THE INFLUENCE OF CORPORATE SOCIAL RESPONSIBILITY TO THE VALUE OF THE COMPANY IN INDONESIA

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Abstract

Research related to social responsibility is becoming an interesting research topic. The purpose of this study is to analyze the effect of financial performance (ROE), good corporate governance (GCG), and the effect of Corporate Social Responsibility (CSR) on firm value (Tobin's Q). The sample in this study is the LQ-45 companies listed in Indonesia Stock Exchange (IDX) in the range of 2010-2012. The results showed that the estimation techniques that match the research model is a panel data regression with fixed effect. The estimation results indicate that CSR and ROE variables affect the value of the company. This is in line with the development of a positive image of CSR in Indonesia is encouraging lately.

Keyword: CSR, Tobin's Q, GCG

1.   Introduction

The concept of CSR in Indonesia is still regarded as ideal. This was confirmed by studies Chambers et.al (2003) on the implementation of CSR in seven Asian countries (India, South Korea, Thailand, Singapore, Malaysia, the Philippines and Indonesia) that Indonesia is the country's most low degree of penetration of CSR and community involvement compared to six other countries. However, a positive image of CSR in Indonesia noted encouraging progress lately. On the surface, for example, the pages of the print media are now often present advertorial social service companies, which often even to mention the term CSR activities (Radyati, 2008). In Indonesia, the practice of the CSR contain in the Law. 40 in 2007 Chapter IV of the Social Responsibility and the Environment stated that, the company which conducting its business activities in the field of or related to the natural resources required to carry out social and environmental responsibility. Many studies analyze the effect on the value of the company's financial performance including research by Ulupui (2007) and Makaryawati (2002), Carlson and Bathala (1997). The theory underlying these studies is the higher financial performance then the higher the value of the company. Through those financial ratios, it can be seen the success rate and asset management of the firms to manage its capital to maximize its value. The size of the successful achievement of these reasons is the number ROE achieved. Klapper and Love (2002), examined the relationship between the Corporate Government in the performance of the company. The results indicate that the positive relationship between corporate government and corporate performance as measured by ROA (Return on Assets) and Tobin's Q. Another important discovery is that the application of firm-level corporate government more meaningful in developing countries compared with developed countries. Nanka-Bruce (2009) developed the global model and tested at the individual country levels. The link between corporate governance, investor protection and valuation is investigated. The result in this study that in general, there is support for most of the hypotheses of governance effects on performance except the influence of investor protection.

The purpose of this study is to analyze the effect of ROE, GCG and CSR on firm value. This study developed from the research of Nurhayati (2012). The difference between this research and Nurhayati (2012) that the period of data in 2010 to 2012, and the estimation is conducted using panel data regression. The reason for the use of panel data regression techniques in this study is to obtain a better estimation results, and in accordance with the conditions of the study data. This study used data on 33 companies as the research of Nurhayati (2012).

2. Theoretical Framework

CSR Forum in Wibisono (2007) gives a definition that CSR mean open and transparent business practices that are based on ethical values and respect for employees, communities and environment. The World Business Council for Sustainable Development (WBCSD, 2000) defines CSR as continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large. *Good Corporate Government* (GCG) is a reference standard that must be applied by the state as the cornerstone of its business operations as stipulated in the Decree of the Minister of State Owned Enterprises (SOE) No. KEP-117/M-MBU/2002, as on the application of corporate governance in SOEs. In the long term, GCG implementation is expected to increase with the increasing value of the company in the form of performance and image of the company. Assessment of the implementation of GCG be relevant to gain an overview on the state of implementation of GCG in addition to identifying areas that require improvement. In this study, GCG is measured with managerial ownership. In Asia, including Indonesia, the discussion about corporate government began in mid-1997, when the economic crisis hit these countries (Indaryanto, 2004). Research related to the company's performance in Indonesia, including the company's value by Yuniasih and Wirakusuma (2007), the results indicate that the ROA has a positive effect on firm value, CSR disclosure can moderate the relationship between ROA with firm value, but managerial ownership cannot moderate the relationship between ROA with the value of the company. Andayani (2008) showed that the existence of a positive relationship between corporate government and corporate performance as measured by ROE and Tobin's Q. Hidayati and Sri Murni (2009) showed that the presence of CSR information has a negative effect on earnings. Herdinata (2008) examined the effect on the value of the company's financial performance with CSR and corporate governance disclosure. Independent variables used in this study are CSR, ROE, and managerial ownership, while the dependent variable used is the firm value. The results showed that there was a statistically positive effect of three variables on firm value.

The research of Waryanto (2010) showed that the factor board size, audit committee, managerial ownership, and CSRI (corporate social responsibility index) jointly affect CSR of 41.7%. Based on these results, it can be concluded that the characteristics of corporate governance factors are still not able to improve the oversight mechanisms to encourage widespread revelations CSR. Su'aidah (2010) showed a significant effect on firm value, ROA and ROE have a relationship in line with the value of the company. Permanasari (2010) showed that there is a significant influence on the value of the company is CSR, while managerial ownership and institutional ownership has no significant effect on firm value. Herman (2011) suggests that earnings management independent variables indicate the direction of the positive relationship. This is demonstrated by the standardized coefficients of 0.006. Amri (2011) shows that the ROE, GCG, and CSR, overall has a positive effect on firm value. This study uses ROE to measure company performance, while research Klapper and Love (2002), Yuniasih and Wirakusuma (2007), Waryanto (2010) and Su'aidah (2010) using the ROA. The study of Nurhayati (2012) showed that in the test simultaneously, the CSR, corporate governance and ROE effect on firm value, while the partial test show that CSR has no effect on firm value.

3. Methodology

The population in this study is that the company entered in the categories listed on the Stock Exchange LQ45. The sample selection is done by using purposive sampling that samples are selected based on certain criteria or not random. The size of the company's value in this study is represented by the ratio Tobins'Q or-Q. Tobins' Q is a more accurate measure of how effectively management utilizes resources in economic power. Research conducted by Bentley (2002), Lindenberg and Ross (1981), shows how the q-ratio can be applied to each company. The criteria for companies that were sampled are (1) Companies belonging to the LQ45 category in 2010-2012; (2) Issuer has a financial ratio data relating to the measurement of other variables that are needed and have complete financial data, the audited financial statements as of December 31 and the stock price closed date in 2010-2012. The data in this study were obtained from the homepage of the IDX i.e. www.idx.co.id. Based on these criteria, the total of 33 companies selected from 45 companies included in LQ-45 sample in this study. The dependent variable in this study is the value of the company is measured by Tobin's Q. The independent variables in this study consisted of: Financial Performance, Good Corporate Governance and CSR. Financial performance in this study is measured by ROE, which is compares net income by total equity. Good corporate governance is measured by managerial

ownership, which is the percentage of share ownership by managers, directors, commissioners on the number of outstanding shares.

CSR in this study is measured with CSR disclosure, which disclosure of information relating to corporate responsibility in the annual report. The measurement instrument used in this study refers to the instrument by Siregar (2008), which consists of 78 items of disclosure. The measurement of the variable indices social disclosure, write next as CSR, by comparing from the calculate results of the amount of information in the disclosure of the expected disclosures. Social disclosure is the data revealed by the company related to social activities which include 13 items of environmental, energy items 7, 8 health and safety items, 29 items miscellaneous labor, 10 product items, 9 items of community involvement, and 2 items.

Table 1. Part of CSR disclosure items list

No		Category
1	Environment	1. Pollution control operations; research & development expenditure for pollution abatement
2		2. Statement which indicates that the company's operations do not result in pollution or meet the provisions of the laws and regulations pollution
3		3. Statement which indicates that the pollution had surgery or will be deducted
4		4. Prevention or repair environmental damage caused by the processing of natural resources, for example, land reclamation or reforestation
5		5. Conservation of natural resources, e.g. recycling of glass, metal, oil, water and paper
6		6. The use of recycled materials
7		7. Awarded related to environmental programs made by the firm
8		8. Designing facilities harmonious with the environment
9		9. Studying the environmental impact of the company to monitor the environmental impact
10		10. Contribution in the restoration of the building's history
11		11. Waste Treatment
12		12. Studying the environmental impact of the company to monitor the environmental impact
13		13. Environmental protection
14	Energy (Enrg)	14. Using energy more efficiently in operating activities
15		15. Utilizing second-hand goods to produce energy
16		16. Energy savings as a result of recycled products
17		17. Discussing the company's efforts to reduce energy consumption
18		18. Increasing the energy efficiency of products
19		19. Research leading to improved energy efficiency of products
20		20. Corporate energy policy

Source: Siregar (2008)

The data used is panel data which is a combination of time series data and the data cross. The technique used in the panel data regression, three are common effect, fixed effect and random effect. To determine whether the use of common effect and fixed effect used the Chow test or Likelihood ratio test, while using techniques to determine whether the fixed effect model or random effect Hausman test used technique assumes that the difference in the intercept in the equation. The fixed effect definition based on the differences in the intercept between companies, but the same intercept between time (time invariant) (Widarjono, 2007).

4. Result and Discussion

In this study, the population of the company is a company that belongs to a group of LQ-45 at the Indonesian Stock Exchange (BEI) in 2010-2012. Based on the selection process, 33 companies selected from 45 companies included LQ-45 to be sampled in this study and the observations during the period 2010-2012 as shown in Table 1. This follows.

Table .2 Research Sample

No	Code	Issuer Name	No.	Code	Issuer Name
1	AALI	Astra Agro Lestari Tbk	17	CPIN	Charoen Pokphand Indonesia Tbk
2	ANTM	Aneka Tambang (Persero) Tbk	18	ELTY	Bakrieland Development Tbk
3	ASII	Astra International Tbk	19	ENRG	Energi Mega Persada Tbk
4	ASRI	Alam Sutera Realty Tbk	20	EXCL	XL Axiata Tbk
5	BBCA	Bank Central Asia Tbk	21	GGRM	Gudang Garam Tbk
6	BBNI	Bank Negara Indonesia (Persero) Tbk	22	INCO	Indika Energy Tbk
7	BBRI	Bank Rakyat Indonesia (Perseo) Tbk	25	KLBF	Kalbe Farma Tbk
8	BDMN	Bank Danamon Indonesia Tbk	26	MNCN	Media Nusantara Citra Tbk
9	BHIT	Bhakti Investama Tbk	27	PGAS	Perusahaan Gas Negara (Persero) Tbk
10	BJBR	Bank Pembangunan Daerah Jawa Barat dan Banten Tbk	28	PTBA	Tambang Batubara Bukit Asam Tbk
11	BKSL	Sentul City Tbk	29	SMGR	Semen Gresik (Persero) Tbk
12	BMRI	Bank Mandiri (Persero) Tbk	30	TLKM	Telekomunikasi Indonesia
13	BORN	Borneo Lumbung Energi & Metal Tbk	31	TRAM	Trada Maritime Tbk
14	BSDE	Bumi Serpong Damai Tbk	32	UNTR	United Tractors Tbk
15	BUMI	Bumi Resources Tbk	33	UNVR	Unilever Indonesia Tbk
16	BWPT	BW Plantation Tbk			

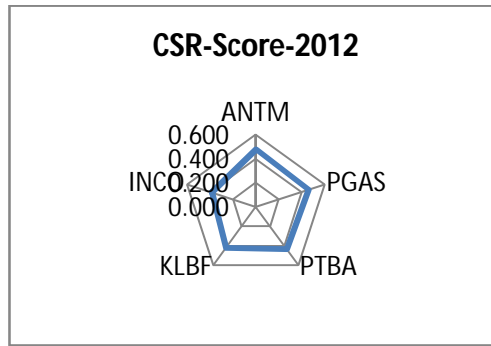*Source: Financial Report on BEI*

Here is a description of the variables owned by 33 companies sampled CSR Index is calculated based on the formula that the number of categories of disclosures divided by 78. Here are five companies that have the highest CSR index in 2010, 2011 and 2012.
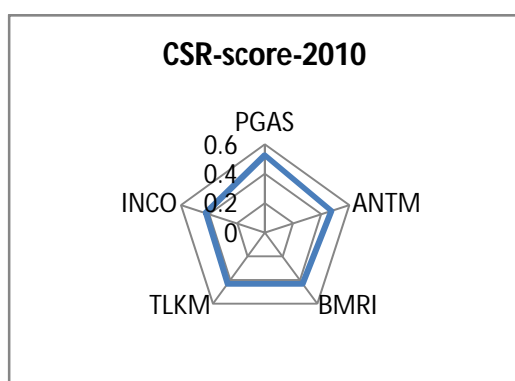
(1a)
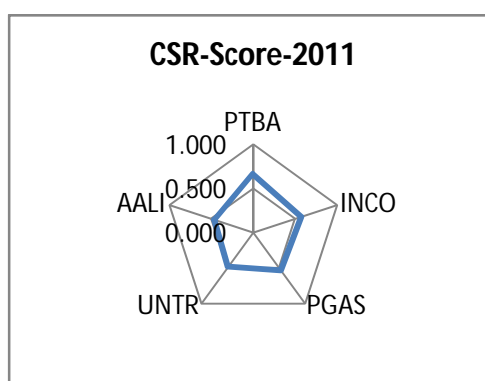
(1b)

(1c)
Figure. 1a, 1b and 1c. The Value of 10 CSR Highest Index in the year 2010, 2011and 2012

The index number means that a higher CSR disclosure of social activity that is more complete CSR. Based on image 1a, 1b and 1c above two companies are companies with PGAS code and INCO have a range of index numbers 0385 through 0528, are the top 5 highest CSR index over the study period. Both companies can be said to be consistent in expressing their social activities. Social responsibility programs in Indonesia implemented will vary by each firm but still refer to the three main cores, namely: (1) partnership program, (2) Community Development Program which includes the areas of education, health, religion and sport, (3) Program Natural Disaster donations Zuraedah (2010: 38). Implementation of CSR is a choice measures alone, as a company policy, instead of being forced by the rules of society and pressure (Wibisono, 2007). The next step is data processing and the classical assumption of normality. Classical assumption test results indicate that there is no autocorrelation and multicollinearity problem, but there is the problem of heteroscedasticity. Data normality test results also show that the data are normally distributed research. The next stage is estimated with panel data regression. In the panel data regression techniques do exist 3 is estimated with the common effect, followed by a fixed effect and random effect. The first step is the estimation of the common effect with the following equation results:

$$\text{Tobinsq} = 2.97219 - 3.814003\text{CSR} - 0.767839\text{GCG} + 0.020305\text{ROE}$$
$$\textit{p-value} \quad (0.0218) \quad (0.2871) \quad (0.8017) \quad (0.2609)$$
$$R^2 = 0.026$$

The estimation results indicate that there is only one significant coefficient, variable CSR, corporate governance and thus not significant ROE variable CSR, corporate governance and ROE has no effect on firm value. R^2 value is also very small, so that the common effect indicates that the method is not suitable to be applied. The next step is the estimation of the fixed effect, with the result of the following equation:

$$\text{Tobinsq} = 2.943226 + 2.197303\text{CSR} - 0.40718\text{GCG} + 0.043033\text{ROE}$$
$$\textit{p-value} \quad 0.2306) \quad (0.7309871) \quad (0.9391) \quad (0.1559)$$
$$R^2 = 0.444$$

After the estimation of the common effect and fixed effect is done, then do the test by using redundant tests or likelihood ratio test first. Test results with redundant fixed effect shows that the F-test and Chi-square significant at p-value less than 0.05 (5%). It can be concluded that the model is more precise with the fixed effect. The next step is to estimate the random effect method, with the results of the following equation:

$$\text{Tobinsq} = 3.021573 - 3.43485\text{CSR} - 0.46473\text{GCG} + 0.013957\text{ROE}$$
$$\textit{p-value} \quad (0.024) \quad (0.355) \quad (0.8817) \quad (0.4466)$$
$$R^2 = 0.0149$$

Based on the results mentioned above, it is seen that all variables have a p-value greater than 0.05 so it is not significant, thus has no effect on firm value. After the estimation of the fixed effect and random effect are done, then the next test is using the Hausman test. The test results with Hausman test indicates that the p-value less than 0.05. It can be concluded that the model is more precise with the fixed effect. In accordance with the results of the classical assumption, there are still unknown heteroscedasticity problem. The next step is to estimate the fixed effect by choosing the weights in the column cross section weighting on E-views software with the following equation results:

$$\text{Tobinsq} = 2.189 + 2.454\text{CSR} - 0.20415\text{GCG} + 0.043\text{ROE}$$

p-value   *(0)*   *(0)*   *(0.1219)*   *(0)*

$R^2 = 0.366$

Based on these results it can be concluded that the ROE and the CSR effect on firm value. It can be explained that the implementation of CSR has developed quite rapidly towards justice. One driving force is the change of paradigm for the business world not merely for profit, but to behave ethically and contribute to the creation of social investment. Companies are already realizing that CSR activities have been entered into the company's core strategy. Some companies do not hesitate to pay in order to perform social activities until they have a full page newspaper or magazine pages (Radyati, 2008). ROE has a significant effect on firm value. It can be explained that the management wants to show investors that the company's performance effectively. The high ratio of financial performance will result in increasing the value of the company due to having a high value financial performance will attract the attention of investors to invest in companies which in turn will increase the company's value in the eyes of investors or in the public eye. This is corroborated by the statement of Fama and French (2001) that there are three fundamentals profitability, investment opportunities, and size are factors in the decision to pay dividends.

Wibisono (2007) found the fact that there are many companies, which have not been sufficiently aware of the importance of building partnerships, with the community around it. As a result, CSR programs that hold, more short-term charity. CSR practices are still many who are focused on charitable activities (which are members of affection) previously seen only provide benefits to the community only, while the company is seen as a cost burden. There is still a view that helping the community is an important investment for the company. This study is in line with previous studies conducted by Permanasari (2010) and Amir (2011), that the CSR influence the firm value. This is consistent with the theory that the company is not the only entity that operates for its own sake, but should provide benefits to the stakeholders. If the company can maximize the stakeholder benefits then satisfaction will arise for stakeholders that will enhance shareholder value.

5. Summary

Based on the results in the previous section, it can be concluded that the CSR and ROE influence the firm value, while corporate governance has no effect on firm value. It can be explained that the ownership by managers cannot be regarded as an appropriate mechanism to reduce conflicts of interest between owners and managers. This research can still be developed further, including the selection of variables to measure CSR, for example the combination of balance score card and from GRI (Global Reporting Index). The two aspects are at the forefront of the development of CSR standards, are the Global Reporting Initiative and Accountability (Radyati, 2008). This is in accordance with the progress of the discourse and practice of CSR in line with the thrust of use and development standards.

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