

ECONOMIC, ENVIRONMENTAL AND SOCIAL FACTORS AS CORPORATE SOCIAL RESPONSIBILITY DIMENSIONS ON THE FINANCIAL PERFORMANCE OF THE PHARMACEUTICAL SECTOR ON THE INDONESIA STOCK EXCHANGE

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ABSTRACT

The purpose of this study was to determine the effect of CSR with economic, environmental and social dimensions on the financial performance of the pharmaceutical sector on the Indonesian Stock Exchange. This type of research is quantitative descriptive. The study population was 12 pharmaceutical sector companies, the sampling technique was purposive sampling, the sample used was 108 data. The data used is secondary data by collecting data through documentation. Data analysis using multiple linear regression. The results of the discussion show that there is a positive but not significant effect of CSR disclosure on the economic dimension of the financial performance of the pharmaceutical sector in Indonesia. There is a significant positive effect of CSR disclosure on the environmental dimension on the financial performance of the pharmaceutical sector in Indonesia. There is a positive and insignificant effect of social dimension CSR disclosure on the financial performance of the pharmaceutical sector in Indonesia.

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1. INTRODUCTION

The performance of a business organization is influenced by the company's strategy and operations in its business environment. Therefore, there is debate about the extent to which corporate directors and managers should consider social and environmental factors in making decisions. In essence, Corporate Social Responsibility (CSR) can be described as a decision-making approach that includes both factors (social and environmental). Therefore it can be concluded that CSR is the intentional inclusion of public interests into corporate decision making, and respecting the triple bottom line, namely People, Planet and Profit. (Harpreets 2009).

Positive reputation is often associated with positive financial returns. Roberts & Dowling (2002); Fombrun et al. (2000); Porter & Van Der Linde (1995) and Spicer (1978) explain that CSR initiatives can lead to reputational gains as improvements in trust that can become company investments, new market opportunities and positive reactions from the capital market so that they will improve the company's financial performance.

The pharmaceutical industry has an important role in contributing to the national economy. The pharmaceutical industry in Indonesia has a great opportunity to grow, this is indicated by the increasing number of pharmaceutical industries in Indonesia. The domestic pharmaceutical industry has added 132 new industries, from 198 industries in 2015 to 230 industries in 2019 (Ministry of Industry of the Republic of Indonesia, 2021).

The pharmaceutical industry, which is a pillar in maintaining national stability through excellent service, certainly needs to think about a strategy to make it happen. To occupy the stability of these pillars, pharmaceutical companies are required to be able to survive by achieving the best goals and being able to compete in the global market, which is most important in improving the company's financial performance (Endri et al., 2020).

Research conducted by Rumiasih et al., (2022) analyzed the performance of the pharmaceutical sector in Indonesia as measured by return on investment. The samples used were PT Darya-Varia Laboratoria Tbk, PT Kalbe Farma Tbk, PT Tempo Scan Pacific Tbk and PT Industri Jamu Dan Pharmacy SIDO Muncul Tbk showing that the ROI of the pharmaceutical sector in Indonesia is in accordance with the research samples conducted during 2015-2019, namely 13.78% which is still below the industry average

of 30% where as explained by (Kasmir, 2016) that the industry average ROI for manufacturing companies is 30%.

The CSR issue is a complex problem theoretically, politically, and practically. However, companies are now being held accountable for corporate actions and are expected to consider the social and environmental consequences of company operations along with profit-oriented activities (Esteban, 2008). Although pharmaceutical companies have configured that CSR strategies provide competitive advantage and contribute to long-term organizational survival and success, CSR in the pharmaceutical sector has received limited attention from researchers (Agudo Valiente et al., 2012; O’Riordan & Fairbrass, 2008; Tena et al., 2001).

The purpose of this study was to determine the effect of CSR with economic, environmental and social dimensions on the financial performance of the pharmaceutical sector on the Indonesia Stock Exchange.

2. LITERATURE REVIEW

According to Frynas, (2010) stakeholder theory explains CSR programs that benefit all company stakeholders and institutional theory explains that existing CSR programs are made because they follow institutional standards from the government. Meanwhile, the Austrian economic perspective can be seen as an alternative way of thinking that is more advanced in looking at CSR activities because it relates to profitable business investments. Bowd et al., (2003) defines the concept of CSR as an activity where companies are responsible either explicitly or implied by social contracts with their stakeholders to comply with laws and government obligations and carry them out in accordance with ethical behavior that goes beyond applicable legal obligations.

Financial performance according to Knight & Bertoneche, (2000) describes financial performance as a point that is assessed based on the company’s financial statements, or specifically the condition of the company which is reviewed based on financial position. Requires a conceptual framework in reporting and handling financial matters.

To measure the company’s level of success in investment activities, there is an analysis, namely the analysis of profitability ratios. According to Brigham & Houston, (2012) profitability is the end result of a number of policies and decisions made by the company in terms of showing the combined effects of liquidity, asset management, and debt on operating results. Profitability ratios include the profit margin on sales, the basic ability to generate profits, the rate of return on total assets or investment (Return on Investment/ROI).

3. METHOD

This type of quantitative descriptive research. The research population is 12 pharmaceutical sector companies on the Indonesia Stock Exchange, using a purposive sampling technique where the criteria are pharmaceutical sector companies that publish complete financial reports for 2010-2021 so that the sample used is 108 data. The data used is secondary data by collecting data through documentation. Data analysis using multiple linear regression.

4. RESULT AND DISCUSSION

Data Analysis

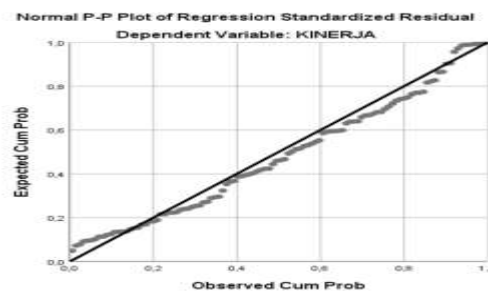


Figure 1. Normality Test

Based on Figure 1. shows that the points in the distribution image appear to spread or approach around the diagonal line and the distribution of data points is in the same direction as following the diagonal line so that the data is normally distributed or close to normal.

Based on the VIF analysis, the economic dimension is 1.395, the environmental is 1.612 and the social is 1.933 so that it shows greater than 10 and the tolerance value for the economic dimension is 0.717, the environment is 0.620 and the social is 0.517 so it shows less than 10, the results show that the independent variables in the regression model free from multicollinearity problems, the model meets one of the requirements for regression testing.

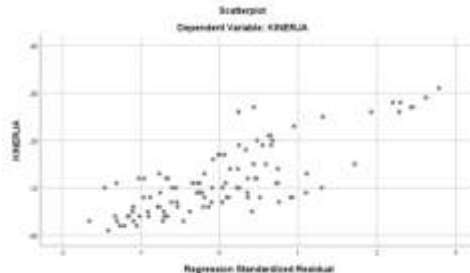


Figure 2. Heteroscedasticity Test

Figure 2 shows that the dots do not form a specific pattern, where the dots spread above and below the number 0, so the graph cannot be read clearly. These results show that there is no heteroscedasticity.

Based on the analysis, it was obtained that the Durbin Watson value was 1.486, which was between -2 to +2 so that it could be concluded that there was no autocorrelation in this study.

The results of the model suitability test seen from the F test show a statistical result of 0.000 where less than 0.05 can be said to be significant so that it can be concluded that the model is declared feasible for research.

$$Y = 0.013 + 0.001x_1 + 0.009x_2 + 0.001x_3$$

Based on the multiple linear regression equation, it can be explained that the regression coefficient X1 has a positive direction, meaning that every increase in CSR disclosure on the economic dimension will improve the financial performance of pharmaceutical sector companies. The regression coefficient X2 has a positive direction, meaning that each increase in CSR disclosure on the environmental dimension will improve the financial performance of pharmaceutical sector companies. The X3 regression coefficient has a positive direction, meaning that each increase in CSR disclosure on the social dimension will improve the financial performance of pharmaceutical sector companies.

Based on the results of the statistical test analysis, it shows that the economic dimension of the CSR disclosure variable has a significance value of 0.588 where it is more than 0.05 in a positive direction so it can be concluded that there is an insignificant positive effect on the economic dimension of CSR disclosure on the financial performance of the pharmaceutical sector in Indonesia. The environmental dimension CSR disclosure variable has a significance value of 0.000 which is less than 0.05 in a positive direction so it can be concluded that there is a significant positive effect of environmental dimension CSR disclosure on the financial performance of the pharmaceutical sector in Indonesia. The social dimension CSR disclosure variable has a significance value of 0.332 where it is more than 0.05 in a positive direction so that it can be concluded that there is an insignificant positive effect on social dimension CSR disclosure on the financial performance of the pharmaceutical sector in Indonesia.

Based on the results of the analysis, it shows that the Adjusted R Square Number is 0.390, meaning that 39.0% of the dependent variable of financial performance is explained by the independent variable CSR which is dimensioned by economic, environmental and social and the remaining 61% is explained by other variables outside the variables used.

Discussion

The Influence of the Economic Dimension of CSR on the Financial Performance of the Pharmaceutical Sector

The economic dimension CSR disclosure variable has a significance value of 0.588 where more than 0.05 is in a positive direction so it can be concluded that there is an insignificant positive effect on economic dimension CSR disclosure on the financial performance of the pharmaceutical sector in Indonesia. This indicates that there is more and more CSR disclosure from an economic perspective. carried out, the more the financial performance of the pharmaceutical sector increases but the effect is not real.

The economic dimension of sustainability relates to an organization's influence on the economic conditions of its stakeholders and on economic systems at local, national and global levels. The economic

category describes the flow of capital among various stakeholders and the main economic impact of the organization on society at large. The Pharmaceutical Sector has shown good performance by taking into account the principles in the fields of safety, staff health, human resources, and ecology. This shows that the Pharmaceutical Sector production system meets current drug needs without compromising future needs. This is in accordance with the opinion of Tawfik et al (2021) which shows that the economic dimension of CSR has a positive effect on financial performance

The Influence of the CSR Environmental Dimension on the Financial Performance of the Pharmaceutical Sector

The environmental dimension CSR disclosure variable has a significance value of 0.000 which is less than 0.05 in a positive direction so it can be concluded that there is a significant positive effect on environmental dimension CSR disclosure on the financial performance of the pharmaceutical sector in Indonesia. This indicates that more and more environmental CSR disclosures are made. the more the financial performance of the pharmaceutical sector increases.

The environmental dimension for socially responsible companies, is defined as the company's liability for the environmental impacts resulting from its operations and products, eliminating emissions and waste, achieving maximum productivity and depending on available resources, and reducing practices that may negatively impact the country and the availability of resources. next generation. Environmental performance will lead to cost savings, increased sales will thereby improve financial performance. This is in accordance with the opinion of Tawfik et al (2021) which shows that the environmental dimension of CSR has a positive effect on financial performance. In research conducted by Damanik & Yadnyana (2017); Setiawan et al (2018); Zainab & Burhany (2020) get a positive influence between environmental performance and financial performance.

The Influence of the Social Dimension of CSR on the Financial Performance of the Pharmaceutical Sector

The social dimension CSR disclosure variable has a significance value of 0.332 where more than 0.05 is in a positive direction so it can be concluded that there is an insignificant positive effect on social dimension CSR disclosure on the financial performance of the pharmaceutical sector in Indonesia. This indicates that there is more and more CSR disclosure from a social perspective. carried out, the more the financial performance of the pharmaceutical sector increases but the effect is not real.

The social dimension, defined as the company must participate in achieving community welfare, and in improving and caring for employee affairs. This shows that although social disclosure has an impact on expenses that affect finance in the short term but can provide benefits in the long term, long-term social disclosure can help the company's sustainability even though it takes time. According to Inoue and Lee (2011); Sun et al. (2019); Long et al. (2020) explained that CSR with a social dimension has a positive effect on financial performance.

5. CONCLUSION

Based on the analysis and discussion, it can be concluded that there is a positive but not significant effect of CSR disclosure on the economic dimension of the financial performance of the pharmaceutical sector in Indonesia. This indicates that the more CSR disclosures are made from an economic perspective, the financial performance of the pharmaceutical sector increases, but the effect is not significant. There is a significant positive effect of CSR disclosure on the environmental dimension on the financial performance of the pharmaceutical sector in Indonesia. This indicates that the more CSR disclosures are made from an environmental perspective, the financial performance of the pharmaceutical sector will increase. There is a positive insignificant effect of CSR disclosure on the social dimension on the financial performance of the pharmaceutical sector in Indonesia. This indicates that the more CSR disclosures are made from a social perspective, the more the financial performance of the pharmaceutical sector increases, but the effect is not significant.

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