

The Influence of Corporate Social Responsibility (CSR) Disclosure on Firm Values with Stakeholder Reaction as the Mediation Variable

Wiwiek Dianawati^a, ^aFaculty of Economics and Business, Universitas Airlangga, Indonesia, Email: wiwiek.dianawati@yahoo.com

This study aims at evaluating CSR programs in Indonesia by examining the influence of CSR disclosure on firm values through the mediation of stakeholders' (customers and employees) reaction. This study applies an explanatory research approach and uses data of non-service corporations that were listed on the Indonesian Stock Exchange (IDX) from 2010 to 2012. Saturated sample technique is implemented to draw the sample and this study employs a structural equation modelling (variance-based). The implication of these results suggests that the government, as a regulator in the stock market, should provide a complete guide about how to make a good CSR report that refers to Global Reporting Initiative. Eventually this guidance could be used by stakeholders to make appropriate economic decisions. For companies, it is important to pay attention to CSR disclosure in the annual report or in the company's sustainability report because it is positively responded to by employees and investors.

Key words: *CSR disclosure, stakeholder reaction, firm.*

Background of the Study

The main issue of the research involves the different arguments between managers regarding whether the company should get involved in CSR activities and propose a theoretical model, and whether getting involved in CSR activities would have more advantages, more disadvantages or no impacts on the firm's value.

Some studies have tried to observe whether the CSR activities conducted by companies based on stakeholder theory would still increase their future cash flow value, whether it would consistently support the companies' efforts to maximise shareholders' wealth (shareholder

theory). That is, they question if companies that have implemented CSR could still prioritise shareholder interest by continuously giving them an adequate rate of return for their investment.

This research model examines companies' initiatives to implement CSR and disclose it, which will accommodate the companies in facilitating stakeholders' interest (customers and employees). It can be seen from the positive reactions to the CSR, that it is expected to give a meaningful contribution to the firm's value. The reasons for examining the stakeholders' (customers and employees) reaction are as follows: (1) understanding the customers' needs becomes an important point in industry. According to Lafferty et al. (1999), a good corporate image and reputation positively correlates with intention to buy and helps customers in comparing an offer from a certain company with its product or service. Therefore, customer loyalty and commitment may increase if the company behaves accountably and responsibly for its social and environmental impacts. (2) A French poll of CSR shows that employees are seen as the most important group of stakeholders, which become a concern of the company in implementing CSR (Gond et al., 2010).

Understanding of the importance of CSR activities for companies and society, particularly in Indonesia, has grown rapidly. Along with this development, the Indonesian government has responded by establishing Law Number 25 in April 2007, regarding investment, especially Article 15, and Law Number 40/2007, regarding the Limited Liability Companies, which require companies whose operations relate to natural resources to implement CSR. Given these two laws, it is mandatory for companies to implement CSR activities, yet the law does not require companies to report or disclose the implementation of CSR; it is done voluntarily.

The motivation to conduct this research is to provide empirical evidence for the possibility of a positive stakeholder reaction to CSR disclosure in Indonesia, due to the increasing level of public awareness related to the issue of environmental conservation, so that the stakeholder positive reaction will contribute to the improvement of firm values. In other words, CSR disclosure is a signal for stakeholders; whether to purchase (for customers) and whether to increase productivity (for employees).

Statement of the Problem

Do the reactions of stakeholders (customers and employees) mediate the influences of CSR disclosure on a firm's value?

Research Purpose

This research is expected to provide explanations related to CSR in Indonesia by means of examination as follows: giving evidence that the reaction of stakeholders mediates the influence of CSR disclosure on firm value.

Signalling Theory

Signalling Theory, first introduced by Akerlof (1970), explains how the signal of success or failure of the agent must be submitted to the principal. The purpose of conveying financial information is to reduce asymmetry of the information between the company and external parties. To reduce the asymmetry of the information, the company needs to disclose the information held, both the financial and non-financial information. One of the important information disclosures by a company is its information about CSR.

Hyphothesis Development

In Indonesia, CSR is currently described as a potentially developing phenomenon, supported by many positive indications, such as: the implementation of PROPER by the Ministry of Environment, the ISRA Award, training and seminars on CSR, and the establishment of divisions or departments that deal with CSR in various companies, especially corporations. Smaller companies have also started to follow this trend. Companies that engage in social responsibility activities have commercial advantage, because CSR will improve the company's reputation. Improving the company's reputation will increase the future cash flow and ultimately maximise the shareholder wealth (Epstein and Roy, 2001).

Public awareness in Indonesia regarding the importance of preserving the environment has recently increased. Community participation in various environmental conservation movements in many places also shows that people have begun to realise the importance of efforts to reduce the environmental crisis. More specifically on the consumer's side, and in addition to the level of consumer awareness of environmentally-friendly products, the existence of the Indonesian Consumer Organisation provides evidence of the role of non-governmental organisations that seek to increase consumers' critical awareness of their rights and obligations, for the sake of themselves, their family, and their environment.

Many Indonesian scholars have researched the level of consumer awareness about environmental sustainability. Nawangpalupi and Pratama's research (2012) concludes that consumers want to reduce the use of plastic bags and expect the participation of producers to provide more environmentally friendly packaging.

Classon and Dahlstrom (2006) argue that CSR is one of the quality aspects that can be evaluated before purchasing; if the information is available it can affect a customer's decision whether to accept or decline a sales offer. Their argument is supported by the value linking chain model, which explains how CSR is part of a product offered by a company that can influence a customer's decision to accept an offer or not.

Hypothesis 1: Customer reaction mediates the influence of CSR disclosure on firm value.

CSR is a form of corporate investment, oriented to the interests of all stakeholders and not only focused on the interests of shareholders. The employee is one of the stakeholders associated with CSR. The opinions mentioned above lead us to the conclusion that companies that have implemented CSR will be responded positively to by employees; their interests are not ignored by the company and their rights have been fulfilled. This will motivate employees to work better and thereby increase their productivity, in accordance with Epstein and Roy's (2001) statement that by undertaking social responsibility in the labour aspect, one of the benefits gained by a company is increased productivity.

The research of Gond et al. (2010) showed that CSR could influence the dynamic of social exchange as well as the process of social identification in a corporation. This further explains that CSR could provide a meaningful contribution to corporate financial performance by influencing employee behaviour.

Hypothesis 2: Employee reaction mediates the influence of CSR on the firm value.

Research Design

The approach used is explanatory research, the method of data analysis used in this study is partial least square (PLS), and to assist the process of data analysis, the researcher has used WARP-PLS 3.0 statistical software.

Population and Sampling

The target population in this study is public companies listed on the Indonesian Stock Exchange (IDX) IN 2010-2012. Saturated sample technique is implemented to draw the sample.

Variable Identification and Operational Definition

CSR Disclosure

CSR disclosure is measured using ‘content analysis’ as it uses indicators based on the Global Reporting Initiative or GRI G3. The measurement of CSR disclosure uses dichotomies, ie., each CSR item is rated 1 if it is disclosed, and 0 if it is not.

Corporate Social Responsibility Index =

$$\sum_{i=1}^{m_j} \frac{d_i}{N}$$

- (1) d_i = number of items disclosed by company j
- (2) N = maximum number of items that should be disclosed by the company

Customer Reaction

- (3) The proxy used in this study to see whether the reactions exist is the revenue (sales growth), and whether it increases or not, in accordance with the model proposed by Epstein and Roy (2001).
- (4) $(\text{Sales } y) - (\text{Sales } y_{-1})$
- (5) Sales Growth = $\frac{(\text{Sales } y) - (\text{Sales } y_{-1})}{\text{Sales } y_{-1}}$
- (6)

Employee Reaction

- (7) The level of productivity is measured using the Productivity Index (PI) by comparing the input with the output (Sinungan, 2003: 49-50).
- (8) Sales or Revenue
- (9) EPI = $\frac{\text{Sales or Revenue}}{\text{Direct labour cost}}$
- (10) Direct labour cost
- (11) Employee Reaction = Employee Productivity Index t (current year) - Employee Productivity Index t-1 (previous year)

Firm Value

- (12) Measurement of the firm value in this study uses the Price to Book ratio that compares the stock price per share with the shareholder’s equity per share and this ratio is the estimated firm value, if the company is liquidated (Sharma et al., 2013).

Analyzing the Data

The variables used in this study are exogenous variables (CSR disclosure), mediation variables (stakeholder reactions: customers and employees) and endogenous variables (firm value). The requirements of mediation effects that must be fulfilled are: the path coefficient of the exogenous variable (independent) on the endogenous variable (dependent) is significant; and the path coefficient from the independent variable to the mediation variable is significant and from the mediation variable to the dependent variable is significant as well. The processes of drawing conclusions about mediation are as follows: (Hair et al., 2010: 746)

- a. If the path coefficient from the independent variable to the dependent variable remains significant and unchanged then the mediation hypothesis is not supported.
- b. If the path coefficient from the independent variable to the dependent variable decreases, but remains significant then the mediation form is partial mediation.
- c. If the path coefficient from the independent variable to the dependent variable decreases and becomes insignificant then the mediation form is full mediation

Analysis of the Results

The data in this research were secondary data obtained from IDX and NCSR websites. The sampling was conducted using a saturated sampling method and resulted in a total of 289 companies as the sample. The sample companies used in the research are 73% engaged in manufacturing, 19% engaged in mining and the remaining 8% are engaged in agriculture. The following table shows the description of the research data:

Table 1: Data Description

	N	Min	Max	Median	Mean
CSR Disclosure	289	.010	1.000	0.140	.2015
Customer Reaction (CR)	289	-1.000	1.520	0.110	.1144
Employee Reaction (ER)	289	-742.47	220.51	-0.260	-5.3034
Firm Value (FV)	289	-13.350	66.320	0.650	3.1682

Source: data processed

Based on the data in table 1, the lowest point of CSR disclosure is 0.01 and the highest is 1, the mean is 0.20 and the median is 0.14

Table 2: CSR recapitulation using content analysis

Performance Indicator	Number of Companies (n)	Disclosure Items	n x Disclosure Items	Disclosure Realisation	% of Disclosure Realisation
Economics	289	9	2601	806	30.98
Environment	289	30	8670	1367	15.77
Labour Practice	289	14	4046	1290	31.88
Human Rights	289	9	2601	284	10.92
Community	289	8	2312	362	15.66
Product Responsibility	289	9	2601	407	15.65

Source: Data Processed

The assessment indicators disclosed that received strong attention from companies are listed as follows: labour practices and decent work at 31.88%, the disclosure of economic performance at 30.98%, followed by environmental performance at 15.77%, public performance at 15.66%, product responsibility at 15.65%, and finally, human rights performance at 10.92%. Based on these disclosure figures, it can be seen that CSR disclosure conducted by public companies in Indonesia is still very low. This indicates furthermore that the response or attention of the company to its stakeholders is still quite low as well.

The data in table 1 shows that the ER data is not good, because the distance between the smallest data and the largest is very large. From the data distribution above, it can be seen that most companies have experienced a decrease in the level of employee productivity, starting from the smallest to the largest decrease of about 700%. However, some of the companies have experienced an increase in the level of employee productivity starting from the smallest to the largest of about 200%. Firm Value variable data varies greatly. This can be deduced from significant differences between the minimum data and the maximum data, and the mean data and the median. Some of the companies' equity data has such deficit equity that the FV obtained has negative value.

Test Results

The significance test compared p-value with the alpha (α) used in this study; they were 5%.

Table 3: Direct Effect and Indirect Effect of CSR disclosure on Firm Value and the Stakeholder Reaction as a Mediation Variable

Exogen Variable	Endogen Variable	Mediation Variable	Direct Effect		Direct Effect and Indirect Effect/mediation		Conclusion
			without Mediation variable	p-value	variable	p-value	
CSR	FV	CR	CSR-FV	<0.001	CSR-FV	<0.001	Not Significant
					CSR-CR	0.10	
					CR-FV	0.03	
CSR	FV	ER	CSR-FV	<0.001	CSR-FV	<0.001	Not Significant
					CSR-ER	0.04	
					ER-FV	0.34	

Discussion

Based on the statistical data analysis, it can be concluded that CSR disclosure directly influences firm value without being mediated by mediation variables of customer and employee reactions.

The variable of customer reaction does not mediate the influence of CSR on the firm value as the community awareness of environmental conditions is still a concept and not yet a cultural influence on behaviours such as deciding whether to buy a product or service or not. From the statistical data analysis, 10% of the variable mediating CSR influence on customers is not significant as it is higher than the α used, which is 5%. The result of this research supports Arli and Lasmono's research (2010) on customer perception toward the CSR of companies in Indonesia. They found that CSR disclosure is still a concept waiting to be applied, and most customers are not aware of and do not fully support the implementation of CSR.

From the statistical data analysis, there is a significant influence of CSR disclosure on company value without it being mediated by employee reactions as a mediation variable. It can be seen from the p-value of ER not influence on the FV (p-value 0,34), indicating that employee productivity not get any appreciations from the investors in the Indonesia stock market but CSR has been well appreciated by employees (p-value 0,04).

There is an interesting finding that shows CSR influences employee reactions. This is supported by CSR disclosure data related to labour practice indicators that ranked first in

CSR disclosure, that is 31.88% of what should be disclosed (GRI version). In addition, this is also in accordance with the results of research conducted by Majumdar and Marcus (2001), which found that the competencies obtained internally through the CSR process will lead to more efficient resources that will further positively influence organisational efficiency. The Service-Profit Chain model developed by Heskett and Schlesinger (1994) also states that there is a relationship between the quality of a company's internal services and job satisfaction, meaning that if companies adequately provide internal services to employees, granting their rights and treating them well, the resulting employee satisfaction will have an impact on improving productivity. Moskowitz (1972) said that the CSR implementation of the labour-power costs a lot of money but can increase employee productivity. The 2003 Law No. 13, on the workforce and the 1970 Law No. 1, on safety must be followed by all companies operating in Indonesia. Both laws reinforce the implementation of CSR, especially regarding the workforce of companies in Indonesia.

This research proves that there is a direct influence of CSR on firm value. The results of this study show that the implementation and disclosure of CSR have come the attention of investors in the Indonesian Stock Exchange. This can be attributed to the measurement of firm value using the price to book ratio, and, according to Sharma et al. (2013) that the price to book ratio is the value of a company that can explain the performance of the company in terms of efficiency and asset growth. It can be said that the investment in CSR for companies in Indonesia will trigger an increase in efficiency and growth of company assets, and these two things are highly appreciated by investors in the Indonesian stock market. The companies will obtain various efficiencies by implementing CSR., For example, from the side of raw materials and production processes can generate environmental efficiency, and from the side of the employees, by fulfilling the employees' rights and treating them well will give satisfaction to the employees and it will further positively influence the productivity and quality of their work.

The average of CSR disclosure in Indonesia is still low at a mean of 20.14% (see table 1) of what should be disclosed (based on GRI), but these small percentages have been positively responded to by investors, as shown by the increase of firm value. This indicates an increase in awareness of the Indonesian people, especially investors in the stock market in making stock purchase decisions by paying attention to CSR factors. Based on the Signalling Theory, social and environmental activities provide information to investors about future return prospects. The appropriate CSR disclosure that met the expectation of stakeholders is a signal of good news given by the management to the public that the company has good prospects in the future and ensures sustainable development (Epstein and Roy, 2010). Institutional investors are those who pay detailed attention to additional information such as CSR and have capabilities to analyse the company annual report, and usually invest in stocks more

than individual investors. This is supported by Jennings (2002), who states that institutional ownership can increase the firm value as it has the ability to supervise the company.

The strong direct influence of the CSR variable on the firm value is in accordance with the results of research conducted by Roberts (in Pava and Krausz, 1996), and research conducted by Bowman and Haire (in Ullman, 1985). The findings of this present study are also supported by a statement by the USA-based Business for Social Responsibility (BSR), that many benefits can be obtained by companies that have implemented CSR, such as the improvement of financial performance. Moreover, the results of this study are also reflected in the statement of Epstein and Roy (2001), which elaborates the importance of incorporating a sustainable three bottom line philosophy that will become a sustainable strategy that positively influences a company's long-term performance.

The Signalling theory therefore supports the results of this present study, that important information about a company including CSR needs to be disclosed to the public in the hope that it will be positively responded to by investors in the stock market and further affect the company's performance, in this case the firm value. Furthermore, by implementing CSR, companies can meet the interests of stakeholders without sacrificing the interests of shareholders.

Conclusion

From the results of the study, it can be concluded that customer reaction does not mediate the influences of CSR disclosure on the firm value, which means CSR disclosure directly influences the firm value without being affected by the customers' reaction. CSR disclosure is not directed by the customers but by investors at the Indonesian Stock Exchange. It further shows that customers' awareness in Indonesia is still a concept, not a culture influencing the customers in making a decision whether to buy a product or service (Ari dan Lasmono, 2010).

Employee reaction, based on the analysis, does not mediate the influences of CSR disclosure, which means CSR disclosure may influence the firm value directly without being mediated by the variable of employee reaction. One of the findings obtained from this research is the positive reaction of the employees towards the disclosure of CSR, which further shows the employees' awareness of the importance of CSR implementation and its disclosure. Heskett and Schlesinger (1994) state that companies which have adequately provided internal services for the employees will satisfy the employees and further will have an impact on the increase of productivity.



Suggestion

For the Companies

The findings of the research provide input for the companies in terms of the importance of implementing CSR and reporting it in detail to the stakeholders by following the indicator universally used, which is GRI. In this regard, CSR implementation and disclosure are expected to be a positive signal for stakeholders in making economic decisions, that it will positively influence the firm's value. The stakeholders that respond positively to the result of CSR disclosure in either an annual report or sustainability report are employees and investors.

For the Government

This research is expected to give meaningful input to the Indonesian government through the Financial Services Authority, regarding the importance of guidance making on how to prepare a detailed CSR report by considering important indicators that must be disclosed and the items that must be attached to each indicator, in accordance with the GRI.

REFERENCES

- Akerlof, George A. (1970). "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism". *Quarterly Journal of Economics* (The MIT Press) 84 (3): 488–500.[doi:10.2307/1879431](https://doi.org/10.2307/1879431). [JSTOR 1879431](https://www.jstor.org/stable/1879431)
- Arli, Denni I, dan Hari K Lasmono. 2010. Consumers' perception of corporate social responsibility in a developing country. *International Journal of Consumer Studies*, 34(1), 46-51.
- Classon, Johan, dan Johan Dahlström. (2006). *How can CSR affect company performance?: A qualitative study of CSR and its effects*. KTH.
- Epstein, Marc J, dan Marie-Josée Roy. 2001. Sustainability in action: Identifying and measuring the key performance drivers. *Long Range Planning*, 34(5), 585-604.
- Fama, E. F dan K. R. French. 1993. Common Risk Factors in the Returns on Stocks and Bonds. *Journal of Financial Economics* 33.1 : 3-56. Print.
- Gond, Jean-Pascal, Assâad El-Akreimi, Jacques Igalens, dan Valérie Swaen. 2010. Corporate social responsibility influence on employees. *International Centre for Corporate Social Responsibility, Nottingham University Business School*(54).
- Hair, J., W. Black, B. Babin, dan R. Anderson. 2010. *Multivariate Data Analysis: A Global Perspective (7th edition)*. New Jersey: Pearson.
- Heskett, James L, W Earl Sasser Jr, dan Leonard A Schlesinger. 1997. *The service profit chain: How leading companies link profit to loyalty, satisfaction, and value*.
- Initiative, Global Reporting. 2002. *Sustainability reporting guidelines 2002: Global Reporting Initiative. (Partial Least Square) untuk Penelitian Empiris*. BPFE Yogyakarta,2009
- Kristoffersen, Inga, Paul Gerrans, dan Marilyn Clark-Murphy. 2005. The corporate social responsibility and the theory of the firm. *Finance and Economics & FIMARC Working Paper Series, Edith Cowan University*.
- Lafferty, Barbara A, dan Ronald E Goldsmith. 1999. Corporate credibility's role in consumers' attitudes and purchase intentions when a high versus a low credibility endorser is used in the ad. *Journal of business research*, 44(2), 109-116.



- Majumdar, Sumit K, dan Alfred A Marcus. 2001. Rules versus discretion: The productivity consequences of flexible regulation. *Academy of Management Journal*, 44(1), 170-179
- Nawangpalupi, Catharina B, dan Frans Konstantius Pratama. 2012. Identifikasi dan segmentasi kesadaran lingkungan konsumen dan produsen terhadap produk berkemasan. *Research Abstract-Engineering Science*, 1.
- Pava, Moses L, dan Joshua Krausz. 1996. The association between corporate social-responsibility and financial performance: The paradox of social cost. *Journal of Business Ethics*, 15(3), 321-357.
- Sharma A Branch,B, Chgawla,C, dan Qiu (2013), *Explaining Market-to-Book The relative impact of firm performance, growth, and risk*, Isenberg School of Management, University of Massachusetts, Amherst.
- Sinungan, Muchdarsyah. 2003. *Produktivitas: Apa dan Bagaimana* (2 ed.): Bumi Aksara Jakarta.
- Ullmann, Arie A. 1985. Data in search of a theory: a critical examination of the relationships among social performance, social disclosure, and economic performance of US firms. *Academy of Management Review*, 10(3), 540-557.