CHAPTER II

THEORETICAL BACKGROUND AND PREVIOUS RESEARCH

2.1 Good Corporate Governance

Corporate governance is described by Organization for Economic Cooperation and Development (OECD, 2000) as the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of the right and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders.

According to the General Guidance of Good Corporate Governance Indonesia, the board of directors are in charge and responsible for managing the company. The function of management of the company by the board of directors includes five main tasks. Those are:

1. **Management**

   This function includes the task of formulating the vision and mission as well as the preparation of short-term and long-term programs.

2. Risk Management

This function includes the task of formulating and implementing the company's risk management system that covers all aspects of the company's activities.

3. Internal Control

This function includes formulation and implementation of the internal control system in order to maintain the company's assets and performance and fulfill regulations.

4. Communication

This function includes the task of ensuring good communication between the company and its stakeholders by empowering corporate secretary functions.

5. Social Responsibility

This function includes a clear and focused plan to implement corporate social responsibility.

2.2 The Principles of Good Corporate Governance

According to The General Guidance of Good Corporate Governance Indonesia (2006), GCG has the following principles: transparency, accountability, responsibility, independence and fairness.

1. **Transparency**

Companies should provide the information that relevant and accessible as well as easily to be understood by stakeholders to maintain the objectivity of business. Critical information related to the shareholders, creditors and other stakeholders should also be disclosed in a transparent manner.

2. **Accountability**

Accountability is an indispensable condition to achieve continuous performance. Therefore, the company must be properly managed in order to account for its performance in a transparent manner.

3. **Responsibility**

Companies must adhere to the regulations and implement responsibilities towards society and the environment. It aims to maintain the sustainability of the business in the long term and to be recognized as a good corporate citizen.

4. **Independency**

Companies must be managed independently. Each element of the company does not dominate each other and cannot be interfered by other parties.

5. **Fairness**

Companies should always consider the interests of shareholders and other stakeholders based on the principles of fairness and equality.

The implementation of CSR is one of the principles of good corporate governance so companies that implement GCG should perform CSR program. The CSR implementation is in accordance with The General Guidance of Good Corporate Governance Indonesia (2006), the company must adhere to the regulations and implement CSR to the society as well as to the environment so it can maintain the sustainability of the business in the long term and to be recognized as a good corporate citizen.

2.3 The Fundamental Concept of Corporate Social Responsibility

Globalization has transformed the various situations in the world market. Local industries are encouraged to increase their competitiveness in order to enter into the global market. One of the challenges of this competition is how companies implement GCG, which in the implementation of GCG must also care for and responsible for the social and environmental interests (Untung, 2014). CSR is a form of social responsibility as a company's commitment to ensure sustainable benefits for the company as well as an important basis for businesses to build trust and beliefs for stakeholders.

2.3.1 Corporate Social Responsibility

Hopkins (2003) describes CSR as the activity concerned with treating the stakeholders of the firm ethically of in a responsible manner. “Ethically or responsible” means treating stakeholders in a manner deemed acceptable in civilized societies. Social includes economic responsibility. Stakeholders exist both within a firm and outside. The wider aim of social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for peoples both within and outside the corporation.

The World Business Council for Sustainable Development (2000) has also explained CSR as the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

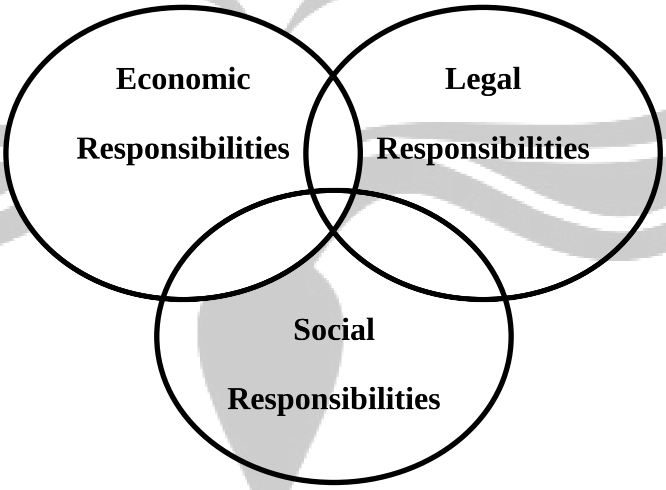
In Indonesia, Undang-undang Perseroan Terbatas No.40 (2007) has a quite similar description of CSR. CSR is the commitment of the company to participate in the sustainable economic development to improve the quality of life and environmental benefits the company itself, the local community and society in general.

Thus, it can be concluded that CSR is a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis. CSR is also companies obligation in obeying government regulations and taking actions the legal obligations and business aims. The responsibilities cover wider areas that can be summed up as the tripple bottom line approach: i.e. economic, social and environmental.

2.3.2 Three Types of Responsibility

According to the Post (2002), simultaneously the company will carry out three types of responsibilities to stakeholders where all three types of these responsibilities should be executed in a balanced manner. The three types of these responsibilities include: economic responsibility, legal responsibility and social responsibility.

Figure 1
Three Types of Firm Responsibility



Source: Post (2002)

2.3.2.1 Economic Responsibilities

The company was established with the objective to generate optimal profits. The managers of the company have such economic responsibility to the shareholders in the aspect of profit management. Proportion of the profits will be distributed to shareholders in dividends and other profits are retained earnings that will increase the value of a company.

The company also has economic responsibilities to the creditors that have provided loans to the company. Manager has responsibility in the form of setting aside some of the company's cash to pay the mortgage and loan interest in the due date. The company's failure to meet the economic responsibility to the creditors will greatly affect the company's credit history, resulting a decrease in the company's stock price.

2.3.2.2 Legal Responsibilities

Laws and rules are made in order to balance between companies objective with the expectations of society. Therefore, the company must adhere to many regulations as a form of corporate responsibility. The purpose of law enforcement and regulation is that companies are not disadvantaged by other rival companies.

2.3.2.3 Social Responsibilities

Kotler and Lee (2005) describes the corporate social responsibility as a commitment to improve community well being through discretionary business practices and contribution of corporate resources. Kotler and Lee emphasizing the word discretionary which means CSR activities are voluntary responsibility to improve the welfare of the community and is not a business activity that required by law and legislation such as the obligation to pay taxes or adherence to labor laws.

2.3.3 Two Views of Corporate Social Responsibility

There are two contrasting perspectives on the potential relation between CSR and financial performance. Those are:

2.3.3.1 The Classical View

The classical view elaborates that management's only responsibility is to maximize profits. Milton Friedman (1962) argues that managers' primary responsibility is to operate the business in the best interests of the stockholders which is the owner of the corporation. Friedman emphasizes that stockholders have a single concern, financial return. Deciding to spend the organization's resources for "social good" will only adding to the costs of doing business. Friedman thinks that organizations should be socially responsible but the extent of that responsibility is to maximize organizational profits for stockholders.

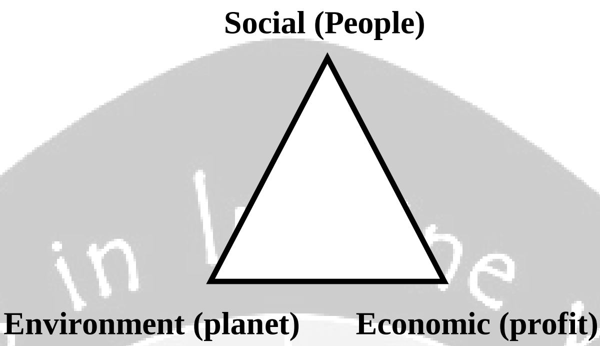
2.3.3.2 The Socioeconomic View

The socioeconomic view believe that management's responsibility goes beyond making profits, but also include protecting and improving society's welfare (Robbin, 2006). This position is based on the belief that corporations are not independent entities responsible only to stockholders. Corporations aso have a responsibility to the larger society that endorses their creation through various laws and regulations and supports them by purchasing the products and services. Thus, the socioeconomic view believe that business organizations are not just merely eonomic institutions. Corporatons should involves in social, political and legal issues.

2.4 The Triple Bottom Line of Corporate Social Responsibility

John Elkington (1997) in Wibisono (2007) through his book "Cannibals with Fork, the Triple Bottom Line of the Twentieth Century Business." Elkington developed the concept of the triple bottom line in terms of economic prosperity, environmental quality and social justice. Elkington gave the view that companies that want sustainable, must pay attention to "3P". In addition to the pursuit of profit, the company also must pay attention and be involved in the fulfillment of public welfare (people) and contribute actively to protecting the environment (planet). This relationship is then illustrated in the form of a triangle as follows:

Figure 2
Triangle Bottom Line of Corporate Social Responsibility



Source: John Elkington (1997)

In this idea, the company no longer faced with the responsibility which rests on the single bottom line, such as economic aspects which are reflected in its financial condition, but also must pay attention to social and environmental aspects (Wibisono, 2007).

The ideal relationship between profit, people and environment is balanced. A company can not be concerned only in one element. 3P concept according to Elkington can ensure the sustainability of the company's business. This can be justified, because if a company only pursue profits alone, it could be a broken environment and society are neglected become barriers to business continuity. But some companies have even become disrupted its activities being unable to maintain the balance of this 3P. If an interruption of the community then the loss is their own business (Prastowo and Huda, 2011).

2.4.1 Profit

Profit is the most important element and the main purpose of any business activity. Profit itself is essentially an extra income that can be used to ensure the company's survival. While the activities that can be taken to boost profits by greatly increasing productivity and perform the efficiency of costs, so the company has a competitive advantage that can provide added value as much as possible (Wibisono, 2007).

2.4.2 People

A company realize that people are important stakeholders because of their support, especially the surrounding community. Thus, companies need to commit trying to provide maximum benefit to them and touch people's needs (Wibisono, 2007).

2.4.3 Planet

The environment is something that is related to all areas of our lives. The relationship of the company to the environment is the cause and effect relationship. It means if the companies take care of the environment, the environment will provide benefits as well. In reverse, if the companies simply destroy it, then the companies will accept the consequences. Ironically, most of the companies are less concerned to the environment. This is due to the lack of immediate profit in it. Thus, it can be seen that there are many industry players which are only concerned about generating profit as much as possible without making any attempt to preserve the environment. In fact, by preserving the environment, they will only gain more, chiefly in terms of health, comfort, in addition to the availability of resources is guaranteed continuously (Wibisono, 2007).

However, boost profits and increase economic growth is important, but concern to the environmental preservation is also more important. In this case, the application of triple bottom line or 3 P concept are needed, such as profit, people and planet. In other words, the goal of a business is not only the income (profit), but also human being (people) and the environment (planet).

2.5 Corporate Social Responsibility Indicator

Corporate Social Responsibility Disclosure Index (CSRDI) measurement is calculated by component of corporate social responsibility by Rismanda Sembiring Eddy (2005) as follows:

1. **Environment**

    1) Pollution control operations, research and development expenditures to reduce pollution.
    2) The company's operations do not create pollution or comply with pollution laws and regulations.
    3) The statement that indicates that pollution has been or will be reduced operation.
    4) Prevention or repair environmental damage caused by the management of natural resources, such as land reclamation or reforestation.
    5) Conservation of natural resources, such as recycling glass, metal, oil, water and paper.
    6) The use of recycled materials.
    7) Awarded the program relating to the environment created company.

8) Designing facilities in harmony with the environment.

9) Contributions in the art that aims to beautify the environment.

10) Contributions in the restoration of historical buildings.

11) Waste management.

12) Learn to monitor the environmental impact of the company's environmental impact.

13) Protection of the environment.

2. Energy

1) Using energy more efficient in operation.

2) Utilizing thrift to produce energy.

3) Energy savings as a result of recycled products.

4) Discussing the company's efforts to reduce energy consumption.

5) Increased energy efficiency and products.

6) Research that leads to increased energy efficiency of the product.

7) Expressing energy policy of the company.

3. Health and Safety

1) Reduce pollution, irritation, or the risks in the work environment.

2) Promoting labor safety and physical or mental health.

3) Revealing the statistics of occupational accidents.

4) Complying with safety regulations employment health standards.

5) Awarded with regard to safety.

6) Establish a safety committee.

7) Carry out research to improve work safety.

8) Reveal health care workers.

4. Employments and Other

1) Recruitment or exploit female workers or disabled.
2) Reveal percentage or amount of labor of women or disabled in the managerial level.
3) Expressing the intended use of the labor of women or disabled in employment.
4) Programme for the advancement of women workers or disabled.
5) Training the workforce through specific programs in the workplace.
6) Provide financial assistance to workers in the field of education.
7) Establish a workforce training center.
8) Disclose help or guidance for labor in the process of resigning or who have made mistakes.
9) Expressing planning employee home ownership.
10) Reveal facilities for leisure activities.
11) Disclosure of the percentage of salary for retirement.
12) Expressing the company's remuneration policy.
13) Disclose the amount of employment in the company.
14) Reveal the existing managerial levels.
15) Reveal disposition staff where staff are stationed.
16) Disclose the amount of staff, years of service and their age group.
17) Expressing labor statistics, for example, sales per worker.
18) Expressing qualifications recruited labor.
19) Disclose stock ownership plan workforce.

20) Disclose other profit sharing plan.

21) Disclose information management and labor relations in improving decisions and work motivation.

22) Disclose information about the job stability of workers and the company's future.

23) Creating a separate employment report.

24) Report the company’s relationship with the union.

25) Reporting employment action and disruption.

26) Disclose information on how employment action negotiated.

27) Improved working conditions in general.

28) Information corporate reorganization affecting workforce.

29) Information and statistics labor turnover.

5. Product

1) Disclosure of information about the development of the company's products, including packaging.

2) Overview of research and product development expenditure.

3) Disclosure of information about the company's research projects to improve the product.

4) Disclosures that products meet safety standards.

5) Creating a safer product for consumers.

6) Carry out research on the level of safety of the company's products.

7) Disclosure improvement of hygiene / health in the processing and preparation of products.

8) Disclosure of information on the safety of the company's products.

9) Disclosure of information about product quality that is reflected in the awards ceremony

10) The information that can be verified that the quality of products has increased (eg, ISO 9000).

6. Community Involvement

1) Donations of cash, products, services to support community activities, education and the arts.
2) Part-time employment such as student.
3) As a sponsor for a public health project.
4) Helps media research.
5) As a sponsor for educational conferences, seminars and art exhibitions.
6) To finance the scholarship program.
7) Opening the company's facilities to the public.
8) Sponsoring a national campaign.
9) Supporting the development of local industry.

7. Other

1) Disclosure companys' goal and policy which is related to corporate social responsibility to the community.
2) Information related to corporate social responsibility other than those mentioned above.

2.6 Corporate Financial Performance

Philip Kotler (2007) in the book "CSR: Doing the Most Good for Your Company and Your Cause" stated that the implementation of CSR can build brand positioning, increase sales, expand market share, increase employee loyalty, reduce operational costs and improve the image of the company in the perspective of investors. Therefore, CSR certainly will impact on the company's financial performance.

The financial performance is the recognition of income and expenses association which generate income that is superior to cash flows for evaluating the financial performance. Revenue recognition ensures that all revenue generated during a period has been recognized. The association of income and income ensure that the burden of which was recorded in a period is just burden related to that period (Subramanyam and Wild, 2010). The financial performance is also a reflection of the achievements of companies that can be interpreted as the results achieved on the various activities that have been performed (Fahmi, 2006).

2.6.1 The Measurement of Corporate Financial Performance

Performance measurement is a data analysis and control for the company. Performance measurement used by companies to make improvements on their operations in order to compete with other companies. For investors, information on the company's performance can be used to see whether they will maintain their investment in the company or find another alternative. In addition measurements were also carried out to demonstrate to investors or customers or the public in general that the company has good credibility (Munawir, 2008)

The ratio is a measure used by companies to analyze financial statements. The ratio describes a relationship or consideration of a certain number with another amount. By using the analyzer in the form of financial ratios, it can explain and give an overview to the analyzer about the good or bad circumstances or the financial position of a company from one period to the next.

Financial ratio analysis is the process of determining the critical operations and financial characteristics of a company from the accounting data and financial statements. The purpose of this analysis is to determine the efficiency of the performance of the company's managers which is manifested in the financial records and financial statements. In the financial ratio analysis, basically this ratio analysis can be done with two kinds of comparisons, which is (1) comparing the present ratio with the historical ratio ratio or with ratios that is estimated for the specific time from the same company and (2) comparing the ratios of a company with similar ratios of other similar companies (Kusumo, 2008). One financial performance measurement concept that can be used are accounting based measurement (Gentry and Shen, 2010).

2.6.2 Accounting Based Measurement

The accounting-based measurement can be found in the analysis of financial statements issued by the company. The financial report is information that describes a company's financial condition and further information can be used as an overview of the company's financial performance (Fahmi, 2014).

In a financial statement analysis, it is conducted activities to compare component of financial statements (balance sheet, profit and loss), to obtain an overview of the financial situation of the company from various business financial perspective. The result is called ratio analysis. This analysis is usually used as a parameter in assessing the performance of the company (Noor, 2014). The types of financial ratios commonly used include liquidity ratio (liquidity ratio), debt ratio (leverage ratio), the activity ratio (activity ratio), the ratio of ratings (valuation ratio), the ratio of profit (profitability ratio) and the coverage ratio (Noor, 2014).

This study will use profitability analysis to measure the financial performance. Profitability analysis is the evaluation of the return on investment companies. The analysis focuses on the company's resources and the level of profitability, and involves the identification and measurement of the impact of the drivers of profitability. This analysis also includes an evaluation of the two main sources of profitability-margin (share of sales that are not covered by the cost) and turnover (use of capital). Profitability analysis also focuses on the causes of changes in the profitability and durability profit (Subramanyam and Wild, 2010).

This study will use three indicators to measure the profitability, such as Return on Assets (ROA), Return on Equity (ROE) and Price to Book Value (PBV). These all three measure is a the well known measure and most widespread usage among all other financial ratios. In each form, this ratio is meant to measure how efficiently a company has used assets and manage operations (Ross, Westerfield and Jordan, 2009).

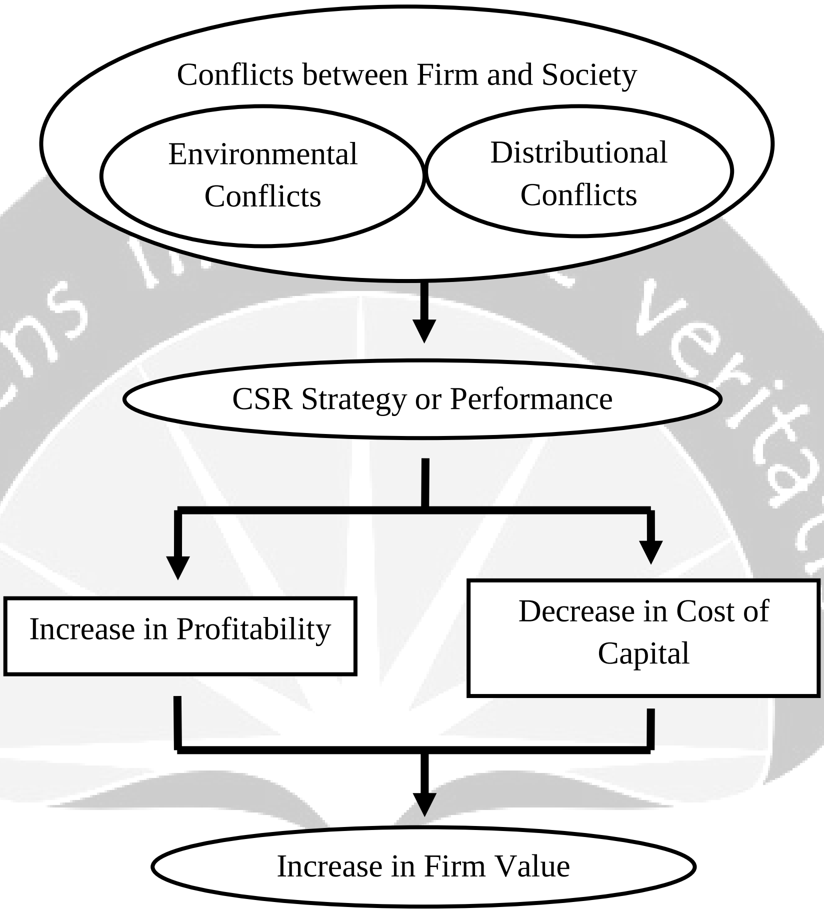
2.7 The Relation of Corporate Social Responsibility to Corporate Financial Performance

These days, firms operate in an environment surrounded by many interest groups such as employees, customers, suppliers and local communities. These stakeholders usually demand firms' responsibilities for the society, thereby often causing conflicts between firms and society. One type of the conflicts arises from the dispute over who should pay the social cost that exceeds the private cost due to negative externalities such as pollution, global warming and acid rain (environmental conflicts). The other comes from the dispute over distributional fairness (distributional conflicts) such as the issues of low wage, underage workers and human right violations and so on.

The firms involved in any type of these conflicts would face the risks of deteriorating profits and increasing cost of capital, eventually resulting in the decrease in their firm values. There are several firms that suffered from huge losses because of their failure to resolve the conflicts. The cases include Shell (disposal of oil buoy in the North Sea), Nike (child labor scandals in Pakistan and Cambodia) and McDonalds (use of polystyrene packaging for its products).

However, CSR could play a role of reducing or compensating the discrepancy between private cost and social cost in the environmental conflicts. CSR is also important in resolving the distributional conflicts.

Figure 3
CSR and CFP



Source: Jang, Lee and Choi (2013)

CSR plays an important role of mitigating or preventing the conflicts between firms and society. CSR strategy or performance can affect the firm's profitability, cost of capital and eventually its market value.

2.8 Previous Research

CSR topic has attracted the interest of researchers. In relation to the financial management which involves the relationship CSR and financial performance, the following will discuss a number of previous studies that have been conducted and the results obtained from these studies.

A research conducted by Jang, Lee, and Choi (2013) entitled “The Relation between Corporate Social Responsibility and Financial Performance: Evidence from Korean Firms.” The independent variable in this study is the Korean Economic Justice Institute (KEJI) Index, total assets and leverage, while the dependent variable is financial performance represented by ROA, WACC and TOBINQ. The sample of this research consists of 130 Korean firms for KEJI published indices that measure the performance of their social responsibility activities (KEJI Index). The research proves that CSR has significantly positive correlation with ROA, TOBINQ and WACC.

A research conducted by Candrayanthi and Saputra (2013) entitled "Influence of Corporate Social Responsibility Disclosure on Corporate Performance." The independent variable in this study is the disclosure of Corporate Social Responsibility as measured by Corporate Social Disclosure Index (CSRDI), while the dependent variable is financial performance represented by ROA, ROE, and NPM. This research was conducted in 2010-2011 at the 34 mining companies listed on the Indonesian Stock Exchange (BEI). Partial results of this study indicate that the positive effect of CSR variables on ROA, ROE, and NPM

A research conducted by Margarita Tsfrousa and Berkkeley (2004) entitled “Corporate Social Responsibility and Financial Performance” The independent variable in this study is the disclosure of Corporate Social Responsibility Disclosure Index (CSRDI), while the dependent variable is a proxy of financial performance by ROA, ROE, and ROS. The results showed that CSR variables have positive effect on ROA and ROS, but negative effect on ROE.

A research conducted by Yaparto, Frisko, and Eriandani (2013) entitled "The Effect of Corporate Social Responsibility for Financial Performance in Manufacturing Sector Listed in Indonesia Stock Exchange in the period 2010-2011." The independent variable in this study is the disclosure of Corporate Social Responsibility Disclosure Index (CSRDI), while the dependent variable is a proxy of financial performance by ROA, ROE, and EPS. This research was conducted in 2010-2011 at the 158 companies listed on the Indonesian Stock Exchange (BEI). The results showed that CSR variables have no significant effect on ROA, ROE and EPS.

A research conducted by Husnan (2013) entitled "The Effect of Corporate Social Responsibility (CSR Disclosure) of the Company Financial Performance." The independent variable in this study is the disclosure of Corporate Social Responsibility as measured by Corporate Social Disclosure Index (CSRDI), while variable the dependent's financial performance is represented by ROA, ROE, ROS, and the Current Ratio. This research was conducted in 2008-2011 at the 156 companies listed in the Indonesia Stock Exchange (BEI). The results showed that CSR significant effect on ROA and ROS, but no significant effect on ROE and the Current Ratio.

Table 1
Summary of Previous Research

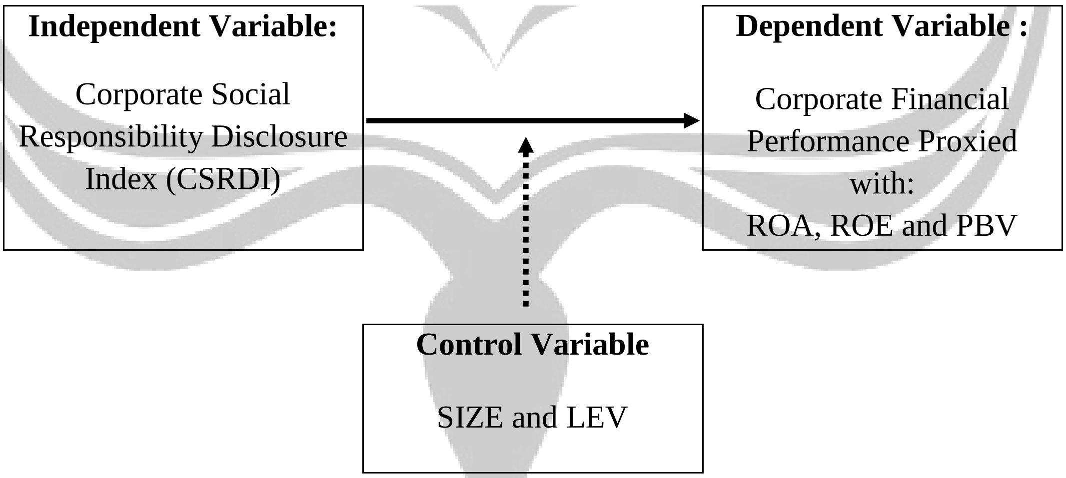
No.	Research	Variable	Data Analysis	Result
1.	Jang, Lee and Choi (2013) entitled "The Relation between Corporate Social Responsibility and Financial Performance: Evidence from Korean Firms"	Korean Economic Justice Institute (KEJI) Index, total assets and leverage (independent variable) and ROA, WACC, and TOBINQ (dependent variable)	Multiple Linear Regression	CSR has significantly positive correlation with ROA, TOBINQ and WACC.
2.	Candrayanthi and Saputra (2013) entitled **"**Influence of Corporate Social Responsibility Disclosure on Corporate Performance"	Corporate Social Disclosure Index (independent variable) and ROA, ROE and NPM (dependent variable)	Simple Regression	CSR has positive effect on ROA, ROE and NPM
3.	Margarita Tsfrousa and Berkkeley (2004) entitled "Corporate Social Responsibility and Financial	Corporate Social Responsibility Disclosure Index (independent	Multiple Linear Regression	CSR has positive effect on ROA and ROS, but negative effect on ROE

	Performance”	variable) and ROA, ROE and ROS (dependent variable)		

2.9 Research Framework

Based on the background, the theoretical basis and previous research, this study will examine whether the effect of CSR disclosure affect the financial performance the company listed in SRI KEHATI Index during the period 2010-2014. The framework in this study as follows:

Figure 4
Research Framework



Source: Jang, Lee and Choi (2013) with modification

Based on the research framework, the model will be analyzed in this study was the effect of CSR on financial performance proxied with ROA, ROE and PBV partially. This is done considering attractiveness of the business is an important indicator of business competition. Indicators attractiveness of the business can be measured from profitability, Return on Assets (ROA), Return on Equity (ROE) and the Price to Book Value (PBV). This study will also use Firm Size (SIZE) and Debt to Equity Ratio (LEV) as control variables so the effect of independent variables on the dependent variables will not influenced by external factors.

2.10 Hypothesis Development

Hypothesis is a temporary explanation of behavior, phenomena, or certain situations that have occurred or will occur (Mudrajad Kuncoro, 2009). Hypothesis is also estimated logically relationship between the two or more variables that is expressed in the form of a statement that can be tested. By testing the hypotheses and confirms a relationship, it is expected that a solution could be found to overcome the problems faced (Sekaran, 2007). There are some characteristics of a good hypothesis, which is consistent with previous research, had a reasonable explanation, precise estimates and can be tested.

McGuire et al. (1998) in Balabanis et al. (1998), states that CSR activities conducted by the company are proven to improve the reputation, which improves connections with banks, investors, and institutions government. The Improvement of relations is reflected in the economic benefits company. If the CSR activities of the company touched and provide direct benefits to the community, hence the company will be more flexible in developing markets. CSR is a business strategy that can improve the company's image in the community perspective. Companies with a good image will have the full support of the surrounding environment to optimize the economic benefit of the company.

2.10.1 The Influence of Corporate Social Responsibility (CSR) to Return on Assets (ROA)

CSR disclosure by the company should pay attention to the welfare of society (people) and preserving the environment (planet), not to pursue profit only, so the company can provide some of its profits voluntarily for social purposes. The company's financial performance reflects the excellent or poor performance of the company managing its resources in a certain period which can be seen from the company's financial statements. Financial performance can be measured using profitability ratios measured which means using Return On Asset (ROA). Research conducted by Jang, Lee and Choi (2013) as well as Margarita Tsfrousa and Berkkeley (2004) said that CSR is positively influence ROA, while research conducted Yaparto, Frisko, and Eriandani (2013) said that CSR had negative influence on ROA. ROA measures how much the company has obtained the results of all financial resources invested in the company (Munawir, 2008). CSR as an independent variable means that the disclosure of CSR of the company each year will have a positive impact on sales of products of companies that can have an impact also on improving the performance and the company's ability to generate profits. Based on this, the hypothesis is:

H1: CSR has positive influence on CFP as measured with ROA.

2.10.2 The Influence of Corporate Social Responsibility (CSR) to Return on Earning (ROE)

Wider CSR disclosure would indicate a positive signal to the stakeholders as well as the company's shareholders. The more extensive the information presented to the stakeholders and shareholder, the more information will be accepted about the company. The extensve CSR disclosure will improve the trust of stakeholders and shareholder to the company. Trust is characterized by the acceptance of the company's products that will enhance the company's earnings and ROE. Research conducted by Candrayanti and Saputra (2013) said that CSR is significantly influence ROE, while Margarita Tsfrousa and Berkkeley (2004) said that CSR has negative influence on ROE. This shows that companies that implement CSR can be seen from the CSR report will have many advantages such as customer loyalty and confidence of creditors and investors. This will trigger the financial condition of the company to be better so the company's profit increased and will be followed by an increase in ROE and ROA in the next year. Based on this, the hypothesis is:

H2: CSR has positive influence on CFP as measured with ROE.

2.10.3 The Influence of Corporate Social Responsibility (CSR) to Price to Book Value (PBV)

The PBV measures a company's market price in relation to its book value. The PBV indicates whether or not a company's asset value is comparable to the market price of its stock. For this reason, it can be useful for finding value stocks. The higher of PBV will create believe of market that the firm will remain sustain in future. These things also become a desire of the owner of firm because the higher firm values indicate the higher prosperity of shareholder. A research conducted by Jang, Lee, and Choi (2013) resulted on positive correlation between CSR and firm value. Based on this, the hypothesis is:

H3: CSR has positive influence on CFP as measured with PBV.