log_Community Development	20.0	20.1	3.30	15.8	23.9
Log_Total Aset	30.3	30.4	0.807	29.3	31.4
DER	1.06	1.20	0.465	0.401	1.59

Table 2. Correlation Matrix

Log_TotalAset	Log_Community Development Fund	Log_Partnership Fund	DER	
1.0000	0.6174	0.5590	0.6344	Log_Asset
	1.0000	0.9733	0.2993	Log_Community Development Funds
		1.0000	0.3007	Log_Partnership Funds
			1.0000	DER

Based on Table 1 above, it can be concluded that the results of data processing have shown that there are unique characteristics, namely the mean and median values of partnership funds and community development funds that have the same amount of around 20-21. This condition can be assumed that the expenditure of funds for corporate social responsibility activities in the form of partnership funds are relatively equal to community development funds. On the other hand, spending on partnership funds and community development funds is also assumed to have the same objectives and impact on the value of return on equity.

The results of the correlation matrix analysis in Table 2 explain that the correlation coefficient value between partnership funds and community development funds = 0.9733, so it can be concluded that the partnership funds expenditure has a very strong correlation because it lies between the value of 0.91-0.99 (Sujarweni, 2014:127). This finding can be used as the basis for the calculation of equation (1) which must be separated into two equations, namely the partnership fund equation and the community development fund equation.

4.2. Hypotheses Testing

Table 3 presents the results of the analysis of Model 1 and Model 2. Model 1 is to examine the effect of community development funds on profitability, while Model 2 is to examine the effect of partnership funds on profitability. The F test of both models is significant. It means that both models are fit. Furthermore, the adjusted R-squared of both models is relatively high.

Table 3. Regression Results

Variable	Model 1		Model 2	
	Coefficient	p-value	Coefficient	p-value
Const	-531.821	0.0016 ***	-304.173	0.0136 **
Log_Community Development Funds	-1.01210e-09	0.0082 ***	-	-
Log_Partnership Funds	-	-	-2.47630	0.0505 *
Log_Asset	18.3883	0.0016 ***	12.3231	0.0091 ***
DER	-6.61477	0.2430	-1.34281	0.8022
F	20.22629	0.000431***	15.13637	0.001162***
Adjusted R-squared	0.780369		0.783137	

Notes: ***, **, * represents the level significance at 1%, 5%, and 10% respectively.

As can be seen in Table 3, the result of the analysis of Model 1 shows the t-count of partnership funds = -1.01210 and the p-value = 0.0082, so the partnership funds have a negative and significant effect on ROE. Similarly, the results of the analysis of Model 2 indicates that t count for community development funds = -2.47630, and the p-value = 0.0505. Therefore, it can be concluded that the environmental development funds have a negative and significant effect on ROE. The equation of each model is as follows:

Model 1 $Y = -531.821 - 1.012x_2 + 18.388x_3 - 6.615x_4 + e$

Model 2 $Y = -304.173 - 2.476x_1 + 12.323x_3 - 1.343x_4 + e$

5. Discussion

Referring to the data from the test results in table 3 above that the effect of CSR is proxied by the partnership funds and environmental development funds applied by PT. Kereta Api Indonesia (Persero) on ROE for the period 2008–2019, it can be seen that partnership funds and environmental development funds partially have a negative and significant effect on ROE. This finding is in line with some prior studies (Kartini, Maiyarni and Tiswiyanti, 2019; Caesara, 2016; Primayudhana, 2015; Heryanto, 2017; Sari and Azizah, 2019; Lestari, Slamet, and Alipudin, 2019; Tanod, Nangoi, and Suwetja, 2019; Zulaika and Sihombing, 2020). In contrast, Lestari (2016), Hadiyati (2018), and Jafar, Chalid, and Budianriani (2020), and Aliyah et al (2020) argue that CSR does not have a significant effect on profitability. The type of sample and proxy of CSR activities might contribute to the mixed findings.

Although the nominal expenditures for community development funds and partnership funds are relatively large, community development funds influence with a higher level of significance than partnership funds. It might that the community development funds are allocated to the activities that are more social and less related to the main business of the PT KAI, such as a donation for natural disaster victims, educational and/or training aid, medical improvements, development of Public Facilities and Infrastructure aid, worship facilities aid, natural conservation aid and social donation for poverty alleviation.

6. Conclusion and Suggestion

The results of this study indicate that the CSR funds in the form of partnership funds and environmental development funds allocated by PT KAI show a negative and significant effect on company performance. PT KAI as a state-owned company must carry out CSR activities as a form of social responsibility to the community. However, the negative influence of social activities on profitability indicates that indirect resource allocation to increase company performance may result in decreased company performance. PT KAI should be more careful in determining its CSR activities, namely by choosing activities that have a direct or indirect impact on company performance.

The study has several limitations. First, this study focuses on one transportation company, so the findings could not be generalized. Further study may employ several transportation companies. Second, this study examines the effect of CSR activities of PT KAI on its profitability in the same period. In fact, the effect of CSR will occur in a long period, for example, 2-3 years later. Thus, further study might examine the long term effect of CSR activities on profitability.

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