CHAPTER II

LITERATUR RIVIEW

2.1 Theory

2.1.1 Corporate Social Responsibility (CSR)

The World Business Council for Sustainable Development (WBCSD), an international association of companies directly involved in business and sustainable development, defines CSR as an ongoing commitment from businesses to behave ethically and contribute to economic development, while enhancing the quality of life of employees and their families , as well as local communities and the wider community at large (siteresources.worldbank.org)

The Global Reporting Initiative (GRI), a non-profit organization promoting sustainable economic, social and environmental development, defines CSR as a responsibility of corporate organizational performance to internal and external stakeholders for sustainable development purposes (Sustainability Reporting Guidelines, 2011: 3).

ISO 26000: 2017 is a standard and Guidance on Social Responsibility which contains the definition, principles, core subjects and guidance on how core principles and subjects are enforced within the organization. Indeed, ISO26000 is not the main clue about corporate CSR. ISO 2000000 (International Organization for Standardization) social responsibility is defined as "the responsibility of an organization to the effects of its decisions and activities on society and the environment embodied in the form of transparent and ethical behavior in line with sustainable development and community welfare ; taking into account the expectations of stakeholders, in line with established laws and international behavior norms; and integrated with the organization as a whole "So social responsibility is the responsibility of the company on the decisions taken by the decision maker and its actions aimed at achieving sustainable development.

Corporate social responsibility is a mechanism for organizations to voluntarily integrate social and environmental issues into operations and interactions with stakeholders, which exceeds the legal responsibilities of the organization. Corporate social responsibility as the company's attention menyisishkan part of their profits for the benefit of human development, and environmentally sound appropriate procedures and professionals (Dahlia, 2008)

Corporate social responsibility is the responsibility of management to consider profitability, customer satisfaction and community welfare equally in evaluating company performance. Corporate social responsibility. As the company's commitment to take into account the operational impacts of social, economic and environmental (Gunawan, 2008).

2.1.2 Stakeholder Theory

This theory states that the success and death of a company depends on its ability to balance the diverse interests of stakeholders or stakeholders. If able then the company will achieve sustained support and enjoy the growth of market share, sales and profit. In the perspective of stakeholder theory, society and the environment are the core stakeholders of the company that must be considered Lako (2007).

2.1.3 Social Contract Theory

This theory states that the existence of the company in an area because it is politically supported and guaranteed by the government regulation and parliament which is also a representation of the community. Thus, there is an indirect social contract between an enterprise and a society in which it provides cost and benefits for the sustainability of a corporation. Therefore, CSR is a non-voluntary corporate liability Lako (2007).

2.1.4 Theory of Corporate Sustainability

According to this theory, in order to live and grow sustainably, corporations must integrate business objectives with full social and ecological objectives. Business development must be based on 3 main pillars: economic, social and environmental in an integrated manner and not sacrificing the interest of next generation's interest to live and fulfill their needs. In the perspective of corporate sustainbility theory, society and environment are the basic and essential pillars in determining the success of a company's business so it must always be dproteksi and in empowering Lako (2007).

2.1.5 Political Economy Theory

According to this theory the economic domain can not be isolated from the environment in which the transaction of economic transactions is carried out. The company's financial statements are both social and political documents as well as economic documents because they can not be isolated from society and the environment, companies must pay attention and implement CSR Lako (2007)

2.1.6 Justice Theory

According to this theory, in the free-market capitalist system of profit is heavily dependent on the unequal rewards and privilages contained in profit and compensation. Profit and loss reflect injustice between parties enjoyed or in a company's misery. Therefore, the company should be fair to the community and surrounding environment which has also to bear the impact of corporate externalities through CSR program program Lako (2007)

2.1.7 Company Financial Performance

financial performance as the determination of certain measures that can measure a company in generating profit. In measuring the financial performance needs to be linked between the company with the responsibility center. performance measurement is the process of determining how well business activity is done to achieve goals, strategies, eliminating waste and providing timely information for continual improvement. Good corporate performance affects the company's ease of obtaining loans, influencing investors' decisions in determining their capital and for the future of the company Irawati (2006).

Financial performance is a description of every economic result that can be achieved by a company at a certain period through the activities of the company to generate profits efficiently and effectively which can be measured by analyzing the analysis of financial data that is reflected in the financial statements Husnan (2007).

the measurement of financial performance can be done by financial ratio analysis. Financial ratio analysis is the basis for assessing and analyzing the performance of a company's operations or company performance. Financial ratios are designed to evaluate financial statements, which contain data about the company's position at a point and the company's operations in the past. The real value of financial statements lies in the fact that financial statements can be used to help estimate future earnings and dividends Hanafi and Halim (2009).

2.1.8 Activity Ratio

Activity analysis Operating activities require investment, both for short-term (inventory and account receivable) and long-term assets (property, plan, and equipment). The activity ratio describes the relationship between the level of the company's operations (sales) and the assets needed to support the operations of the company. The activity ratio can also be used to predict the capital required by a company (for both operating and long-term activities). For example, to increase sales will require additional assets. The activity ratio allows analysts to assess this need as well as assessing the company's ability to acquire the assets needed to maintain its growth rate. Two examples of activity ratios: inventory turnover, total asset turn over of ULUPUI (2007).

Total asset turnover, this ratio describes the company's ability to use the assets owned to generate sales. By looking at this ratio can be seen the effectiveness of the use of assets in generating sales Darsono and Ashari (2009).

2.1.9 Profitability Ratio

Investors in the capital market are very concerned about the company's ability to generate, support, and increase profits. Profitability can be measured several different things, but in the interrelated dimensions of ULUPUI (2007).

According to Hanafi and Halim (2009) Profitability ratio is the ability of companies to generate profits at the level of sales, assets, and capital stock. there are three ratios that are often used to measure profitability ratios are Profit Margin, Return On Asset, and Return On Equity.

Return On Assets (ROA) is used to measure a company's ability to generate net income based on certain asset levels. ROA is also often referred to as ROI (Return On Investment). The high ratio shows the efficiency of asset management, which means the efficiency of Hanafi and Halim (2009).

This study uses the ratio of activity (asset turn over), and profitability ratios each selected one of the ratio calculations of each ratio above. For example, the ratio of activity is expressed by total asset turn over (ATO), while profitability ratio is measured by return on asset ratio (ROA).

2.2 CSR Dimensions.

While many academics view CSR as nondimensional looking at CSR activities as a whole, some academics argue that CSR actually consists of a variety of dimensions that each reflect different groups of CSR activities. However, there is no generally accepted and universally accepted dimension of CSR.

Opinions about the CSR dimension first proposed by Carrol (1979), in Satria Emerlard Dany (2013). which states that the voluntary activities undertaken by the company can be divided into two dimensions of ethics (ethical) and humanity (philanthropic). Ethical responsibility refers to corporate activities that are not governed by law but are expected by the public for the company to do so, while humanitarian responsibilities include free acts that exceed the expectations of society.

Carrol (1991) Satria Emerlard Dany (2013). perfecting his idea of the CSR dimension. According to him CSR consists of four dimensions of economic (economic), law (legal), ethics (ethical), and humanity (philanthropic) is described in the form of a pyramid. The four dimensions of CSR are:

1. Economic Responsibility

   Economic responsibility is the main and most important corporate social responsibility, the basic foundation of the other three responsibilities, in which the company has the responsibility to provide the goods or services the community wants and sells for profit.

2. Legal Responsibility

   Legal responsibility is solely related to economic responsibility and reflects the public's expectation of the company to fulfill its economic duties with restrictions set by law.

3. Ethical Responsibility

   The ethical responsibility of the company encompasses all activities and practices expected or prohibited by society even though they are not governed by law. In this case, the company has the authority to avoid harmful things and do what is right, proper and reasonable.

4. Humanitarian Responsibility

   Humanitarian responsibility involves everything that is not clearly mandated by society, which depends on the decisions and preferences of each. Nevertheless, the company is expected to contribute finance and human resources to the community and improve the quality of life.

Clarkson (1995) (Peloza and Papania, 2008). provides another alternative to the CSR dimension, according to which the CSR dimension would be better judged by using a stakeholder framework, a framework that assesses how firms manage their relationships with key stakeholders. The main stakeholders in question are individuals, groups, and / or institutions without their continuous participation, the company can not maintain its survival. The main stakeholders include shareholders or owners, employees, suppliers, customers, and public stakeholders such as communities and the environment. Based on differences in rights and interests for each major stakeholder in the company, the company needs to apply different activities and policies that are different according to the needs of each stakeholder in order to achieve better financial performance.

Thus, it can be concluded that the voluntary activities undertaken by the company for each of the different key stakeholders show different dimensions of CSR (Clarkson, 1995; in Peloza and Papania, 2008).

Dahlsrud (2006) Based on the analysis of the existing CSR definition, he gave his opinion on the dimension of CSR. According to him, there are five dimensions of CSR namely environmental, social, economic, stakeholder and voluntariness.

2.3 CSR in Indonesia

In Indonesia, the company's obligation to implement CSR is regulated in Law no. 40 Year 2007 regarding Limited Liability Company as stipulated in the following article:

Article 74 reads:

(1) The Company which carries out its business activities in the field and / or related to natural resources shall carry out the Social and Environmental Responsibility.

(2) Social and Environmental Responsibility as referred to in paragraph (1) shall be the obligations of the Company which are budgeted and taken into account

as the Company's expenses whose implementation is carried out with due consideration to the properness and reasonableness.

(3) A company that does not fulfill the obligations as referred to in paragraph (1) shall be liable to sanctions in accordance with the provisions of laws and regulations.

(4) Further provisions on Social and Environmental Responsibility shall be governed by a government regulation.

Furthermore, to implement the provisions of Article 74 paragraph (4) of Law no. 40 of 2007, the government set PP No. 47 of 2012 on Social and Environmental Responsibility of Limited Liability Companies as outlined in the following articles:

Article 2 reads:

Each Company as a legal subject has social and environmental responsibility.

Article 3 reads:

(1) The social and environmental responsibilities referred to in Article 2 shall be obligatory for the Company which carries on its business activities in the field and or related to natural resources based on the Act.

(2) The obligations referred to in paragraph (1) shall be implemented either inside or outside the Company's environment.

Article 4 reads:

(1) Social and environmental responsibility is performed by the Board of Directors based on the Company's annual work plan after obtaining approval from the Board of Commissioners or the GMS in accordance with the articles of association of the Company, unless otherwise provided in the laws and regulations.

(2) The Company's annual work plan as referred to in paragraph (1) shall contain the planned activities and budgets required for the implementation of social and environmental responsibility.

Article 5 reads:

(1) The Company that carries out its business activities in the field and / or related to natural resources, in preparing and stipulating the activity plan and budget as referred to in Article 4 paragraph (2) shall pay attention to decency and fairness.
(2) The realization of the budget for the implementation of social and environmental responsibility carried out by the Company as referred to in paragraph (1) shall be calculated as the cost of the Company.

Article 6 reads:

Implementation of social and environmental responsibility is contained in the annual report of the Company and accountable to the GMS.

Article 7 reads:

The Company as referred to in Article 3 which does not fulfill its social and environmental responsibilities shall be subject to sanctions in accordance with the provisions of laws and regulations.

Article 8 reads:

(1) The social and environmental responsibilities referred to in Article 3 shall not prevent the Company from participating in carrying out the social and environmental responsibilities referred to in Article 2.
(2) A company which has participated in carrying out the social and environmental responsibilities referred to in paragraph (1) may be awarded by the competent authority.

The obligation to implement CSR is also applicable for companies conducting investment in Indonesia as regulated in Law no. 25 Year 2007 on Capital Investment as stipulated in the following articles:

Article 15 reads:

Every investor is obliged:

a. apply the principles of good corporate governance;
b. carrying out corporate social responsibility;
c. prepare reports on investment activities and submit them to the Investment Coordinating Board;
d. respect the cultural traditions of the communities surrounding the location of investment business activities; and
e. comply with all laws and regulations.

Article 17 reads:

Investors seeking non-renewable natural resources shall gradually allocate funds for the recovery of sites that meet environmental feasibility standards, whose implementation is regulated in accordance with the provisions of legislation.

Article 34 reads:

(1) Any business entity or individual business as referred to in Article 5 that fails to comply with the obligations as stipulated in Article 15 may be subject to administrative sanctions in the form of:
  a. written warning;
  b. restrictions on business activities;
  c. freezing of business activities and / or investment facilities; or
  d. revocation of business activities and / or investment facilities.

(2) The administrative sanctions as referred to in paragraph (1) shall be granted by the authorized institution or institution in accordance with the provisions o f the legislative regulation.

(3) In addition to being subject to administrative sanctions, business entities or private enterprises may be subject to other sanctions in accordance with the provisions of laws and regulations.

Among Asian countries, the penetration of CSR practices in Indonesia is still relatively low. In 2005 alone there were only 27 companies disclosing reporting of their CSR activities. For this reason, since 2005 the Indonesian Institute of Accountants (IAI) Management Accountant Compartment organizes the

Indonesia Sustainability Reporting Award (ISRA), which is an award to Indonesian companies that are able to make the best CSR activity report. It aims to encourage companies in Indonesia to engage in CSR practices and report on CSR activities it undertakes.

2.4 Previous Research

Several previous studies have attempted to reveal the effect of CSR practices on corporate financial performance. These studies include the following:

Table 2.1 Comparisson of Previous Research

Name of Researcher	Research Title	Year of Research	Result of Research
Aryani	Tanggung jawab social dan profitabilitas perusahaan	(2008)	CSR berpengaruh positif secara signifikan terhadap profitabilitas, laba operasi, dan abnormal return saham perusahaan
Monica	Pengaruh corporate social responsibility (CSR) terhadap economic value added (EVA) dan Market Value Added (MVA) dtudi empiris emiten	(2010)	CSR berpengaruh positif secara signifikan yaitu menigkatkan nilai tambah ekonomi (Economic Value Added =

	manufakturing di Bursa Efek Indonesia (BEI)		EVA dan nilai tambah pasar sekuritas perusahaan (Market Value Added = MVA)
Desak Putu Suciwati *et all*	Pengaruh *Corporate Social Responsibility* Terhadap Kinerja Keuangan (Pada Perusahaan Sektor Pertambangan Di Bei Tahun (2010 - 2013)	(2016)	CSR berpengaruh signifikan terhadap ROA CSR berpengaruh signifikan terhadap ROE
Danu Candra Indrawan	Pengaruh CSR terhadap kinerja perusahaan.	(2011)	Pengungkapan aktivitas CSR berpengaruh positif terhadap kinerja keuangan perusahaan. Pengungkapan aktivitas CSR berpengaruh positif terhadap kinerja pasar perusahaan.
Putri Mardiandari Sri dan Rustiyaningsih	tanggung jawab sosial dan kinerja keuangan pada perusahaan manufaktur go	(2013)	Biaya kesejahteraan karyawan berhubungan positif dan

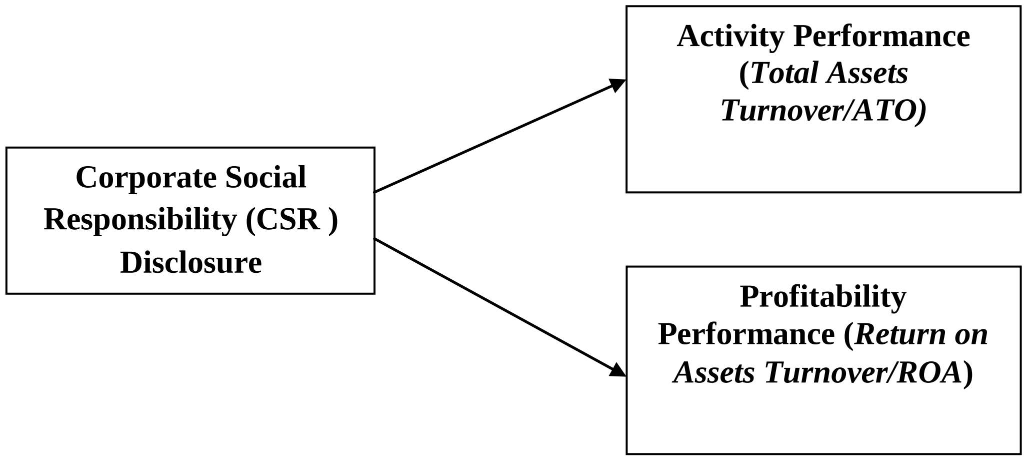
	publik di bursa efek indonesia		berpengaruh signifikan terhadap ATO dan juga ROA perusahaan.

2.5 Theoretical Framework

In this study, corporate social responsibility variable is a claim of stakeholders to not only operate for the benefit of shareholders, but also for the benefit of stakeholders in business practices, ie workers, local community, government, non-governmental organizations (NGOs) , consumers, and the environment (Nugroho, 2007).

Corporate social responsibility has a direct relationship with company performance. The greater the company's investment on CSR issues the greater the economic benefits it generates. Lako (2007). So that will affect the company's performance both in the performance of activity and profitability performance. The path diagram provides explicitly the relationship of causality between variables. The arrows show the relationship between variables. Based on the above explanation, the model in this study can be described in the framework as follows. The framework of thought in Graph 2.1 shows the effect of CSR on the performance of firms that are proxied by ATO and ROA.

Graph 2.1



2.4 Hypothesis

1. the influence of Corporate Social Responsibility (CSR) on activity performance (ATO)

Disclosure of CSR with the proxy of welfare costs will be able to increase work satisfaction affecting employee productivity and will have implications for the company's ability to generate revenue through sales. Research Januarti and Dini (2005) shows the cost of employee welfare is negatively related and significant effect on the activity performance. In addition, Kartikasari (2008) research shows that social responsibility positively affects reputation. Then, the next result shows that the company's reputation has a positive effect on the improvement of company performance. Then the hypothesis can be formulated as follows:

H1: There is influence of Corporate Social Responsibility (CSR) on activity performance (ATO)

2. the influence of Corporate Social Responsibility (CSR) on profitability performance (ROA)

According to Kadek, Rosiliana, et. (2014: 2), Corporate Social Responsibility can have a positive impact for the company, where by doing CSR activities the company can increase public confidence in the company's products, so the company's reputation also increases in the eyes of society. Through the theory of legitimacy, companies that perform CSR play a role in improving the legitimacy that will affect consumer attitudes toward the company's products (Riska, 2013). The results of this study explain that there is a significant positive relationship between CSR with ROA, so the hypothesis proposed in this study are:

H2: There is influence of Corporate Social Responsibility (CSR) to profitability performance (ROA)