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The Relationship Between Corporate Social Responsibility and Firm Financial Performance : Evidence from the Firms Listed in LQ45 of The Indonesian Stock Exchange Market

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Abstract

This research investigates the corporate social responsibility (CSR) and firm financial performance as well as the relationship between the two variables. The CSR and firm financial performance are calculated from the annual (sustainable) report of firms listed in LQ45 of the Indonesian Stock Exchange Market. The results show that the CSR activities conducted by firms are still relatively low. Furthermore, the panel data estimation suggests that CSR has the positive effect on the firm financial performance. The results also indicate that the financial crisis in 2008 reduced the positive effect of the CSR on the firm financial performance.

Keywords : corporate social responsibility (CSR), firm financial performance, financial crisis, panel data estimation

I. Introduction

It is well known that firms as well as industries have grown significantly and influence the social welfare. Since the business is growing in the social environment, the firms should sustain the social welfare that might be reduced by the business process itself. For example, a firm that exploits water for its main business might reduce the supply of water of its surrounding in the long run. Regarding that, Corporate social responsibility (CSR) is one of strategic programs conducted by firms related to the sustainable social benefit.

Corporate social responsibility (CSR) is the actions in which the firms take into account their involvement in the social activities as well as mitigate the effects of their