

Does Regulation Affects Corporate Social Responsibility And Accounting Performance Relationship: Cross-Country Analysis

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Abstract

The purpose of this study is to investigate the effect of regulation corporate social responsibility (CSR) on the return on asset and return on equity. In addition, this paper also investigates the relationship between CSR and accounting performance. This paper extend the previous research in terms of sample coverage and CSR measurement, which is zakat. Sample for this research is 709 observations firm year observation from companies in Saudi Arabia, Kuwait, and Malaysia. This research found that highly payment of corporate social responsibility exhibit high level of return on asset (ROA) and return on equity (ROE). Unfortunatly, regulation doesnt affect the relationship between CSR and accounting performance. This suggest that corporate performance affected significantly by social responsibility. This findings of this research lay some foundation for corporate social responsibility regulation formulation. In addition, this paper recommend the implementation of CSR program benefiting the society, in turn, leads the company to enhances the level of CFP.

Index Terms: corporate social responsibility, corporate financial performance, cross country,

1. INTRODUCTION

For long time, corporate social responsibility (CSR) is regarded as corporate commitment to enhances society's basic orders. Since the 1950s, international awareness for CSR beyond sole profit maximization grows dramatically [1]. For that, objectives of corporate not only to pursues high profit but also to focuses on others bottom line such as planet and people. It indicates that firms may conduct their business in a way that is society friendly, beneficial to communities, and ethical. To date, there is tricky question whether pursuit of corporate social responsibility (CSR) enhance or hurt accounting performance.

Most empirical reseach has focused on association between financial performance (CFP) and corporate social performance (CSP). A review of the evidence to date suggest two main findings on the association between CFP and CSP [2]. Based on classic argument or agency theory, firms with strong CSP entails high cost, in turn, hurt corporate financial performance. For that, CSR has negative impact on CFP [3]. On the other hand, consistent with stakeholder theory which inditates that firms with high levels of CSR potentially exhibit high levels of CFP.

To date, there has been some of empirical researchs that examine the associaton between corporate social responsibility (CSR) and financial performance with less attention in several ways such as CSR measurement and tax deduction regulation. Thus, this study is different from previous empirical studies in such ways. **First**, previous research examining the relationship between CSR and CFP had measured CSR by using charity spending. The present paper, therefore, extend Al-Malkawi & Pillai (2018) by confirming the using a religious charity such as Zakat. This religious social is different with other charity spending because zakat is measure of corporate social responsibility which is obligation based on Shari'a Law (Al-Malkawi & Pillai, 2018). This paper intends to fill this gap in the body of CSR knowledge by new dimension on charity spending. **Second**, previous studies examining the relationship between CSR and CFP on single country which less attention on regulation that CSR, measured by zakat, as a tax deduction. Whereas the study of CSR is closely related to tax regulation. Several countries have different regulation regarding CSR as a tax deduction (Obaidullah, 2016; Ridwan, 2014; Siswantoro & Nurhayati, 2012). Despite several previous empirial researches such as Javaid & Al-Malkawi (2018b); Menne, Winata, & Hossain (2016); Reskino (2016); and Samad, Said, Kamarulzaman, & Mahshar (2015) have explained association between CSR is associated and financial performance but it has not included tax regulation. Therefore, the present paper intends to provides valuable insight about role of tax deduction regulation into the CSR-CFP relationship. **Third**, previous studies [8]–[11] focused on single country. Unlike them, this paper examining the relationship between CSR-CFP in cross country level. For that, this paper considers country-level factors such as GDP, tax regulation.

The contribution to new valuable insights based on the different aspects of this paper. **First**, this paper is among the few to investigate the effect CSR on financial performance. Several previous studies indicates that no particular study which linked between CSR and financial performance with tax deduction regulation as moderation. The reason is existence of a tax deduction regulation will certainly increase the compliance of the company's zakat disbursement, in turn, increases company performance and may potentially affects investors concern. **Second**, A review of the previous literature indicates that few study which particularly using zakat disbursement. This paper supported Javaid & Al-Malkawi (2018b) which used zakat disbursement as CSR indicator when investigates the effect of CSR on CFP in Saudi Arabia companies. Accordingly, Chen & Lin (2015) consider charitable expenditures as contribution to CSR when investigate the effect of CSR on CFP in Taiwan companies. For that, Javaid & Al-Malkawi (2018b) provides argument that zakat inclusion as CSR indicator is justified. Moreover, in cross country level, to the best of our review, this study is the second paper which examine the relationship between CSR and CFP, measured by Zakat disbursement. **Third**, Most of preceding discussion focus on the relationship between CSR and CFP in single country analysis. This study uses a cross-country analysis such as Malaysia, Kuwait, and Arab Saudi. Therefore, this paper provides valuable insight about role of country factor such as GDP or tax deduction regulation into the CSR-CFP relationship. In most of the previous literatures, tax deduction regulation countries have high zakat compliance that taxable income regulation countries. Previous studies show that relationship between CSR and CFP has a different result, so this study provides explanation on this report mixed findings. Thus, the present paper provides significant insight to the recent literatur, specifically, this paper will try to find out why the result of the relationship between CSR and CFP is inconclusive.

The aim of this study might to examines the relationship between CSR and corporate financial performance. In addition, this study also investigate the impact of regulation environment, tax deduction regulation or taxable income deduction regulation, toward the relationship between CSR and CFP. This understanding is most significance to explores the prospect of firm financial in terms of their CSR compliance effect. Hypothesis of this paper tested using data drawn from Thompson Reuters and World Bank. Total sample for this study is 709 observations consist of 678 from financial industries and 31 from non financial industries.

This paper findings indicates that CSR affect significantly corporate financial performance in set of financial performance indicators such profitability indicators (return on assets and return on equity), and stock performance (price to book ratio). These indicators reflect company prospect or stakeholder appreciation toward company activity. This result is robust to partial research sample. This paper also find that unequal regulation, CSR as tax deduction or CSR as taxable income deduction, does not reflect difference zakat compliance. Based on deep interview, the reason is the low regulation enforcement.

The remainder of this paper is well proceed as follows: In section 1 provides literature review and develops hypothesis. In section 3, it provides discussion on empirical method for hypotheses testing. The main results of this paper presented in section 4. In section 5 provides results, conclusion and research recommendation for future.

2. HYPOTHESIS DEVELOPMENT

Over last decade, there has been some of empirical findings that provides relationship between CSR and financial performance. Some previous research have attempted to investigates the impacts of CSR on CFP (Brammer & Millington, 2008; Lev, Petrovits, & Radhakrishnan, 2009; Wang et al., 2008). Nonetheless, some previous studies indicated that CSR has a different evidence regarding impact on corporate performance. According to value enhancement theory, Alqahtani, Mayes, & Brown, (2017) stated that CSR may increases shareholders value because CSR company be appreciated by shareholder or potential shareholder, in turn, increases corporat reputation. In addition, consistent with agency theory, CSR payment perceived as additional agency cost, because of that, CSR has negative effect on corporate financial performance [17].

Complement to the previous theories, Javaid & Al-Malkawi (2018b) stated that CSR positively affects CFP in Saudi Arabia companies. Accordingly, Chen & Lin (2015) also consider charitable expenditures enhances CFP in Taiwan companies. The present study reveals that CSR contribute positively to both firm's profitability and market value. It means that successfully company to implement CSR program leads the company to achieve its goals effectively and enhances financial performance. Moreover, these papers is the empirical study that provides support for the stakeholder theory. On other hand, Griffin & Mahon (1997) provide empirical evidence related to the relationship between CSR and corporate performance. They found no support for the relationship between CSR and corporate profitability measures (return on asset and return on equity). In concurrent work, Seifert, Morris, & Bartkus (2004) also showed that CSR could not have a strong impact on stock return.

More recently, most stakeholder perceive that management should pursue tripple bottom line such as profit, planet, and people. For that, financial performance goal isn't top priorities of management objective. For this reason, management always strives to balances between profit, planet, and social welfare. In sum, this paper consider stakeholder theory to explains relationship between CSR and CFP. In theory, activity of company should create and enhances value for all company stakeholders. Balance activities would be positive appreciated by company stakeholders, in turn, potentially

enhances economic performance [19]. The company stakeholders defined as entities or group who can affect or affected by the company goal achievement. The stakeholders consist of primary such as employees, shareholder, customer, and any entities are essential to company business and secondary stakeholders consist of competitors, regulators, political activist groups and any entities are not critical for company survival.

One might infer from stakeholder theory approach and previous review that companies should not only pursue high profits but also look carefully at its relationships with all corporate stakeholders. Success of a the company depends on its willingness to be part of its stakeholders [20]. If companies have a good appreciation from their stakeholders, companies are more likely to exhibit high financial performance [21]. As can be seen from previous literatures, there is no consistent in those paper on the relationship between CSR and corporate financial performance. This paper contribute to the literature in terms of CSR measurement may to explore and capture the special characteristic of CSR such as mandatory CSR. Thus. This paper examines the related hypothesis.

H1a. Firms are more likely to increases CSR payment exhibit high level of financial performance measurement.

Earlier review shows that market price respons to corporate activity such as CSR information (Javaid & Al-Malkawi, 2018b). Also, there is a considerable literature stated that market constituents such as investors, customers, suppliers, employees, and creditors directly affects a company's performance through their economic choices [22]. As a result, CSR activity as corporate actions may affect company market performance [19]. Consistent with signaling theory, CSR payment indicates that the institution has high cash liquidity. Also it stated that entity may exhibit high level resources to social welfare, in turn, attract shareholder attention that lead to enhances of corporate market performance.

Findings of several empirical studies shows that firms with strong CSR payment exhibit high levels of market performance such price-to-book [8]. Unfortunately, previous studies lack of variabel measurement of CSR and country coverage. This study extends of variable measurement using zakat payment as CSR indicators and country coverage in terms of associaton between CSR and corporate market performance. This study suggest hypothesis that,

H2a. Firms are more likely to increases CSR payment exhibit high level of market performance measurement.

Prior literatures less attention on tax deduction regulation when examined relationship between CSR and CFP. Whereas the study of CSR in cross country analysis is closely related to regulation suach as a tax deduction. Earlier studies such as Javaid & Al-Malkawi (2018); Samad et al., (2015); Firman et al., (2016); and Reskino (2016) have limited expalantion on the association between CSR and financial performance because it has not integrated tax deduction regulation. For that, this study takes some consideration the regulation and its impact on the relationship between CSR and financial performance.

In addition, this paper attempts to extension from a single-country to cross-country study and increases country coverage consist of Saudi Arabia, Malaysia, and Kuwait. This coverage provides different regulation in terms of tax deduction whether as deduction from tax or as deduction from taxable income. Also, this sample variation provides more robust findings and high external validity results. This cross-country research offer improvement for previous studies that focuses on single country. Enomoto (2018) stated that institutional and cultural factors such as legal tradition, tax system, regulations, regulation enforcement, religiosity, and language are less attention when examined on single country.

Improvement through regulation such deduction from tax would enhances CSR compliance because the tax nominal should be paid is lower. Obaidullah (2016) report that some countries provide different regulations regarded CSR as a tax deduction, or CSR as a deduction from taxable income. The comparison between regulation CSR as deduction from tax and CSR as deduction from taxable income as follows,

Tabel 2 1. Comparison between Zakat Deduction Regulation

Description	CSR as tax liability deduction	CSR as taxable income deduction
Income- (I)	100	100
CSR – (C)		(15)
Taxable Income	100	85
Tax (Tariff 25%) – (t)	25	21,25
Zakat – (Z)	(15)	
Tax	10	21,25
CSR	15	15
Total Tax & CSR	25	36,25
NIAZT	75	63,75

*CSR is measured using zakat.

Consistent with Siswantoro & Nurhayati (2012) argument, the motivation to pay CSR in a regulation that treats CSR as a tax liability deduction is higher than a motivation to pay CSR in regulation that treats CSR as a deduction for taxable income. The regulation that treats CSR as a tax liability deduction is highly desirable for companies because it can reduces their tax payment. This would in turn, increase the CSR payment compliance. Finally, as previous argument,

this paper discusses the effect of the regulation on the relationship between CSR and corporate financial management, this study posits the hypothesis that,

H3a. The companies CSR payment in regulation that treats CSR as tax liability deduction are higher than those in companies in regulation that treats CSR as taxable income deduction.

3. Methods

Sample selection and data source

This research is the cross-country study regarding the effect of CSR on corporate financial performance. Also, this paper examines the impact of zakat (CSR) as tax deduction on CSR and corporate financial performance relationship. We test the hypotheses using data drawn from World Bank and Thompson Reuters. Total observation for this study is 709 observation consist of 31 from non financial industries and 678 from financial industries. Also, this section provides the proxies for regulation, corporate social responsibility, ROE, and ROA . The selection of financial performance variables follows the previous studies in Asia and Taiwan [12], [17], [24].

The sample for this study was retrieved from Thomson Reuters for Saudi Arabia, Kuwait, and Malaysia financial statements for the period from 2007 to 2018 (11 years). The total sample is 709 observations, which is 671 observations in CSR (proxied by zakat) as tax liability deduction regulation and 84 observations in regulation CSR as taxable income deduction. For control variables also collected from Thomson Reuters especially from financial statement.

Variable Measurement

Proxy for CSR is logarithm of zakat zakat payment. This measures consistent with Javaid & Al-Malkawi (2018a) when examined the relationship between CSR and financial performance in Saudi Arabia companies. This measures indicated the intensity of corporate charity toward social welfare. For that, formula for this measure as a follows,
 $CSR = \ln \text{ Zakat}$

For profitability measures, it consist of Returns on assets (ROA) and returns on equity (ROE). These measures are commonly showed corproate past performance [12], [25]. These measures represent profit per dollar of company assets and per dollar of company quity, respectively:

$$ROA = \frac{\text{Income After Taxes}}{\text{Average of total asset at the beginning and the end of the year}} \times 100\%$$

And

$$ROE = \frac{\text{Income After Taxes}}{\text{Average of total equity at the beginning and the end of year}} \times 100\%$$

These measures represent quality of earning and efficiency of management for achieving profit target (Athanasoglou, Brissimis, & Delis, 2005). In addition, these measures also appropriate for comparability different firms regarding profit and company earning [27]. Regarding market performance measure, this paper consistent with Javaid & Al-Malkawi (2018a) used price to book ratio. This proxy is different with accounting measures (ROA and ROE) because it is a forward-looking measure. This measure is calculated as follows,

$$PBV = \frac{\text{Last closing market price per share}}{\text{Book value per share}}$$

This ratio also reflects the accomplishment of succes operating performance and growth in the net assets of the firm. In this sense, this ratio is justified to measure market performance. Regarding regulation measures, this paper used dummy variable. Based on Obaidullah (2016) finding, Kuwait and Saudi Arabia perceive zakat as a deduction from tax liability, in turn, it assigned to 1 (one). In Malaysia , zakat is a deduction from taxable income, in turn, it assigned 0 (zero). The control variables for this study are previous net income (NI_{t-1}) and industrial specialties (INDUSTRI). These control variables have been chosen because it seems affet CSR payment.

Empirical Design

To overcome the research hypotheses, This study use regression design to test whether firms are more likely to increases CSR payment exhibit high level of financial performance and market performance as follows.

$$CFP = \alpha_1 + \alpha_2 \text{ CSR} + \alpha_3 \text{ controls}_{it} + \epsilon_{it}$$

This regression using panel data for 12 years since 2007. Based on the equation model, α_2 addresses the hypothesis (H1&H2). For that, α should be significant, in turn, it suggest that CSR affect company performance (CP), even financial performance and market performance. Also, sign α should be positive. It means that CSR payment exhibit high level of financial performance and market performance. In addition, this sign indicated supported theoretical background which is theory of value enhancement.

$$CFP = \alpha_1 + \alpha_2 DRegulation_{it} * CSR + \alpha_3 controls_{it} + \epsilon_{it}$$

This model to addresses the third hypothesis (H3) regarding the hypothesis which stated that companies CSR payment in regulation that treats CSR as tax liability deduction are higher than those in companies in regulation that treats CSR as taxable income deduction. In addition, α_2 should be positive and significant. It implies that regulation increases CSR payment, in turn, exhibit high level of financial performance and market performance. Also, this finding should support theory of value enhancement.

4. RESULT

Descriptive Statistic

This summary of descriptive statistics present the number of observations (N), the minimum value, the maximum value, the standard deviation . The number of companies in the financial industry is 31 companies (4.37%). The number of industries in the non-financial industry is 678 (95.63%). Based on descriptive statistic for sample countries such as Kuwait, Malaysia, and Saudi Arabia in Table 1 indicated that the mean value of the CSR is US\$ 16.600. This means that the research sample seems exhibit CSR compliance. Table 1 also indicated that the average of ROE, ROA, and PBV was positive. This means that, on average, the research sample have positive earning, particularly for the research period.

Based on table 1 regarding descriptive statistics research shows that the total zakat on average is US \$ 16.6 million. Also, the average value of the ROE is 0.12. This means that on average, the company is able to generate profits from asset which invested by shareholders is around 0.12. Likewise, In the context of market performance measures which proxied using PBV. The average PBV for all company samples is 2.17. This measure indicates the sample companies have a Price to Book Value above 1, thus concluding that the sample stock price is relatively expensive.

Regarding the transformation of data, the size of zakat, total assets, and net income after tax (net profit after tax), transformed so the data is normally distributed. Transformation is need to fill the normality requirement for data testing. Based on the results of the transformation of the data, the skewness value is in the range of ± 2 for zakat data, total assets, and net income after tax (net income after tax). In conclusion, the overall research data are normally distributed. For that, table 1 is presented as a follows,

Table 1: Descriptive Statistic

Variable	Min	Mean	Max	SD	Skew
CSR (US \$ Ribu)	0.98	16600	800000	79000	7.64
ROE	-0.57	0.12	1.17	0.15	0.78
ROA	-0.15	0.07	0.51	0.08	1.12
PBV	0.10	2.17	12.29	1.65	2.07
Asset (US \$ Milyar)	2.64	4.71	1.24	1.37	5.86
GDP	7243.46	24128.17	55495.20	10043.89	1.32
NI _{t-1} (US \$ Milyar)	0.42	12.10	1.20	0.31	7.06

Table 3 shows correlation between research variables. It shows that CSR is significantly correlation with ROE, ROA, and PBV. Also, this correlation value and sign indicates that the higher CSR in the current period, the higher financial and market performance of corporate. In addition, it was also revealed that the finding consistent with previous result such as [8], [10]. Note that the finding of correlation consistent with proposed hyphotesis and theory of enhancement that stated that CSR would improve their financial performance. For that, table 2 is provided as a follows,

Table 3: Correlation Table

	CSR	ROE	ROA	PBV	Log TA	GDP
CSR	1.00					
ROE	0.20 ***	1.00				
ROA	0.24 ***	0.88 ***	1.00			
PBV	0.20 ***	0.61 ***	0.64 ***	1.00		
Log TA	-0.09 *	0.07 *	0.16 ***	0.07	1.00	
GDP	-0.37 ***	0.03	-0.00	-0.11 **	0.10 **	1.00
NI _{t-1}	0.27 ***	0.60 ***	0.77***	0.56 ***	-0.03	-0.07

In multicollinierity context, this data have not a problem of multicollinearity. Table 4 indicated that variance inflation factors (VIF) for every variables is below from 10. It means that the model does not have multicollinierity problem. Multicollinearity problem leads some research variables statistically insignificant seems significant because it would increases the coefficient of standard errors of some independent variables. Based multicollinierity result, it could be concluded that research data for every independend variables is free from multicollinierity problems.

REGRESSION RESULT AND DISCUSSION

Firms are more likely to increases CSR payment exhibit high level of financial and market performance measurement.

As shown in Table 5, it shows that the CSR variable has a positive and significant coefficient. This means that firms are more likely to increase CSR payment exhibit high level of financial performance measurement for every measures such as ROE, ROA, and PBV. This finding also indicates that the relationship between the CSR spending and the magnitude of the corporate financial performance is positive. Thus, it could conclude that hypothesis H1a and H2a was accepted.

Table 5: Regression result for hypothesis 1

$$CFP_{i,t} = \delta_0 + \delta_1 CSR_{i,t} + \delta_3 SIZE + GDP_{i,t} + \delta_4 Non\ Financial_{i,t} + \delta_5 NI_{i,t-1} + \varepsilon_{i,t}$$

Variable	ROE		ROA		PBV	
CSR	0.011	***	0.009	***	0.118	***
Size	-0.004		-0.023	***	-0.406	***
GDP	0.000		0.000		0.000	
NI _{t-1}	0.559	***	0.504	***	6.096	***
Non Fin	-0.101	***	-0.038	***	0.631	***
Cons	0.026		0.145	**	3.165	**
N	709		709		709	
R2 Overall	0.367		0.606		0.339	
Chi2	81.818		282.870		131.190	
P-Value	0.000		0.000		0.000	

Legend: * p<0.10; ** p<0.05; *** p<0.01

This finding consistent with theory of value enhancement. It indicates that CSR likely enhances corporate reputation, in turn, affect profitability and shareholders value. Alqahtani, Mayes, & Brown, (2017) reports that shareholder or potential shareholder may appreciate CSR because this company perceived as social and environment concern. It leads increasing corporat reputation and corporate financial performance.

Regarding the finding, it consistent with Javaid & Al-Malkawi (2018b) which reports that relationship between CSR and CFP in Saudi Arabia companies positively. Also, this result supported Chen & Lin (2015) which consider charitable expenditures enhances CFP in Taiwan companies. The present study indicates that CSR contribute positively to both firm's profitability and market value. It shows that successfully implementation of CSR program enhances goal achievement effectively and produces high financial performance.

This paper finding also provides empirical support for the stakeholder theory because most stakeholder appreciates management which implements CSR program, in turn, affects corporate performance. For that, the relationship between CSR and financial performance is significant positive. It implies that corporate should strives to balances between profit, planet, and people. In addition, enhancing financial performance isn't main objective because stakeholder theory indicates that company should enhances value for all stakeholders. Stakeholder fulfilled activities would be appreciated, in turn, potentially enhances financial performance [19]. In sum, this finding consider stakeholder theory to explains relationship between CSR and CFP. One might infer from the discussion that company should look carefully at its relationships with all corporate stakeholders because good appreciation companies are more likely to exhibit high financial performance [21]. As can be seen from empirical finding, this supports the first hypothesis (H1a) that firms are more likely to increase CSR payment exhibit high level of financial performance measurement.

Also, this finding consistent with Javaid & Al-Malkawi (2018b) which indicated that corporate action such as CSR information may affects market price such price-to-book. For that, several previous literature showed that market constituents affects a company's performance through their economic choices [22]. As a result, this finding consistent with signaling theory, CSR payment provides signal that company has high cash liquidity, in turn, company may exhibit high resources and attract attention of shareholder that lead to enhance market price. This paper finding shedlight on the the associaton between corporate charity and firm market performance. Also this study support second hypothesis (H2a) that firms are more likely to increase CSR payment exhibit high level of market performance measurement.

The companies CSR payment in regulation that treats CSR as tax liability deduction are higher than those in companies in regulation that treats CSR as taxable income deduction.

For third hypothesis, the value of the CSR#Regulation is insignificant coefficients. For that, it means that there is no difference in the CSR payment between companies in tax deduction regulation, and companies in taxable deduction regulation. The insignificance of finding shows that hypothesis H3a is rejected. Moreover, the positive and significant coefficients of CSR indicated that payment of CSR will positively and significantly exhibite higher corporate financial performance (ROE, ROA, and PBV). This study supports previous study such as Brown et al. (2006) who argued that corporate charity positively affects performance of corporate.

Table 6: Regression result for hypothesis 3

$$CFP_{i,t} = \delta_0 + \delta_1 CSR + \delta_2 CSR_{i,t} * Regulation + \delta_3 SIZE_{i,t} + \delta_4 GDP_{i,t} + \delta_5 Industri_{i,t} + \delta_6 NI_{i,t-1} + \varepsilon_{i,t}$$

VARIABLES	(1) ROE	(2) ROA	(4) PBV
CSR	0.01 ***	0.00 ***	0.09 **
Regulation	0.06	0.06	-0.67
Regulation#CSR	-0.00	-0.00	0.02
SIZE	-0.00	-0.02 ***	-0.36 ***
GDP	0.00	0.00	-0.00
Industri	-0.10 ***	-0.03 ***	0.62 **
Ni _{t-1}	0.55 ***	0.50 ***	6.09 ***
Constant	0.01	0.13 **	3.28 ***
Observations	709	709	709
Number obs	170	170	170

Legend: *** p<0.01, ** p<0.05, * p<0.1

This is consistent with theory of value enhancement, which states that corporate philanthropy enhances and maximizes shareholder value. This study is consistent with previous studies such as Brown et al. (2006) who argued that corporate philanthropy has a positive effect on firm performance.

Obaidullah (2016) report that some countries provide different regulations regarding CSR as a tax deduction, or CSR as a deduction from taxable income. Based on interviews, the informant stated that the zakat institutions have not implemented the regulation optimally. This inference based on interview in minutes 06:17:52 as follows,

“the penalty for people who don't pay the CSR, but we don't enforce, we don't practice. In the law, if you don't pay CSR you can be penalized, you can be tax sanctioned, I can take you to court, if you don't pay CSR. But in real we don't do that”

This interview finding provides conclusion that CSR payment does not differ between companies in deduction from taxable income regulation and deduction from tax liability. It implies that the payment motivation is internal attribution.

CONCLUSION

This paper examines the impact of CSR towards corporate performance. These findings shed light on literature of corporate charity and provide additional insight into how CSR affects corporate financial performance and effect of regulation on the relationship between CSR and CFP. The hypotheses testing find that corporate performance is so sensitive to CSR. Also, the different regulation does not provide significant difference impact on relationship between CSR and CFP.

This finding indicates that high payment of CSR may enhance ROE, ROA and PBV. It also supports first and second hypothesis indicates that CSR payment will enhance their ROA, ROE, and PBV. Unfortunately, this finding does not support third hypothesis which stated that the companies CSR payment in regulation that treats CSR as tax liability deduction are higher than those in companies in regulation that treats CSR as taxable income deduction.

This finding plays an important role in CSR management; companies with high level of CSR payment, perceived socially companies, in turn, result in high level of financial performance. Also, this finding provides important insight into how regulation affects the relationship between CSR and financial performance. In sum, due to law enforcement, there is no significant difference between regulation CSR as deduction from taxable income and CSR as deduction from tax liability. These findings provide incentives for corporate managements especially directors and CEOs to consider CSR as public perception building and CSR as tax deduction.

These findings provide several contributions to the study of the relationship between CSR and corporate financial performance. By focusing on CSR performance, this finding enhances measurement using zakat measures because it differs with previous indicator because zakat is mandatory. Also, this finding of regulation provides significant contribution because the motivation of CSR payment is internal attribution. These findings allow to make better knowledge on how is relationship between CSR companies return and the role of regulation.

Implications for future study, the researcher should consider that there is a relationship between CSR and financial performance, but the regulation does not moderate the impact. For that, next research should consider more countries or more types of regulation. For policy makers, there is no effect of regulation toward the relationship between CSR and financial performance. For that, policy makers should amend the regulation and reinforce the law and provide the sanction for CSR avoidance.

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