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An examination of corporate social responsibility and financial performance: A study of the top 50 Indonesian listed corporations

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Abstract

Purpose

The increasing demand of stakeholders' interests in social performance has put pressure on corporations to undertake social responsibility reporting in their operations in order to satisfy the demands and to gain public support. Some organisations have already responded, either by publishing a separate report regarding their social activities, or by providing such information in their annual report or on their web site. However, in some developing countries such as Indonesia, there is little or no regulation and with no expectation to follow international standards, corporations in these countries tend not to provide corporate social responsibility (CSR) reports. As there is a lack of regulatory controls in reporting CSR activities in most developing countries, the question of what the “carrot” is for the corporations is the crux of this research. The purpose of this paper is to investigate whether Indonesian corporations are aware of CSR.

Design/methodology/approach

This research aims to investigate the level of CSR conducted by the top 50 corporations in Indonesia based on Global Reporting Initiative (GRI) guidelines, as well as to investigate the relationship between CSR and profitability. The profitability variables chosen are earnings before interest, tax, depreciation and amortisation (EBITDA) and earnings per share (EPS). The GRI guidelines have been

Findings

This study showed that Indonesian corporations are already aware of the increasing demands and provide CSR information to stakeholders in the emerging economy. The CSR reporting measured as per the GRI indicated that five out of 45 corporations (11 per cent) completed a maximum of six GRI indicators, ten corporations (22 per cent) fulfilled five indicators and 16 corporations (36 per cent) complied with four indicators. The analyses revealed that there is a positive relationship between CSR and profitability, although it is weak (18 per cent for EBITDA and 16 per cent for EPS). Therefore, it can be argued that reporting social responsibility activities is beneficial for corporations in emerging economies such as Indonesia.

Originality/value

From the literature, the authors have concluded that there is no research evidence of a study that analyses the depth or level of CSR reporting among Indonesian corporations, hence there is a contribution to new knowledge as the analysis reveals new findings in relation to a developing country. Although there are studies measuring the relationship between CSR reporting and financial performance such as EPS, this study further explores the correlation by introducing a new variable, i.e. EBITDA.

Keywords

- Indonesia
- Corporate social responsibility
- Financial performance
- Financial reporting

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