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Corporate Social Performance and Firm Value

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ABSTRACT*: This study aims to analyze and explain the relationship between the Corporate Social Performance (CSP) and the Firm Value, either direct or indirect through the Corporate Financial Performance (CFP) and the Firm Risk. The research object is the mining sector companies listed in Indonesia Stock Exchange for the period of 2011-2014. The CSP is measured from information disclosure index based on GRI 3.1 reporting standard. The Tobin's Q and Price to Book Value (PBV) are used as the indicators of the Firm Value. The CFP is determined from the Return on Assets (ROA) and the Return on Equity (ROE). The Firm Risk is computed from the idiosyncratic risk. A Structural Equation Modeling (SEM) is utilized to analyze the data. The results show that the CSP has no significant effect to the Firm Value. In one side, the CSP has positive significant effect to the CFP and the CFP has positive significant effect to the Firm Value. Further, the CSP has positive significant effect to the Firm value through the CFP. In the other side, the CSP has negative significant effect to the Firm Risk, and the Firm Risk has negative significant effect to the Firm value. However, the CSP has no significant effect to the Firm Value through the Firm Risk.*

KEYWORDS –*Corporate Social Performance, Corporate Financial Performance, Firm Risk, Firm Value*

I. INTRODUCTION

One of the company objectives is maximizing the wealth of the shareholders. It can be reached by increasing the value of the company. A company with a good value will last longer to hundreds years. However, it frequently generates a gap from the conflict of interest between the company and the shareholders whose period is shorter than the company life. Generally, the shareholders focus on increasing the value for a short period and looking for the profit. They ignore the other aims of the company to increase the social welfare and to preserve the environment. The economic and development activities that neglect the social and environment impact will generate social problem, environmental pollution, global warming, et cetera.

Global awareness about the importance of the social and environmental responsibility increases in the last decades. Many environmental damages and natural disasters remind us back about the necessity of a company to pay attention to the non-financial aspect in its operational. It is especially for companies concerning the natural resource. Lately, there is an increasing number of the society who demands for the minimization of the negative effect of the company activities (Susilowati, 2013).

A company is not merely having a role as a business entity that pursues financial success, but also as a good corporate citizen (Visser *et al.*, 2010). This concept confirms that a company must expand its responsibility in the social and environmental aspects. A company has right, obligation, and responsibility to the society, as well as the other citizens.

According to The World Business Council for Sustainable Development (WBCSD), the Corporate Social Responsibility (CSR) is defined as the commitment of a business to contribute to sustainable economic development. It is done through cooperation with the employees and their representatives or families, local communities, and the general public to improve the quality of life by ways that give benefit both for themselves and the business development. While the Corporate Social Performance (CSP) is defined as a configuration of a business organization principles of social responsibility, processes of social responsiveness, and observable outcomes in relation with the employee, stakeholder, and societal relationships (Visser *et al.*, 2010).

Although a general outlook agrees that the social responsibility may increase long term benefit and support the continuity of a company, there is also criticism that the execution of the corporate social responsibility may distract the company business focus (Ho, 2010). Therefore, a set of regulations is needed to control the responsibility of a company to the social and environmental aspect, to support the sustainable development. The obligation of the social and environmental responsibility in Indonesia has been regulated in the Government Regulation no.40 of 2007 concerning Limited Company and the Government Regulation no.47 of 2012 concerning Social and Environmental Responsibilities for Limited Company. The disclosure of the social and environmental responsibility is also set in the regulation of Capital Market Supervisory Agency and Financial Institution (now Financial Services Authority) no. X.K.6 of 2012 concerning the Obligation to Submit Annual Report for Issuers or Public Companies.

The social and environmental responsibility can be interpreted as an approach to long term value creation. It is not only for the shareholders, but also for the stakeholders, according to the ability of the company in taking chances and managing the risks (Chirieleison, 2004; Ghelli, 2013). Many researches related to the social aspect of a company have been done, especially in the context of the financial aspect and the firm value. The various results may be obtained from different research methodology (Margolis and Walsh, 2001). It can also be caused by lack of understanding about which factors that make the corporate social responsibility affects the firm value (Servaes and Tamayo, 2013).

Some researches show positive relationship between the CSP and the CFP or the Firm Value (Aggarwal, 2013; Bidhari *et al.*, 2013; Barnet and Salomon, 2011; Ghelli, 2013; Margolis *et al.*, 2009; Tilakasiri, 2012; Vijfvinkel *et al.*, 2011). The other results reveal that there is no relationship between the CSP and the CFP because of lack of understanding in their complex relationship (Singh, 2014; Tyagi, 2012; Tjia and Setiawati, 2012; Fauzi *et al.*, 2007; Nyirenda, 2013). There are also results that show mixed relationship (Nguyen *et al.*, 2015; Pan *et al.*, 2014) or negative relationship (Crisóstomo *et al.*, 2011; Hirigoyen and Rehm, 2015). Furthermore, researches about the relation between the CSP and the Firm Risk display a negative relationship (Albuquerque *et al.*, 2014; Toms et *al.*, 2011; Luo *et al.*, 2009; Cajias *et al.*, 2011) or a positive one (Bouslah, 2012).

This research aims to analyze the relationship between the CSP and the Firm value, either direct or indirect through the CFP and the Firm Risk. The CSP is measured from information disclosure index based on the GRI 3.1 reporting standard. The Tobin's Q and Price to Book Value (PBV) are used as the indicators of the Firm Value. The CFP is determined from Return on Assets (ROA) and Return on Equity (ROE). The Firm Risk is computed from the idiosyncratic risk (unsystematic risk).

This research is expected to give an additional literature review about the relationship between the non-financial performance (in this case is the social performance) and the firm value, especially related to the financial performance and the firm risk.

II. LITERATURE REVIEW AND HYPOTHESES

2.1 Literature Review

Stakeholders Theory

The stakeholders theory is the theory of organizational management and business ethics that discusses the capital and values in managing organization. R. Edward Freeman (1984) identifies and models the groups of stakeholders from companies. The traditional view of a company believes that the shareholders are the only important thing for the company. The company has binding fiduciary obligation to fulfill their need, that is increasing the value for the shareholders. However, the stakeholders theory opines that there are the other parties that have to be considered, including the employees, customers, supplier, financier, society, government, et cetera (Freeman, 2001). The existence of a company is not only to maximize the wealth of the shareholders, but also the stakeholders.

Legitimacy Theory

The legitimacy theory of Suchman (1995) explains that legitimacy is the general perception or assumption that the act of a company complies the value system or social norm. The social and environmental responsibility is done by a company to get legitimacy from the society to do its operational activities (Susilowati, 2013). A company does not only care the rights of the investor, but also of the public.

Social Contract Theory

Donaldson (1982) assumes that there is an implicit social contract in the relationship between a company and the society. This social contract implies direct obligation of a company to the society, including to the environment, so there are harmony and balance. A company is a group of people who has the same vision and tries to reach it together. Actually, a company is a part of a society in a broader context. A company has obligation to give a benefit impact to the society.

Signaling Theory

The discussion of the signaling theory in financial management was initiated by Spence (1973) who examines the signal in the labor market related to the economic indicator. Generally, a signal means a cue given by the company (manager) to the external party (investor). The signal can be observed directly or by doing a deeper study. The information disclosure related to the corporate action given by the company is the signal about the company condition.

Corporate Social Responsibility Disclosure

Corporate Social Responsibility (CSR) means that a corporation should be accountable for any of its actions that affect people, their communities, and their environment (Lawrence, 2008:45). CSR disclosure is the process of communicating the social and environmental impacts of organizations' economic actions to a specific groups in the community and society as a whole (Gray *et al*., 1987). One of the standards in CSR reporting widely used is the standard from the *Global Reporting Initiative* (GRI). The reported non-financial performance consists of Economic Performance, Environmental Performance, and Social Performance.

Financial Performance

The Corporate Financial Performance (CFP) is a reflection from the financial condition of a company analyzed by the financial tools. It reflects the working achievement in a certain period. The financial performance is one of the fundamental aspects to evaluate the financial condition of the company. The measurement of the CFP is done through many indicators, e.g. Return on Assets (ROA), Return on Equity (ROE), Nett Profit Margin (NPM), et cetera (Brealey *et al*., 2011; Weston and Copeland, 1992). A good CFP will attract investors and increase the share price.

Firm Risk

In share investment, the total risk is the sum of the systematic and unsystematic risk. A systematic risk is the risk that cannot be avoided by doing diversification, because the fluctuation of the risk is affected by the macro factors that may influence the whole market. The unsystematic risk is the risk that can be avoided by doing diversification, because this risk is within one company or certain industry sector (Brigham and Daves, 2007).

Risk management perspective proposes that the CSP, under certain circumstances, can generate positive moral capital, which provides the firm with insurance-like protection for the firm among communities and stakeholders, and will contribute to the firm's shareholder wealth (Godfrey 2005).

Firm Value

The Firm Value is the perception of the investor to the success of a company. It is reflected in the share price of the company. The increase of the share price shows the trust of the investors to the company, so they are willing to pay more with aiming for higher return. The value of a company is the total assets owned. It consists of the market value of share and liabilities. The measurement of a company value can be done through many indicators, e.g. Tobin's Q, Price Earning Ratio (PER), Price to Book Value (PBV), et cetera. (Damodaran, 2002).

2.2 Hypoteses

H_1 : CSP has positive significant effect to CFP.
H_2 : CSP has negative significant effect to Firm Risk.
H_3 : CSP has positive significant effect to Firm Value.
H_4 : CFP has positive significant effect to Firm Value.
H_5 : Firm Risk has negative significant effect to Firm Value.
H_6 : CSP has significant effect to Firm Value through CFP.
H_7 : CSP has significant effect to Firm Value through Firm Risk.

III. RESEARCH MODEL

This research uses secondary data that is available in the annual report, financial statement, and information from the Indonesia Stock Exchange website. The exogenous variable is obtained from the data of the year 2011-2013, while the endogenous variable is from the data of the year 2012-2014. The data analysis is done by employing the Structural Equation Model (SEM) with SmartPLS 3.0. It aims to examine the relationship between variables studied and to prove research hypotheses (Hair *et al.*, 2009).

Population and Sample

Population is the collection of all individuals or items under consideration in a statistical study (Weiss, 2012). The population of this research is 44 mining sector companies listed in the Indonesia Stock Exchange in the year of period 2011-2014. Sample is part of the population from which the information is collected (Weiss, 2012). Sampling method is saturated population or census. There are 14 companies that meet the sample criteria, which are listed in the mining sector since 2011, not being suspended or delisted, and not doing merger or acquisition.

Research Variables

The exogenous variable used in this research is the Corporate Social Performance (X_1). The endogenous variables are the Corporate Financial Performance (Y_1), the Firm Risk (Y_2), and the Firm Value (Y_3). The CFP and Firm Risk variables act as the mediating variables as well. The indicators of each variable are displayed in Table 1.

Table 1. Description of the Variables

Variable	Construct	Indicator	Measurement
Exogenous	Corporate Social Perfomance (X_1)	Economic Performance ($X_{1.1}$)	Disclosure Index = ΣX_{ij} / n
		Environmental Performance ($X_{1.2}$)	Disclosure Index = ΣX_{ij} / n
		Social Perfomance ($X_{1.3}$)	Disclosure Index = ΣX_{ij} / n
Endogenous	Corporate Financial Performance (Y_1)	Return on Assets ($Y_{1.1}$)	Net Profit / Total Assets
		Return on Equity ($Y_{1.2}$)	Net Profit / Total Equity
	Risk (Y_2)	Idiosyncratic Risk ($Y_{2.1}$)	$\sigma(\varepsilon_{it}) = \sqrt{(\text{Var } \varepsilon_{it})}$
	Firm Value (Y_3)	Tobin's Q ($Y_{3.1}$)	(EMV+D)/ (EBV+D)
		Price to Book Value ($Y_{3.2}$)	Market Value of Equity / Book Value of Equity

IV. RESULTS AND DISCUSSION

4.1 Goodness of Fit Test.

The goodness of fit of the model is tested using the method of Goodness of Fit Index by using the predictive-relevance value (Q^2). It is calculated with the formula as follows

$$Q^2 = 1 - (1- R_1^2)\,(1- R_2^2)\ \ldots\ (1- R_3^2) \qquad (1)$$

The R^2 value for each endogenous variable is shown in Table 2.

Table2. Results of R Square

Variable	R Square
CFP	0.312
Risk	0.119
FV	0.723

Based on Table 2, the predictive-relevance value is 0.5752, meaning that the model is able to explain the phenomena of the Firm Value at the amount of 57.52%. The remaining 42.48% is explained by the other variables that have not been included yet into the research model and the error.

4.2 Hypothetical Testing

The path analysis shows the effect among the latent variables. The path analysis result is displayed in Fig.1. The hypothetical testing is done by Bootstrap resampling method, and the result is shown in Fig.2.

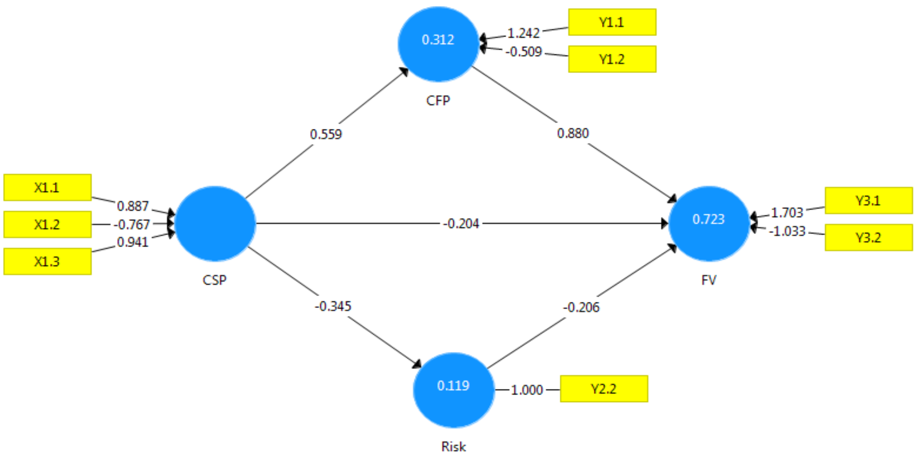

Figure 1. Ouput of Algorithm in the form of Path Diagram

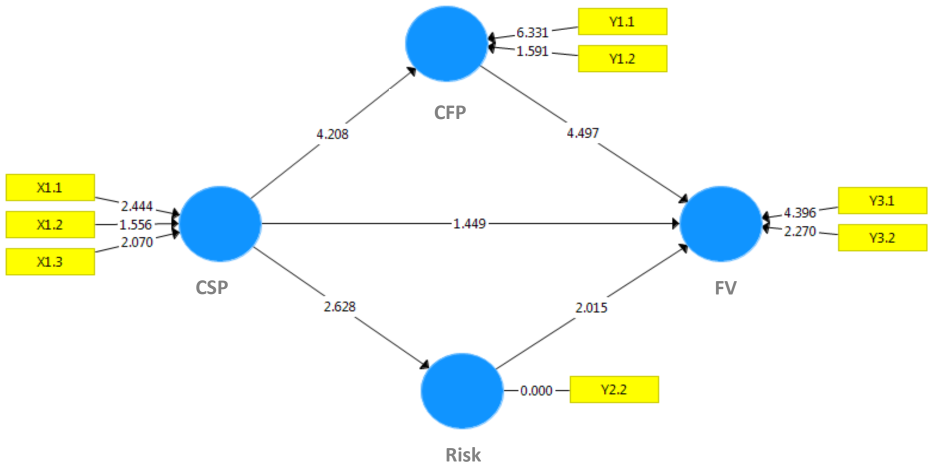

Figure 2. Ouput of Bootstrapping analysis in the form of Path Diagram

The result for the direct effect values can be seen in Table 3. The indirect effect of the Corporate Social Performance to the Firm Value is displayed in Table 4.

Table 3. Result of Direct Effect

Variables Relationship	Original Sample (O)	T Statistics (|O/STDEV|)	P Values	Significance (α = 5%)
CSP -> CFP	0.559	4.208	0.000	significant
CSP -> Risk	-0.345	2.628	0.009	significant
CSP -> FV	-0.204	1.449	0.148	insignificant
CFP -> FV	0.880	4.497	0.000	significant
Risk -> FV	-0.206	2.015	0.044	significant

Table 4. Result of Indirect Effect

No.	Independent Variable	Dependent Variable	Intervening Variable	Sobel Test Output		Significance (α = 5%)
				Statistic Test	p-value	
1	CSP	FV	CFP	3.06836	0.00108	significant
2	CSP	FV	Risk	1.60262	0.05451	insignificant

Corporate Social Performance and Corporate Financial Performance

The CSP has positive significant effect to the CFP. The path coefficient is 0.559 and the p-value is 0.000 (positive and significant). Therefore, hypothesis 1 is accepted. The positive path coefficient means that better CSP increases CFP. The implementation of the CSR and the information disclosure about the CSR leads the increasing of the CFP that is shown by the ROA and ROE. This study confirms the research of Aggarwal (2013), Barnet and Salomon (2011), Ghelli (2013), Margolis *et al.*(2009), Tilakasiri (2012), and Vijfvinkel *et al.* (2011). A company that applies well the social and environmental responsibility will increase the trust of the society (customers) to the company and its product. At the end, it gives contribution to the increment of the CFP.

Corporate Social Performance and Firm Risk

The CSP has negative significant effect to the Firm Risk. The path coefficient is -0.345 and the p-value is 0.009 (negative and significant). Therefore, hypothesis 2 is accepted. The negative path coefficient means that better CSP reduces the Firm Risk. The implementation of the CSR and the disclosure of information about it help the company to avoid or minimize the risks that affect the continuity of the company. This study confirms the research of Albuquerque *et al.* (2014), Toms *et al.* (2011), Luo *et al.* (2009), and Cajias *et al.* (2011).

Corporate Social Performance and Firm Value

The CSP does not affect significantly the Firm value. The path coefficient is -0.204 and the p-value is 0.148 (negative and insignificant). Therefore, hypothesis 3 is rejected. This study confirms the research of Singh (2014) and Tjia and Setiawati (2012). The implementation of the CSR and the information disclosure about it has no direct impact to the Firm Value (Servaes and Tamayo, 2013). In this research, the CSP has indirect impact to the Firm Value through the CFP. It differs with the research of Bidhari *et al.* (2013) and Ghelli (2013).

Financial performance and Firm Value

The CFP has positive significant effect to the Firm value. The path coefficient is 0.880 and the p-value is 0.000 (positive and significant). Therefore, hypothesis 4 is accepted. The positive path coefficient means that better CFP increases the Firm Value. This study confirms the research of Bidhari *et al.*(2013).

Firm Risk and Firm Value

The idiosyncratic risk has negative significant effect to the Firm Value. The path coefficient is -0.206 and the p-value is 0.044 (negative and significant). Therefore, hypothesis 5 is accepted. The negative path coefficient means that lower risk increases the Firm Value. This study confirms the research of Hutauruk *et al.* (2014).

Corporate Social Performance and Firm Value through Corporate Financial Performance

The CSP affects significantly the Firm Value through the CFP. The Sobel test statistic is 3.06836 and the p-value is 0.00108 (positive and insignificant). Therefore, hypothesis 6 is accepted. It corresponds the research of Servaes and Tamayo (2013). The application of the CSR and the information disclosure about it increase the CFP. At the end, it increases the Firm Value for the investor or shareholders.

Corporate Social Performance and Firm Value through Firm Risk

The CSP does not affect significantly the Firm Value through the Firm Risk. The Sobel test statistic is 1.60262 and the p-value is 0.05451 (insignificant). Therefore, hypothesis 7 is rejected.

V. CONCLUSION

This research discusses the direct effect of the Corporate Social Performance (CSP) to the Firm Value, as well as the indirect one through the Corporate Financial Performance (CFP) and the Firm Risk. The CSP is measured from information disclosure index based on GRI 3.1 reporting standard. The Tobin's Q and Price to Book Value (PBV) are used as the indicators of the Firm Value. The CFP is determined from the indicators Return on Assets (ROA) and Return on Equity (ROE). The Risk is computed from the idiosyncratic risk. From the result of the data analysis, we can conclude as follows.

1. The enhancement of non-financial performance, in this case is the CSP, will increase the CFP.
2. The enhancement of the CSP helps reducing the Firm Risk.
3. The enhancement of the CSP has no direct effect to the Firm Value.
4. The enhancement of the CFP will increase the Firm Value.
5. The reduction of the idiosyncratic risk will increase the Firm Value.
6. The CSP has indirect effect to the Firm Value through the CFP as the mediator.
7. The CSP has no indirect effect to the Firm Value through the Firm Risk.

The result of this research can be utilized either by the company or the other stakeholders as the consideration material. The balance between the corporate social responsibility and the business activity will attract supports from the stakeholders and help the continuity of the company.

This research is limited to the mining companies listed at the Indonesia Stock Exchange for the year period of 2011-2014. The indicators of the latent variable are limited to one or two variables. The mediating variables used in this research are the CFP and the Firm Risk. Further research can be done for several types of companies for longer time period. The goodness of fit of the model in this research is 57.52%, meaning that there are the other variables that have not been included yet in this study. It can be added in further work.

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