

## COMPETITIVE ADVANTAGE MODERATE: ENVIRONMENTAL PERFORMANCE AND CORPORATE SOCIAL PERFORMANCE AGAINST ECONOMIC PERFORMANCE

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### ABSTRACT

*This research aims to determine the effect of environmental performance and corporate social performance on economic performance with moderated by competitive advantage partially on companies manufacturing listed on Indonesian Stock Exchange during the period 2015-2018. The population in this research is all manufacturing listed on Indonesia Stock Exchange during the period 2015-2018. The total samples tested were 10 companies selected by purposive sampling technique. Data type in this research use secondary data obtained from Indonesia Stock Exchange and site respectively of company being sampled. Data analysis technique use panel data regression with Eviews 9.0, The result indicates that environmental performance have no effect on economic performance but after moderated by competitive advantage of environmental performance has no effect on economic performance. Corporate social performance have a negative effect on economic performance but after moderated by competitive advantage of corporate social performance has a positive effect on economic performance and competitive advantage have a positive effect on economic performance*

*Keywords: Economic Performance, Environmental Performance, Corporate Social Performance, Competitive Advantage.*

### 1. INTRODUCTION

Economic performance of a formal business carried out by the company to evaluate the efficiency and effectiveness of the company's financial activities that have been carried out over a period of time. Economic performance can be measured from the company's financial statements, the information contained in the financial statements is used by investors to obtain estimates of future earnings and dividends and the risks of these assessments (Kusuma, Mendra, & Anggraini, 2014).

Annual stock returns in the company can be taken into consideration from the company's economic performance, the performance can be seen from the point of view of the capital market through annual stock retrun or stock returns on investments made by investors (Welianus, 2016).

*Environmental performance* is the company's performance in creating a good environment (green) and a mechanism for companies to voluntarily integrate environmental concerns into their operations and interactions with *stakeholders*, which

exceeds organizational responsibility in the legal field (Hastawati & Sarsiti, 2016). Environmental performance can affect economic performance to deal with industrial developments that lead to the environment, companies are required to conduct environmental management of the resources used for their production activities (Firmansyah, 2017).

All profit oriented companies must have the same goal of maximizing profits. Some companies feel that doing social and environmental activities in Corporate Social Performance will actually increase company expenses, not increase profits. However, over time, the role of companies in terms of social responsibility is now quite important to consider (Wibisono, 2014).

Competitive advantage is the result of implementing strategies that utilize a variety of company resources (Bharadwaj et al, 1993). A competitive advantage is a tool in achieving an organization's financial goals to achieve success beyond its competitors (Handayani, 2013).

One of the renewal of research conducted by using elements of competitive advantage as a moderating variable. Because

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in reality good environmental performance can be achieved if supported by innovations made by the company. Thus it can be concluded that competitive advantage can influence the environmental performance that will be carried out so that this can also affect the company's economic performance.

Competitive advantage can also affect the relationship that occurs between corporate social performances on economic performance. When a company has a competitive advantage, it certainly can have an appeal from customers or consumers of the products offered so as to increase high selling power. The company will be able to protect its environment, one of which is the company's social responsibility so that this can also affect the company's economic performance.

## 2. LITERATURE REVIEW

### Legitimacy Theory

*Legitimacy theory* states that organizations can only survive if the people who live around the organization feel that the organization operates based on the same value system as the value system owned by the community (Gray et al., 1995). This theory has a relationship with variables Environmental Performance and Corporate Social Performance.

### Economic Performance

In this study, market-based measures are used to present economic performance by using industry-adjusted annual return which is based on calculating the difference between annual stock return and the median of annual stock return data sets that are considered capable of presenting economic performance more objectively and comprehensively (Widarto & Mudjiyanti, 2015). Economic performance is expressed on a ratio scale that is calculated:

$$EcP = \frac{(P_1 - P_0) + Div}{P_0} - MeRI$$

Source: Al-Tuwajiri, et al (2004)

Where:

EcP : Economic Performance

P1 : Year-end share price

P0 : Previous year's stock price

Div : Dividend distribution

MeRI : Median annual stock returns

### Environmental Performance

This environmental performance is measured by the company's achievement in participating in the PROPER program. The PROPER performance ranking system includes a company ranking in five (5) colors, namely:

Color	Rating	Score	Scale
Gold	Very very good	5	Ordinal
Green	Very good	4	Ordinal
Blue	Well	3	Ordinal
Red	Bad	2	Ordinal
Black	Very bad	1	Ordinal

Source: <http://proper.menlh.go.id>

### Corporate Social Performance

According to Fauzi (2009), the concept of corporate social performance (CSP) is identical to corporate social responsibility (CSR) which balances it with financial performance. The financial performance referred to here is the company's net profit. Because the company's net profit affects the level of corporate social responsibility disclosure. The relationship between corporate net income and corporate social responsibility has become a basic assumption, so that the higher the profit obtained, the greater the disclosure of corporate social information (Hackston & Milne, 1996).

The first approach of the concept of corporate social responsibility is proxied by CSR (Corporate Social Responsibility Disclosure) based on the Global Reporting Initiatives (GRI) indicators G4. GRI G4 has 91 criteria that cover all dimensions. If a company discloses CSR activities according to criteria, a score of 1 (one) will be given. Whereas if not then given a score of 0 (zero). The measurement is done by calculating the proportion between the total number of disclosure criteria made by the company against the total disclosure criteria that exist in GRI G4. Measurement variables can be formulated scale ratio as follows (Eduardus & Juniarti, 2016):

$$CSR = \frac{\text{Number of Company Disclosure Criteria}}{\text{Number of Disclosure Criteria in Accordance with G4}}$$

Sources: Eduardus & Juniarti (2016)

The second approach uses the natural logarithm formula (Ln) net profit, the use of natural logarithm (Ln) net profit because

every company has a different net profit amount to avoid the abnormal data, the net profit needs to be in Ln. So corporate social performance can be calculated with scale ratio the following formula:

$$CSP = \frac{CSR}{Ln \text{ Net Profit}}$$

**Competitive Advantage (Moderating Variable)**

According to Tang and Liou (2007) Competitive advantage can be measured by four proxies namely CR (Customer Relationship), SR (Supplier Relationship), IP (Intellectual Property), and FAM (Fixed Asset Management). In this study only two proxies are used, namely CR and SR because these two proxies are more consistently expressed in the company's financial statements.

In addition to using the two proxies above, competitive advantage can also be added to the measurement using research conducted by Chen et al (2017), which uses the formula of R&D Intense. The formula is considered capable of knowing companies that have competitive advantages, because when a company conducts research and development, it is certain that the company makes continuous innovation so that it can maintain its excellence.

1. Customer Relationship (CR)

$$CR = \frac{Advertising \ Expense}{Sales + Account \ Receivable}$$

Sources: Tang dan Liou (2007)

2. Supplier Relationship (SR)

$$SR = \frac{Account \ Payable + Inventory}{Sales}$$

Sources: Tang dan Liou (2007)

3. R & D Intens

$$RnD \ Intens = \frac{RnD \ Expense}{Sales}$$

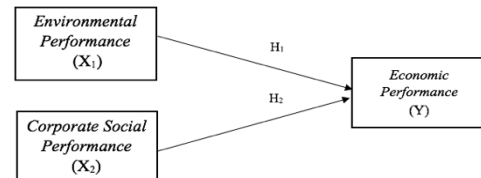
Sources: Chen (2017)

The next step is to calculate competitive advantage (CA) by adding up CR, SR and R&D Intense then the results are divided into three. There are three components to measure competitive advantage, as follows:

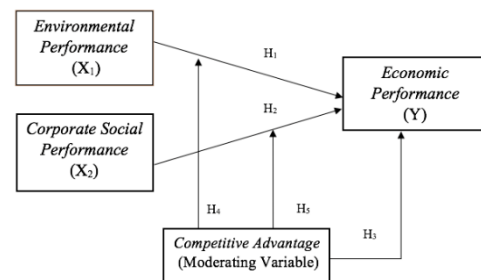
$$CA = \frac{CR + SR + R \ \& \ D \ Intens}{3}$$

**Conceptual Framework**

**Model 1**



**Model 2**



**The Effect of Environmental Performance on Economic Performance**

Environmental Performance is the company's performance to create a good environment, which will build a good image in the eyes of stakeholders. (Prabandari, 2014). Companies that have good environmental performance are good news for investors and potential investors so that they will be responded positively through fluctuations in the company's stock price (Rohmah & Wahyudin, 2015).

Good environmental performance is able to increase the company's image so that it can raise the company's stock price. Based on the description above, this study proposes the following hypothesis:

H1: Environmental Performance Has a Positive Impact on Economic Performance.

**The Effect of Corporate Social Performance on Economic Performance**

Corporate Social Performance is the configuration of the principles of business organization, social responsibility, social response processes, program policies and results that can be observed as corporate social relations (Wood, 1991). Economic performance is the performance of company management, in this case financial management, which is marked by the company's annual return (Rohmah &

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Wahyudin, 2015).

Corporate social performance is part of the company's management activities carried out to improve the company's image so as to improve the company's economic performance. Based on the description above, this study proposes the following hypothesis: H2: Corporate Social Performance has a negative effect on economic performance.

### The Effect of Competitive Advantage on Economic Performance

Competitive advantage will provide added value for stakeholders that the company shows high competitiveness from its superiority (Widiarsa & Sulistyawati, 2018). According to Haholongan (2016) economic performance is the company's performance which is relatively changing from year to year in the same industry which is marked by the company's annual return.

Companies that are able to create competitive advantage then the company will have a difference compared to other companies, so this can improve the company's reputation and also be able to increase the company's stock price Based on the description above, this study proposes the following hypothesis:

H3: Competitive Advantage Has a Positive Impact on Economic Performance.

### The Effect of Environmental Performance on Economic Performance with Competitive Advantage as a Moderating Variable

Companies that have good environmental performance are certainly a consideration for potential investors. The higher the company's share in environmental activities will build a good image in the eyes of stakeholders and shareholders. Good image to the company as a result of its concern for the environment coupled with the company's competitive advantage will increase the level of stakeholder and shareholder confidence in the company and will also have an impact on the company's economic performance. This study proposes the following hypothesis:

H4: Competitive Advantage Has a Positive Effect on the Relationship between Environmental Performance and Economic Performance.

### The Effect of Corporate Social Performance on Economic Performance with Competitive Advantage as a Moderating Variable

Corporate social performance is part of the company's management activities carried out to improve the company's image so as to improve the company's economic performance. When a company is able to maintain a high level of competition through product and price excellence, it will create added value and consideration from investors and stakeholders.

So it can be concluded that competitive advantage can affect the relationship between social performance and economic performance through its role in creating excellence that can be an added value from competing companies Based on the description above, this study proposes the following hypothesis:

H5: Competitive Advantage Has a Positive Impact on Corporate Social Performance Relationships to Economic Performance.

## 3. DATA AND RESEARCH TECHNIQUE ANALISYS

The sample in this study is manufacturing companies listed on the Indonesia Stock Exchange (IDX), www.idx.com. The sampling technique used is non probability sampling with purposive sampling method.

No	Criteria	Amount
1.	Manufacturing companies listed on the Indonesia Stock Exchange during the 2015-2018 period	167
2.	Manufacturing companies not registered with the Ministry of Environment PROPER program during the 2015-2018 study period	(75)
3.	Manufacturing companies that do not publish consecutive financial statements during the 2015-2018 research period	(60)
4.	Companies that did not distribute dividends during the 2015-2018 research period	(21)
5.	Companies that do not use rupiah	(1)
The number of companies that become research samples		10
Number of Research Periods (Years)		4
Amount of Research Observation Data		40

Source: Processed by the author, 2019

### Data analysis technique

The analysis in this study uses panel data regression analysis, with the help of statistical data processing software namely Eviews 9.0. The panel data regression model can be written as follows:

Model 1

$$EP = a + \beta_1 EnP_{it} + \beta_2 CSP_{it} + \epsilon_{it}$$

Model 2

$$EP = a + \beta_1 EnP_{it} + \beta_2 CSP_{it} + \beta_3 CA_{it} + \beta_4 EnP * CA_{it} + \beta_5 CSP * CA_{it} + \epsilon_{it}$$

**Information:**

- EP = Economic Performance
- a = Constant
- β1 β2 β3 β4 β5 = Coefficient of Independent Variable Regression
- EnP = Environmental Performance
- CSP = Corporate Social Performance
- CA = Competitive Advantage
- i = Company
- t = Year
- e = Error Coefficient

**4. RESULT AND DISCUSSION**

**Hypothesis Test (t test)**

**a. Before using a moderating variable (Model 1):**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1159.729	312.0990	3.715901	0.0009
ENP	-53.16279	48.19570	-1.103061	0.2794
CSP	-41930.62	15955.79	-2.627925	0.0138

**b. After using a moderating variable (Model 1):**

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2744.223	753.0738	3.644029	0.0012
ENP	-181.0761	144.0838	-1.256742	0.2205
CSP	-106713.5	25028.84	-4.263622	0.0003
CA	16433.32	7008.503	2.344770	0.0273
ENP*CA	1702.352	1689.452	1.007636	0.3233
CSP*CA	588651.2	194321.0	3.029273	0.0056

**The Effect of Environmental Performance on Economic Performance**

Hypothesis test results indicate that environmental performance has no effect on economic performance. Thus H1 in this study was rejected.

These results indicate that information issued by the Ministry of Environment and Forestry regarding environmental performance cannot affect the company's economic performance. The average company gets a blue rating or has made the environmental management efforts required as regulated in the legislation does not guarantee that the company's economic performance will improve.

**The Effect of Corporate Social Performance on Economic Performance**

Hypothesis test results show that corporate social performance influences economic performance in a negative direction. Which means that if the company carries out social responsibility it will reduce the level of economic performance. Thus H2 in this study was accepted.

The cause of corporate social performance has a negative effect is when a company carries out many social responsibility disclosure activities such as its responsibility to the environment, employees, customers, and other stakeholders associated with the company, among others, by providing benefits to employees as well as corporate responsibility for product quality generated by not balancing the profits owned will indirectly result in a decline in the company's economic performance.

**The Effect of Competitive Advantage on Economic Performance**

Hypothesis test results show that competitive advantage influences economic performance in a positive direction. This means that the more a company does a competitive advantage, the more it will improve the company's economic performance. Thus H3 in this study was accepted.

Competitive advantage owned by the company will have a positive influence on the company's economic performance. Because when a company is able to compete with its superiority and can maintain for the next period, it will indirectly provide certainty to suppliers and consumers. That the company can provide confidence in its products by continuing to innovate continuously and be able to respond to market saturation.

High competitiveness companies certainly have a number of superior characteristics such as effective use of resources and efficiency in terms of cost use. So it will have an impact on sales growth, sales will increase. Then this gives a good signal for the company to produce high economic performance.

**The Effect of Environmental Performance on Economic Performance with Competitive Advantage as a Moderating Variable**



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Hypothesis test results show that competitive advantage has no effect on the relationship of environmental performance on economic performance. Thus H4 in this study was rejected.

This means after competitive advantage, environmental performance still has no effect on economic performance. This is because environmental performance is not related to the company's competitive advantage. Environmental performance is obtained because the company carries out environmental and social activities, so that later it will get an assessment from the ministry of environment and forestry. While the company's competitive advantage is only limited to the company's operational activities by utilizing its resources in order to address market saturation. The lack of conformity of the relationship that occurs due to differences in the scope of the competitive advantage is not able to influence the relationship that occurs between environmental performance on economic performance.

### **The Effect of Corporate Social Performance on Economic Performance with Competitive Advantage as a Moderating Variable**

Hypothesis test results show that competitive advantage affects the relationship of corporate social performance on economic performance in a positive direction. This means that if competitive advantage is carried out within a company, it will increase the level of influence of corporate social performance on economic performance. Thus H5 in this study was accepted.

The competitive advantage possessed by the company is able to influence the environment between corporate social performance and economic performance because competitive advantage can affect the relationship through its role in innovation and sustainable development. Because consumers and investors consider this with companies that are able to compete through product and price advantages. So that economic performance can increase as a result of social and environmental responsibility and competitive advantage owned by the company.

## **5. CONCLUSION**

Based on the analysis and discussion conducted using panel data regression, the following conclusions are obtained:

1. The theory of legitimacy underlying the relationship of environmental performance variables cannot explain the relationship between these two variables. In theory, it is said that companies can make efforts such as environmental and social activities to gain legitimacy or trust from the community, especially potential investors. But in reality investors do not see from the side of concern for the environment but to the analysis of earnings and corporate financial ratios. It can be concluded that environmental performance is not a factor influencing economic performance.
2. The cause of corporate social performance has a negative effect is when a company carries out many social responsibility disclosure activities such as its responsibility to the environment, employees, customers, and other stakeholders associated with the company, including by providing benefits to employees as well as corporate responsibility for the product quality products produced by not balancing the profits owned indirectly will result in a decrease in the company's economic performance. The inconsistency of companies in each period to disclose social responsibility items is because investors still underestimate the content of corporate social responsibility disclosures because the information provided is still not informative and relevant to actual facts.
3. The competitive advantage possessed by the company will have a positive influence on the company's economic performance. Because when a company is able to compete with its superiority and can maintain for the next period, it will indirectly provide certainty to suppliers and consumers. That the company can provide confidence in its products by continuously innovating and being able to respond to market saturation. Companies with high competitiveness certainly have a number of superior characteristics such as effective and

efficient use of resources in terms of cost use.

4. After competitive advantage, environmental performance still has no effect on economic performance. This is because environmental performance is not related to the company's competitive advantage. Environmental performance is obtained because the company carries out environmental and social activities, so that later it will get an assessment from the ministry of environment and forestry. While the company's competitive advantage is only limited to the company's operational activities by utilizing its resources in order to address market saturation.
5. The competitive advantage possessed by the company is able to influence the environment between corporate social performance and economic performance because competitive advantage can affect the relationship through its role in innovation and sustainable development. Because consumers and investors consider this with companies that are able to compete through product and price advantages. So that economic performance can increase as a result of social and environmental responsibility and competitive advantage owned by the company.

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