THE EFFECT OF A FIRM'S CORPORATE SOCIAL RESPONSIBILITY(CSR) AND CORPORATE ENVIRONMENTAL RESPONSIBILITY (CER) ON FIRM PERFORMANCE ON THE CONSUMER STAPLES SECTOR

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Abstract

This study aims to see if there is any tangible link between a firm's financial performance and their CSR and CER disclosures. The main hypothesis isthat both types of corporate responsibility have a positive effect on a firm's financial performance. The sample size used includes 30 American firms listen in S&P 500 within the customer staples sector, using data from the years 2016-2019 using the purposive sampling method. The data is analyzed using multiple regressions and the results show that while CSR has a clear positive correlation with a firm's financial performance, CER has a more nuanced correlation, where it is generally positive unless the disclosure of irresponsibility is involved.

Keywords: corporate social responsibility, corporate environmental responsibility,firm performance.

1. INTRODUCTION

In recent times, the spotlight has been focused on a firm's corporate responsibility. With how prevalent globalization is becoming and how aware people are becoming, the demand for a firm's action and social responsibility is unsurprising. An article by Forbes (2019) details how CSR has become integratedinto business practices now as firms need CSR if they want to keep up with the competition around them. In an analysis by the Governance & Accountability Institute (2019), it was found that 86% of the companies in the S&P 500 index hasa sustainability or corporate responsibility report published for the public to read. The Forbes (2019) article continues to explain how CSR does not just benefit the target of the policies and activities, but also the firms that carry out the CSR as well. The implementation of CSR policies could then be argued to be a give-and- take act, where firms need to give something to society around them if they wantedto be able to take the benefits that are associated with them.

A post on a blog called Smart Recruiters once highlighted some of the notable CSR initiatives in the year 2017, most of them being initiatives from larger and more well-known companies. Some of them include Ben & Jerry's and their yearly monetary awards to fund communities and societal change as well as Starbucks' initiative to hire 10,000 refugees across multiple countries in the following years. Actions such as these would likely implant a positive image of these companies in the mind of people who would read about them, giving them an edge in terms of brand image. Having the faith of the stakeholders is key for a company, as the stakeholders having a long-term relationship and supporting the company can make or break the company (Vilas, 2017).

Firms are the ones suffering the brunt of the attacks, as their methods become exposed and questioned. An article by Sciencing (2018) has noted how factories are one of the major polluters in the world, polluting everything from the air, to water, and even the land. With how the earth has taken the brunt of the damage from all the pollution and damage, it is understandable how firms would be pressured by their stakeholders to be more environmentally - friendly. Firms themselves have also realized how a declining environment

will affect them negatively as well. In another article by Forbes (2020), the accounting firm Deloitte explains how out of the 2,000 global executives they had surveyed, almost 90% of them had agreed that the impact of climate change was going to have negative implications on their firms. The article further notes that 6 out of 10 executives had sustainability measures in place to try and decrease their impact on the environment.It is not a stretch to say that Corporate Environmental Responsibility (CER) is another key activity that must be carried out by companies.

As previously mentioned, the CSR and CER activities that firms need are generally due to the demands of the public around them. It can be said that all firms need to work on their CSR and CER, but it is also a fact that the attention put on firms are different according to the size of the firm. A study done by Youn et al. (2015) found that larger firms are more likely to have the media and government focus on them than smaller firms, which means that the expectations on larger firms are expected to be much larger than smaller firms. Arguably, that would entail that a firm's size has a crucial effect on how much CSRand CER a firm needs to invest in as the payoff for the firms differ according to their size.

When looking at the country of Indonesia, it is obvious to see that the concept of CSR and CER are still relatively new and not embraced. The existence of CSR reports is difficult to find and companies don't often publicize their CSR and CER initiatives, if any. Therefore, the writer would like to conduct a study on foreign companies to extrapolate and show how important CSR and CER activities are and what effects its reporting has on a company's performance. To pursue this study, the writer decided to use S&P 500 firms and focus specifically on the customer staples sector, which is one of Indonesia's strategic sectors and significant contributor to the nation's GDP. When determining the sample, it is crucial to exclude any firms that are nonperforming as well as those that are newlyformed. This is because they harbor the factor of uncertainty and instability whichwill be detrimental to the study and data. The firms will be checked to see if they fulfill either of those criteria before being selected for use within this study.

It is of the writer's interest to study the topic of the effects of CSR and CERpolicies on a firm's performance. With how increasingly important CSR and CER are to the stakeholders in general, the writer feels that it is important to study the effects to ensure that Indonesian companies will be able to perform well in the coming times and whether it is important for firms to be more socially and environmentally aware in the coming times.

2. THEORETICAL FRAMEWORK AND HYPOTESIS DEVELOPMENT

2.1 Theoretical Framework

There are three major theories that have been discussed above, namely stakeholder theory, legitimacy theory, and institutional theory. All three theories point out similar ideas about firms and their place within society. They note that firms are not completely independent and detached from society as they require the resources and support from the public and the environment.

2.1.1 Stakeholder Theory

CSR can usually be linked to stakeholder theory, which emphasizes how businesses will need to cater to the wants of their stakeholders if they want to be able to run well. However, as a consequence of fulfilling the wants of their stakeholders firms will be able to forge better relationships with their stakeholders,helping firms increase their chances of gaining resources more easily from the stakeholders involved (Russo and Perrini, 2010).

A stakeholder can be defined as "any group or individual who can affect or is affected

by the achievement of the firm's objectives"(Freeman, 1984). As time progressed, there were many different interpretations as to how stakeholders are defined and categorized. There were categorizations such as external and internal (Carroll, 1989), primary and secondary (Clarkson, 1995), as well as divisions into groups such as shareholders, employees, and customers (Preston & Sapienza, 1990). However, despite the variety in definitions and categories among these various interpretations, there is always one common thread underlying all of them. This common thread is the notion that with the existence of such a variety of stakeholders, there is always some sort of difference in expectations between said stakeholders. Within the various classifications that exist for stakeholder theory, the most notable and widely used classification is the differentiation between the ethical branch and the managerial branch (Deegan, 2009).

The ethical branch, also commonly known as the moral or normative branch, is one that suggests that regardless of the power any one stakeholder has over a firm, all stakeholders have an equal opportunity to be treated well and fairly by the firms they support. This branch wagers that a firm will have to be equally considerate towards all its stakeholders, regardless of their power and circumstances. Under this perspective, managers in a company will have to be ableto manage the business to cater to all the stakeholders that the firm has in an attempt to bring benefits to all of them, even if doing so will not help improve the financialperformance of the company (Hasnas, 1998).

The managerial branch, also commonly known as the positive branch of stakeholder theory, has a contrasting opinion. Following this branch of the stakeholder theory, firms should prioritize meeting the requirements and expectations of the stakeholders with the most power and resources. The more powerful and the more critical the resources that the stakeholder supplies, the moreeffort the management of the firm should put into fulfilling the requirements that the stakeholders have for the firm (Deegan, 2009). In this situation, the firm will focus on specific, powerful stakeholders and try to further their relationship with those stakeholders, even if pursuing the fulfillment of said stakeholders will resultin estranging or going against the wishes of other stakeholders.

2.1.2 Legitimacy Theory

Legitimacy theory is a theory that emphasizes that companies and firms will continuously attempt to ensure that they have been operating within the boundaries of existing societal norms (Deegan, 2009). This implies how there is a'social contract' between firms and society, one which deals with whether firms will operate within the expectations and requirements of society. The pressures that this contract exerts on firms have both an explicit and an implicit facet to it (Deeganet al, 2000). The explicit facet includes the existence of laws and regulations whichdeal with these expectations directly, setting the most basic bars of acceptability that every firm must adhere to. The implicit facet includes the expectations and bounds that the community and society have for the firm, expectations which are not always clearly expressed to firms and which may change as time goes on and people's minds change. Following this theory, a firm will have to adhere to all these requirements that society has set out for them if they would like to maintainan image of legitimacy in the public. This image of legitimacy is key as without it, society may as well demand that the firm cease its operations.

Within this theory, society is generally portrayed as a whole, without considering specific individuals which are part of it (Deegan, 2002). This theory only concerns itself with the relationship between firms and society at large, not with individuals or specific groups. Firms are a part of society, and it is impossiblefor them to be able to operate if it were isolated from the people in society. Firms obtain materials and resources from the environment and

they also obtain their income and their manpower from people within society itself. Without society and the environment, firms will not be able to earn any profits, let alone operate.

Another side to this theory is how the legitimacy of a firm is more reliant on their generalized image and status rather than the individual instances that a firm may be a part of (Luft Mobus, 2005). This entails that a firm may be able to retain its image of legitimacy despite the existence of isolated incidents that may cross society's expectations as long as they have had a good history of adhering to the norms. If a firm had been constantly good, following every law and expectationt thrown at them by society, then the firm having minor infractions of said law and expectation may either be forgiven or quickly forgotten**.**

2.1.3 Institutional Theory

Institutional theory is one that tackles the topic of form organization, one which tries to explain the reasons for existing parallel forms and characteristics that appear in firms who are in the same 'organizational field'. A commonly used definition for organizational field is one brought up by DiMaggio and Powell (1983)where it is considered as "those organizations that, in the aggregate, constitute a recognized area of institutional life: key suppliers, resource and product consumers, regulatory agencies, and other organizations that produce similar services or products". Under institutional theory, organizations will start to match themselves up to their organizational field due to an institutional pressure to change. Furthermore, this matching up is crucial as it rewards firms who carry it out, whether through resources, public acceptance, and overall an opportunity to operate their business and activities. DiMaggio and Powell (1983) further note how powerful forces will begin to appear in society as soon as an organizational field is properly established, that which would further cause firms to become increasingly similar to each other.

2.1.4 Corporate Social Responsibility

Activities related to Corporate Social Responsibility can be broadly defined as any activity that are done voluntarily by firms to try and provide benefits to society around them (Turker, 2009). In recent years, CSR practices have become increasingly important for firms to carry out and important for stakeholders when assessing a firm's worth through its activities (Perrini and Minoja, 2008). As globalization continues to spread and people grow increasingly aware of the part firms play in society, it forces CSR activities to become one of the crucial aspects of a firm that needs to be planned in the pursuit of profits.

A suggestion made by Gallardo-Vasquez and Sanchez-Hernandez (2014) notes that there are 3 dimensions to a firm's CSR endeavors. This includes the social, economic, and environmental dimensions. These 3 dimensions are all sectors in which a company can invest their CSR efforts in, and the 3 of them willusually work in synergy with each other.

CSR efforts are often faced with the problem of costs. Neo-classical economists used to consider over-investing in CSR activities as a hindrance as it reduces the opportunities that are available to utilize resources to maximize profits(Friedman, 1970). Furthermore, there has been evidence that investing in CSR activities could lead to an increase in costs, as well as a conflict in interest, especially among stakeholders (Barnett, 2007).Other than an ease of gaining resources, Orlitzky et al. (2003) have also found that allocating resources to CSR activities could help the firm improve their brand image as well as their public reputation.

2.1.5 Corporate Environmental Responsibility

Corporate Environmental Responsibility can be simply defined as the environmental aspect of a firm's CSR efforts. In recent times it has been a topic of debate as stakeholders

become more demanding, requiring firms to be increasingly more environmentally aware (Duker and Olugunna, 2014).

According to DesJardins (1998), when taking into account the speed at which society grows larger and the fact that all the resources needed to fulfill human needs exist from nature, it is key that firms and companies need to take into account how they are affecting the environment and the source of all their materialsand needs. DesJardins (1998) notes that the clash between needing more and more things to fulfill the needs of every growing population as well as the dwindling resources that nature can provide for humans results in an economic and moral dilemma, one which needs to be mediated through the use of CER policies.

Islam and Deegan(2008) admit that without the existence of an external pressure, it is highly likely that firms wouldn't actively and willingly engage with CER policies on their own. A study on Bangladesh firms revealed that most firms were reluctant to take responsibility for the environmental effects they leave behind due to the large coststhat are involved (Belal, Cooper, and Khan, 2015).

A study by Miles and Covin (2000) shows that good environmental management will provide plenty of intangible benefits, including things such as an improved corporate reputation in the market. Another study by Konar and Cohen (2001) shows what happens if environmental responsibilities are neglected, where companies will suffer negative effects on the values of their intangible assets.

2.1.6 Firm Performance

A generally accepted definition for firm performance in recent years is thatit represents a firm's results when it comes to its economics, its management, as well as the marketing it does which indicates a firm's effectiveness, competitiveness in the market, as well as its efficiency in its work (Taouab and Issor, 2019). Aside from this, there are various other studies that emphasize different aspects of a firm which leads to its optimal performance. While Verboncuand Zalman (2005) emphasized firm performance as something that is obtained through good management and marketing, Siminica et al. (2008) considers a firm as well performing if it is both efficient and effective in what it does.

The most common way of measuring a firm's performance is using the firm's financial ratios. This numerical approach to evaluating a firm's performance is something that has been recommended in previous studies, particularly one by Lebas (1995).Gross profit margin and net profit margin are both calculation methods that involve observing the company's profits. The purpose of using them is usually to find the value of incremental sales, and it further helps with decisions with regards to pricing and promotions (Farris, 2010).

Another ratio to be included in the study as a measure of firm performance to be included in the study as a measure of firm performance will be the firm's Earnings per Share (EPS) as well as its Price to Earnings Ratio (PER). Traditionally, EPS is often used as a measureof firm performance along with the ratios that have been listed above. It can be calculated by subtracting a firm's preferred dividends from the total net income, then dividing it by the end-of-period common shares outstanding. On the other hand, PER is a measurement of a firm's share price to its earnings per share. It is commonly used to observe the value of a company and it is also a widely used method to value a firm's equity.

2.2 Conceptual Framework

Based on studies of theories and literature reviews from the previous section, the effect of social and environmental corporate responsibilities policies on firm performance will be examined.

In lieu of this, the dependent variable will be the firm's financial performance while the independent variable will consist of two types, one being the quality of a firm's CSR policies and reporting while the other is the quality of a firm's CER policies and reporting. The conceptual framework is depicted as follows:

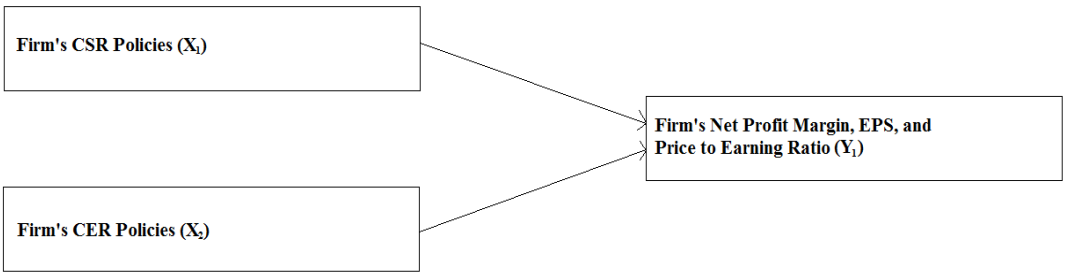

FIGURE 1. Conceptual Framework

Previous journals have indicated that the existence of a firm's CSR policies have a positive effect on a firm's financial performance, specifically through effects on a firm's competitive advantage and marketability (Saeidi et al., 2015), reputation and market presence (Galbreath and Shum, 2012), and customer satisfaction (Alafi and Hasoneh, 2012).

H1: CSR implementations have a positive effect on firm financial performance

Past research has shown that a firm's environmental awareness is often rewarded by the market the firm operates in (Wahba, 2008) and that CER policies will affect the performance of a firm regardless of how direct their impact is on the environment itself (Jo et al., 2014).

H2: CER implementations have a positive effect on firm financial performance

3. Methodology

3.1 Population and Sample

Secondary data is used for this research. All financial and annual reports used in this study will be retrieved directly from the company's website whereverpossible. The secondary data that is needed for the research includes data related to the CSR done by the company, specifically those that are in the social and environmental fields. The firms used will mostly be international firms as they have more accessible data in relation to their CSR and CER practices.

In the study, we are focusing on the Companies in the sector of consumer staples industry, since the nature of their business is a non-cyclical and always in demand regardless the economic condition and to an extent the sustainability is better compare other sectors and will be able to cater CSR and or CER initiatives.

The population used in this study includes various companies in the consumer staples industry sector which are listed in the S&P 500 over a period of four years, from 2016 to 2019. The sample used isselected by using the following criteria:

1) The company is listed in S&P 500 in the period of observation, which is from 2016 until 2019.
2) The company is part of the consumer staples industry sector, as well as produce their own products.
3) The company has never been delisted from S&P 500, discontinued itsactivities, and

never changed their industry sector.

4) The company has published its financial statements and audited annualreports each year, especially within the observation period starting from the fiscal year ended at December 31, 2015 through to the fiscal year ended at December 31, 2019.
5) The published financial statements and annual reports of the companiesobserved use USD as its currency.
6) The financial statements and annual reports published by the companiescontain all the information necessary for the research, which includes the required information to calculate net profit margin as well as furtherinformation regarding the company's CSR policies and activities.
7) The company has a rating available on the CSRHUB CSR Rating database

3.2 Empirical Model

The model is used to examine the effects of the disclosure of social and environmental CSR policies on the firm's financial performance. The following three models will be the function used for this research:

$$\mathbf{Y1: NPM} = a + \mathrm{Q}_1\boldsymbol{CSR} + \mathrm{Q}_2\boldsymbol{CER} + \mathrm{Q}_3\boldsymbol{Age} + \mathrm{Q}_4\mathbf{ln}(\boldsymbol{TA}) + \varepsilon$$

$$\mathbf{Y2: PER} = a + \mathrm{Q}_1\boldsymbol{CSR} + \mathrm{Q}_2\boldsymbol{CER} + \mathrm{Q}_3\boldsymbol{Age} + \mathrm{Q}_4\mathbf{ln}(\boldsymbol{TA}) + \varepsilon$$

The hypothesis and variables of this research is presented in the followingstatistical form, where:

a0	: is the model's constant
$\beta 1$-$\beta 4$	: is the independent variable's coefficient
NPM	: net profit margin ($US)
PER	: price to earnings ratio
TA	: total assets ($US)
CSR	: Firm Corporate Social Responsibility Rating
CER	: Firm Corporate Environmental Responsibility Value
ε	: The standard error

3.3 Operational Variable Definition

3.3.1 Net Profit Margin

One of the methods this study will be using to measure firm financial performance is through the use of the company's Net Profit Margin (NPM). It canbe calculated by dividing the firm's net profits by its total sales (Borhan et al., 2013).

3.3.2 Price to Earning Ratio

Finally, the last method that will be used in this study to gauge a firm's financial performance will be through the use of its Price to Earnings Ratio (PER). Ax firm's PER is usually used to assign values for a firm, and it is found by measuring its current share price relative to its EPS (Nicholson, 1960).

3.4 Independent Variable

3.4.1 Corporate Social Responsibility

This study will be quantifying a firm's CSR activities by using the CSR ratings provided by CSRHUB (Reimsbach et al., 2018). The scores generated on the site are generated under a system of aggregates and normalizations. CSRHUB obtains their data from more than 605 sources of corporate responsibility reports and information, including sources such as the Global Reporting Initiative, Trucost,Thomson Reuters, and Newsweek among

others. The data obtained is then aggregated into 175 million data points, converted into 7 thousand metrics, mapped into 12 major areas of corporate responsibility, and finally normalized and weighted to obtain a final rating. The ratings provided by the site are represented by a numerical value between 0-100 and the value will be taken as a suitable gauge of their CSR practices as the rating follows the standards set by the Global Reporting Initiatives (GRI). The ratings available on the site is divided into 4 major categories: Community, Employees, Environment, and Governance. As this study makes a distinction between social responsibility (responsibility towards humans) and environmental responsibility (responsibility towards the environment), only the community, employee, and governance sections will be utilized. The three values will be taken and the average of the three will be found before using the values as comparison

3.4.2. Corporate Environmental Responsibility

In this study, CER will be measured by using a content analysis methodwhere corporate annual reports and corporate responsibility reports will be analyzed to find available environmental information (Wong et al, 2016). The content to be analyzed will be the corporate responsibility reports of the firms in the study. If a firm does not have a corporate responsibility report, then the annualreport of the firm will be used in its stead. This method will employ a method previously developed by Clarkson et al. (2008). The method involves using a content analysis index which is based of sustainability reporting guidelines writtenby the GRI.

3.5 Control Variables

3.5.1 Firm Size

The size of a firm is important to be determined in this study as previous research has been able to show that the larger the firm size, the larger the chance of the firm receiving attention from the public on their actions and activities (Younet al, 2015). This would generally result in the government and the media being harsher and pushing harder for the large firms to be more responsible with their activities (Liu and Anbumozhi, 2009). A study by Dang and Li (2015) lists variouseffective methods that can be used to measure firm size in relation to a firm's financial performance, including using the logarithm values of a firm's total assets, total sales, and market value of equity. Among them, this paper will be using the logarithm value of a firm's total assets as its measurement method.

3.5.2 Age

The age of a firm is equally as important as a control variable in this study.It goes almost hand in hand with firm size, since the older the company the likelierit is to be a large and respected firm in the industry. Since the older the firm, the more history it has and the more well known the firm's reputation. Thus, it will make it more exposed and scrutinized by society as a whole. This would result in a firm's corporate responsibility to have a larger effect on the firm performance (Alshammari, 2015).

3.6 Method of Data Analysis

Method used for this study is multiple regression and run with SPSS. Technic analysis use descriptive statistic F-test, goodness of fit, t-statistic, normality test, autocorrelation test, multicollinearity test, heteroscedasticity test.

4. Results and Discussion

4.1 Description of Research Object

As previously stated, this study will be using a sample from S&P 500 and their current list of companies. This study is using purposive sampling method which is based on the certain criteria set for data collection. From data collection there are 120 samples meet the criteria which already set. Number of samples already meet the criteria of central limit theorem which note that sample with minimum 30 samples will have normal distribution.

4.2 Results and Discussion

4.2.1 Descriptive Statistics

Table 4.1 Descriptive Statistics

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
NPM	120	-0.3904	0.5531	0.1233	0.1191
EPS	120	-9.3600	15.7000	3.4925	3.1267
PER	120	0.0000	41.3000	21.5517	10.0667
CSR	120	37.6700	65.3300	54.8839	6.9149
CER	120	0.0000	63.0000	33.0200	17.7580
Fm_SZ	120	5.8060	8.0147	7.1749	0.5633
Age	120	6.0000	199.0000	100.1000	57.0320
Valid N (listwise)	120				

The table above provides the descriptive statistics of the observations made,including minimum and maximum values, mean values, and standard deviations. For the first dependent variable of NPM, there is a minimum value of -0.390 and amaximum value of 0.5531. The mean value for the variable is 0.123, which indicates that the companies have an overall profit across the 4 years. For the dependent variable, PER, there is a minimum value of 0 and a maximum of 41.3. The mean is 21.5, which indicates that most of these companies have a high value on their stocks when compared to their earnings. For PER the minimum and maximum values are relatively distant from the mean values for each respective category. This indicates that there is a large variety and width that exists within the data andobservations. However, these did not affect the normality of the data severely as the observations still fulfill the graphical requirements of normally distributed data.The standard deviations of all the data are relatively large when compared to theirmeans, which means that there is quite a variety of data within the observations made.

When observing the independent variables, we can see that the average CSR score for most companies is around 54.8 out of a maximum score of 100. Thisindicates that on average, most of the companies had CSR policies and had scoresof at least 50%. It can be noted that the minimum score is 0 and this is because there were still some companies who had no history or publications of their CSR policies, which led them to have no score for the metric. These companies would also lack information for CER policies, hence the minimum value of 0 for that metric as well. For CER, the mean score that the companies had is 33.0 out of a total of 81. Companies tended to disclose the bare minimum that is required or only disclose their policies withoutbacking them up with numbers and statistics. There were very few companies thatwent above and beyond to disclose as much as they could relating to their CER intheir Corporate Responsibility reports, which may have resulted in the low mean for this metric. Finally, a short observation on the Age metric shows that there is a mean age of 100, indicating that the firms involved in this study are very old and will have almost a century's worth of branding and history behind them. The minimum age of 6 indicates that there are some companies which are abnormally young. However, this can be explained as there are some

companies that are a resultof a merger of 2 well known firms, an example being The Kraft Heinz company, which is a merger between Kraft Foods and H. J. Heinz.

4.2.2 Normality Test

Only one of the models managed to pass the normality test under ideal conditions. These results are seen from taking the one-sample Kolmogorov- Smirnov test., whose results that model Y2 is the only one who managed to pass the test with an Asymp. Sig value of 0.200, which is a value larger than 0.05. However, when looking at the histograms for all the models, we can observe that the other two models still produce roughly normally distributeddata. The histogram results for Y1 is very slightly skewed to the right and has a rather small bump as well as a longer tail to the left. The bump of the graph being short is likely due to the larger spread of data instead of having it more concentrated near the mean while the longer tail to the left may be a result of an outlier observation. The histogram results for Y2 has the correct shape for a normal distribution, but the bump is thin, and the shape as a whole is very skewed to the left side with a very long tail to the right. The general shape is likely due to the data being especially concentrated around the mean value while the extremely long tail towards the right is possibly due to the extreme outlier values within the dataset.

It should be noted that the results seen above is taken after winsorizing the data to minimize the number of extreme outliers in the data. This is done after seeing which variables had data which were not normally distributed, then winsorizing them by changing the highest and lowest 5% of data (i.e. The upper and lower 6 observations) and matching them with the value of the first, unchanged piece of data. The dataset which was winsorized to improve normality are those for PER, as it experienced the worst case of extreme outliers.

4.2.3 Autocorrelation Test

For this study, the autocorrelation test is done by conducting the Durbin- Watson test. The values used for the DW test will be generated using SPSS software. Below is a table representing the thresholds that are required for the DWtest, including the details of variables, the upper and lower values for the test, as well as the final acceptable range for the DW value:

Table 4.2 Specifications for the Durbin-Watson Test for Models Y1 to Y2

Item	Value
Independent Variables	2
Number of Observations	120
Significance Level	5%
d_U (Upper)	1.71889
d_L (Lower)	1.68531
Acceptable Range	1.685 – 1.718

The results for the models' DW test results, it is clear that none of the test results fall within the acceptable range determined in the table above. All three models have results that are below the acceptable range, where the results for model Y3 are the furthest to falling within the range. This means that all of the models have a negative autocorrelation issue, meaning that any positive increases or decreases in one year will likely result in aproportionate decrease in other years. A possible explanation for this autocorrelation problem is the fact that in 2016, America had just experienced thelargest drop in their growth rate in years, where it went from around 2.8% in 2015to 1.6%, almost half of the previous year's growth rate. Even Washington

Post (2017) notes that this was the country's worst year of economic growth since 2011. In subsequent years the country's economic growth steadily recovered, but this is a possible macroeconomic problem that could have affected all companies in America as they would have required time to adjust to such a sudden drastic changein their growth rate. This could have resulted in the autocorrelation problem that can be observed within the data above.

4.2.4 Multicollinearity Test

However, as observed in the test results, the collinearity tolerance for all the variables in all models are larger than 0.5. This indicates a very small likelihood of any multicollinearity problems within the models. Furthermore, the values for the VIF all range between 1.3 to 1.8, all of which are larger than 1 and smaller than 10. A VIF value equal to one would have indicated a complete lack of multicollinearity among factors, but having values that are not exactly 1 is not a cause for worry as it only indicates a minor multicollinearity that will not cause any overt concerns when running the data. Since the values observed are less than 2, it means that anypossible multicollinearity among factors will be so small, it will not cause any problems.

Table 4.3 Multicollinearity Test

Coefficients[a]

Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.	Collinearity Statistics	
							Tolerance	VIF
1	(Constant)	-0.219	0.113		-1.936	0.055		
	CSR	0.003	0.001	0.258	2.207	0.029	0.556	1.798
	CER	-0.001	0.001	-0.208	-1.860	0.065	0.611	1.638
	Fm_Sz	0.032	0.019	0.190	1.697	0.092	0.609	1.642
	Age	0.000	0.000	0.093	0.923	0.358	0.756	1.322

a Dependent Variable: NPM

4.2.5 Heteroscedasticity Test

Table 4.4 Heteroscedasticity Test

Coefficients[a]

Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-0.186	0.068		-2.728	0.007
	CSR	-0.002	0.001	-0.342	-3.317	0.001
	CER	-0.002	0.000	-0.491	-4.982	0.000
	Fm_Sz	-0.062	0.011	0.540	5.475	0.000
	Age	0.000	0.000	0.122	1.384	0.169

a Dependent Variable: ABS_RES_1

From the table 4.4, we can see that there is a problem of heteroscedasticity. One possible reason for why this problem exists is because of a large number of outliers in the data.

4.2.6 Research Findings

Table 4.5 Model Summary for Y_1

Model Summary[b]

Model	R	R square	Adjusted R Square	Std. Error of The Estimate
1	0.353 [a]	0.124	0.094	0.113403629

a Predictors: (Constant), Age, Fm_Sz, CER, CSR
b Dependent Variable: NPM

Table 4.6 ANOVA for Y_1

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	0.210	4	0.530	4.087	0.004 [b]
	Residual	1.479	115	0.013		
	Total	1.689	119			

a Dependent Variable: NPM
b Predictors: (Constant), Age, Fm_Sz, CER, CSR

Table 4.7 Coefficients for Y_1

Coefficients[a]

Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-0.219	0.113		-1.936	0.055
	CSR	0.003	0.001	0.258	2.207	0.029
	CER	-0.001	0.001	-0.208	-1.860	0.065
	Fm_Sz	0.032	0.019	0.190	1.697	0.092
	Age	0.000	0.000	0.093	0.923	0.358

a Dependent Variable: NPM

Table 4.8 Model Summary for Y_2

Model Summary[b]

Model	R	R square	Adjusted R Square	Std. Error of The Estimate
1	0.399 [a]	0.159	0.130	9.390636469

a Predictors: (Constant), Age, Fm_Sz, CER, CSR
b Dependent Variable: PER

Table 4.9 ANOVA for Y_2

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1918.007	4	479.502	5.438	0.000 [b]
	Residual	10141.166	115	88.184		
	Total	12059.173	119			

a Dependent Variable: PER

b Predictors: (Constant), Age, Fm_Sz, CER, CSR

Table 4.10 Coefficients for Y_2

Coefficients[a]

Model		Unstandardized B	Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	17.605	9.371		1.879	0.063
	CSR	0.336	0.098	0.394	3.434	0.001
	CER	-0.150	0.062	-0.265	-2.422	0.017
	Fm_Sz	-1.839	1.568	-0.128	-1.172	0.243
	Age	0.040	0.017	0.229	2.325	0.022

a Dependent Variable: PER

As a whole, the model can be considered significant after seeing the ANOVA regression statistics reflected in Table 4.6 and how the significance is below 5%. Out of all the variables, however, the only one to be considered significant is CSR with a value of 0.029, which is lower than the 5% threshold. However, the significance for the Constant, CER, and Fm_Sz are very close to thesignificance level, albeit being slightly above.

In Y1 model, CSR seems to have apositive correlation to the dependent variable while CER has a negative correlation to the dependent variable. The correlation for the control variables Fm_Sz and Age are both positive.

In Y2 model can be considered significant after seeing the ANOVA regression statistics the significance is below 5%.In fact, the significance is .000, which indicates this as the most significant modelout of the 3. Out of all the variables, CSR, CER, and Age are the few variables withsignificances that are lower than the 5% threshold. The significance of the Constantis only slightly above the threshold in this model, while the significance of Fm_Szis far above it, indicating a lack of significance towards the model. Like in the firstmodel, CSR seems to have a positive correlation to the dependent variable while CER has a negative correlation to the dependent variable. The correlation for thecontrol variables Fm_Sz and Age are negative and positive respectively.

4.3 Interpretation of Results

H1: There is an overall positive correlation between CSR disclosure and firm performance that can be attributed to mutual benefits between the firm and the people affected by the CSR policies, as well as the firm's public image improvements which result in a better standing with consumers and stakeholders (Saeidi et al., 2015).

H2: There is an overall negative correlation between CER disclosure and firm performance which is likely due to the higher awareness towards environmental issues in Western countries (Jo et al., 2014) as well as the harsh negative responses towards the firm due to corporate environmental irresponsibility (Price and Sun, 2017).

4.3.1 Analysis of Models

For model Y_1, the R^2 value was determined to be 0.124. This means that only 12.4% of the variation in the data for NPM can be attributed to the linear model and the independent and control variables. For model Y_3, the R^2 value was determined to be 0.159. This means that only 15.9% of the variation in the data for PER can be attributed to the linear model and the independent and control variables. Both these numbers indicate that the ability of the two models to explain the correlations between the dependent andindependent variables is slightly weak. This weakness in correlation is likely attributable to the small scope of the study.

In many of the previous journals conducting prior research on the topic, they either had a larger scope of companiesthat were used for the study or they had a larger number of sample companies for their study.

One example is Agan (2014) whose study focused on manufacturing firms, similar to this study, but without the restriction of the products needing to be within the Customer Staples category. Another example is Youn et al. (2015) whose study focused narrowly on the restaurant industry but had over 260 samplecompanies spanning across 10 years of financial data. Therefore, it is reasonable to conclude that despite the R^2 values being less than 20%, the models are still adequate enough to be used for the purposes of this study.

4.3.2 The Effect of a Firm's CSR Policies on their Financial Performance

CSR has a significant effect on a firm's performance. The significance values for the two are 0.029 and 0.001, both of which are values that lie below the 5% significance level that has been determined for this study. The results from the data above also shows a positive correlation between a firm's CSR disclosures towards its financial performance, especially on a firm's NPM and PER. These results agree with a previous journal by Cheng et al.(2015) which notes that current CSR disclosures have a positive correlation with a firm's performance. Therefore, it is shown that CSR has a significant positive effect on a firm's financial performance. In general, the results from the data aboveare consistent with most of the journals that have been used for reference. The coefficients of CSR in Y_1 and Y_2 is vastly different, with the former having a valueof 0.003 while the latter has a value of 0.336. This indicates that CSR has a largerimpact on a firm's PER compared to its NPM. It is difficult to identify any clear reason as to why the effects are so vastly different as there are various other unrelated, possibly macroeconomic factors that effect a firm's NPM and PER.

4.3.3 The Effect of a Firm's CER Policies on Their Financial Performance

The significance of CER towards the two indicators of firm performance is slightly flimsy. The values for CER's correlationwith Y_1 and Y_2 are 0.065 and 0.017 respectively. While it is significant for the latter, the former value shows that it is only slightly insignificant. These values, especially when compared to the significance of CSR on the two models, suggeststhat while CER does have an impact on firm financial performance its effect is smaller than what CSR's effects on firm performance is. This observation is likely due to the fact that despite the environment being important to stakeholders, they are keener on seeing social responsibility that relates to humans and society instead.Bai and Chang (2015) have previously found that corporate responsibility towards society as a whole is more important to stakeholders than corporate responsibility towards customers. This mindset likely carries over when relating to the environment, as stakeholders will find CSR activities towards humans and society'closer to home' since it directly benefits humans instead of indirectly

benefitting humans by supporting the earth and the environment. This divergent level of importance between CSR and CER may be a topic of interest for future researchers to study. However, in this thesis the focus is only identifying the effects of the two individually on firm performance.

5. Conclusion

This study was mainly conducted to empirically observe the effects that a firm's CSR and CER policies had on a firm's financial performance. This is a study that can prove key to Indonesia, despite the main study sample being of American firms. This is because the importance of a firm's corporate responsibility continuously increases along with the passage of time and soon Indonesian companies will need to adapt to this need for accountability over its activities. When observing Indonesian firms, it is clear that they have not reached a standard that Western companies have. It is difficult to find corporate responsibility reports that are officially issued by companies and disclosure of a firm's CSR and CER activities are few and far in between. With the results of this study, it is hoped thatIndonesian firms will consider taking corporate responsibility disclosure more seriously, especially if they aim to become more prominent and more competitiveglobally in the future.

As observed from the findings in the previous chapter, CSR and CER haveclear effects on a firm's financial performance. While CSR has a constant positiveeffect on a firm's financial performance, CER has a more sensitive relationship. Depending on the information a firm may disclose to the public, the reception of said information may be contrasting. Disclosing positive information about CER activities will bring about positive effects on financial performance while disclosing negative information about a firm's lack of environmental responsibilitycan have massive negative effects on financial performance. This would mean thatoverall, the disclosure of a firm's corporate responsibility is highly beneficial towards a firm's performance. However, the type of information to be disclosed isvery important, as it is better for firms to only disclose the good initiatives they have been performing rather than being fully transparent.

Appendix: Table of CER Components

There are a few steps involved in utilizing this method:

1. A list of items related to environmental information must be identified based on the GRI framework mentioned above. As a result, 27 items wereidentified to be used as a scoring basis for the study. These items are listedin Table below.
2. Each item will be scored on a scale of 0 to 3. 0 will indicate a lack of properdisclosing, 1 will indicate a general description, 2 will indicate the availability of more specifically described items, and 3 will indicate a quantitative or monetary description of the item (Zeng et al., 2010). All theitems will be weighed equally in comparison to each other.
3. The scores will be tallied up and listed against each other. This will result in a rough numerical value to represent the CER disclosure of each observation used. The following table shows the list of the items used for scoring within this study:

Group	Component Description
Environmental Policy Information	Green policies, ideas, and objectives
	Environmental initiatives and other conditions
	Management's attitude to environmental behavior

	The internal control system on environmental protection
Environmental Management Activities and Initiatives	Environmental system certification
	Construction and operation of environmental protection facilities
	Environmental honors or awards
	Environmental education and training
Environmental Issues and Environmental Impact	Effects of corporate production and operation on the environment
	Environmental responsibility and potential environmental litigation
	Information related to environmental accidents
	Pollution costs, such as sewage charges and pollution treatment fees
Environment-Related Technology, Investment,and Expenditure	Awards for effective environmental governance
	The implementation of waste recovery, recycling, energy saving, and emission reduction
	Fix for contaminated sites and treatment on pollutants
	Investment in environmental governance such as green investment
	Annual consumption of resources (fuels, electricity, etc.)
	Types, quantity, concentration, and goals of gas emissions
	Types, quantity, concentration, and goals of effluence
Environmental Consumption and Pollutant Control	Types, quantity, and goals of the disposal and governance of solid waste and toxicant
Corporate Environmental Performance Improvement	Reduction of resources (water, raw material, etc.) consumption per product

	Reduction of pollutants (effluents, exhaust, etc.) emission
	Environmental benefits, like income from waste and environmental byproducts
	Other social or environmental benefits from energy conservation, reduction of pollutants, etc.
Environmental Charity andOther Information	Environmental charity
	Potential environmental impacts
	Other environmental information

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