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The Impact of Corporate Social Responsibility on Corporate Value: The Role of Company Size In Indonesia Capital Market

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Abstract

This study outlines aimed to look at the effect of corporate social responsibility on corporate value and effect of Corporate Social Responsibility on the value of the company with the size of the company as a moderating variable. The population of this research consisted of manufacturing companies listed on the Stock Exchange for the following reason: the manufacturing companies had a greater effect on the surrounding environment as a result of the activities of the company. Sample were selected by using a purposive sampling method with the purpose to obtain a representative sample in accordance with the criteria specified. The data were processed by a multiple linear regression analysis (multiple regression analysis). Corporate Social Responsibility rating was based on GRI standards (Global Reporting Initiative), whereas the value of the company used a measuring tool Tobin's Q. The results of this study proved that the variables of Corporate Social Responsibility (CSR) significant positive effect on the value of the company while the variable size (size) of the company as a moderating variable affect the relationship of CSR and corporate value.

Keyword: corporate social responsibility, Tobin's Q, corporate value

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1. INTRODUCTION

Corporate social responsibility defines the ability of a company to be socially responsible to the growth and development of the environment in which it operates. It defines the voluntary services given by a company to the society. The effect is the increased in purchasing behavior and good brand image the company will have in the society. The ability of a company to engage in environmental protection, charitable programmes and community relations have made them to exhibit sound and increased performance over their competitors that see corporate social responsibility as mere issue. Corporate social responsibility simply refers to strategies corporations or firms conduct their business in a way that is ethical and society friendly (Dsilva, B., 2008). Corporate social responsibility can involve a range of activities such as working in partnership with local communities, socially sensitive investment, developing relationships with employees, customers and their families, and involving in activities for environmental conservation and sustainability.

Corporate social responsibility for multinationals grows as a result of global competitions and challenges they faced. This aspect of managerial theory comes into being as a result of the responsibility the managers have to shoulder by defining useful tools about the CSR for the MNCs to survive in foreign countries (Clarkson, M. 1995). It refers to the MNCs as 'moral agents', analyzed on the basis of the moral values when managers make decision in the firms, going beyond profit maximization. The logic of CSR for MNCs is also derived from the fact that when cultural clashes become relevant due to events such as protests, demonstrations, boycotts, strikes and other negative actions against the employers. The answer to these actions is the formulation of 'code of conduct' that should be adopted by MNCs. The success of this initiative, however, depends on client expectation and corporate reputation; the level of trust, acceptance, and cooperation shown by the stakeholders and community of workers.

The concept of corporate social responsibility has been examined by much literature both in the developed and undeveloped economies (India, Pakistan, Vietnam, Nigeria & Ghana). With the number of existing literature on relationship between corporate social responsibility and company's performance, none specifically has examined the UK context when measuring corporate performance using both financial (return on capital employed, market book value) and non-financial performance (Size, Industry type etc). In India, Mishra and Suar (2010) examined the performance of Indian companies via corporate social responsibility. In Pakistan, Iqbal et al. (2014) studied corporate social responsibility on the banking sector financial performance. Trang and Yekini (2014) investigated the link between CSR and financial performance in listed companies of Vietnam. In Nigeria, Uadiale and Fagbemi (2012) examined corporate social responsibility on financial performance of companies in Nigeria. While Abdulrahman (2013) only examined profit after tax as a variable of financial performance, Uadiale and Fagbemi (2012) used both return on assets and return on equity as measures of financial performance Ofori, Nyuur & S-Darko (2014) studied relationship between corporate social responsibility and financial performance among Ghanian firms.

Corporate Social Responsibility is often considered as the core of business ethics, which means that the company does not only have obligations, but also economic and legal obligations of the other parties concerned (stakeholders) that reaches beyond the obligations above (economic and legal). Global Compact Initiative (2002) calls this understanding with 3P (profit, people, planet), that business objectives are not only looking for profit (profit), but also the welfare of the person (people), and ensure the sustainability of the planet (Dahli and Siregar, 2008). The development of social programs the company can be either physical assistance, health care, community development outreach,and scholarships.

According to Kemper (2013) companies can gain many benefits from practice and CSR when practiced in earnest, including: strengthening communication with stakeholders, promoting the improvement of companies on an ongoing basis as a form of risk management and protecting the reputation, as well as to gain the competitive advantage in terms of capital, labor, suppliers, and share it draws on market research. Kaufmann, M. and Olaru, M. (2012), Dagiliene, L. (2013), Adeneye, Y.B. and Ahmed, M. (2015), who first studied the effect of corporate social responsibility to corporate value, used proprietary management as moderating variable in Indonesia manufacture companies. This study aimed to examine again whether corporate social responsibility affects the value of the company.

While some variables in previous research studies did not use management ownership as a moderating variable. These variables were not used because ownership management has a positive effect on improving the disclosure of corporate social responsibility, so it is used to test the effects of other variables in relation corporate social responsibility and corporate value. Furthermore, the size of firms in this study served as a moderating variable used in research Another difference from previous studies was the use of standard GRI (Global Reporting Initiative) in measuring social disclosure in this study.

2. Literature Review

Corporate social responsibility (CSR) is a mechanism for an organization to voluntarily integrate social and environmental concerns into their operations and their interaction with stakeholders, which exceed the responsibility of the organization in the field of law. Corporate Social responsibility or corporate social responsibility by WBCSD defined as the commitment of business to contribute to sustainable economic development, through cooperation with the employees and their representatives, their families, local communities and the general public to improve the quality of life in ways that benefit both the business itself as well as for development (Andrikopoulos, 2014). Corporate social responsibility is expressed in the report called Sustainability Reporting. Sustainability Reporting is reporting on economic policy, environmental and social, influence and performance of the organization and its products in the context of sustainable development (sustainable development). Sustainability Reporting covers reporting on economic, environmental and social effects on the performance of the organization (ACCA 2004). Sustainability report should be a high-level strategic document which puts the issues, challenges and opportunities Sustainability Development which took him to the core business and its industry sector (Hill, 2006).

The company's main purpose is to increase the value of the company. The value of the company will secure sustainable growth (sustainable) if the company pay attention to the economic, social and environmental as sustainability is a balance between the interests of economy, environment and society. The dimensions contained in the application of the Corporate Social Responsibility of the company as a form of responsibility and concern for the environment around the company. Many benefits to the company with the conduct of corporate social responsibility, among other products are increasingly favored by consumers and companies attractive to investors.

CSR implementation will increase the company's value seen in stock prices and corporate profits (earnings) as a result of investors who have a stake in the company. Kim (2014) states that the presence of a good CSR practice, the expected value of the company will be judged well by investors.Based on the above explanation, the first hypothesis of this study is proposed as follows:

Hypothesis 1: Corporate Social Responsibility had positive effect on firm value.

1.3 Company size and company value

The size of the company has a different effect on the enterprise value of a company.

In terms of company size seen from the total assets owned by the company, which can be used for the company's operations. If the company has a large total assets, the management more flexibility in the use of existing assets in the company. Freedom that is comparable with concern the management undertaken by the owner of the asset. A large number of assets which would decrease the value of the company if it is judged from the owners of the company. When viewed from the side of management, its ease in controlling the company will increase the value of the company.

Research on the relationship between the size of the company's enterprise value has been done by Desemliyanti (2003). She examined three variables considered to affect the value of the company, namely the size of the company (total assets), debts and interest. This study provided results that company size has a negative correlation with the value of the company, and flowers provide a positive relationship with the value of the company.

Company size in this study was a major reflection of small companies that appear in total value of corporate assets. With the growing size of the company, there is a tendency more funds Corporate Social Responsibility issued so investors are also concerned with the company. This is because large companies tend to have more stable conditions for issuing CSR funds. This stability to attract investors to own shares in the company and the factors is CSR. This condition is a cause for rising share prices of companies in the capital market. Investors have great expectations towards large enterprises (Jiraporn, 2014)

In the assessment of the company contain elements of projection, insurance, estimates, and judgments. There are some basic concepts of research are: 1) the value is determined for a time or a certain period; 2) the value should be determined at a reasonable price; 3) assessment is not affected by group of buyers. In general, there have been many methods and techniques developed in the research within the company, such as: a) the income approach method income level ratio or price earnings ratio, profit project capitalization method; b) cash flow approach include discounted cash flow method; c) dividend approach among other methods of dividend growth; d) The assets approach among other methods of valuation of assets; e) approach to stock prices, and f) the economic value added approach. Several previous studies using speread value over cost, stock returns, market value, total assets (Fama and French, 1998) to determine the value of the company.

According Dsilva (2008) the ideal measurement tool for assessing the performance of the company (enterprise value) which is at least free from the influence of each entenitas policy is cash flow. He assumes that the cash flow analysis is a very important gauge for investors and auditors. This can happen due to the recognition of the amount of profit aentenitas in the same period could be different, though the figures and data provided equally. Stanwick (1998) explains that the enterprise value (EV) or also known as enterprise value is an important concept for investors, because it is an indicator for assessing the company's overall market. While mentions that the company is willing to pay the price that potential buyers if the company is sold.

There isn’t one single measure for the size of company; Number of employees, is a powerful indicator, but a proper evaluation of size in this study would be considered as total asset values as per the statement of financial position. Larger firmsencounter more public pressure because of their effect onthe community. Thus, they have greater incentive todisclose CSR activities. Studies show that firm size has a positive impact on the level and the quality of CSR disclosure, according to Reverte (2009).

Based on theabove explanation,the last hypothesis of this study was proposed as follows:

Hypothesis 2: Corporate Social Responsibility would enhance shareholder value with the magnitude of company size

3. Research Method

The population in this study consisted of 138 manufacturing companies listed in the Indonesian Stock Exchange. Of these companies, the study selected 77 companies using a purposive sampling technique with the following criteria: (1) these companies were listed in the Indonesian Stock Exchange at least for one year prior to the observation period, 2003–2016; (2) the companies had a positive value of equity and reported their financial statements in the national currency, Indonesian Rupiah (IDR); and (3) the companies were listed continuously during the period of 2003–2016. Thus, based on the above criteria, only 77 companies were found to meet the set criteria as the sample of the study. Since the study investigates 77 companies for five-year study period, the total number of observations of the study was 385.Sample selection is done by using purposive sampling method with the purpose to obtain a representative sample in accordance with the criteria specified.

Variable Measurements

This study used three main independent variables: *Corporate Social Responsibility*, size and company Value. Information on Corporate Social Responsibility (X1) based on the standard GRI (Global Reporting Initiative). GRI consists of three focal disclosure, namely:

1. Economy

The economic dimension of sustainability concerns the organization's impact on the economic conditions of stakeholders and economic systems at local, national, and global levels. Economic indicators illustrate: Flow of capital among different stakeholders; and the main economic impacts of the organization throughout the financial masyarakat.Kinerja is fundamental to understanding the organization and its sustainability. However, this information is normally already reported in financial statements.

(www.globalreporting.org).

2. Environment

Environmental dimension of sustainability concerns the organization's impact on life in natural systems, including ecosystems, land, air, and water. Environmental performance indicators related to inputs (materials, energy, water) and outputs (emissions/gas, waste streams, dry waste/garbage). In addition, their performance includes performance related to biodiversity environmental compliance, and other relevant information such as environmental waste and the impact of products and services (www.globalreporting.org).

3. Social

The social dimension is the dimension relating to sustainability is an organization had an impact in the social system. Social performance indicators include employment, human rights, product responsibility and practice in social community

Given the small number of companies in Indonesia which reported economic performance, social, and environment in the form of sustainability reporting, this study was limited to data that contained in the company's annual report. This is to prevent the gap between companies that already make sustainability reporting by companies that have not made it (Schuler, 2006).

CSR rating was done by using dummy variables, namely

Score 0: If the company did not disclose the items on the list of questions.

Score 1: If the company revealed the items on the list of questions.

CSR disclosure index was based on the standard GRI (Global Reporting Initiative), as follows:

a. Economic Performance Indicators
b. Environmental Performance Indicators
c. Labor Practices of Performance Indicators
d. Human Rights Performance Indicators
e. Social Performance Indicators
f. Product Performance Indicators

For this study the indicators were used three categories, namely indicators of economic performance, environmental and social. Social performance indicators includes four indicators comprising: the performance indicators of labor, human rights.

Company Value

Q ratio is a more accurate measure of how effectively utilizing the management resources of economic power. Research conducted Bramer (2006) by shows how the ratio Q can be applied to each company. According to White et al. (2002) Tobins'Q can be formulated as follows:

$$Q = \frac{EMV + D}{EBV + D}$$

Q = Value of Company

EMV = Equity Market Value, which is obtained by multiplying the closing share price (closing price) end of the year with the number of shares outstanding at the end of the year

EBV = Equity Book Value, which is derived from the difference between total assets with total liabilities

D = The book value of total debt

MODEL OF THE ANALYSIS

Since this study utilized the panel data of 77 companies for the period 2013 to 2016, this study adopted the panel regression analysis based on the Generalized Least Square (GLS). fixed effect estimation model. In this context, the observations are combined both cross-sectional and time series data over several time periods (Gujarati, 2003). Hence, the general form of panel regression model is as follows

$$Y = \alpha + \beta 1\ X1 + \beta 2\ X2 + \beta 3\ X1X2 + e$$

Information :

Y = Value Company α = Constant β1 - β3 = Regression Coefficients

X1 = Corporate Social Responsibility

X2 = the size of the company

X1.X2 = Interactions between CSR & size e = Error Term, the error research estimator

EMPIRICAL RESULTS

Analysis and discussion presented in this chapter comprise the results of the data analysis based on observations of the independent variable or variables used moderating, using analytical models of Multiple Regression Analysis to determine if Corporate Social Responsibility positive effect on the value of the company with the size of the company as a moderating variable. The population used in this research were companies listed on the Stock Exchange, with reason: companies manufacturing more influence / impact on the surrounding environment as a result of the the company activities.

Coefficient of Determination

The coefficient of determination was used to determine how much the ability of independent variables in explaining the dependent variable. Determination value is determined by the value of Adjusted R Square.

Table 4.1 Coefficient of Determination

Equation 1

Model	Adjusted R Square
1	,110

a. Predictors : (Constant), CSR INDEX
b. Dependent Variable : TOBINS Q

Equation 2

Model	Adjusted R Square
1	,182

a. Predictors : (Constant), MODERATION, SIZE, CSR INDEX
b. Dependent Variable : TOBINS Q

ANOVA[b]

Model	Sum of Squares	Df	Mean Square	F
Regression	2,705	2	1,353	11, 230
Residual	10,840	90	,120	
Total	13,545	92		

a. Predictors: (Constant), SIZE, INDEKS CSR
b. Dependent Variable: TOBINQ

Table 4 .2 ANOVA[b]

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	1,620	1	1,620	12,360	,001[a]
Residual	11,925	91	,131		
Total	13,545	92			

a. Predictors: (Constant), INDEKS CSR
b. Dependent Variable: TOBINQ

Table 4.1 reveals that the first equation is known the value of Adjusted R ² is 0.110, it means that 11% of the variable value of the company which is proxied by Tobins Q can be explained by CSR INDEX, and the remaining 81% is explained by variables other than persamaan.Pada second equation is known values of R ² is 0.182, it means that 18.2% of companies that proxy variable value with Tobins Q can be explained by CSR, profitability and interaction between CSR and profitability, and the remaining 81.8% is explained by other variables outside first equation.

The Empirical Findings

Current companies' managers and shareholders have been often criticized for their goals/ambitions in maximizing companies' profits regardless of the effects of the corporate strategy on a wide range of stakeholders (e.g. suppliers, environment, customers, employees, etc.) in order to meet the companies' objectives.

However, some companies' managers have underlined that CSR is a necessary investment which responds to the companies' objectives and also adds societal value, while others considered CSR an inconsistent effort which can affect the companies' shareholders' wealth.

As Jenkins (2005) argues, companies focus should no longer be on or increasing market share, but to become conscious and to make a prime objective in allocating the company's resources efficiently in such a way that the company value is maximized (e.g. brand value, image value, market value, etc.) which is actually a CSR strategy. Based on the results of the regression analysis presented in Table 4:11, the regression coefficients for the variables of CSR were obtained at 1.620 and t value of 6:33 with a significance of 0.001 which was the significance value smaller than the significance level (α) = 5% or 0.05 or turns p- value 0,001 <0,05. These results proved that Corporate Social Responsibility (CSR) had a significant,positive effect on firm value. Therefore, H1 accepted although not significant.

Hypothesis 2

The second hypothesis of this study stated that Corporate Social Responsibility would increase the value of the company at the time of the company's profitability was high. Based on the analysis, the results obtained t value for moderating variables of 0.762 with a significance of 0.0001. Because the significance value less than 0.05 then the variable Size Company was able to affect the relationship between Corporate Social Responsibility with the value of the company. These results show that Corporate Social Responsibility could increase the value of the company at the time of the company's profitability was high.

Result

This study has been able to identify the impact of corporate social responsibilities in relation to firm value in Indonesia capital market. Based on the results of research, equation indicated that the variable CSR positive effect on firm value. Variable Corporate Social Responsibility (CSR) significant positive effect on firm value.This paper also find company size variable as moderating variable affecting the relationship of CSR and corporate value.These results indicate that the size of CSR practices affecting the increase in the value of the company. This result was consistent with the theory that the company is not the only entity that operates for its own sake but must provide benefits to stakeholders. If the company can maximize the benefits received by stakeholders will arise for stakeholder satisfaction that will enhance shareholder value. The results of this study were not consistent with the research Nurlela and Islahuddin (2008) which states that the CSR variable does not affect the value of the company. While in the equation 2 shows that CSR variables affected the value of the company. This is because many manufacturing companies in 2008 had quite low CSR budgets, while the level of profitability obtained by the company is relatively large. As a result, profitability could not prove its effect in relation CSR and firm value. Using models with firm fixed effects to address model misspecification problems, we examine whether and under what conditions CSR can add value to the firm. In the last two decades there has been noticed an adjustment and increased attention regarding the link between the companies' affects and decisions,state, and society (Edenkamp, 2002). These turns of events have constrained many companies to engage in an extensive range of CSR practices.

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