Corporate Social Activities and Adjusted Firm Performance: An SOE's Context

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Abstract: This study examines the empirical effect of the relationship between corporate social activities and firm performance in the state-owned enterprises (SOEs). This paper focuses upon the SOE context due to specific regulations for this kind of company. This study analyzed the individual performance and industry-adjusted firm performance for both SOE and non-SOE. Based upon 683 firm-year observations, we found that corporate social responsibility (CSR) activities improve firm performance. Moreover, SOEs do not moderate the relationship between CSR activities and company performance. However, the subgroup analysis demonstrated different result. CSR significantly affects firm performance for the non-SOE companies and vice versa for the SOEs. This finding indicates that CSR activities as mandatory for SOEs might be the factor that caused the insignificant effect towards the SOEs' performance. The research implicates to the regulators to set standards or guidelines for sustainability practices, especially for SOEs.

Keywords: Corporate social responsibility, CSR spending, Firm performance, State-owned enterprises, Industry adjusted firm performance.

1. Introduction

In recent years, social and environmental issues have attracted various parties' attention, especially regarding how corporate social activities can overcome the impact of company operations. From the business side, the responsibility to stakeholders and shareholders has encourage companies to increase CSR investment by allocating more resources to implement social and environmental responsibility activities. Basically, corporate entities are social creations, which need community support to survive (Relch, 1998). When companies are involved in CSR activities they will get support from stakeholders. Faller & zu Knyphausen-Aufseß (2018) empirically show that the level of CSR involvement provides more significant benefits than

economic profit. Otherwise, another opinion states that additional CSR investments are contrary to the company's primary goal to maximize profits. Investments made by companies in social activities are often considered burdensome to shareholders. Spending on CSR means draining company resources (Galant & Cadez, 2017; Testa & D'Amato, 2017).

Shareholders are often interested in decisions on corporate social responsibility activities (Oh, Chang, & Martynov, 2011) because CSR is a unique form of corporate strategic investment (Jia & Zhang, 2013). The most important reason for supporting CSR as a strategic investment is a potential driver of a company's financial performance. Therefore, it is necessary to identify factors that can motivate shareholders to be more concerned with social and environmental goals (Dam & Scholtens, 2012). Brammer et al. (2006) showed that preserve the environment, society, and employee welfare have a positive impact on economic performance. Information on CSR activities must be disclosed in the annual report so that it is conveyed to stakeholders. Therefore, CSR performance is analyzed with two measurements; total CSR spending and content analysis of disclosures in the annual report.

Disclosing CSR practices in company reports is considered a signal to avoid potential risks of exposure to future social costs. That is, CSR disclosure increases the visibility of the company. Shareholders will perceive it as a signal that the company is trying to meet their expectations (Oyewumi et al., 2018). Furthermore, CSR disclosure serves as an advertising vehicle for companies to maintain a good reputation and to maintain sustainability performance (Lee et al., 2017). With CSR disclosure, companies seek to create community legitimacy, as well as benefit from increased stakeholders interest in their products and services (Uwalomwa & Uadiale, 2011). Gras-Gil et al., (2016) showed that CSR indicators were found to be significantly correlated with ethical and corporate moral issues. We suggest that companies concerned about social and environmental issues by investing in CSR activities will be able to increase stakeholder satisfaction, maintain company reputation, and ultimately improve firm performance.

In Indonesia, the enactment of the law encourages companies, mainly state-owned enterprises, to contribute to society and environmental development. The regulation states the minimum budget that must be allocated for environmental and social concerns. As a result, total CSR spending increases (Nuvaid et al., 2017). Furthermore, it raises questions about the relationship between corporate CSR spending on performance and whether state ownership affects this relationship.

Research on CSR and company performance still shows varying results. Superior CSR performance can drive higher company value (Cahan et al., 2016). Previous studies provide empirical evidence of various beneficial aspects of corporate social activities. CSR reduces the cost of equity (Dhaliwal et al., 2011), more profitable analyst recommendations (Ioannou & Serafeim, 2015), better communication access with shareholders (Fieseler, 2011), and higher company value (Jo & Harjoto, 2011). Nakamura (2015) shows that social investment encourages better company performance. In contrast, Iqbal et al. (2012) show that corporate social performance harms firm value. Eriandani et al. (2019) state that environmental performance increases the cost of equity. Lys, Naughton, & Wang (2015) show that CSR investment spending is not related to company performance. CSR performance appears to be more correlated with accounting-based performance measures than market-based indicators (Orlitzky et al., 2003). Therefore, we perform tests with accounting-based performance.

These varying empirical results may be due to the characteristics of the company. This study explores social and environmental responsibility with company performance in state-owned enterprises (SOEs) and non-SOEs. Governments tend to have political interests and seek support from the community, making the essence of CSR even more blurred, especially when allocating resources and selecting CSR projects (Frynas & Stephens, 2015). Previous research has shown that SOEs' concerns about principals' political power and influence may be more reliable than management activities and behavior (Nguyen & Crase, 2011). The government oversees SOEs, then pressures companies to meet social demands to gain support from political leaders (Guo, Huy, & Xiao, 2017).

State-owned enterprises are spared from intense market pressures because the government protects them; this condition is advantageous and less competitive (Shah, 2011). Zhang et al. (2010) provide empirical evidence that companies with equity ownership make lower donations than non-SOEs after natural disasters in China. State-owned enterprises are frequently used for political purposes; thus, CSR activity in SOEs is lower than in non-SOEs (Chun, 2009). Large state-owned enterprise can make easy ways for governments to implement policies that can increase social stability (Chang, Li, & Lu, 2015). Based on previous research, the higher the government ownership, the greater the social responsibility. However, there is a lack of research that combines these results with the firm performance.

The purpose of this study is to re-examine the relationship between CSR and company performance, with different measurements from previous studies. Then, moderate that relationship with government ownership. This study's measurement of CSR activity uses the amount of investment expenditure for social and environmental activities and content analysis to confirm the test results. The company's performance uses relative performance, also known as industry-adjusted company performance. The company's superiority appears compared to the same industry group or groups (Stratopoulos & Dehning, 2000).

CSR in Indonesia

Indonesia is the only country in Southeast Asia to become a member of the G20. Besides, Indonesia is listed as the third-largest economy with the G20 nation. When competition is getting tougher, companies in Indonesia cannot just rely on economic performance to gain competitiveness. Sustainable development goals (SDGs) are the main targets of countries globally, so the government should garner support from all parties. Companies must be responsible to the environment and all stakeholders, such as employees, customers, and society. One form of corporate responsibility is the increased investment in recent years in social activities and environmental improvement. (Phuong & Rahman, 2017). The implementation of CSR activities is also closely related to achieving sustainable development goals (SDGs). The SDGs are a global agreement of world leaders to preserving the environment, reduce poverty, and address other social problems. As a manifestation of the Indonesian government's commitment to implementing the SDGs, in 2017, a presidential decree was issued regarding the implementation of sustainable development goals.

The world seems to be demanding that companies in Indonesia be more responsible in doing business because many companies in Indonesia extract natural resources. Companies must have a more significant role in overcoming social and economic difficulties such as poverty, lack of access to education, public health, the environment, and others (Ridho, 2017). In Indonesia, CSR has been regulated in several regulations. First, Law Number 40 article 74 of 2007 in respect of public Companies. This regulation

officially uses Social and Environmental Responsibility (TJSL) to regulate companies that utilize natural resources to implement CSR better. Secondly, SOEs Minister Regulation PER-02 / MBU / 7/2017, contains the obligations of state-owned companies to foster communities and build environmental awareness in locations affected by company operations. Third, Law Number 4 of 2009 concerning Mineral and Coal Mining. This regulation states that holders of Mining Business Licenses and Special Mining Business Permits must develop community development and empowerment programs. Fourth, the rules of the capital market regulatory body, Kep-431 / BL / 2012, concerning the Submission of Annual Reports of Issuers or Public Companies. Based on these regulations, all companies listed on the exchange must submit social and environmental responsibilities in an annual report.

CSR Activities and Firm Performance

The theory of the firm assumes that management is motivated to maximize company profits (Jensen, 1988). Based on this perspective, CSR can be seen as a form of investment. CSR investments improve the company's image, shape the company's image, consumers and stakeholders are increasingly socially aware, and ultimately can increase company revenue (Burke & Logsdon, 1996).Michelon, Boesso, & Kumar (2013) identified the benefits companies gain from promoting social and environmental activities, such as increasing legitimacy and reputation and better relationships with their stakeholders to increase their competitiveness.

The instrumental theory is also used to describe what will happen if managers or companies behave in specific ways (Jones, 1995). Several previous studies support instrumental theory and show a positive relationship between CSR and company performance, which means that if a company carries out social responsibility, it will improve corporate performance (López-Arceiz et al., 2018; Orlitzky et al., 2003; Waddock & Graves, 1997). A positive relationship because CSR activities and expenditures will improve relations between stakeholder groups (Waddock & Graves, 1997) that can help resolve conflicts between them (Jo & Harjoto, 2011). Clarkson, Li, & Richardson (2004) show that capital expenditure for the environment, including CSR programs, by low polluting companies, is interpreted as an improvement in their financial performance. This phenomenon can affect company performance positively. Based on theoretical arguments and empirical evidence, it strengthens the hypothesis that CSR activities, which are reflected in expenditures, are strategic investments that can boost corporate performance (Nollet et al., 2016).

Good management theory also explains the relationship between CSR and firm performance. Social responsibility can enhance the company's relationships with key stakeholder groups and achieve better performance. For example, good employee relations tend to increase ethics, productivity, and pride. Excellent public relations may provide an incentive for local governments to provide support, or reduce pressure, thereby reducing costs for companies and enhancing the bottom line (Waddock & Graves, 1997). Intending to add robust empirical results previously described. This study re-tested using a different measurement proxy, namely industry adjusted firm performance, to measure financial performance. Likewise, the measurement of CSR performance using total spending and CSR disclosure scores.

H_1: The CSR activities is positively associated with industry adjusted firm performance.

Ownership, CSR Activities, and Firm Performance

The ownership structure is one of the governance mechanisms that influence the company's decision to allocate resources, specifically how companies can be socially responsible (Muttakin & Subramaniam, 2015). The majority shareholders related to government departments or countries usually significantly impact crucial decisions related to environmental issues. Top managers will be very compliant with the regulation or policies set when managing CSR activities (Li & Zhang, 2010). State-owned enterprises are expected to have social programs that can provide more benefits to stakeholder groups' social needs beyond mere shareholders. Therefore, companies whose business is related to the public interest include social responsibility as one of the missions that must be achieved.

The majority shareholder, the government, is interested in promoting social and national development, so public sector companies can utilize resources. The main benefit is getting favorable treatment in resource allocation. Therefore, SOEs companies can also foster cooperation from similar companies in supporting CSR involvement (Ntim & Soobaroyen, 2013). In many cases, SOEs dominate natural resources to ensure public needs. Thus, good CSR practices can provide greater legitimacy (Cordeiro et al., 2018).

The previous section explained several regulations in Indonesia concerning social and environmental responsibility. Regulations for state equity ownership companies appear to be tighter in their implementation. So it can be said that the theory of legitimacy is more underpinning the CSR activities of SOE companies than instrumental theory. That is, the goal of SOE companies doing social responsibility is to get legitimacy from stakeholders, not to achieve better profits because they have received financial support from the government. The second hypothesis of this study is as follows.

H_2: State-owned enterprises moderate the relationship between CSR activities and industry adjusted firm performance.

2. Method

Explanatory research design is used in this study to solve the proposed hypothesis. There are three criteria for selecting the research sample. First, the company must be listed on the Indonesia Stock Exchange (IDX) in 2015-2018. Second, publish an annual report and contain information on costs incurred for CSR activities. Third, all the required data are available. Based on the specified sample requirements, the selected sample was 683 firm years. Hypothesis testing is tested by regression on all samples obtained. Meanwhile, to answer the second hypothesis, a moderated linear regression test was conducted. Furthermore, the research sample is grouped into two categories; SOEs and non-SOEs. Analysis using this subgroup refers to Sharma, Durand, and Gur-Arie (1981), which states that a subgroup analysis was used to identify the moderator variables. Based on categories, the research sample is 64 SOEs and 619 non-SOEs.

The dependent variable of this study is company performance. Proxies for company performance are Return on Assets (ROA) and Return on Equity (ROE). The proxy is calculated in two ways, namely the performance of individual companies and the performance of industry specifications. Industry Adjusted Firm Performance (Adj Perf), which is the relative performance of companies that have considered the

group's performance at that company. The performance calculates the individual performance against the average performance of companies in one industry group (Stratopoulos & Dehning, 2000). The operational technique of calculating the individual performance of each company selected as a research sample is disputed with the average performance of industry groups, where the company is included in a particular industry category. Following the notation of Industry Adjusted Firm Performance (AdjPerf) calculation in research (Winarno, 2019), Adj Perf$_{ijt}$ = FP$_{it}$-FP$_{jt}$. FP$_{it}$is the company's performance in the t-year. FP$_{jt}$is the average performance of the jth industry in the t-year.

The independent variable of this study is CSR activities by measuring CSR spending and CSR disclosure. CSR activities require additional costs, which indicates an increase in company spending (Nakamura, 2015). CSR spending (CSR$_{exp}$) is the total costs for social and environmental responsibility activities; this data is obtained from disclosures in the annual report. This variable is calculated from the total expenditure spent on environmental maintenance, community development, giving donations, caring for employees, and ensuring product quality(Malik, Al Mamun, & Amin, 2019). The CSR disclosure (CSR$_{disc}$) is the number of activities that are disclosed in the annual report or sustainability report. Measurement of CSR disclosure refers to Ramdhony (2017), which uses a GRI index adjusted to Indonesia's conditions. The total number of disclosures is 41 divided into four categories: environment, product and consumers, human resource, and community. Disclosure score is measured by a dummy variable, one if disclosed in the annual report, and 0 otherwise. The moderating variable of this research is company ownership, grouped into state-owned enterprises (SOEs) and non-SOEs. State ownership above fifty percent will be included in the SOEs category. This study uses four control variables. First, the size of the company, measured by total assets (Size). Second, the firm risk is proxied by the leverage (Lev). Third, market share (MS), calculated by the percentage of company sales to total industry sales, $MS_{ijt} = Sales_{it} \div \sum_{i=1}^{nj} Sales_{ijt}$. Fourth, industry capital intensity, which is calculated using the formula $ICI_{jt} = \left(\sum_{i=1}^{nj} Assets_{ijt} \div \sum_{i=1}^{nj} Sales_{ijt}\right) \times P_{ijt}$, where P$_{ij}$is the sales proportion of company in industry j (Bharadwaj, Bharadwaj, & Konsynski, 1999).

To test both hypotheses, this study runs an ordinary least square. It also tests the fixed-effect model for robustness tests. The research model is listed below.

FinPerf$_{it}$ = α + β$_1$CSRexp$_{it}$ + Σβ$_2$Controls$_{it}$ + ε$_{it}$..(1a,2a)

FinPerf$_{it}$ = α + β$_1$CSRexp$_{it}$ + β$_2$SOE$_{it}$ + β$_3$CSRexp$_{it}$SOE$_{it}$ + ΣControls$_{it}$ + ε$_{it}$................................(1b,2b)

AdjFinPerf$_{it}$ = α + β$_1$CSRexp$_{it}$ + Σβ$_2$Controls$_{it}$ + ε$_{it}$.. (3a,4a)

AdjFinPerf$_{it}$ = α + β$_1$CSRexp$_{it}$ + β$_2$SOE$_{it}$ + β$_3$CSRexp$_{it}$SOE$_{it}$ + ΣControls$_{it}$ + ε$_{it}$.........................(3b,4b)

FinPerf$_{it}$ is the individual financial performance, as measured by ROA and ROE. ROA is the proportion of net income to total assets. Whereas ROE is the proportion of net income to total equity. AdjFinPerf$_{it}$is the industry adjusted firm performance, with formula, $AdjROA_{ijt} = ROA_{it} - ROA_{jt}$. Besides, AdjROE Measurement is $AdjROE_{ijt} = ROE_{it} - ROE_{jt}$. Measurement of other variables has been explained in the previous paragraph. To confirm the first hypothesis, we include CSR disclosure in testing model c.
FinPerf$_{it}$ = α + β$_1$CSRdisc$_{it}$ + Σβ$_2$Controls$_{it}$ + ε$_{it}$..(1c,2c)
AdjFinPerf$_{it}$ = α + β$_1$CSRdisc$_{it}$ + Σβ$_2$Controls$_{it}$ + ε$_{it}$...(3c,4c)

3.   Findings and Discussions

Empirical Result

Descriptive statistics are presented in Table 1. As a complement to the analysis, we also tested the SOE and non-SOE groups (not presented in the table). In the full sample, individual company ROA performance has an average of 3.98% and a minimum ROA of -0.44 and a maximum ROA of 0.45. Industry adjusted ROA performance has almost the same value as individual performance. The performance of individual ROE has an average of 5.70% and a minimum ROE of -11.04 and a maximum ROE of 1.60. Otherwise, the value of Industry adjusted ROE performance is quite different from individual performance. CSR exp is expressed in millions; in the table, the minimum value of CSR expenditure is four million rupiahs. The maximum CSR exp value is 2,505,587 million rupiahs, while the average is 20,652 million rupiahs, meaning that the CSR expenditure range is quite extensive. When we split the sample into two, SOEs and non-SOEs, the largest CSR exp was in the state-owned enterprise group (SOEs), and the minimum CSR exp in the non-SOEs group. The maximum and minimum values of individual firm performance and adjusted industry firm performance are in the non-SOEs group. This shows that the amount of CSR spending on state companies may be in the interests of legitimacy, not to increase the company's economic value.

Table 1: Descriptive Statistics

Variable	Obs.	Min.	Max.	Mean	Std. Dev.
ROA	683	-0.440	0.458	0.039	0.078
AdjROA	683	-0.405	0.428	0.000	0.074
ROE	683	-11.040	1.609	0.057	0.481
AdjROE	683	-9.933	1.557	0.000	0.453
CSRexp	683	4	2,505,587	20,654	114,170
Size	683	10.753	20.842	15.474	1.744
Lev	683	0.035	39.485	2.174	3.091
MS	683	0.000	0.627	0.025	0.058
ICI	683	0.000	0.877	0.032	0.083

Source: Author's findings

Table 2 presents the estimation results from the (1a) - (4b) model. In models (1a) and (2a), the coefficients for CSRexp are 2.153 and 1.875, with a significant level of 5%, indicating that firms with larger CSR expenditures tend to have more CSR activities, thereby increasing the performance of individual firms. Consistent with the previous model, models (3a) and (4a) also showed similar results, with coefficients of 2,229 and 1,960 with a significance level of 5%. Furthermore, to confirm the empirical results of the first hypothesis, we tested the same model with different CSR measures. We conduct a content analysis on corporate social responsibility disclosures to measure CSR activities. The results showed that CSR disclosure has a statistically significant positive effect on company performance (not shown in the table).

These results confirm hypothesis 1; companies with greater social responsibility tend to encourage better industry adjusted firm performance.

Table 2: Regression Result – Full Sample

Variable	ROA (1a)	ROE (2a)	AdjROA (3a)	AdjROE (4a)	ROA (1b)	ROE (2b)	AdjROA (3b)	AdjROE (4b)
Constant	1.862	-2.040	0.441	-1.007	1.647	-2.087	0.228	-1.150
CSRexp	2.157**	1.917**	2.224**	1.956**	2.459***	1.956**	2.583***	2.160**
SOE					-0.116	0.562	-0.556	0.498
CSRexp*SOE					-0.335	-0.565	-0.058	-0.695
Size	-0.637	1.767**	-0.064	0.697	-0.423	1.794**	0.189	0.824
Lev	-8.412***	-4.581***	-6.728***	-3.752***	-8.451***	-4.604***	-6.769***	-3.802***
MS	0.465	0.282	2.487**	0.581	0.668	0.269	2.767***	0.654
ICI	0.925	-0.834	-1.623	-0.696	0.737	-0.833	-1.870*	-0.775
Adj. r^2	0.177	0.032	0.119	0.022	0.179	0.029	0.125	0.021
F stat.	19.384***	3.744***	12.468***	2.949***	15.904***	3.012***	10.714***	2.459***

Significant codes: 0.1 '***' 0.05 '**' 0.10 '*'

[1a] $ROA_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 MS_{it} + \beta_5 ICI_{it} + \varepsilon_{it}.$

[2a] $ROE_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 MS_{it} + \beta_5 ICI_{it} + \varepsilon_{it}$

[3a] $AjdROA_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 MS_{it} + \beta_5 ICI_{it} + \varepsilon_{it}$

[4a] $AdjROE_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 MS_{it} + \beta_5 ICI_{it} + \varepsilon_{it}$

[1b] $ROA_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 SOE_{it} + \beta_3 CSRexp_{it} SOE_{it} + \beta_4 Size_{it} + \beta_5 Lev_{it} + \beta_6 MS_{it} + \beta_7 ICI_{it} + \varepsilon_{it}$

[2b] $ROE_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 SOE_{it} + \beta_3 CSRexp_{it} SOE_{it} + \beta_4 Size_{it} + \beta_5 Lev_{it} + \beta_6 MS_{it} + \beta_7 ICI_{it} + \varepsilon_{it}$

[3b] $AdjROA_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 SOE_{it} + \beta_3 CSRexp_{it} SOE_{it} + \beta_4 Size_{it} + \beta_5 Lev_{it} + \beta_6 MS_{it} + \beta_7 ICI_{it} + \varepsilon_{it}$

[4b] $AdjROE_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 SOE_{it} + \beta_3 CSRexp_{it} SOE_{it} + \beta_4 Size_{it} + \beta_5 Lev_{it} + \beta_6 MS_{it} + \beta_7 ICI_{it} + \varepsilon_{it}$

Source: Author's findings

In models (1b), (2b), (3b), and (4b), we include the interaction of CSRexp and BUMN to analyze their effect on firm performance. The coefficient for CSRexp*SOE in the four models is not significant, meaning there is no difference between SOEs and non-SOEs. Subgroup analysis needs to is needed to identify moderator variables. Following Sharma et al. (1981), analyzed whether there was an interaction between the proposed moderator and the independent variable to determine the moderator variable's presence. The proposed moderator interaction results with the independent variables are not significant for models (1b), (2b), (3b) and (4b). Furthermore, it is necessary to know whether the SOEs variable is a significant predictor variable. The hypothesized moderator, SOEs, was not a significant predictor (see Table 2). Therefore, in each model, a subgroup analysis was performed. In table 3, there are differences between the SOEs and non-SOEs groups. In the SOEs group, the model variables (1a), (2a), (3a), and (4a) showed insignificant results. In contrast, in the non-SOEs group, CSRexp showed significant results in the four models. These results indicate CSRexp is a moderating variable.

Discussion

Table 2 presents the estimation results of the (1a) - (4b) model. ROA, ROE, AdjROA, and AdjROE represent the company's performance. The results showed that CSRexp was significant in all models. A positive coefficient means that the greater the expenditure on social responsibility, the better its performance in the next period. These results are robust when performance is measured by ROA, ROE, AdjROA, and AdjROE. Therefore, these results align with instrumental theory and support hypothesis 1 that current CSR spending positively affects industry-adjusted firm performance. The regression of the impact of CSR spending on the performance of each company shows the same results. F test results on all models indicate that the model is feasible.

Table 3: Subgroup Analysis

Variable	SOE				Non-SOE			
	ROA (1a)	ROE (2a)	AdjROA (3a)	AdjROE (4a)	ROA (1a)	ROE (2a)	AdjROA (3a)	AdjROE (4a)
Constant	0.455	0.497	-1.782	0.674	1.393	-2.066	0.368	-0.989
CSRexp	0.959	0.749	0.927	0.765	2.317**	1.858**	2.429***	2.063**
Size	-0.172	-0.016	1.432*	0.524	-0.238	1.758**	0.057	0.679
Lev	-1.576*	0.925	-2.555***	0.072	-8.269***	-4.419***	-6.522***	-3.764***
MS	0.101	0.328	1.299*	1.432	0.269	-0.088	2.553***	0.592
ICI	0.381	0.456	-1.433	-1.152	1.095	-0.464	-1.609	-0.619
Adj. r^2	0.184	0.118	0.164	0.073	0.181	0.033	0.128	0.029
F stat.	3.848***	2.681***	3.472***	1.991***	28.243***	5.207***	19.102***	4.654***

Significant codes: 0.1 '***' 0.05 '**' 0.10 '*'

[1a] $ROA_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 MS_{it} + \beta_5 ICI_{it} + \varepsilon_{it}$.
[2a] $ROE_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 MS_{it} + \beta_5 ICI_{it} + \varepsilon_{it}$
[3a] $AjdROA_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 MS_{it} + \beta_5 ICI_{it} + \varepsilon_{it}$
[4a] $AdjROE_{it} = \alpha + \beta_1 CSRexp_{it} + \beta_2 Size_{it} + \beta_3 Lev_{it} + \beta_4 MS_{it} + \beta_5 ICI_{it} + \varepsilon_{it}$

Source: Author's findings

We run equations (1a) through (4b) with fixed effect regression in robustness tests. The strength of the fixed effect (FE) test compared to ordinary least square (OLS) is that it can explain the unobservable heterogeneity arising from the year's impact. The robustness test shows consistent results, meaning that there is no heterogeneity in the observations. In other robustness tests, we have tested the dependent variable with a market-based measure (TobinQ) as a proxy for firm performance. The empirical results show consistency with other tests. Therefore, it can be stated that CSR activities effectively improve company performance, both from the financial side of the company and enhance the company's value or reputation in the market.

From the data analysis it can be interpreted that the amount spent on CSR activities has a positive impact on company profitability. The results of this study support the results of the research of Bhattacharyya & Rahman (2019), which documents that CSR expenditures are positively related to return on assets and cash

flow operating. The amount of money spent on social responsibility includes increased employee loyalty, improved company reputation, maintained image, government support, affordable cost of capital, reduced social risk, and ultimately improved company performance (Malik et al., 2019). In line with the research of Lins, Servaes, & Tamayo, (2017), the results of this study indicate that the CSR engagement by doing good means that social activities increases company profitability and contributes to the creation of corporate value. Therefore, it supports the instrumental theory and good management theory, in which CSR is not only beneficial for financial gain, but also for controlling resources and company ethics. Forming an excellent public image, siding with the government, and as a way to appreciate society.

Companies with high state ownership receive political pressure from governments and regulatory agencies (Fan, Wong, & Zhang, 2007). State-owned enterprises receive pressure from other stakeholders, the media, and the broader community regarding social engagement (Tang, Yang, & Boehe, 2018). Regulations in Indonesia regulate the minimum funds for the implementation of social activities of state-owned companies, causing higher CSR spending. This is evident from the descriptive data (additional), in the SOE group, the smallest CSR expenditure is worth one hundred and fifty million rupiahs, and the biggest is worth three trillion. In the non-SOE group, the largest CSR expenditure was only six hundred billion rupiahs, and the least amounted to four million rupiahs. Then, the regression results show that government ownership does not affect the relationship of CSR spending with company performance, both individual and industrial adjusted. However, the results of the subgroup analysis showed differences between the two groups. In the SOEs group, CSR spending consistently did not affect the industrial adjusted and individual performance. In contrast to the non-SOEs group, CSR spending consistently affects firm performance across all models. These results do not support hypothesis 2; government ownership does not moderate the relationship between CSR spending and firm performance. Descriptive statistics show the distribution of data. The SOEs with large CSR expenditures should have high-performance data, but the highest company performance is found in the non-SOEs group.

There are several arguments to explain that CSR spending cannot improve performance in state-owned companies. First, CSR activities and decisions of managers in public sector companies adhere to normative practices in their sector to gain legitimacy and sustainable access to material resources (Chizema & Buck, 2006). Second, obtaining legal legitimacy to comply with regulations made for specific state or industrial companies. For example, state-owned companies in Indonesia are required to spend two percent of their income for social and environmental responsibility. Third, based on the concept of trusteeship, CSR reflects the company's moral obligation to create and maintain national prosperity (Subramaniam, Kansal, & Babu, 2017). Murphy & Schlegelmilch (2013) also states that some companies in India have shifted their focus, from what we do or how the potential impact of CSR is, to what is considered CSR and whether it meets legal requirements. Based on this explanation, it is expected that CSR activities cannot improve individual and industry adjusted performance in SOEs. Conversely, CSR in non-SOEs companies is better able to improve performance because it might start trying to unite the company's strategy with CSR activities. CSR activities that are carried out strategically will harmonize company operations, social and environmental responsibility, and ultimately achieve the company's vision and mission. Integrating CSR into company strategy and treating CSR as a cost is necessary to boost economic value. Porter & Kramer (2011) say that economic success can be related to good environmental and social conditions.

4. Conclusion

In this study, we empirically examine the effect of social and environmental activities on the performance of companies listed in Indonesia. The greater the CSR spending, it is assumed that the more activities carried out. In contrast to previous studies that merely measure the performance of companies individually, these studies make measurements with industry-adjusted financial performance. Next, analyze the extent to which government ownership in companies affects the relationship between CSR spending and firm performance. Empirical results show that when companies spend on CSR activities, it can encourage better performance, both individually and in the industry. Also, we find that state ownership has no impact on the relationship between CSR spending and firm performance. However, the effect of CSR spending on performance is more significant in the non-SOEs group.

This paper enriches the CSR literature in developing countries. This paper highlights the issue of CSR in Indonesia, and its findings encourage regulators to evaluate CSR implementation. Integrating social responsibility into a company's business strategy can create alignment between social concerns, environmental needs, and economic interests. Then, Corporate Social Responsibility is expected to make a significant contribution to the sustainable development of the country. Regulators can encourage the company's CSR activities, but the impact of these activities may differ depending on the motives of each company. Regulatory reform may increase commitment and facilitate the effectiveness of existing CSR activities. However, this research has several limitations. First, the number of state-owned companies is only ten percent of the total sample. Although we have done robustness, maybe this affects the regression results. Second, the measurement of CSR spending is the total expenditure and total disclosure, without categorizing into their dimension. This limitation can be considered to conduct further research.

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