THE EFFECT OF SOCIAL RESPONSIBILITY AND ENVIRONMENTAL RESPONSIBILITY ON FINANCIAL PERFORMANCE WITH MEDIATION: BUSINESS EFFICIENCY

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ABSTRACT

This study aims to examine the effect of social responsibility and environmental responsibility on financial performance mediated by business efficiency. This study uses a population of mining sector companies selected based on the purposive sampling method. The number of observations is 80 companies (2016-2017). The test results in this study indicate that social responsibility and environmental responsibility affect business efficiency. Business efficiency also has a positive effect on financial performance. The influence of social responsibility and environmental responsibility on financial performance directly is not proven in this study. This study also proves that business efficiency can be a mediating variable on the effect of social responsibility and environmental responsibility on financial performance.

Keywords: social responsibility, environmental responsibility, financial performance, business efficiency.

INTRODUCTION

Financial performance is a measure of financial success of the company. The success of the company's achievements is usually seen from good financial performance in terms of achieving profit and growth of the company, but there are other things that are not less important to mark the success of a company that is sustainability. The main key to achieving sustainability is public acceptance of the company's presence. To be able to achieve this sustainability was born the concept known as social responsibility and environmental responsibility.

Social responsibility is a concept that combines business and social aspects so that harmony and company can help achieve stakeholder welfare and achieve high profits. Initially, the most common forms of social responsibility were assistance to local organizations and the poor. At present the form of social responsibility has developed into corporate social activities in the community, for example natural disaster assistance, going home together, education, health assistance and others.

Real social responsibility is not just a social activity, but is reporting information related to the activities of a company. The impact caused by the activities of the company and management of the impacts, has an active role in improving the quality of life of the community, and ensuring survival in the future.

Another key to achieving sustainability is environmental responsibility. Environmental responsibility is currently a concern for many people. When a company starts conducting business operations, it will directly have the potential to have an impact on the environment. If the resources utilized in the form of natural resources are carried out on a large scale, there will be fundamental ecosystem changes. Environmental responsibility is increasingly developing and is a component of corporate strategies and instruments that are crucial to minimizing conflicts among stakeholders (Beccheti et al., 2011). The company is expected to be able to balance environmental responsibility and economic growth through strategic and competitive roles for the long-term sustainability of the company (Dincer, 2011).

Good financial performance related to business efficiency. Efficiency is a measure of the success of an organization in maximizing output using minimal or certain inputs. Efficiency is an important indicator in evaluating the performance of a company or industry. Increasing business efficiency has a significant influence on financial performance (Berger & Humphrey, 1997; Duncan & Elliott, 2004; Greiling, 2006; Jamali et al. 2015). Business efficiency is the basic key in improving financial performance so it is considered very relevant to be used as a mediating variable from the relationship of social responsibility and environmental responsibility to financial performance.

Social responsibility and environmental responsibility can be used as material for management decision-making for the survival of the company, in an effort to improve financial performance the management of the company carries out policies that have been adjusted based on applicable guidelines. From the description above, the authors are interested in conducting research on the influence of social responsibility and environmental responsibility on financial performance with business efficiency as a mediating variable.

THEORETICAL

Legitimacy Theory

Legitimacy Theory states that the activities of a company or organization can continue if the community realizes that the organization operates for a system of values commensurate with the value system of the society itself (Gray et al, 1996). This Legitimacy theory advocates for companies to ensure that company activities can be accepted in society. Suchman (1995)

defines legitimacy as a general perception or assumption that the actions of an entity are desirable, appropriate or appropriate in several socially constructed systems of norms, values, beliefs, and definitions. Legitimacy theory states that companies continually strive to ensure that they operate in accordance with the limits and norms at which the company is located.

Corporate Social Responsibility

Social responsibility according to law No. 40 of 2007 Article 74 concerning limited liability companies, corporate social responsibility is defined as the responsibility of an organization for the impact of a decision and its activities on society, through transparent and ethical behavior, consistent with sustainable development and community welfare, taking into account the expectations of stakeholders, according to the law applicable and consistent with international behavioral norms, and integrated throughout the organization. Carrol & Shabana (2010) stated that the idea that underlies the implementation of social responsibility is that business has a responsibility to society beyond responsibility to create profits.

Environmental Responsibility

Environmental responsibility is the performance of a company that cares about the environment. Suratno et al. (2006) defines environmental responsibility as the company's performance in creating a green environment. Environmental responsibility is increasingly developing and is a component of corporate strategies and instruments that are crucial to minimizing conflicts among stakeholders (Beccheti et al., 2011). The company is expected to be able to balance environmental responsibility and economic growth through strategic and competitive roles for the long-term sustainability of the company (Dincer, 2011). Therefore, investment in environmental activities needs to be considered as part of the company's strategic policy. In this case it involves management discretion and the interests of shareholders and other stakeholders.

Business Efficiency

Efficiency is one of the performance parameters that theoretically is one of the performance that underlies the overall performance of an organization. The ability to produce maximum output with existing inputs is a measure of expected performance. According to Coelli et al. (2005: 6) there are four methods used to determine the level of efficiency, namely (1) Least-square econometric production models, (2) Total factor productivity (TFP) indices, (3) Data envelopment analysis (DEA), and (4) Stochastic Frontier. The first and second methods are used to measure the level of efficiency in a company that is assumed to have operated efficiently, while the third and fourth methods are assumed that the company still has not reached a certain level of efficiency.

Financial Performance

Financial performance is one measure of the performance of a company. There is a clear measure of performance so this can be a reference for stakeholders to make decisions based on company information. According to Higgins (1989: 37) financial statement analysis is analyzed to evaluate the company's financial performance and understand management control tasks. Performance assessment aims to motivate management in achieving organizational goals and achieving work compliance so as to produce the desired goals.

HYPOTHESIS

The Effect of Social Responsibility and Environmental Responsibility on Business Efficiency

The implementation of good social responsibility in turn will be able to improve the company's reputation (brand image), so that the management of the company has an obligation to maintain that reputation by operating efficiently. Research by Stuebs and Sun (2010) provides evidence that corporate social responsibility activities are associated with increased business efficiency. Vitezic's (2011) study of the relationship between social responsibility and efficiency shows that the company has implemented social responsibility has a better level of efficiency. With several reasons above, the hypothesis that will be proposed is:

H1: Corporate social responsibility has a positive effect on business efficiency

Porter and linde (1995) state that pollution or poor environmental performance reflects the resources used are incomplete, less effective and efficient, this will have an impact on decreasing profits, therefore reducing pollution levels can actually increase efficiency because it will reduce costs and will ultimately increase the company's profits. Investors will appreciate environmental information disclosure as a positive signal for future environmental costs of the company. Companies that have low environmental risks have the potential to minimize costs to overcome environmental damage imposed on them in the future (Yusoff and Glen, 2005). With several reasons above, the hypothesis that will be proposed is:

H2: Corporate environmental responsibility has a positive effect on business efficiency

The Effect of Social Responsibility and Environmental Responsibility on Financial Performance

Companies that are very responsive to the development of corporate social responsibility, especially mining companies, are very beneficial to stakeholders (Raufflet et al, 2014), which ultimately will have a good impact on the company's performance. Jamali

et al. (2015) stated that the implementation of social responsibility has a positive influence on increasing income (company performance) as measured by ROA. Karjaya and Sisdyani (2014) found that corporate social responsibility influences financial performance as measured by ROA in mining companies in Indonesia. Haryati and Rahardjo (2013) found that social responsibility has a significant influence on the company's financial performance in a positive direction. Companies with broad disclosure of social responsibility tend to have a higher ROE. With several reasons above, the hypothesis that will be proposed is:

H3a: Social responsibility has a positive effect on the company's financial performance (ROA)

H3b: Social responsibility has a positive effect on the company's financial performance (ROE)

Environmental responsibility is used to show the potential for environmental investment that is beneficial to financial gain (De Beer and Friend, 2006). Good environmental responsibility can reduce long-term risks associated with shrinking resources, fluctuations in energy costs, product losses, and pollution and waste management. Furthermore, good environmental responsibility can be the basis for creating competitive advantages and opportunities to increase company earnings through meeting the green consumers' needs (Al Tuwajiri et al., 2004). Poor environmental responsibility will cause negative values from the market and weak environmental management signals, measured by environmental crises, will reduce income in equity (Klassen and McLaughlin, 1996; Konar and Cohen, 2001). The results of these studies have in common with the findings of the research of Suratno et al. (2006) that the impact of environmental disclosure has a positive and significant effect on financial performance. With several reasons above, the hypothesis that will be proposed is:

H4a: Environmental responsibility has a positive effect on the company's financial performance (ROA)

H4b: Environmental responsibility has a positive effect on the company's financial performance (ROE).

The Effect of Business Efficiency on Financial Performance

Duncan and Elliot (2004) prove that there is a positive relationship between business efficiency and financial performance (ROA and Capital Adequasy). The results of Greiling's research (2004) add that business efficiency carried out by public sector organizations is able to improve the financial performance of public sector companies. Research Hart (1995) which states that some companies will maximize the efficiency of the resources owned by the company so that it will improve the company's financial performance. With several reasons above, the hypothesis that will be proposed is:

H5a: Business Efficiency has a positive effect on financial performance (ROA)

H5b: Business Efficiency has a positive effect on financial performance (ROE)

The Effect of Social Responsibility and Environmental Responsibility on Financial Performance Mediated by Business Efficiency

Management strategies reveal that a good corporate reputation can create an efficient competitive advantage for the company (Fombrun, 1996; Roberts and Dowling, 2002). The challenge of companies facing increasingly fierce business competition requires companies to increase business efficiency. The company will strive to operate efficiently to control costs, maximize productivity and maintain performance. With several reasons above, the hypothesis that will be proposed is:

H6a: Social responsibility has a positive effect on the company's financial performance (ROA) through business efficiency

H6b: Social responsibility has a positive effect on the company's financial performance (ROE) through business efficiency

H7a: Environmental responsibility has a positive effect on the company's financial performance (ROA) through business efficiency

H7b: Environmental responsibility has a positive effect on the company's financial performance (ROE) through business efficiency.

METHODOLOGY

The population in this study are mining companies listed on the Indonesia Stock Exchange for 2 years of observation (2016-2017). The research sample was 80 companies. Data is obtained from the Annual report in 2016-2017, the Company's Official Site, the official website of the Indonesia Stock Exchange, the Global Reporting Initiative (GRI).
Social responsibility

The number of disclosures by companies with the amount of disclosure required in the Global Reporting Initiative (GRI) 4. Haniffa & Cooke (2002) use the following formula:

$$ICSRj = \frac{\sum_{t=1}^{t_j} X_{ij}}{n_j}$$

Notes:

$ICSR_j$: Social responsibility index
n_j : number of disclosure items for the company j, n_j=91
X : if item i is disclosed = 1; if item i is not disclosed =0
Therefore, 0,< $ICSR_j$<1

Environmental responsibility

Environmental performance is measured by the rating of the Company's performance in Environmental Management (PROPER) published by the Ministry of Environment. Companies that get a Gold, Green and Blue rating will be given a weight of 1 (one), while companies that get a rating of Red and Black will be given a weight of 0 (zero).

Business Efficiency
The value of business efficiency is measured using the Data Envelopment Analysis (DEA) program. The input-oriented DEA VRS model used refers to the research of Hoque & Rayhan (2012).

With obstacles $\max_{\phi,\ \lambda}\phi$,
$-\phi\lambda y_i + Y\lambda \geq 0$,
$X_i - Y\lambda \geq 0$,
$N1'\lambda = 1$
$\lambda \geq 0$,

Where, $1 \leq \phi < \infty$, dan $\phi - 1$ is the proportion of increase in output achieved by the i Decision Making Unit. It is assumed that m input and s output are used for each DMU n. For the first DMU represented by vectors x_i and y_i. X is the matrix output (m x n) and Y is the output matrix (s x n). Φ is technical efficiency, λ is a vector nx1 of constant. The value of ϕ is always less or equal to 1. The DMU that has a value of ϕ <1 means that the DMU is inefficient, while the DMU that has the value ϕ = 1 means that the DMU is efficient.

The input and output variables used in this study adopted Stueb & Sun (2010), namely: Inputs (1. Price of goods sold or cost of goods sold, i.e. value of cost of goods sold; 2. Business expenses, which include sales expenses, general expenses, and administrative expenses 3. Other expenses, which include interest expense, bank administration expenses and other expenses before tax other than cost of goods sold and operating expenses), Output (1. Sales, ie the value of sales up to the end of year one of the company 2. Other income, such as interest income, commission income, profits from fixed asset sales, and other income besides sales).

Company financial performance
Performance measurement in this study uses Return On Assest (ROA) and Return On Equity (ROE). The formulations are as follows:

$$ROA = \frac{Labasebelumbungadanpajak}{Totalaset}$$

Notes: Total assets are total assets in one period.

$$ROE = \frac{Lababersihsetelahpajak}{Ekuitaspemegangsaham}$$

Notes: Shareholders' equity obtained from total assets is reduced by total assets

RESULTS

Table 1. Structural Model Testing

	R Square
Business Efficiency	0.438
ROA	0.421
ROE	0.162
Environmental Responsibility	
Social Responsibility	

Source : Attachment

Goodness of fit on PLS can be known from the value of Q2. The value of Q2 has the same meaning as the coefficient of determination (R-square / R2) in the regression analysis. The higher R2, the model can be said to be more fit with the data. Q-Square value greater than 0 (zero) indicates that the model has predictive relevance, while Q-Square value less than 0 (zero) indicates that the model lacks predictive relevance (Imam Gozali, 2006: 26). From the table above, it can be seen that the Q2 value is as follows:

$Q^2 = 1 – (1 – R21) (1\text{-}R22) (1 – R23) …. (1 – R 2n)$

$= 1\text{-} (1\text{-}0.438) (1\text{-}0.421)(1\text{-}0.162)$

$= 1\text{-} 0.2730 = 0.7270 = 72.70\%$

In this research model the R-square value generated in the overall model equation is 72.70%, which is of moderate value (quite high), so that this means that the structural model has a fairly high predictive relevance, the model is quite good and suitable for use in prediction.

Hypothesis testing

Table 2. Direct Influence Of Path Ccoefficient Results

No		Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	Standard Error (STERR)	T Statistics (|O/STERR|)	Results
1	Business Efficiency -> ROA	0.591	0.578	0.128	0.128	4.617	Accepted
2	Business Efficiency -> ROE	0.409	0.472	0.152	0.152	2.690	Accepted
3	Environmental Responsibility -> Business Efficiency	0.270	0.275	0.076	0.076	3.570	Accepted
4	Environmental Responsibility -> ROA	-0.014	-0.005	0.078	0.078	0.182	Rejected
5	Environmental Responsibility -> ROE	0.074	0.053	0.103	0.103	0.719	Rejected
6	Social responsibility -> Business Efficiency	0.519	0.503	0.116	0.116	4.488	Accepted
7	Social responsibility -> ROA	0.097	0.093	0.086	0.086	1.131	Rejected
8	Social responsibility -> ROE	-0.080	-0.048	0.118	0.118	0.678	Rejected

1. Estimated results of the inner model for the direct effect of Business Efficiency on ROA show a t-statistic value of 4.617, where the value is greater than 1.64 with a level of error α = 5%, this indicates a direct effect of Business Efficiency on ROA is accepted.

2. Estimated results of the inner model for the direct effect of Business Efficiency on ROE show a t-statistic value of 2.690, where the value is greater than 1.64 with an error rate of α = 5%, this indicates a direct effect of Business Efficiency on ROE is accepted.

3. Estimated results of the inner model for the direct effect of Environmental Responsibility on Business Efficiency show a t-statistic value of 3,570, where the value is greater than 1.64 with a level of error α = 5%, this indicates the direct effect of Environmental Responsibility on Business Efficiency is be accepted

4. Estimated results of the inner model for the direct effect of Environmental Responsibility on ROA show a t-statistic value of 0.182, where the value is smaller than 1.64 with a level of error α = 5%, this indicates the direct effect of Environmental Responsibility on ROA is rejected.

5. Estimated results of the inner model for the direct effect of Environmental Responsibility on ROE show a t-statistic value of 0.719, where the value is smaller than 1.64 with a level of error α = 5%, this indicates a direct effect of Environmental Responsibility on ROE is rejected

6. Estimated results of the inner model for the direct effect of social responsibility on Business Efficiency show a t-statistic value of 4.488, where the value is greater than 1.64 with a level of error α = 5%, this indicates the direct effect of social responsibility on Business Efficiency is be accepted.

7. Estimated results of the inner model for direct influence Social responsibility towards ROA shows a t-statistic value of 1.131, where the value is smaller than 1.64 with a level of error α = 5%, this indicates a direct influence Social responsibility for ROA is rejected.

8. Estimated results of the inner model for direct influence Social responsibility towards ROE shows a t-statistic value of 0.678, where the value is smaller than 1.64 with a level of error α = 5%, this indicates a direct influence Social responsibility towards ROE is rejected.

Table 3. T Test Calculation For Indirect Effects

No	Direction of relationship	a	b	ab	sa	sb	sab	t statistic
1	Environmental Responsibility → Business Efficiency → ROA	0.270	0.591	0.160	0.076	0.128	0.057	2.784
2	Social responsibility →Business Efficiency→ROA	0.519	0.591	0.307	0.116	0.128	0.097	3.180
3	Environmental Responsibility → Business Efficiency →ROE	0.270	0.409	0.111	0.076	0.152	0.053	2.097
4	Social responsibility → Business Efficiency →ROE	0.519	0.409	0.212	0.116	0.152	0.094	2.266

The testing of the mediation hypothesis is done by the SOBEL test to calculate t stat for indirect influence (PTL).

$$Sab = \sqrt{b^2Sa^2 + a^2Sb^2 + Sa^2Sb^2}$$

Where as:

a = path coefficient construct variable 1 to construct variable 2

b = path coefficient construct variable 2 to construct variable 3

ab = path coefficient construct variable 1 to construct variable 2*path coefficient construct variable 2 to construct variable 3

Sa = path standard error construct variable construct 1 to construct variable 2

Sb = path standard error construct variable 2 to construct variable 3

Then to test the significance of indirect effects, it is necessary to calculate the value of t from the ab coefficient as follows.

$$t = \frac{ab}{Sab}$$

The t-value of statistics is 2.784 which is above 1.64 (5%), so it can be concluded that the indirect effect between Environmental Responsibility on ROA through Business Efficiency is accepted.The t-value of statistics is 3.180 which is above 1.64 (5%), so it can be concluded that the indirect effect between social responsibility towards ROA through Business Efficiency is accepted.The t-value of statistics is 2,097 which is above 1.64 (5%), so it can be concluded that the indirect effect between Environmental Responsibility on ROE through Business Efficiency is accepted.The t value of statistics is 2.266 which is above 1.64 (5%), so it can be concluded that the indirect effect between social responsibility towards ROE through Business Efficiency is accepted.

DISCUSSION

The Effect of Social Responsibility on Business Efficiency

The results of the analysis show that social responsibility variables affect Business Efficiency. This means that the practice of corporate social responsibility is able to improve the efficiency of the company. The management of the company is able to process and optimize the resources owned through the application of social responsibility where inherent types of resources and costs can reduce the profitability of the company. The results of this study support the study of Kramer and Porter (2006), Vilanova et al. (2009) and Jamali (2015) that through social responsibility disclosure, companies can achieve business efficiency. This finding also supports the results of a study by Stueb and Sun (2010) which revealed that the company's reputation for implementing social responsibility is positively related to increasing labor efficiency and productivity.

The Effect of Environmental Responsibility on Business Efficiency

The results of the analysis show that the environment responsibility variable affects Business Efficiency. This means that increasing environmental responsibility can improve the efficiency of the company. This condition shows that effective environmental responsibility activities will contribute to efficiency especially in the use of natural resource efficiency. These findings support the research of Porter and Linde (1995) who found that pollution or poor environmental performance reflects the resources used are incomplete, less effective and less efficient, this will have an impact on decreasing profits, therefore reducing pollution levels can actually increase efficiency because it will reduce costs and will ultimately increase company profits.

The Effect of Social Responsibility on Financial Performance

The results of the analysis show that the variable social responsibility does not affect financial performance (ROA and ROE). Corporate investment in social responsibility activities gets a variety of perspectives from the company. These findings are in line with Nurkhin's (2010) and Matin et al. (2011). Nurkhin (2010) found the results that an increase in a company's financial performance should be followed by an increase in the implementation of social responsibility activities, but in reality the company carries out the same social responsibility activities every year, even a decrease in the implementation of social responsibility. Matin et al. (2011) also found that disclosure of social responsibility had no effect on the financial performance of pharmaceutical companies that were listed in East Azerbaijan's Public Joint Stock and Tehran.

The Effect of Environmental Responsibility on Financial Performance

The results of the analysis show that the variable environmental responsibility does not affect financial performance. The results of the tests conducted show that investors are still not interested in using environmental responsibility as business decision making, so they are unable to improve the company's financial performance. No proof of this hypothesis is possible because many companies do not yet understand the concept of environmental performance (PROPER) and its benefits, so there is no significant influence on financial performance. The results of this study support Brammer et al. (2005) and Mukti (2013). Brammer et al. (2005) found that companies with high environmental performance scores actually tended to provide low returns, whereas companies with low or zero environmental performance scores were able to provide high returns. Mukti (2013) also states that there is no relationship between environmental performance and financial performance of companies listed on the Indonesia Stock Exchange.

The Effect of Business Efficiency on Financial Performance

Business efficiency is one of the performance parameters that theoretically underlies all activities of an organization. The measure of efficiency is if the company is able to produce maximum output by minimizing existing inputs. The results of the analysis show that the business efficiency variable influences financial performance. This shows that increasing business efficiency in mining companies can improve the financial performance of mining companies. The results of this study support the research of Greiling (2004) and Duncan & Elliot (2004). Greiling (2004) found that business efficiency by public sector

organizations was able to improve the financial performance of public sector companies. Duncan and Elliot (2004) also prove that there is a positive relationship between business efficiency and financial performance as measured by ROA and Capital Adequasy.

The Effect of Social Responsibility and Environmental Responsibility on Financial Performance Mediated by Business Efficiency

The indirect effect of social responsibility on ROA and ROE through efficiency in this study is accepted. In other words, Business Efficiency functions as an intermediate variable (mediator) which can increase the direct influence of social responsibility on ROA and ROE. The results of this study are in line with the results of Jamali's research (2015) which states that there is a positive influence between social responsibility towards financial performance (ROA) through efficiency. Vilanova et al. (2009) states that social responsibility can provide an opportunity, innovation and competitive advantage through a learning cycle and an innovation. Stueb & Sun (2010, 2013) stated that the company's reputation for implementing social responsibility has a positive relationship with increasing efficiency and productivity.

The indirect effect of environmental responsibility on ROA and ROE through business efficiency is accepted. In other words, proven business efficiency functions as an intermediate variable (mediator) that can increase the direct influence of environmental responsibility on ROA and ROE. The results of this study are in line with Nursasi's research (2017) which states that there is a relationship between environmental responsibility disclosure and financial performance. By carrying out the disclosure of environmental responsibility the company carries out the principle of transparency that can enhance the reputation and value of the company which impacts on the trust of consumers and the public to use the company's products which will increase the company's sales and impact the company's profits. This profit reflects the company's financial performance.

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