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NONFINANCIAL AND FINANCIAL DETERMINANTS OF CORPORATE FINANCIAL PERFORMANCE

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Abstract: *In today's competitive corporate world, financial performance of a company becomes an essential part in determining the company's sustainability in a long run. However, stakeholders do not only focus on the financial determinants that made up a company's financial performance as awareness on human rights along with the environmental-friendly products and community activities done by the company are also on a lookout. Moreover, in a developing country with such volatile economy like Indonesia very little research has been done regarding the influence of corporate's financial performance. The objective of this research is to analyze the influence of corporate social activities dimensions denoted as community involvement disclosure, employee relation disclosure, environment disclosure, and product disclosure as well as leverage, debt ratio, sales growth and firm size to support the possible financial determinants to corporate financial performance in Indonesia's listed nonfinancial companies. Population in this research is all listed nonfinancial companies in Indonesia Stock Exchange during 2011 to 2015. Samples are obtained through purposive sampling method, in which 169 listed nonfinancial companies in Indonesia Stock Exchange met the sampling criteria resulting in 845 data available as sample. Multiple linear regressions and hypothesis testing are used as the data analysis method in this research. The result of this research shows product disclosure and debt ratio are statistically influencing corporate financial performance of listed nonfinancial companies in Indonesia. In contrary, community involvement disclosure, employee relation disclosure, environment disclosure, leverage, sales growth and firm size do not statistically influence the corporate financial performance of listed nonfinancial companies in Indonesia during the research period.*

***Keywords*:** Corporate Financial Performance, Community Involvement Disclosure, Employee Relations Disclosure, Environment Disclosure, Product Disclosure, Leverage, Debt Ratio, Sales Growth, Firm Size

Abstrak: Dalam dunia perusahaan yang kompetitif saat ini, kinerja keuangan perusahaan menjadi bagian penting dalam menentukan keberlanjutan perusahaan dalam jangka panjang. Namun, para pemangku kepentingan tidak hanya fokus pada faktor penentu keuangan yang membentuk kinerja keuangan perusahaan karena kesadaran tentang hak asasi manusia bersama dengan produk ramah lingkungan dan kegiatan masyarakat yang dilakukan oleh perusahaan juga waspada. Selain itu, di negara berkembang dengan ekonomi yang bergejolak seperti Indonesia, sangat sedikit penelitian yang dilakukan mengenai pengaruh kinerja keuangan perusahaan. Tujuan dari penelitian ini adalah untuk menganalisis pengaruh dimensi kegiatan sosial perusahaan yang dilambangkan sebagai pengungkapan keterlibatan masyarakat, pengungkapan hubungan karyawan, pengungkapan lingkungan, dan pengungkapan produk serta leverage, rasio utang, pertumbuhan penjualan dan ukuran perusahaan untuk mendukung faktor penentu keuangan yang mungkin. terhadap kinerja keuangan perusahaan di perusahaan non finansial Indonesia yang terdaftar. Populasi dalam penelitian ini adalah semua perusahaan non finansial terdaftar di Bursa Efek Indonesia selama tahun 2011 hingga 2015. Sampel diperoleh melalui metode purposive sampling, di mana 169 perusahaan non keuangan terdaftar di Bursa Efek Indonesia memenuhi kriteria sampling sehingga menghasilkan 845 data yang tersedia sebagai sampel. Regresi linier berganda dan pengujian hipotesis digunakan sebagai metode analisis data dalam penelitian ini. Hasil penelitian menunjukkan bahwa pengungkapan produk dan rasio utang secara statistik mempengaruhi kinerja keuangan perusahaan dari perusahaan non finansial di Indonesia. Sebaliknya, pengungkapan keterlibatan masyarakat, pengungkapan hubungan karyawan, pengungkapan lingkungan, leverage, pertumbuhan penjualan dan ukuran perusahaan tidak secara statistik mempengaruhi kinerja keuangan perusahaan dari perusahaan non finansial di Indonesia selama periode penelitian.

***Kata kunci*:** Kinerja Keuangan Perusahaan, Pengungkapan Keterlibatan Masyarakat, Pengungkapan Hubungan Karyawan, Pengungkapan Lingkungan, Pengungkapan Produk, Leverage, Debt Ratio, Pertumbuhan Penjualan, Ukuran Perusahaan

INTRODUCTION

Performance of a company is very essential in today's economic environment. It is a matter that any investors, stakeholders and businesses in the same or different economy look for in a particular company. It is a sign of a company's health over a given period of time normally it is being used to compare firms across the same industry or different industry in aggregation. Investors look for great performance to find out if their investment will give a high return, short-term or long-term. Financial performance is determined by various financial and nonfinancial factors that up till now it is still unclear of which combinations are the best fit to determine a company's financial performance.

Corporate Social Responsibility (CSR) is one of the ways companies turn to when talking about the nonfinancial factors of firm's financial performance. Every business has different views on what CSR is and how can they implement them or even get away from it. Due to this lack of clarity about definitions and assumptions that lead up to much of the confusion in CSR literature (Margolis and Walsh, 2003), different perceptions on what are the scope of CSR in different businesses in different countries occur. Therefore, every company now is racing to engage some of the responsibilities they have done to the society, through the wellbeing of the community, employees, products sold and environment affected by the company in their business operation to achieve the financial performance they perceived.

In growing economy like Indonesia, there is a wide gap on these areas. As there are still incomplete literatures that could explain the issue of the effects financial and/or nonfinancial factors have on corporate financial performance. Thus due to this matter, this research is the development of research conducted by Hettiarachchi and Gunawardana (2012). It is differentiated from the population and sample chosen, time period of research, as well as through the addition of variables that are adopted from Saleh *et al.* (2011), Vintila and Nenu (2015), and Mirza and Javed (2013).

Stakeholder Theory

Stakeholder theory is a theory that addresses morals and ethical values in managing organization and applying them in providing conceptual framework of business ethics. Corporate social responsibility was often looked upon as an optional choice for firm rather than seen as a complex interconnection between the social responsibility forces and economic impact on the firm. To be noted, most studies deduce that firms that practice stakeholder management would outperform firms that do not practice stakeholder management (Freeman and McVea 2001).

A good firm management leads to a better firm performance, as firm management does not only focus in the form of assets but also human resource and environments. The corporation now is viewed as a resource-conversion entity, where raw materials are converted into valuable products with dollars/currency measuring the conversions. These returns are provided to owners as well as stakeholders in the form of dividends or capital appreciation in the marketplace.

Corporate Financial Performance

Iswati and Anshori (2007) defined performance as a way of an organization's ability to gain and manage the resources through several different ways with the hope of developing competitive advantage. Performance is now widely used to measure firm's success, conditions, and compliance against the standards and regulations set by the government. It does not only focus in the presentation of activities done by firm presented in the financial statement yearly, but also the quality of results that have been achieved.

Corporate Financial Performance (CFP) is measured through financial measures and nonfinancial measures as stated by Hansen and Mowen (2007, 2). Financial performance uses financial measures that emphasizes on variables that are directly related to financial report. A firm's high performance reflects its effectiveness and efficiency in the management of its resources for operational, investments and financing activities (Naser and Mokhtar 2004). It does not only focus through financial determinants but also affected by the social activities of the firm. Thus, a further look on how company's performance is being measured shall be investigated.

Community Disclosure and Corporate Financial Performance

Community Disclosure as the first dimension of CSR explained in this paper is described as activities done by companies in making sure communities affected by firms' business operations are well handled, measures in avoiding possible disadvantages that might be felt by communities have been taken by companies, and information regarding the matter is well disclosed. Firms with strong performance financially can afford to invest in long-term strategic impact (Tsousoura 2004).

One of the nonfinancial determinants of CSR is community disclosure. Balabanis *et al.* (1998) argues that firms who do philanthropic activities voluntarily using the company's resources are always likely to reduce the firm's profits. Nonetheless, several researches have demonstrated that doing good through philanthropic activities voluntarily have provided them with good performance and an effective management of social responsibilities towards the community increases a company's profit (Waddock and Graves 1997; Ullmann 1985). This variable is measured through the disclosure of several sub-items specific for community disclosure. Based on this explanation, the hypothesis that can be developed is:

H_1 Community disclosure has influence on the corporate financial performance

Employee Disclosure and Corporate Financial Performance

Employee Disclosure as the second dimension of CSR explained in this paper is described as activities done by companies in making sure employees of firms are well taken care of with no discrimination, measures that have been taken by companies are in line with regulations, and information regarding the matter is well disclosed. The degree of satisfaction felt by employees and ability to retain them will contribute to organization's goals and performance (Chahal and Sharma 2006).

Human resources with a positive role are important for business organization to be socially responsible (Gittel et al. 2004). A combination of many aspects will provide a positive cash flow for the firm and reduce costs incurred. Thus, it will be reflected in the firm's financial performance. This variable is measured through the disclosure of several sub-items specific for community disclosure. Based on this explanation, the hypothesis that can be developed is:

H_2 Employee disclosure has influence on the corporate financial performance

Environment Disclosure and Corporate Financial Performance

Environment Disclosure as the third dimension of CSR explained in this paper is described as activities done by companies in making sure environments in which are affected by them is well-handled, information regarding the matter is well disclosed and measures that have been taken by companies are provided. Considering the big boom in public interest regarding company's environmental impact, companies becomes more aware of its actions that might give environmental consequences (Chatterji et al, 2009) that leads to a cleaner business.

Richardson and Welker (2001) had examined that the relationship between social disclosure and the company's capital cost happened to be significantly positive. This variable is measured through the disclosure of several sub-items specific for community disclosure. Based on this explanation, the hypothesis that can be developed is:

H_3 Environment disclosure has influence on the corporate financial performance

Product Disclosure and Corporate Financial Performance

Product Disclosure as the fourth dimension of CSR used in this paper is described as activities done by companies in providing information regarding their products' sustainability. Providing continually qualitative products to users is valued as the key component for the success of the business operations (Henard and Szymanski 2001). This will in turn provide a continuous sustainability for the firm's financial performance.

Pauwels *et al.* (2004) determined that product information has a positive impact on both short-term and long-term financial performance and leads to sustainable business operation for the firm. A better use of raw materials in making products and more efficient product development shows a better product result by companies. Users now welcome these positive changes (Matsui et al. 2007). This variable is measured through the disclosure of several sub-items specific for community disclosure. Based on this explanation, the hypothesis that can be developed is:

H_4 Product disclosure has influence on the corporate financial performance

Leverage and Corporate Financial Performance

Leverage is the use of various financial instruments, normally debt, to increase the potential return of an investment (assets). A firm is considered to be highly leveraged when it has more debt significantly. It is the ratio between firm's debts to firm's assets.

Agency theory is related to leverage in which conflict of interest arises between management and shareholders when management takes decisions against the interest of shareholders. Another conflict arises when shareholders acts against the interest of debt holder (Jensen and Meckling 1976). Almajali *et al.* (2012) stated leverage as one of the important factors of financial performance as the study found a positive effect of leverage on CFP. Based on this explanation, the hypothesis that can be developed is:

H_5 Leverage has influence on the corporate financial performance

Debt Ratio and Corporate Financial Performance

Debt ratio is to provide user the information of how much balance do a company have on their capital structure. Debt ratio is the ratio between firm's total debt to firm's total equity. An appropriate balance of debt financing and equity financing will maximize the results of financial performance of a firm. This is because an excessive level of debt in a firm's capital structure, when it can be avoided, can increase the chances of a bankruptcy (Chadha and Sharma 2015).

This refers to the conclusion that debt pushes managers to provide more profit-generating strategies to be able to pay off creditors and provide a gain for the firm. Thus, in making sure firms avoiding any possibility of bankruptcy, firms need to perform well that will lead to a higher return and should have a balance debt and equity ratio. Based on this explanation, the hypothesis that can be developed is:

H_6 Debt ratio has influence on the corporate financial performance

Sales Growth and Corporate Financial Performance

Sales growth represents the growth of the company in terms of its sales. It is the amount by which average sales volume had grown over time, typically from year to year. The proxy used in this research is percentage of change in sales. Firms with high growth are able to generate profit from its investments which will lead to a better financial performance for the firm (Zeitun and Tian 2007). Based on this explanation, the hypothesis that can be developed is:

H_7 Sales growth has influence on the corporate financial performance

Firm Size and Corporate Financial Performance

Firm size represents the magnitude of a firm. It affects company's financial performance in many ways as Hatem (2014) found that larger sizes firms have more capacity to increase their production that will ultimately increase the firm's performance. In highly competitive markets, small firms might be at a disadvantage where they have less power when compared to larger firms.

On the other hand, inefficiencies might be suffered by firms that grown too large in size leading to an inferior performance of the firm (Almajali *et al.* 2012). Firms are able to increase their size through an increase in production capacity or through effective and efficient utilization of resources owned that will decrease cost and lead to an increase in revenue. Thus, a better financial performance for the firm is observed (Bashir *et al.* 2013). Based on this explanation, the hypothesis that can be developed is:

H_8 Firm size has influence on the corporate financial performance

RESEARCH METHOD

The population used in this paper is all non-financial listed companies consistently in the Indonesian Stock Exchange with the period from 2011 to 2015. Total samples used are 169 companies, selected using purposive sampling with the criteria summarized in the following table.

Table 1 Sample Selection Procedures

Criteria Description	Total Companies	Total Data
Nonfinancial companies that consistently listed in Indonesian Stock Exchange from the year 2010 to 2015	354	1770
Nonfinancial companies that do not publish their financial statements as of December 31st from 2011-2015	(3)	(15)
Nonfinancial companies that do not consistently issued financial statements in IDR from 2011-2015	(92)	(460)
Nonfinancial companies that do not consistently disclose their CSR activities from 2011-2015	(89)	(445)
Nonfinancial companies that do not consistently earned revenue from 2010-2015	(1)	(5)
Number of samples	169	845

Corporate Financial Performance (CFP) is the dependent variable of this research. The measurement of this ratio scale variable is adapted from previous research, Hettiarachchi and Gunawardana (2012) who uses Tobin's Q as the measurement with the following formula:

$$Q = \frac{Market\ Value\ per\ Share}{Net\ Assets\ Value\ per\ Share}$$

The nonfinancial determinants such as community disclosure, employee disclosure, product disclosure, and environment disclosure are the dimensions of CSR activities. These determinants are being disclosed through the measurements that are adapted from previous researcher (Saleh *et al.*, 2011) who uses the disclosure-scoring method proposed by Al-Tuwaijri *et al.* (2004) which use the quantitative disclosure measures with denoted weights from 0-3 for different disclosure types, based on whether any disclosure mentioned, general description disclosure, specific non-quantitative disclosure, and financial disclosures. Each category dimension has several sub-items to be check listed. These weighted qualities classification of the category sub-items will then be summed up and divided with the number of sub-items as follows:

$$Disclosure\ dimension\ score_j = \frac{\sum_j^n X_{ij_{t=1}}}{n_j}$$

Leverage is the ratio between company's total debt and total assets. It is measured by dividing company's total assets to total liabilities. This ratio scale shows the degree to which a firm is utilizing borrowed money for its assets (Abbas, 2013). It is measured as follows:

$$LEV = \frac{Total\ Debt}{Total\ Asset}$$

Debt ratio is another way of finding out the capital structure of a firm. Debt ratio is measured by dividing total liabilities to total equities. This scale ratio shows a degree to how a company balances their fund resources. The formula in calculating debt ratio is as follows:

$$TDER = \frac{Total\ Debt}{Total\ Equity}$$

Sales growth is described as the changes of sales from previous years as an indication of company's growth. The measurement is adapted from previous researcher (Zeitun and Tian, 2007) is as follows:

$$SGRO = \frac{sales_n - sales_{n-1}}{sales_{n-1}}$$

Firm size shows how big a firm is through the calculation of natural logarithm of total assets. The formula in calculating firm size is as follows:

$$LSIZ = \ln Total\ Assets$$

RESEARCH RESULTS

The descriptive statistics results dan hypothesis test result are summarized as follows:

Table 2 Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
Corporate Financial Performance	845	-40.477539	274.828428	3.38542385	12.898273867
Community Disclosure	845	.000000	2.500000	.83410256	.529194794
Employee Disclosure	845	.000000	2.666667	1.38021696	.414954800
Environment Disclosure	845	.000000	2.750000	.61143984	.642346661
Product Disclosure	845	.000000	3.000000	.70936884	.618023993
Leverage	845	.003868	9.469764	.51013100	.554091882
Debt Ratio	845	-9.447414	70.831486	1.51731011	4.142039281
Sales Growth	845	-.998800	5.947309	.15745673	.390318580
Firm Size	845	22.930471	34.008502	28.70841966	1.630999396

Table 3 t-Test Result

Variable	B	Sig
(Constant)	5,579	
Community Disclosure	.545	.605
Employee Disclosure	-.770	.568
Environment Disclosure	-.723	.436
Product Disclosure	2.072	.035
Leverage	-.148	.853
Debt Ratio	.640	.000
Sales Growth	-.299	.791
Firm Size	-.121	.690
R		.218
Adj R^2		.038
F		5.196

The t-test result shows that the community disclosure variable has significance level 0.605 which is above 0.05, means that H_1 is rejected. This shows that community disclosure has no influence on corporate financial performance. This result is consistent with Balabanis *et al.* (1998) but it is not consistent with the findings done by Amira (2013). The t-test result shows that the employee disclosure variable has significance level 0.568 which is above 0.05, means that H_2 is rejected. This shows that employee disclosure has no influence on corporate financial performance. This result is consistent with Amira (2013) but this result is not consistent with researches done by Tsousoura (2004).

The t-test result shows that the environment disclosure variable has significance level 0.436 which is above 0.05, means that H_3 is rejected. This shows that environment disclosure has no influence on corporate financial performance. This result is consistent with Freedman and Jaggi (1988). However this result is not consistent with Saleh *et al.* (2011). The t-test result shows that the product disclosure variable has significance level 0.035 which is below 0.05, means that H_4 is accepted. This shows that product disclosure has influence on corporate financial performance. The coefficient value is 2.072

which indicate a positive influence on corporate financial performance. This result is consistent with Pauwels *et al.* (2004) and Mahoney and Roberts (2007).

The t-test result shows that leverage variable has significance level 0.835 which is above 0.05, means that H_5 is rejected. This shows that leverage has no influence on corporate financial performance. This result is consistent with Sheikh and Wang (2013), but this is not consistent with the findings done by Liargovas and Skandalis (2010). The t-test result shows that debt ratio variable has significance level 0.000 which is below 0.05, means that H_6 is accepted. This shows that debt ratio has influence on corporate financial performance. The coefficient value is 0.640 which indicate a positive influence on corporate financial performance. This result is consistent with Liargovas and Skandalis (2010) and Mwangi *et al.* (2014).

The t-test result shows that sales growth variable has significance level 0.791 which is above 0.05, means that H_7 is rejected. This shows that sales growth has no influence on corporate financial performance. This result is consistent with Vintila and Nenu (2015), but this is inconsistent with the findings done by Zeitun and Tian (2007). The t-test result shows that firm size variable has significance level 0.690 which is above 0.05, means that H_8 is rejected. This shows that firm's size has no influence on corporate financial performance. This result is consistent with Capon *et al.* (1990). In contrary, this result is inconsistent with Bashir et al. (2013).

CLOSING

Based on the hypotheses test done in this research, it is concluded that product disclosure and debt ratio have influence on corporate financial performance. Whereas, community disclosure, employee disclosure, environment disclosure, leverage, sales growth, and firm size do not have influence on corporate financial performance. There are several limitations in this research which are, data not distributed normally, relatively short research period, and data still contains heteroscedasticity problem. Hence, some recommendations for further research to solve the problems are to lengthen the research period thus accurate result can be obtained and additions of data to solve the heteroscedasticity problem. These can be done through extension of research period.

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