

The Impact of Each Element of Corporate Social Responsibility Disclosure on Firm Value

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The research examines the impact of each element of corporate social responsibility on firm value. The research uses 148 samples that are taken from 74 manufacturing companies that are listed on the Indonesia Stock Exchange (IDX) from 2012-2013. Firm value is measured using Tobin's Q and each element of Corporate Social Responsibility Disclosure (CSRD) is measured using the GRI G3.1 index and checklist. The result of the research is that the human rights element of CSRD positively impacts firm value, while the economic, environmental, labor, society, and product responsibility themes of CSRD do not impact firm value. This suggests that companies who disclose the human rights theme of CSRD will have higher firm value, thus attracting more investors.

Keywords: Corporate Social Responsibility Disclosure (CSRD), Elements of CSRD, Firm Value, Tobin's Q

1. INTRODUCTION

The objective of this study is to investigate the impact of each theme of Corporate Social Responsibility Disclosure (CSRD) – namely economic, environmental, labor, human rights, society, and product responsibility – on firm value in Indonesian manufacturing companies listed from 2012 until 2013. As business grows, companies try to generate profit by maximizing the use of resources. CSRD has become an integral part of corporate policy and practice¹. As stated by Gray², social disclosure is considered as a part of the dialogue between the company and stakeholders. Corporations have stakeholders, which are groups and individuals who benefit from or are harmed by, and whose rights are violated or respected by, corporate actions³. CSRD is classified by the Global Reporting Initiative (GRI) in GRI G3.1 as economic, environmental, and social, where social responsibility consists of labor practices and decent work conditions, human rights, society, and product responsibility. Corporate social responsibility (CSR) means that a corporation should be held accountable for any of its actions that affect people, their communities, and their environment⁴. In 2012, the Indonesian government issued a regulation, namely BAPEPAM-LK No.KEP-431/BL/2012. This regulation mentioned several elements of CSR, including the environment, employment practice, social and community development, and products' sustainability. Over the past several decades, CSRD has become an integral part of corporate policy and practice¹. As stated by Gray², social disclosure is considered as a part of dialogue between the company and stakeholders. Barnea⁵ argued that managers have an interest in over-investing in CSR in order to obtain private benefits from building a reputation as good social citizens.

2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Companies should maintain a relationship with their stakeholders to accommodate their desires and needs⁶. Corporations should be managed in the interests of their stakeholders³. Social disclosure is considered as a part of the dialogue between the company and its stakeholders². Stakeholders' expectations vary between countries, leading to different practices in CSR⁷. The trend for higher engagement of CSR in economic themes can be explained by the stakeholder theory^{8,9}. A popular framework for sustainability reporting is the Global Reporting Initiative, which advocates disclosure in social, environmental, and financial categories, which are also the elements of the triple bottom line, a term coined by Elkington¹⁰. As stated in Kerr¹⁰, the Triple Bottom Line provides external reporting.

Suwardjono¹¹ defined disclosures as providing more information than formal financial statements. They argue that there are three purposes of disclosure: protective, informative, and differential. There are two types of disclosure. Scaltrito¹² refers to voluntary disclosure as the discretionary release of financial and non-financial information which companies are not obliged to disclose by a standard-setting accounting body.

Corporate social responsibility means that a corporation should be held accountable for any of its actions that affect people, their communities, and their environment⁴. McGuire¹³ states that a firm that is perceived to be acting responsibly would face less labor unrest and would gain kudos in the eyes of its potential customers, increasing its sales base. In 2007, the Indonesian government issued Act No. 40 of 2007 on Corporation, Social, and

Environmental Responsibility. This research will use the regulation issued in 2012 by BAPEPAM-LK, which is No.KEP-431/BL/2012. This list has become the only guideline from Indonesian regulators that is used by Indonesian companies. In reporting CSR activities, companies around the world adopt the GRI checklist and index. This guideline will usually be combined with the GRI index and checklist. Firm value is the investors' perception towards the firm's degree of success, which is commonly linked to firm share price¹⁴. Brigham¹⁵ also stated that firm value is the investors' perception of how the firm shows the wealth of shareholders, reflected in the stock price. This research will use Tobin's Q ratio to measure firm value. The environmental score has an effect on the short-term financial performance, whereas the social score has an effect on both short-term and long-term financial performance¹⁶. Al-Akra and Ali¹⁷ demonstrated the impact of voluntary comprehensive disclosure towards firm value. However, a study by Omar and Zallom¹⁸ conducted in different industries gave different results.

Hypothesis

Previous research has not reached a conclusion on the relationship between CSRD and firm value. Based on the inconclusive results of previous studies, this research will test the impact of each theme of corporate social responsibility disclosure and firm value. The economic theme is related to the company's financials. Stakeholders can see where companies have distributed their generated income, such as for operations, community development, employee compensation, donations, etc.

H₁: The economic theme of Corporate Social Responsibility impacts firm value.

Companies' activities affect the environment through the materials that they use, the waste that they produce, and even the transportation of their products. As people start to be concerned about the environment, stakeholders should also be concerned about whether or not the company that they invest in is also taking extra measures to take care of the earth. The disclosure of the environmental theme of CSR should have an impact on firm value.

H₂: The environmental theme of Corporate Social Responsibility impacts firm value.

Labor is also a part of the risk in a company's business environment. Some companies also mention this risk in their annual reports. One of the risks relating to labor is strike action. This can last several days and disrupt the company's activities. This shows the importance of labor for a company's operations. Stakeholders can see whether a company pays attention to the needs of its employees through the company's CSRD. The labor theme of CSRD should have an impact on firm value.

H₃: The labor theme of Corporate Social Responsibility impacts firm value.

With the existence of non-governmental organizations (NGOs) that raise topics of human rights, companies should be careful not to violate those rights. If human rights incidents happen, such as discrimination and child labor, companies should take the appropriate corrective actions. Stakeholders should pay attention to these issues because NGOs and the media will try to expose the companies' wrongdoing.

H₄: The human rights theme of Corporate Social Responsibility impacts firm value.

As a business grows, it should develop the community that surrounds it. This form of responsibility will help to gain the society's trust, thus helping companies to build a better image. Stakeholders can see the activities conducted by the company to develop the society in the CSRD.

H₅: The society theme of Corporate Social Responsibility affects firm value.

Lawsuits against the company regarding health, safety or other issues with their products can affect the company's financials and the society's trust. Companies should ensure the quality of their products to maintain trust from stakeholders and as a responsibility towards stakeholders.

H₆: The product responsibility theme of Corporate Social Responsibility affects firm value.

3. RESEARCH METHOD

Purposive sampling is a method of sample selection in which a certain sample is intentionally taken that meets some specific criteria set by the researcher¹⁹: in this case, Manufacturing companies listed in Indonesia Stock

Exchange (IDX) during 2012 – 2013 with publicly available stock prices during this period. Data from the Indonesia Stock Exchange is gathered by downloading companies' annual reports, while data from Yahoo Finance is gathered by documenting stock prices at certain events. Firm value (FV) as a dependent variable is calculated using the following Tobin's Q formula¹⁸:

$Q = \text{stock price} \times \text{number of outstanding shares} / \text{book value of total assets}$.

CSR as the Independent Variable is measured based on the GRI Standard. This research follows the measurement formula from Omar and Zallom¹⁸. CSR measurements for each theme are as follows:

The element of $CSR_{ij} = \sum X_{ij} / n_j$

Kang²⁰ stated that size controls for any possible influence created by different company sizes in relation to their performance. $SIZE = \text{Log Total Asset}$.

Leverage (LEV) is calculated as $\text{Total Debt} / \text{Total Asset}$

The data are analyzed using multiple regression analysis.

$$Q_{ij} = \alpha + \beta_1 CSR_{EC_{ij}} + \beta_2 CSR_{EN_{ij}} + \beta_3 CSR_{LA_{ij}} + \beta_4 CSR_{HR_{ij}} + \beta_5 CSR_{SO_{ij}} + \beta_6 CSR_{PR_{ij}} + \beta_7 SIZE_{ij} + \beta_8 LEV_{ij} + \epsilon \quad (1)$$

where:

Q is Tobin's Q

CSR_{EC} is the Economic element of Corporate Social Responsibility Disclosure.

CSR_{EN} is the Environment element of Corporate Social Responsibility Disclosure.

CSR_{LA} is the Labor element of Corporate Social Responsibility Disclosure.

CSR_{HR} is the Human Rights element of Corporate Social Responsibility Disclosure.

CSR_{SO} is the Society element of Corporate Social Responsibility Disclosure.

CSR_{PR} is the Product Responsibility element of Corporate Social Responsibility Disclosure.

4. RESULTS AND DISCUSSIONS

The descriptive statistics of all variables are shown in the following table:

Table.1. Descriptive Statistics

	MEAN	STD. DEV.	MIN.	MAX.
FV	1.525	2.324	0.000	16.420
CSR _{EC}	0.595	0.115	0.440	1.000
CSR _{EN}	0.168	0.156	0.000	0.900
CSR _{LA}	0.280	0.170	0.000	0.790
CSR _{HR}	0.020	0.102	0.000	0.820
CSR _{SO}	0.128	0.134	0.000	1.000
CSR _{PR}	0.244	0.123	0.000	0.440
SIZE	12.252	0.698	11.000	14.330
LEV	0.511	0.481	0.040	4.230

The result of the regression is shown in the following table:

Table.2. Hypothesis Testing

VARIABLE	COEFFICIENT	T-STATIS.	P-VALUE
Constant	-1.601	-1.726	0.087
CSR _{EC}	0.317	0.577	0.565
CSR _{EN}	0.544	1.085	0.280
CSR _{LA}	0.174	0.449	0.655
CSR _{HR}	1.938	2.789	0.006
CSR _{SO}	-0.609	-1.213	0.228
CSR _{PR}	-0.645	-1.321	0.189

Table.2. Hypothesis Testing, cont.

SIZE	0.172	2.163	0.033
LEV	0.174	1.607	0.111
Adjusted R ²	0.184		
F-statistic	4.439		
P-value	0.000		
N	148		

The results of this research found that labor activities have no impact on the company's firm value. Similar results were found in previous research by Omar and Zallom¹⁸. This might happen because companies' activities still fail to meet the needs of employees. Human rights CSR was shown in this research to have a positive impact on a company's firm value. This result is consistent with the findings of Uyar and Kılıç²¹ who reported a strong correlation between disclosure level (of voluntary disclosure) and firm value. They noted that the community social actions do not add value to the company's profit. Firms in these industries do not focus on social actions, such as products, because of the irresponsible nature of their business (i.e. pollution and waste problems)^{21,18}. Uyar and Kılıç also argued that there could be too many confounding factors when testing the effect of CSR on profitability, which can cause this neutral relationship. Deegan⁸ argued that this would not be a major motivation in many countries given the lack of requirements in relation to social and environmental disclosures and associated verifications.

5. CONCLUSIONS

The conclusion of this research is that the following five CSRD themes – economic, environment, labor, social and product responsibility – do not have any impact on firm value. However, the human rights theme has a significant positive impact on firm value. This suggests that companies who disclose the human rights theme of CSR will have a positive impact on firm value. This research was only conducted for a short period of time: two years, from 2012 until 2013. Further research should be able to use a longer observation period to gather more data in order to be able to depict the findings better.

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