Corporate Social Responsibility and Corporate Value: Evidence from an Emerging Economy, Indonesia

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Abstract

The main aim of this study is to examine the relationship between corporate social responsibility (CSR), ownership structure and corporate value. More specifically, this study aims to investigate how (a) CSR influences corporate value, (b) ownership structure influences corporate value, (c) ownership structure influences CSR, and (d) CSR mediates the relationship between ownership structure and corporate value. Using multilevel data collected from financial service companies from Indonesia Stock Exchange over the period 2013 – 2016, the findings reveal that CSR mediates the relationship between ownership structure and corporate value. In other words, ownership structure promotes CSR, which in turn, increases corporate value.

Keywords: *corporate social responsibility; ownership structure; corporate value.*

1. Introduction

The main goal of the corporation is to maximize shareholder prosperity or maximize the corporate value (Azeem Qureshi, 2007; Hersugondo & Udin, 2019; Salvatore, 2005). This can be done by implementing business activities in the social and environmental fields, such as corporate social responsibility (CSR).

CSR has taken a lot of attention from many researchers, academics and business practitioners. CSR is defined as an integrated corporate responsibility that includes the economic, legal, ethical, and discretionary expectations of the organizational community (Carroll & Shabana, 2010). Such importance of CSR, since 2007, the Indonesian government issued a regulation to encourage companies to implement CSR contained in Law No. 40 of 2007, asserts that "*the corporate which carries out its business activities in the field related to natural resources has to carry out to social and environmental responsibilities*".

On one hand, this study furthermore is based on the gap findings between ownership structures and corporate value. Khan, Ullah, and Shah (2012); Mandacı and Gumus (2010); and Young (2011) concluded that ownership structure has a positive effect on corporate value, while Majeed, Aziz, and Saleem (2015); and Wahba and Elsayed (2015) in contrast concluded that ownership structure has a negative effect on corporate value. In line with the findings of López-Iturriaga and Crisóstomo (2010) and Selarka (2005) which concluded that there was a non-linear relationship between ownership concentration and corporate value.

On the other hand, there is a little study that examines the extent to which the role of ownership structures is able to explain CSR (Barnea & Rubin, 2010). In particular, because different owners may have different objectives and decision-making horizons (Ilmi, Kustono, & Sayekti, 2017; Young, 2011), it is very important to study the relationship between different types of owners and CSR. The high expenditure for CSR is considered to reduce the corporation's profits. Because of the control possessed by the principal, the ownership structure by some researchers is believed to be able to influence the course of the corporate, which in turn affects the corporate's social responsibility program in maximizing the corporate's value (Buchanan, Cao, & Chen, 2018; Wang, Song, & Yao, 2013).

2. Literature Review

2.1. Agency Theory

The agency theory describes the cooperative relationship between principal and agent, where the authority of the principal delegates to the agent to manage the corporate and make decisions (Jensen & Meckling, 1976). The agency theory suggests that among the principal and the agent have different interests. From the interests of each other, it creates a conflict which called "agency conflict". Ownership structure is one aspect of corporate governance, which is seen as an appropriate control mechanism to reduce agency conflict because it can improve the monitoring process within the corporate (Mohd Ghazali, 2007).

2.2. Stakeholder Theory

The stakeholder theory asserts that the corporation is not an entity that only operates for its own sake, but also has to provide benefits to its stakeholders. Based on this theory, it can be seen that stakeholders cannot be separated from the social environment, which if the stakeholders bring bad influence will also have a bad impact on CSR information disclosure to the corporate, which in turn affects the bad value of the corporate in the eyes of investors and the public. Hussainey, Elsayed, and Razik (2011) said that corporate activities can cause social and environmental impacts so that the practice of social and environmental disclosure is a managerial tool used by companies to avoid social and environmental conflicts.

2.3. Foreign Ownership

Foreign ownership is the percentage of share ownership by foreign investors. According to Indonesian Law No. 25 of 2007, foreign ownership is an individual of a foreign national, foreign business entity, and a foreign government that invests in the territory of the Republic of Indonesia (Jamali, Sutrisno, Subekti, & Assih, 2017).

2.4. Institutional Ownership

Institutional ownership is the ownership of shares of companies that are majority owned by institutions or institutions such as companies, insurance, banks, investment companies, asset management and other institutional ownership. Institutional ownership is the largest shareholder so that it is a means of monitoring management (Khan et al., 2012).

2.5. Public Ownership

Ownership of public shares is the proportion of share ownership held by the public/community to the corporation's shares. The public itself is an individual or institution that has a shared ownership of less than 5% which is outside the management and does not have a special relationship with the corporate (Giannarakis, Konteos, Zafeiriou, & Partalidou, 2018).

2.6. Corporate Value and CSR

Corporate value is an important indicator that shows the welfare of stakeholders in the corporate. Every corporate established wants the stock price to be sold to have high price potential. This will be in demand by investors because with increasing stock demand, the value of the corporate will also increase.

CSR is one of the signals given by the corporate to investors and is the corporate's commitment to contribute to sustainable economic development by paying attention to corporate social responsibility and focusing on the balance between attention to economic, social and environmental aspects (Carroll & Shabana, 2010). The more forms of accountability that the corporation does to its environment, the more the corporate image becomes. Investors are more interested in companies that have a good image in the community because of the better corporate image, higher customer loyalty so that in a long time the corporate's sales will improve and the corporate's profitability also increases. If the corporate run smoothly, then the corporation's stock value will continue to increase (Habbash, 2015).

3. Hypotheses Development

Corporate value is often associated with stock prices. If the corporation's stock price is high, then the value of the corporation is also good. Therefore, companies need to do CSR disclosures so that investors are interested in making decisions for investment. This idea is supported by the results of Susanti, Fenny, and Rini (2012) who found a positive and significant influence between CSR and corporate value.

According to Dagiliene (2010), high institutional ownership will lead to greater oversight of social activities by institutional investors. This is supported by research by Young (2011) which found a positive and significant influence between institutional ownership on CSR. Neither the public ownership nor the community with large public ownership in a corporate will make the corporate carry out more social responsibility activities. This statement is supported by the results of research by Young (2011) and Majeed et al. (2015) who found a positive and significant influence between public ownership of CSR.

High stock prices also make the corporate's value high. Multinational companies have the ability to increase higher stock prices compared to national companies. Therefore, foreign ownership is considered to be able to influence the value of the corporate, such as research conducted by Jamali et al. (2017) and Khan et al. (2012) which indicates a significant influence. Likewise with institutional ownership and public ownership which also has an influence on the value of the corporate. High institutional ownership in the corporate provides supervision and monitoring within the corporation so as to minimize fraud and deviant actions from the corporate. This caused the corporate's operational activities to run smoothly, making good corporate names, thus impacting the corporate's good value.

The same is true for public ownership where the value of the corporation is closely related to the good image of the corporation so that with a high public ownership of the corporate, the value of the corporate will also be good. Young (2011) explained that CSR is thought to be able to show an indirect relationship between ownership structure and corporate value because, through the ownership structure, shareholders can ask the corporate's management to do and disclose its CSR activities in order to gain legitimacy and corporate value. Based on these perspectives, the hypotheses proposed in this study are as follows.

H1: CSR has a positive influence on corporate value.
H2: Foreign ownership has a positive influence on CSR.
H3: Institutional ownership has a positive influence on CSR.
H4: Public ownership has a positive influence on CSR.
H5: Foreign ownership has a positive influence on corporate value.
H6: Institutional ownership has a positive influence on corporate value.
H7: Public ownership has a positive influence on corporate value.
H8: CSR mediates the relationship between foreign ownership and corporate value.
H9: CSR mediates the relationship between institutional ownership and corporate value.
H10: CSR mediates the relationship between public ownership and corporate value.

4. Materials and Methods

4.1. Population and Sample

The population used in this study are all financial service companies from Indonesia Stock Exchange over the period 2013 – 2016. By using purposive sampling, 130 financial service companies is determined as samples. The purposive sampling criteria used in this study are as follows: (1) Financial service companies from Indonesia Stock Exchange over the period 2013 – 2016; (2) Financial services companies that publish complete annual reports on the Indonesia Stock Exchange over the period 2013 – 2016; and (3) The corporate has complete data during the period 2013-2016 which relates to the variables used in the study, namely the value of the corporate, foreign ownership, institutional ownership, public ownership, and specifically the amount of CSR expenditure.

4.2. Measurement

Ownership structures are measured by foreign ownership, institutional ownership, and public ownership. Furthermore, foreign ownership is measured by the percentage of share ownership by foreign investors which is seen in the corporate's annual report with the number of shares outstanding. Institutional ownership is measured by the percentage of share ownership by the institution as seen from the corporate's annual report with the number of shares outstanding. Public ownership is measured by the percentage of public shareholding seen from the corporate's annual report with the number of shares outstanding.

CSR is measured by using the total budget used for CSR activities. Corporate value is measured using DER (D / E Ratio) and PBV (Price to BV). DER is measured by the ratio between total debt and equity. While PBV is measured by Market Price

Per Share with Book Value per Share.

2. Results

Table 1 describes descriptive statistics and correlations among variables. This table shows that the correlation among variables is in the expected direction.

Variables	N	Minimum	Maximum	Mean	Std. Dev
PBV	130	0.10	11.21	1.63	1.69
DER	130	0.07	23.74	5.16	3.65
CSR	130	12,000,000	131,624,737,414	10,474,103,841	24,007,470,330
Forgn_Own	130	0.00	85.10	14.63	22.52
Ints_Own	130	0.00	99.997	46.61	32.91
Public_Own	130	0.00	80.83	22.91	18.28

Table 1. Descriptive statistic among variables

Based on Table 1 shows that the PBV variable has a minimum value of 0.10 and a maximum value of 11.21 with an average PBV of 1.63. This identifies that the average corporate has a high PBV level of 1.63% and the average number means more than one (1.00), which if the PBV value is more than one (1.00) then the value the corporate is said to be good.

The minimum DER value is 0.07 and a maximum of 23.74 with an average of 5.16. This means that the average debt owned by the corporate is 5.16% so that shareholders or investors need to be careful and must be careful in seeing the DER in the corporate. If the DER is more than one, it will interfere with the corporate's performance which will also interfere with the growth of stock prices which will lead to the bad value of the corporate.

The minimum value of CSR is IDR 12,000,000 and maximum value is IDR 131,624,737,414 – with an average of IDR 10,474,103,841. This means that the average CRS costs incurred by the corporate in disclosing corporate social responsibility activities are Rp. 10,474,103,841.

The minimum value of Forgn_Own (foreign ownership) is 0.00 and the maximum value is 85.10 with an average of 14.63. This means that the average share owned by foreign investors is 14.6%.

The minimum value of Ints_Own (institutional ownership) is 0.00 and the maximum value is 99.997 with an average of 46.61. This means that shares owned by the institution are companies or other institutions amounting to 46.6%.

The minimum value of Public_Own (public ownership) is 0.00 and the maximum value is 80.83 with an average of 1.61. This means that the ownership of shares owned by the community is 1.6%.

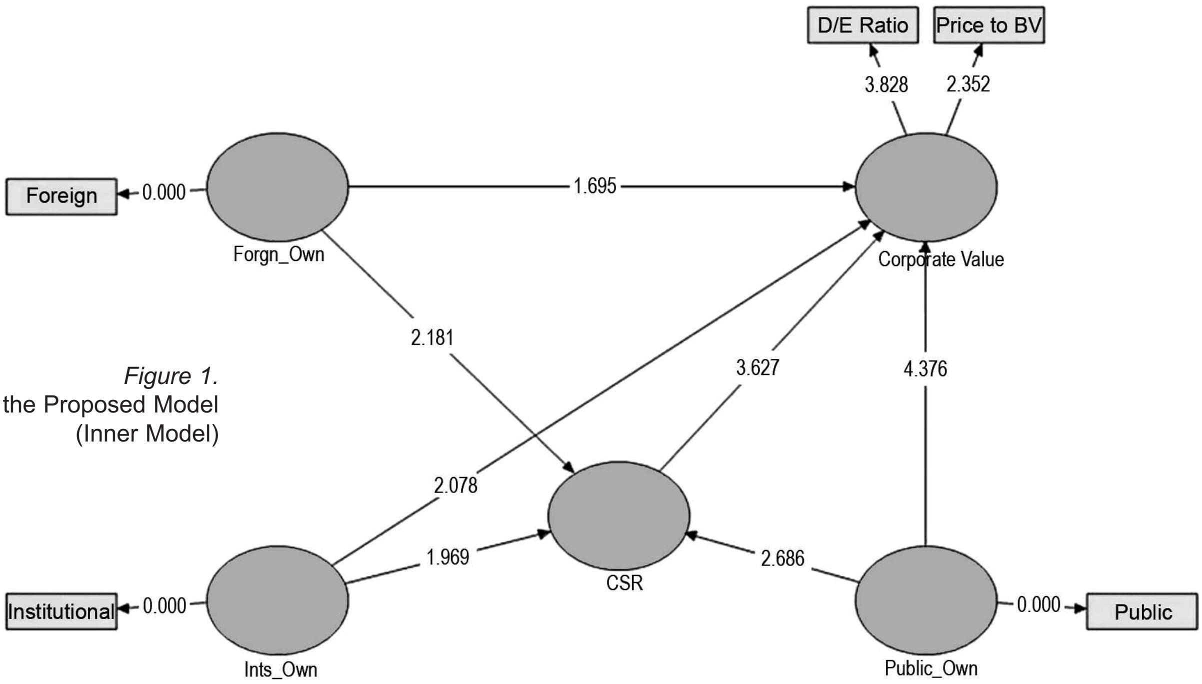

Figure 1.
Results of the Proposed Model (Inner Model)

	Original Sample	T Statistics	P Values
CSR -> Corporate Value	0.307	3.627	0.000
Forgn_Own -> CSR	0.182	2.181	0.015
Forgn_Own -> Corporate Value	-0.132	1.695	0.045
Ints_Own -> CSR	0.188	1.969	0.024
Ints_Own -> Corporate Value	-0.265	2.078	0.019
Public_Own -> CSR	0.257	2.686	0.004
Public_Own -> Corporate Value	-0.506	4.376	0.000

Table 2. Path Coefficients

	Original Sample	T Statistics	P Values
Forgn_Own -> Corporate Value	0.056	1.806	0.035
Ints_Own -> Corporate Value	0.058	1.654	0.049
Public_Own -> Corporate Value	0.079	2.115	0.017

Table 3. Indirect Effects

Based on the output of the inner model, it can be concluded as follows:

1. **H1**: CSR has a positive influence on the corporate value
   The results of the analysis can be seen that the calculated value of 3.627 > t table is 1.960 and the significance level of CSR variables is 0.000 < significance level of 5%, so it can be concluded that CSR has a positive influence on corporate value.
2. **H2**: Foreign ownership has a positive influence on CSR
   The results of the analysis can be seen that the value of t arithmetic is 2.181 > t table of 1.960 and the significance level (p-values) of the Forgn_Own variable is 0.015 < significance level of 5%, so it can be concluded that foreign ownership has a positive influence on CSR.
3. **H3**: Institutional ownership has a positive influence on CSR
   The analysis results can be seen that the value of t arithmetic is 1.969 > t table is 1.960 and the significance level of Ints_Own variable is 0.024 < 5% significance level, so it can be concluded that institutional ownership has a positive influence on CSR.
4. **H4**: Public ownership has a positive influence on CSR
   The analysis results can be seen that the calculated value of

2.686 > t table is 1.960 and the significance level of the Public_Own variable is 0.004 < 5% significance level, so it can be concluded that public ownership has a positive influence on CSR.

5. **H5**: Foreign ownership has a positive influence on corporate value
   The results of the analysis can be seen that the calculated value of 1.695 < t table is 1.960 and the significant level of the Forgn_Own variable is 0.045 < significance level of 5%, so it can be concluded that foreign ownership has a positive influence on corporate value.
6. **H6**: Institutional ownership has a positive influence on corporate value
   The results of the analysis can be seen that the t value of 2.078 > t table is 1.960 and the significance level of the variable Ints_Own is 0.019 < 5% significance level, it can be concluded that institutional ownership has a positive influence on corporate value.
7. **H7**: Public ownership has a positive influence on corporate value
   The analysis results can be seen that the value of t is equal to 4.376 > t table of 1.960 and the significance level of the Public_Own variable is 0.000 < significance level of 5%, so it can be concluded that public ownership has a positive influence on corporate value.
8. **H8**: CSR mediates the relationship between foreign ownership and corporate value
   The analysis results can be seen that the calculated value of 1.086 < t table is 1.960 and the Forgn_Own variable significance level for indirect effects is 0.035 < 5% significance level, so it can be concluded that CSR mediates the relationship between foreign ownership and corporate value.
9. **H9**: CSR mediates the relationship between institutional ownership and corporate value
   The results of the analysis can be seen that the value of t arithmetic is 1.654 < t table of 1.960 and the significance level of the Ints_Own on corproarte value is 0.049 < 5% significance level, so it can be concluded that CSR mediates the relationship between institutional ownership and corporate value.
10. **H10**: CSR mediates the relationship between public ownership and corporate value
   The analysis results can be seen that the value of t is 2.115 > t table of 1.960 and the significance level of the Public_Own on corporate value is 0.017 < 5% significance level, so it can be concluded that CSR mediates the relationship between public ownership and corporate value.

	R-square
CSR	0.201
Corporate Value	0.001

Table 4. R-square

Table 4 shows that the R-square of CSR is 0.201, and corporate value is 0.001. These results indicate that 20.1% of CSR can be influenced by ownership structure and 79.9% is influenced by other variables. Furthermore, 1% of corporate value is influenced by CSR and 99% is influenced by other variables.

6. Discussions

The test results obtained that CSR has a positive influence on the corporate value. This shows that the greater the expenditure and disclosure of CSR, the corporate value will increase. With the implementation of CSR activities, it can signal investors or potential investors that the corporate has high social and environmental concerns. These findings are consistent with the research of Buchanan et al. (2018); Susanti et al. (2012) and (Young, 2011) which found a positive and significant relationship between CSR and corporate value.

The test results obtained that foreign ownership has a positive influence on CSR. This positive influence shows that the higher the shares owned by investors or foreign agencies in the corporate, the greater the disclosure of CSR activities. This can happen because foreign investors in choosing companies tend to choose companies that have a long-term strategy. CSR is a long-term strategy implemented by companies, especially financial services companies. That is why companies that have ownership by foreign investors will be encouraged to disclose CSR activities. This research is in line with the research conducted by Habbash (2015) and Rahim (2013) which shows that foreign ownership has a positive and significant effect on CSR.

The test results obtained that institutional ownership has a positive influence on CSR. This positive influence shows that the higher the value of shares owned by the institution, the greater expenditure for CSR activities because CSR is one of the corporation's activities monitored by institutional shareholders. In making decisions to buy shares, companies will choose to buy shares or invest in companies that have a good reputation and corporate value. By carrying out CSR activities, the corporate can create a good image and reputation of the corporation so that it creates good corporate value. This research is consistent with Young (2011) who found a significant positive relationship between institutional ownership and CSR.

The test results obtained that foreign ownership has a positive influence on corporate value. This shows that the greater the shares owned by foreign investors in a corporate, the better the value of the corporate. This can happen because the presence of share ownership by foreign investors in a corporation will make the corporate's performance better because there will be technology transfer and it can also transfer experts. With the transfer of technology and the possibility of transfer of experts will make all the needs of the corporate fulfilled. Therefore, with the transfer of technology due to the large foreign ownership of a corporation, the operations and management of the corporate will run smoothly so that it will increase the value of the corporate.

Increasing corporate value is one of the corporate's strategies for long-term orientation in addition to disclosing CSR activities. The corporate's strategy for the long term is one of the reasons for foreign investors to consider before choosing a corporate for investment. That is why companies with high foreign ownership will have good corporate value, especially foreign investors from high-class categories that have high per capita income, such as European and American countries. These findings are consistent with research conducted by Hersugondo and Udin (2019); (Jamali et al., 2017) and Khan et al. (2012) who found a positive and significant relationship between foreign ownership and corporate value.

The test results obtained that institutional ownership has a positive influence on corporate value. This shows that the greater the number of shares owned by the institution in the corporate, the corporate value will increase. Because in determining the place to invest, far away institutional investors have more mature abilities because they have complete information compared to individuals so that institutions are much smarter in determining where to invest, and the institution is far more experienced in making investment decisions than individuals. Therefore, companies that have share ownership in the institution are definitely companies that have good corporate value, but with greater ownership will be able to increase the value of the corporate more better.

2. Conclusion and Recommendation

The conclusion of this study confirms that CSR has a positive influence on corporate value in the financial service companies from Indonesia Stock Exchange over the period 2013 – 2016. This means that CSR determines good corporate value.

This study provides recommendations for companies and investors, that is for companies that want to maximize the value of the corporate, they should offer their shares to foreign investors. As for investors, you should choose the shares of companies that have high foreign ownership, especially foreign ownership with the category of advanced or high-class countries with high per capita income such as countries in Europe and America.

The suggestions in this study are as follows: (1) Future research needs to consider the fundamental variables that have not been examined in this study, such as government ownership, managerial ownership, other ownership and corporate performance; (2) Future research needs to be carried out in a different case study or broader such as publicly listed companies or manufacturing companies listed on the Indonesia Stock Exchange, in order to obtain a larger sample; and (3) Future research needs to make the cluster for the use of variables of foreign ownership and institutional ownership.

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