

Effect of Corporate Social Responsibility Information Disclosure on Financial Performance and Firm Value in Banking Industry Listed at Indonesia Stock Exchange

Sandhika Cipta Bidhari*, Ubud Salim, Siti Aisjah

¹. Postgraduate Program, Faculty of Economics and Business, Brawijaya University, Jalan MT. Haryono 165
Malang, East Java, Indonesia 65145 Tel. +62341-562154

* E-mail of the corresponding author: sandhika.cipta@gmail.com

Abstract

This study aims to analyze and explaining effect of corporate social responsibility information disclosure on financial performance and firm value in banking industry listed at Indonesia Stock Exchange. This study uses quantitative methods with positivism approach. Research objects were 15 banking companies listed at Indonesia Stock Exchange based on population criteria with observation period 2008-2011. This study uses secondary data derived from annual reports and financial statements. Data analysis used was Path Analysis. Research results show corporate social responsibility information disclosure affects on all financial performance measurement namely Return on Assets (ROA), Return on Equity (ROE) and Return on Sales (ROS). Corporate social responsibility information disclosure affect on firm value that measured by Tobin's Q. Financial performance that measured by ROA and ROE affect on firm value that measured by Tobin's Q, but ROS did not affect on firm value that measured by Tobin's Q.

Keywords: Corporate Social Responsibility/CSR, financial performance, firm value, banking

1. Introduction

Corporate Social Responsibility (CSR) has become a research agenda for many years. Research was stimulated by a hope that community can receive benefit from CSR (Margolis and Walsh 2003). CSR emerged as a result of conflict between community and company because effects that arising from a company existence and operations to the environment. Within its existence, company can not be separated with community as an external environment supporter. This important aspect should be considered in order to create synergy between them. Company existence makes change for the better, country's progress and to improve live standards. Company's commitment to contribute to nation development by focusing on financial or economic, social, and environmental (triple bottom lines) was main issue of CSR concept. Triple Bottom Lines was a concept developed by Elkington (2004), 3P refers to planet, profit and people, namely financial value, social value and environmental values to ensure company value grows continuously (sustainable).

Many research has done, both relationship and effect between CSR and corporate performance, especially within finance and firm value. Results obtained still inconclusive and remain inconclusive because many factors (Ullman *et al.*, 1985; Griffin and Mahon, 1997; Margolis and Walsh 2003; Margolis *et al.*, 2007). It creates opportunities for further investigation. Mishra and Suar (2010) states relationship between corporate social responsibility (CSR) and corporate financial performance (CFP) has create much interest among researchers. Relationship between CSR and CFP largely convincing and has been reported in most studies. Several studies reveal a positive relationship (Graves and Waddock 1994; Griffin and Mahon 1997; Waddock and Graves 1997; Margolis and Walsh 2003; Orlitzky *et al.*, 2003). Several other shows a negative relationship (Bromiley and Marcus 1989; Wright and Ferris 1997) and even there was no relationship between CSR and CFP because its relationships complex to understand (Barnett and Salomon, 2006).

Most previous studies focus on manufacturing industry. Much industry also indirectly linked to CSR, such as banking and financial industry. On one side, banks can report what they did to ensure that their lending and investment policies did not facilitate industrial activities that harmful to environment. On other hand, financial institutions consume large amounts of resources, such as paper and energy, and create waste. Therefore, policy of how they contribute to conservation of energy and natural resources and recycling activities were an important aspect of their social activities (Branco and Rodrigues, 2006). Banking industry probably does not intersect with the environment directly, but still have a responsibility to report their activities transparently and openly to public.

Based on description above, there were two research gaps. First, there was not a clear relationship between CSR study on financial performance and firm value. There was little empirical evidence of previous research in banking industry in addition to manufacturing industry. Past research has shown inconsistencies results obtained by different researchers. Therefore, this research was conducted with aim of: (1) to analyze effect of CSR information disclosure on Financial Performance that measured by Return on Assets, Return on Equity, and

Return on Sales in banking companies listed at Indonesia Stock Exchange, (2) to analyze effect of CSR information disclosure on Firm Value in banking companies listed at Indonesia Stock Exchange, (3) to analyze significant effects of financial performance that measured by Return on Assets, Return on Equity, and Return on Sales toward Firm Value of banking companies listed at Indonesia Stock Exchange.

2. Literature Review

2.1 Corporate Social Responsibility (CSR)

McWilliams and Siegel (2000) define CSR as an emerging social action beyond company interests. CSR was a company's strategy and actions with cost consequences. CSR may affect company's financial performance. In addition, CSR undertaken by company can also reduce social risks and can benefit company in long run. CSR may have an advantage or disadvantage for company. It depends on CSR implementation effectiveness by company.

2.2 Financial Performance

Financial performance was one factor that shows effectiveness and efficiency of an organization in order to achieve its objectives. Effectiveness was achieved when management has ability to choose right destination or an appropriate tool to achieve those objectives. Efficiency was defined as the ratio (ratio) between input and output was with certain inputs to obtain the optimal output (Pertiwi dan Pratama, 2012).

2.3 Firm Value

Firm value was defined as market value. Company value can deliver maximum shareholder wealth if stock price increases. The higher stock price, the higher shareholders wealth (Nurlela and Islahuddin, 2008). According Husnan and Pudjiastuti (2002), company value was price that will give by potential buyer if company was sold.

3. Research Hypothesis

3.1 Corporate Social Responsibility and Financial Performance

Empirical study by Ruf *et al.*, (2001) reported that there was a positive relationship between company social performance changes and short-term profit (e.g., sales growth) and long-term profit (e.g. ROS). Orlitzky *et al.* (2003) use meta-analysis to found that Corporate Social Performance (CSP) related to financial performance that proxied by ROE and ROA. Chand (2006) use a profitability measure of ROE and ROS to found that CSP positively related to CFP. According to Inoue and Lee (2010), using profitability (ROA) indicates that four tourism studied (e.g., airlines, casinos, hotels, restaurants) could improve their financial performance through each different dimension level of Corporate Social Responsibility. Setiawan and Darmawan (2011) said if CSR has a positive effect on company financial performance, then company should consider more about existing CSR activities. However, research conducted by Dkhili and Ansi (2012) stated that CSR was negatively related to financial performance that proxied by ROA. Based on description above, this research hypothesis were follows:

Ha1: CSR information disclosure activity significantly affect on Return on Assets (ROA)

Ha2: CSR information disclosure activity significantly affect on Return on Equity (ROE)

Ha3: CSR information disclosure activity significantly affect on Return on Sales (ROS)

3.2 Corporate Social Responsibility and Firm Value

Theoretical study by Griffin and Mahon (1997) and Orlitzky *et al.*, (2003) showed a positive relationship between Corporate Social Responsibility and corporate financial performance. Conflict-resolution hypothesis that based on stakeholder theory states that if managers use effective corporate governance and CSR monitoring in conjunction to overcome conflicts of interest among stakeholders, company value will interact positively with CSR and corporate governance.

Jo and Harjoto (2011) results indicate that involvement in CSR has a positive effect on company value that measured by Tobin's Q. Crisostomo *et al.*, (2011) found a negative effect between CSR and company value. Based on description above, this research hypothesis was follows:

Hb: CSR information disclosure activities significantly affect on firm value

3.3 Financial Performance and Firm Value

Firm value was considered well if company's performance also good. Company performance may economic, environmental and social in improving environmental damage and social inequality at surrounding environment. It can increase firm value if it was done in a sustainable manner. Empirical studies of AlNajjar and Belkaoui (1999) with ROE and market value also indicates that a better understanding of accounting variables role to determine company's value requires deeper consideration. Carningsih (2009) in Tjia and Setiawati (2012) showed that ROA has negative effect on company value, ROE has no effect, and independent director's proportion has no significant effect on company. Abaddi and Abu-Rub (2012) found strong positive relationship between market value and ROA. In this study, company value was measured by Tobin's Q. Based on description above, this research hypothesis were follows:

- Hc1: Return on Assets (ROA) have a significant effect on firm value
- Hc2: Return on Equity (ROE) have a significant effect on firm value
- Hc3: Return on Sales (ROS) have a significant effect on firm value

4. Research Methodology

4.1 Research Context

Based on problems, objective and existing theory then this research uses quantitative methods with positivism approach using associative research type.

4.2 Population and Sample

This study uses census sample because all population members become research objects. Samples were 15 companies. These were Bank Artha Graha Internasional Tbk, Bank Bukopin Tbk, Bank Central Asia Tbk, Bank CIMB Niaga Tbk, Bank Danamon Tbk, Bank Internasional Indonesia Tbk, Bank Mandiri (Persero) Tbk, Bank Mega Tbk, Bank Negara Indonesia (Persero), Bank Nusantara Parahyangan, Bank OCBC NISP Tbk, Bank Pan Indonesia Tbk, Bank Permata Tbk, Bank Rakyat Indonesia (Persero), Bank Victoria International.

4.3 Research Variables and Measurement

4.3.1 Exogenous Variables

a. Corporate Social Responsibility (CSR)

Pratiwi and Djahmuri (2004) define social disclosure as a report or information delivery to stakeholders about all activities related to company's social environment. Calculation of CSR disclosure index (CSRDI) was conducted by dichotomous approach. Each item in CSR research instrument was given value of 1 if disclosed and value 0 was not disclosed CSR. Furthermore, scores of each item were summed to obtain score overall for each firm. Data source to calculate CSRDI come from year t (Haniffa and Cooke, 2005)

$$CSRDI_j = \frac{\sum X_{ij}}{n_j}$$

Description:

CSRDI j: Corporate Social Responsibility Disclosure Index of company j

n_j : total items for company j, $n_j \leq 56$

X_{ij} : dummy variable, 1 = if item i disclosed; 0 = if item i was not disclosed, $0 \leq CSRDI_j \leq 1$

4.3.2 Endogenous Variables

a. Financial performance (ROA, ROE, ROS)

Return on assets (ROA) was used to measure company ability to generate profits by exploiting assets owned. Return on equity (ROE) was very important ratio for company owners (common stockholder), because this ratio indicates level of return generated by management from capital provided by company owners. Net profit margin or ROS was usually used to measure company's success in getting profit from sales (Gitman and Zutter, 2012)

$$ROA = \text{Net Income} / \text{Total Assets}$$

$$ROE = \text{Net Income} / \text{Total Equity}$$

$$ROS = \text{Net Income} / \text{Net Sales}$$

b. Firm Value

Enterprise value that proxied by Tobin's Q indicates stock market value perception of current and future company earnings and growth potential. The higher Tobin's Q, the greater intangible assets value of a company (Hsu and Jang, 2009). Units used was ratios. Here was formula for company value (Chung and Pruitt 1994):

$$\text{Tobin's Q} = \frac{EMV + DEBT}{TA}$$

Description:

Tobin's Q : enterprise value

EMV : Equity Market Value (EMV = closing price of fiscal year end X number of outstanding shares)

DEBT : Total Debt at end of fiscal year

TA : Total Assets at end of fiscal year

4.4 Data Collection Method and Analysis

This study use quantitative data from secondary data of annual report and financial statement that collected in 2008-2011 period. Exogenous variable data was started from year 2008-2010 and for endogenous variable was started in 2009-2011. This research used descriptive analysis and inferential analysis. Descriptive analysis method was used to give variables description. Inferential statistics was used to test study hypotheses. Inferential statistical methods that used in this study were OLS (ordinary least square) regression and path analysis to examine relationship between variables studied and to prove research hypothesis.

5. Result and Discussion

5.1 Descriptive Analysis

Data Analyzed in this study were based on a research instrument that distributed directly to all respondents of 15 banking companies with research period 2008-2011. Initial phase of data analysis was descriptive statistical analysis. Statistical analysis results was descriptive characteristics of respondents, as shown in Table 1 below.

Table 1. Descriptive Analysis of all Variables

Variables	N	Minimum	Maximum	Mean	Std. Deviation
CSRDI	45	32.00	70.00	53.3778	9.79631
ROA	45	-.07	3.26	1.5136	.78617
ROE	45	-.78	31.28	15.1769	6.83021
ROS	45	.66	36.04	17.6947	9.33109
Tobin's Q	45	84.00	105.00	94.7111	5.59879
Valid N (listwise)	45				

5.2 Path Analysis

Table 2. Regression parameters of X, Z1, Z2, Z3 on Y

Endogenous Variable	Exogenous Variable	R	R Square	Adjusted R Square	Std. Error of the Estimate
ROA (Z1)	CSRDI (X)	.652 ^a	.424	.411	.60331
ROE (Z2)	CSRDI (X)	.593 ^a	.351	.336	5.56395
ROS (Z3)	CSRDI (X)	.566 ^a	.320	.304	7.78415
Tobin's Q (Y)	CSRDI, ROA, ROE, ROS	.854 ^a	.730	.703	3.05245

Table 3. Regression models of X, Z1, Z2, Z3 on Y

Endogenous Variable	Predictor	UnStd. Coef. Beta	UnStd. Std. ϵ	Std. Coef. Beta	t	Sig. (t)
ROA	Constant	-1.277	.504	-2.536	.015	-2.536
	CSRDI	.052	.009	0,652	5.632	.000
ROE	Constant	-6.887	4.645		-1.483	.145
	CSRDI	.413	.086	.593	4.828	.000
ROS	Constant	-11.062	6.499		-1.702	.096
	CSRDI	.539	.120	.566	4.497	.000
Tobin's Q	Constant	79.388	2.736		29.013	.000
	CSRDI	.132	.063	.230	2.101	.042
	ROA	2.825	1.237	.397	2.284	.028
	ROE	.261	.121	.319	2.154	.037
	ROS	.003	.092	.006	0.037	.971

Table 4. Anova Result of X, Z1, Z2, Z3 on Y

Endogenous Variable	Exogenous Variable	Model	Sum of Square	df	Mean Square	F	Sig(F)
ROA (Z1)	CSRDI (X)	Regression	11.544	1	11.544	31.715	.000
		Residual	15.651	43	.364		
		Total	27.195	44			
ROE (Z2)	CSRDI (X)	Regression	721.504	1	721.504	23.306	.000
		Residual	1331.173	43	30.958		
		Total	2052.677	44			
ROS (Z3)	CSRDI (X)	Regression	1225.553	1	1225.553	20.226	.000
		Residual	2605.497	43	60.593		
		Total	3831.049	44			
Tobin's Q (Y)	CSRDI, ROA, ROE, ROS	Regression	1006.547	4	251.637	27.007	.000
		Residual	372.698	40	9.317		
		Total	1379.244	44			

5.3 Hypothesis Testing

Hypothesis testing is done by looking at significance value of each relationship between exogenous and endogenous variables in the research model. Table 5 shows the test results for each hypothesis by looking at t - test to see significance the relationship of each variable included in model as well as to test the research hypothesis.

Table 5. t Test Results the effect of X, Z1, Z2, Z3 on Y

H	Exogenous Variable	Endogenous Variable	t	Sig	Result
Ha1	X (CSRDI)	Z1 (ROA)	5,632	0,000	Accepted
Ha2	X (CSRDI)	Z2 (ROE)	4,828	0,000	Accepted
Ha3	X (CSRDI)	Z3 (ROS)	4,497	0,000	Accepted
Hb	X (CSRDI)	Y (TOBINS Q)	2,101	0,042	Accepted
Hc1	Z1 (ROA)	Y (TOBINS Q)	2,284	0,028	Accepted
Hc2	Z2 (ROE)	Y (TOBINS Q)	2,151	0,037	Accepted
Hc3	Z3 (ROS)	Y (TOBINS Q)	0,037	0,971	Rejected

5.4 Discussion

Ha1: CSR information disclosure activity significantly affect on Return on Assets (ROA) was accepted

Data analysis result showed that CSR information disclosure activity has significant positive effect on company financial performance that proxied by ROA. Indonesia banking company realize that social and environmental performance improvement will support economic performance improvement as indicated by higher company's financial performance. In this case, CSR activity was considered as one beneficial asset for company. When company must pay for CSR implementation, it was not seen as a cost that can reduce corporate profits. From results obtained it can be concluded the benefits of ROA increased with improvement in company's CSR activities. By doing CSR then profits can be maximized. This study confirmed opinion of Kang *et al.*, (2010); Uadiale and Fagbemi (2011); Chen and Wang (2011); Setiawan and Darmawan (2011); Ehsan and Kaleem (2012).

Ha2: CSR information disclosure activity significantly affect on Return on Equity (ROE) was accepted

Analysis data result showed that CSR information disclosure activity has significant positive effect on company's financial performance that proxied by ROE. Improving CSR activities to increase returns of equity can makes Indonesian banks companies have been able to fulfill concept of Triple Bottom Lines. CSR was a reflection of planet, profit and people concept, while ROE was a reflection of profit concept. ROE was main thing that addressed by investors because it shows profit that derived from capital/equity provided by company owners. The higher ROE, the better company in investors eyes. It means that CSR activities that will increase ROE also increases investors' assessment to company. This study confirmed research of Chand (2006), Kang *et al.*, (2010); Uadiale and Fagbemi (2011); Dhkili and Ansi (2012).

Ha3: CSR information disclosure activity significantly affect on Return on Sales (ROS) was accepted.

Data analysis result showed that CSR information disclosure activity has significant positive effect on company's financial performance that proxied by ROS. Indonesia banking companies have been able to manage risk properly so that public or investors assess losses that resulted from buying product from smaller companies. Good service will then increase loyalty that ultimately affect consumers and investors to buy company's products and services. This study confirmed research of Ruf *et al.*, (2001), Chand (2006), Chen and Wang (2011).

Hb: CSR information disclosure activities significantly affect on firm value was accepted.

Data analysis result showed that CSR information disclosure activities has significant positive effect on firm value that proxied by Tobin's Q. CSR was a factor that can affect future firm value so company needs to pay attention to CSR activities and disclosure quality. It describes objectives achievement in financial management to maximize firm value which also means to maximize shareholder wealth. Firm value that based on share price was still considered bias, but CSR becomes identity and goodwill that shows real firm value . This study supports Gunawan and Utami (2008), Choi *et al.*, (2010) and Kang *et al.*, (2010); Jo and Harjoto (2011).

Hc1: Return on Assets (ROA) have a significant effect on firm value was accepted.

Data analysis result showed that company's financial performance that measured by ROA has significant positive effect on firm value that measured by Tobin's Q. High ROA indicates that company was able to manage resources (assets) owned effectively and efficient to increase profitability/profit. Companies with high rate of profit will attract investors and raise company's value in other investor's eyes. This study confirmed research Hsu and Jang (2009); Catapan *et al.*, (2012); Alghifari *et al.*, (2013) that if companies performance was good along with higher ROA, other investors will respond to invest.

Hc2: Return on Equity (ROE) have a significant effect on firm value was accepted

Data analysis result showed that company's financial performance that measured by ROE has significant positive effect on firm value that measured by Tobin's Q. ROE was rate of return based on capital provided by company

owners. ROE values indicate that company has a greater capacity to provide remuneration to shareholders and finance its business growth (Montezemolo, 2006).

ROE was considered important for investors. The higher the ROE then the higher returns they received. They get better assess company that will ultimately enhance shareholder value. Higher ROE affect on higher company value. This study shows that stock price and number of shares outstanding received greatest effect of ROE. This study supports Cho and Pucik (2005) and Catapan *et al.*, (2012)

Hc3: Return on Sales (ROS) have a significant effect on firm value was rejected

Data analysis result showed that company's financial performance that measured by ROS had no significant effect on firm value that measured by Tobin's Q. ROS or NPM (Net Profit Margin) describes results of a bank's financial profit from business activity and management efficiency in production (Singh and Tandon, 2012).

High ROS indicates that company has a low risk (Ali and Razi, 2012). Although revenue from sale generates high enough profits but it does not show high company assets value. This study does not support Coppa and Banerjee (2011) that a good investor relations can improve profitability (NPM/ROS and Sales to Asset Ratio) to create firm value that proxied by Tobin's Q, but this study supports Ratih (2011); Husaini (2012) and Hermawan (2012).

6. Conclusion

It can be concluded that improving CSR information disclosure can improve company financial performance, especially profitability. These results indicate that improvement of CSR information disclosure makes banking companies listed at Indonesia Stock Exchange has a chance to improve its financial performance during social responsibility activities and disclosure was considered as an investment and not as an expense that reduces profits.

Improving CSR information disclosure can enhance shareholder value. These results indicate that improvement of CSR information disclosure of banking companies listed at Indonesia Stock Exchange may increase reputation assessment factor for investors so that firm value increases.

Companies financial performance improvement can increase shareholder value. This study results indicate that banking companies listed at Indonesia Stock Exchange can generate capital gains and assets to affect its value. While profit from operating income that derived from credit can affect firm value because higher profit value from operating income does not reflect company's high stock prices.

This study has only limited, there is few companies that publish sustainability reports for social responsibility so that this study used data from annual reports. Generalization can not be done for all objects and the absence of company guidelines will increase subjectivity in determining items to measure social responsibility.

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Authors:

Sandhika Cipta Bidhari is born at Banyuwangi (East Java, Indonesia) on August, 28th 1988. She received her Bachelor Degree in Business Management of Telecommunication and Informatics in 2011 in the Institut Manajemen Telkom, Bandung West Java, Indonesia and her Master's Degree in Finance Management in 2013 in the Faculty of Economics and Business, Brawijaya University, Malang, East Java, Indonesia.

Ubud Salim is born at Malang (East Java, Indonesia) on August, 10th 1948. Professor Ubud Salim holds his Bachelor and Doctoral Degree in Faculty of Economics and Business, Brawijaya University, Malang, East Java, Indonesia and his Master Degree from Ohio University, USA. He is Postgraduate's lecture in state and private university. Besides teaching activities, Prof. Ubud is a management consultant to different organizations and to public and private corporations.

Siti Aisjah is born at Probolinggo (East Java, Indonesia) on November, 11th 1960. She holds her Bachelor Degree in 1984 and Doctoral Degree in Finance Strategic Management 2009 from Faculty of Economics and Business, Brawijaya University, Malang, East Java, Indonesia and her Master Degree in 1990 from Gadjah Mada University, Yogyakarta, Central Java, Indonesia. She is a lecture in Brawijaya University since 1986. She is active in research. Now she is leader of Gugus Jaminan Mutu (GJM) Faculty of Economics and Business, Brawijaya University, Malang, East Java, Indonesia.

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