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Effect of CSR Disclosure to Value of the Firm: Study for Banking Industry in Indonesia

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Recently, companies are required not only concern with the interest of the shareholders but also their stakeholders. They have to responsible to their social, environmental and financial aspects. One of the companies' responsibilities to the society is CSR or Corporate Social Responsibility. This study will examine the effect of CSR disclosure on the value of the firm for the banking Industry in Indonesia. The sample for this study is the banking companies listed on Indonesia Stock Exchange in the period 2008 – 2010. The data used is annual reports that issued each year. There were 21 companies being observed. The analysis method used was simple regression analysis. The result of this study indicated that CSR disclosure had no effect to the firm's value. It can be seen from the significance of CSR is 0.594 (P-value > 0.05)

Keywords: CSR Disclosure, firm's value

1. Introduction

Exploitation of natural resources and the community have become important issues since the increase of the productions that companies made. The production processes have resulted in the destruction of nature and ultimately disrupt human life. Today the company is not only responsible to shareholders alone, but must stand on the triple bottom lines of corporate responsibility which include social, environmental, and financial. The awareness of the importance of social and environmental aspects for the sustainability of the company prompted the company to have a broad responsibility and carry out the so-called Corporate Social Responsibility (CSR). The company's commitment to CSR has become one of the indicators for the assessment of corporate performance (Soemanto 2007). Activities are no longer considered as a financial burden, but rather a social capital investment. CSR program is a bridge for the company and its surrounding in order to balance the corporate profits and prosperity of society.

CSR is considered as the core of business ethics to fulfill economic liabilities to other parties, including the stakeholders. Nurlela and Islahuddin (2008) suggested that the social responsibility of companies will take place between a company with the stakeholders, which consists of customers, employees, communities, owners or investors, governments, suppliers and even competitors. Along with the company's development, social inequality and environmental degradation have also increased.

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So that the company should pay attention not only profit but also harmonize the conduct of social responsibility.

Business continuity will be assured only if the company concerns about social and environmental dimensions. CSR today is no longer voluntary / commitment by the company in carrying out its responsibilities; it is a mandatory for some companies, especially Limited Company. It is regulated in Act No. 40 Year 2007 regarding Limited Liability Company passed on July 20, 2007. Given this rule, the company specifically Limited Company that engaged in or related to the use of natural resources and human resources required to carry out its social responsibility to the community.

CSR is a form of accountability reports which can be important information to investors and prospective investors in investing. In addition to the use of financial information, investors can also use non-financial information, one of which is CSR information. Besides being used as additional information in investing, CSR report is also used as a tool of communicating the company's performance to its stakeholders. Although the company had to pay the implementation of CSR, but a sustainable CSR can give companies competitive advantage by attracting many investors. The more investors are interested to invest to the firm; the company value is expected to increase as reflected in increase of its stock price.

Yuniasih and Wirakusuma (2007) were conducting research for 27 manufacturing firms in Indonesia and the result showed that ROA had a positive impact on firm value. Nurlela and Islahuddin (2008) analyzed the effect of CSR on firm value by using the percentage of management ownership as a moderating variable showed a significant effect on firm value but partially only percentage of management ownership have an effect on firm value. Another research has been done by Carningsih (2009) and showed that ROA negatively affect the value of the company, ROE has no effect, and the proportion of independent commissioners have no significant value to the company. Rustiarini (2010) suggested that CSR and corporate governance affects firm value. Research done by Handoko (2010) also showed that disclosure of CSR and the proportion of independent commissioners were able to moderate the relationship between financial performance and corporate value. There are inconsistency research findings from some of the researchers from different sample characteristics. Therefore, this research wants to search and see the effect of CSR disclosure to the firm value as the confirmation for the results of the previous researches by using different sample. The sample of this research is the finance companies especially for banks listed on the Indonesia Stock Exchange (BEI) for years 2008 to 2010 and published financial statements and reports of social responsibility in corporate annual reports during the study period. Banking sector in Indonesia is one of the industries that still play a significant role in the national economy. Although Indonesia ever faced the global crisis, banking sector in Indonesia was still able to survive. Bank Indonesia assesses the condition of national banks in the middle of slowing global economic growth remained as a stable condition that signed by the sustainability of capital and liquidity (Marboen 2011).

This research paper is divided into few sections. First section will stated and explained the background of the research itself. Second section will look at the research from the point of literature review. This section also stated the hypotheses that will be used. Third section will explain about the sample size and model used.

Fourth section will explain about the findings of the paper and the final section explains about the conclusion and how the research contributes to the knowledge.

2. Literature Review

2.1. Theory of Stakeholders

Businesses have complex relationships with individuals, organizations, and other communities. So like the company, the stakeholders have a positive or negative impact on business continuity. Stakeholders are people and groups that affect or be affected by the decisions, policies, and operational organizations (Post et al. 2002). Business continues to become more complex that the relationship between companies and stakeholders are now not limited to employees, investors, and customers. Stakeholder theory holds that companies must make disclosures to be one of social responsibility to its stakeholders (Yuniasih and Wirakusuma 2007).

2.2. Signaling Theory

Signaling theory is one theory that underlies the voluntary disclosure of where the company was driven to provide information to outside parties. The boost was due to the asymmetry of information between management and external parties (Rustiarini 2010). The existence of information asymmetry occurs because one party knows more information than others. Manager of the company has complete information about the activities of the company while shareholders and stakeholders lack the completeness of the information.

Signaling theory states that the company gives signals to the outside companies with the aim to enhance shareholder value (Yuniasih and Wirakusuma 2007). In this case, the information would be useful if used by investors in considering the decision to invest in the stock market. Therefore, to reduce the asymmetry of information, disclosure should be conducted by the company.

2.3. Corporate Social Responsibility and CSR Disclosure

Post et al. (2002) defines CSR as an obligation of a corporation to be liable for any actions that affect people, communities and the environment. CSR is a concept that involves shared responsibility partnership between companies, governments, community resource agencies, and local communities (Rustiarini 2010). The partnership is a shared responsibility among stakeholders and social enterprises. According to The World Business Council for Sustainable Development (WBCSD), Corporate Social Responsibility is defined as the commitment of business to contribute to sustainable economic development, through cooperation with employees and their representatives, their families, local communities and the general public to improve the quality of life by ways that benefit both themselves and for business development.

Information is a fundamental requirement in the decision-making. Information within the company can be financial or non-financial information. One of the frequently requested information to the company disclosed today is information about corporate social responsibility (Sembiring 2005). With this information companies can disclose the activities of accountability to the stakeholders. The investor or prospective investor also uses information both financial and non financial to the fundamental decision making. Companies expected to disclose the practice of CSR, especially when they have good performance in environmental, social, and economic (Sutantoputra 2009).

2.4. Firm Value

Value of the company in this study is defined as market value, as well as studies that have been done by Nurlela and Islahuddin (2008) because the company can give maximum shareholder wealth when stock prices rise. Stock prices reflect the company's value due to the higher stock prices can provide prosperity for shareholders who show a good value for the company. Samuel (2000) as cited by Nurlela and Islahuddin (2008) explains that the enterprise value (EV) is an important concept for investors, because it is an indicator for assessing the company's overall market.

2.5. Previous Studies

Few studies have been done, in order to know the effect of CSR disclosure to the value of firm. However, they have done the research by looking at different aspects. Sembiring (2005) found that profitability and leverage didn’t have significant effect to CSR disclosure.

Alexander and Buchloz (1978) in Rustiarini (2010) found there was no effect of CSR disclosure to the stock price. Yuniasih and Wirakusuma (2007) have done their research about the effect of financial performance to the firm value by using the CSR disclosure and good corporate governance as the moderating variables. They used 27 manufacture companies listed at Jakarta Stock Exchange from period 2005 – 2006 with 54 samples. The findings showed that ROA has a positive influence towards the firm value and CSR disclosure has a moderating effect to the relationship between ROA and firm value.

Nurlela and Islahuddin (2008) have researched the effect of CSR to the value of firm with managerial ownership as moderating variable. Their research used samples from non-finance sector companies listed at Jakarta Stock Exchange for the period of 2005. The result showed that CSR, percentage of managerial ownership and interaction between CSR with percentage of managerial ownership have significant effect to the value of firm. Carningsih (2009) showed that ROA has a negative effect to firm value and ROE didn’t have any effect to firm value. Furthermore, the proportion of independent committee didn’t have a significant effect to firm value.

Rustiarini (2010) has researched the effect of corporate governance to the relationship between CSR and firm value. Research used manufacture companies listed at IDX for the period of 2008. The findings showed that CSR disclosure and corporate governance have an effect of the firm value and the interaction between CSR and corporate governance has a relationship to CSR disclosure and firm value.
Since the findings of several results have contradictiory effects. Therefore, the purpose for this research is to analyze further if CSR disclosure is really affecting firm value. If the firm concerns about the balance between economy, social and environment dimensions. It will be able to increase their value (Nurlela and

Islahuddin 2008). Most of the research done previously focused on the manufacture industry. Because all the manufacture firms will have impacted directly by their CSR policies. The researchers rarely done research regarding about CSR for other industries. Therefore, this research will try to find the effect of CSR disclosure for the non-manufacture indutry. The emphasize will be on the finance industry, specifically the banking sector. The reason why this research focus on the finance industry. Because Finance indutry also contribute to the economy. They play a significant role in the market, especially for the banking sector. Banks are the one who give loans to other firms. Since there are findings shown the effect of CSR disclosure to the value of firm on the manufacture companies. This research also wants to see if there is any effect for the CSR disclosure to the banking sector. Therefore, the hyphoteses for this research will stated as follow : CSR disclosure will affect the value of firm.

3. Methods

This study is an empirical study using secondary data. The population of this study is financial companies listed on the Indonesia Stock Exchange (BEI) with year of study periods from 2008 to 2010. This study uses the research period of 2008 - 2010 due in 2007 have been issued CSR legislation, namely Act of Limited Company No. 40, so there are possibility that there is an increase in CSR disclosure. Sampling was carried out using non-probability sampling technique. Sampling method used is purposive sampling where the sample is determined by certain considerations.

Operational Variable

There are two types of variables being used in this research; independent and dependent variables.

1. Independent Variable

This research used CSR as independent variable. CSR disclosure is part of the annual report of a firm. According to Hackston and Milne (1996) in Sembiring (2005) there were 7 categorizes about CSR disclosure, which are: environment, energy, health and work safety, other workers, products, society involvement and others. Those categorizes consist of 90 items to be disclosed. Based on Bapepam regulation no VIII. G.2 about the annual report in Indonesia, there are only 78 items that suited to be used by the Indonesian firms
(Sembiring 2005). The banking sectors only used 46 items of disclosure. For every items that being disclosed will have 1 point and the items that are not disclosed will have 0 point. Those items were added up to find the overall score of the company. Rustiarini (2010) used Corporate Social Responsibility Index (CSRI) to measure the index of company disclosure.
In which it is formulated as follow:

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

$CSRI_j$ = Index of Corporate social responsibility for company j
$\sum X_{ij}$ = Number of items that been disclosed by the companies j
n_j = Number of item for the company j, $n_j \leq 46$

2. Dependent Variable

Dependent variable is the variable that influenced by the independent variable. This research used firm value as the variable that is affected by CSR and it is symbolized by EV. Value of the firm was measured using the ratio that was developed by James Tobin. It known as Tobin's Q ratio.
In which it is formulated as follow:

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

Tobin's Q = Company Value
EMV = Equity Market Value (EMV = *closing price* x number of outstanding shares)
DEBT = Total debt of the company
TA = Total asset

4. Results / Analysis

Objects of study in this research are bankings listed on the Indonesia Stock Exchange during the period 2008 - 2010, both private and state banks. Based on the selection of the sample with purposive sampling method, the number of bankings that are sampled as many as 21 companies in the three year study period, so the total observations used in this study as many as 63 observations. The criteria used to choose the sample based upon: financial companies, especially banks that gave a complete annual report from December 2008 until 2010. Inside the annual reports should have some elements; such as: social responsibility of the companies, numbers of independent commissioner, closing price for the stock and financial report that served in rupiah.

As we all know, banking is the company, which collects and distributes funds to or from the public. The products offered by bank are deposits, savings, credit, sale of securities and other financial services. Indonesia's banking either private or state-owned banks is under the supervision of Bank Indonesia which makes banking regulation. The number of banks up to 2010 that listed on the Indonesia Stock Exchange as many as 31 banks, but there were 10 banks that did not publish its annual report or other report that needed in this research. Therefore, this research use 21 banks that listed during the period of the study.

Table 1: List of Banks Year 2008 – 2010

No	Code	Name of Banks
1	INPC	Bank Artha Graha Internasional
2	BBKP	Bank Bukopin
3	BNBA	Bank Bumi Artha
4	BACA	Bank Capital Indonesia
5	BBCA	Bank Central Asia
6	BNGA	Bank CIMB Niaga
7	BDMN	Bank Danamon Indonesia
8	BAEK	Bank Ekonomi Raharja
9	SDRA	Bank Himpunan Saudara
10	BABP	Bank ICB Bumiputera
11	BNII	Bank Internasional Indonesia
12	BMRI	Bank Mandiri
13	MAYA	Bank Mayapada
14	MEGA	Bank Mega
15	NISP	Bank OCBC NISP
16	PNBN	Bank Panin Indonesia
17	BNLI	Bank Permata
18	BBRI	Bank Rakyat Indonesia
19	BSWD	Bank Swadesi
20	BVIC	Bank Victoria International
21	MCOR	Bank Windu Kentjana Int'l

Based on the analyze by using the SPSS. It was found the result as follow:

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients
		B	Std. Error	Beta
1	(Constant)	1.072	.065	
	CSR	.090	.168	.068

a. Dependent Variable: EV

From the simple regression analyses, the equation of this research is:

$$EV = 1{,}072 + 0{,}090\ CSR$$

Model Summary[b]

Model	R	R Square	Std. Error of the Estimate
1	.068[a]	.005	.143808

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

From the table above shows that value of R^2 is 0.005 means 0.5% dependent variable (firm value) that proxied by Tobin's Q can be explained by CSR disclosure. The other 99.5% is explained by another factor that not include in this research like company financial performance, size of company etc. The small R^2 means the ability of independents variable in explaining dependent variable is very limited (Ghozali, 2006).

Anova[b]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.006	2	.006	.287	.594[a]
	Residual	1.262	61	.021		
	Total	1.267	62			

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

From ANOVA or F test for simple regression found that F value is 0.287 with the probability is 0.594. The probability of F test concluded that CSR disclosure as independent variable as simultaneously has no effect on firm value.

The hypothesis in this study stated that the disclosure of CSR affect company value. Based on the results of regression analyzes shows that CSR disclosure does not affect firm value because the p-value 0.594 > 0.05. These results indicate that CSR disclosure has no effect on firm value, thus the hypothesis is rejected.

Coefficients[a]

Model		T	Sig.
1	(Constant)	16.567	.000
	CSR	.536	.594

a. Dependent Variable: EV

The results showed that CSR disclosure variables had no effect on firm value. These results indicate that the more or less of the practices of CSR of the company do not have any effects on the increase in the value of the company. This is because many banks have few disclosures on their CSR compared with the total items that should be disclosed for the banking industry. Based on signaling theory which states that the company gives signals to the outside parties with the intention of increasing the value of the company was not able to be explained by the banking companies. Leastwise those items disclosed to the readers of company annual reports make investors pay less attention to or consider the disclosure of corporate CSR as one of the information that affects them in an investment.

Although disclosure of CSR for companies listed on the Indonesia Stock Exchange is mandatory and regulated in the legislation either by the government, Bank Indonesia, and Indonesia Stock Exchange, but the banking industry has not disclosed more on their CSR. This is because for the banking industry, more of CSR item disclosed only related to labor and community involvement. Therefore, CSR disclosures for bankings are not an element that affects the investor to assess overall company performance. Investors are likely to consider other matters such the company's financial performance in investing.

The finding of this research is consistent with the research by Nurlela and Islahuddin (2008) who said that CSR disclosure did not has any effect to the value of firm. It was because the quality of CSR disclosure was low and did not follow the standard by GRI. Therefore, the quality of CSR disclosure in the company is the factor that caused CSR did not have any effect to the firm value.

However, this research is inconsistent with the research of Rustiarini (2010) said that CSR disclosure has an effect to the value of firm and paralleled with enlightened self-interest paradigm, which said stability and prosperity of long-term economy could be achieved if firms do their social responsibility to the society.

5. Conclusion

This study aimed to investigate the influence of CSR disclosure on firm value. Objects of this study were in the financial firm especially banking company listed on the Indonesia Stock Exchange in 2008 until 2010. The independent variable used is CSR disclosure that proxied by CSRI and the dependent variable is the value of a company that proxied using Tobins' Q. The results showed that CSR disclosures have no effect on firm value. CSR disclosures for banking company are related to labor and community involvement so that the amount disclosed in the CSRI is not too large. It also shows that the company's CSR program is not an important factor to be considered by investors in investing. There are other factors that can be used by investor in investing such as company financial performance, size of company, etc.

There are some limitation on this study that may be considered for subsequent researchers to obtain better results: This study uses only the disclosure of Corporate Social Responsibility (CSR) as an independent variable in their effects on firm value, the sample used on this research is limited to the banking companies only, and the years of observation are quite short. Furthermore, the study uses CSR and stock prices in the same year, whereas it should be better if uses the CSRI for the following year. So that we will be able to see the influence of it.

Since the finding of this research was different from the theoretical concept. Perhaps, for the further research, CSR disclosure should be excluded when we want to analyze the value of the firm for banking sector. Banking sector is regulated separately by the government.

In order to get better results, researcher is expected to use other independent variable besides CSR, such as financial performance. He/ she can also use more samples and longer period of time. So that it will be easy to see the effect of the CSR disclosure to the value of firm. The researcher can also add other independent variables to measure the value of the firm, such as: the percentage of independent commissioner, etc.

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