CSR DISCLOSURE IMPACT ON CORPORATE MARKET PERFORMANCE OF INDONESIA LISTED COMPANIES (IDX) IN TRADE SECTORS

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ABSTRACT

The paper analyzes the effects of disclosed CSR (community social responsibility) information on the market performance of Indonesian companies. Fifteen trade companies listed on the Indonesia Stock Exchange are observed from 2014 to 2016. CSR information is derived from annual reports and financial statements.

We find that CSR affects Stock Return (SR), Debt Equity Ratio (DER), and Return on Equity (ROE). We argue that CSR disclosure has a positive but non-significant effect on SR and that it has a negative but non-significant effect on corporate market performance. In addition, it has a positive and significant effect on DER and ROE. Our results contribute to a more in-depth understanding of the impact of non-financial information on market performance.

Keywords: Corporate Social Responsibility, Corporate Market Performance, Financial Performance, Trade Sectors.

INTRODUCTION

Corporate Social Responsibility (CSR) focuses on social actions of the company which improve social and environmental conditions. The consequences can enable the companies to outperform other companies (Dhaliwal et al., 2011).

Previous research suggests a different view of CSR for managers who speculate (Calomiris et al., 2010). Activities based on social responsibility require greater financial disclosure and superior standards in financial reporting, and are more likely to be associated with a higher level of transparency (Ali et al., 2014).

The social impact of corporations, regardless of whether they are large or small, has become a very important issue. Poor social impact, in fact, may increase the financial risk of companies, may cause wrong relationships with many parties and may affect the reputation of the whole organization (Mishra & Suar, 2010). In most cases, the result is a decrease in the value of the company and, sometimes, the end of the corporation itself. That is why in recent years, many companies develop strategies that reduce conflicts with the community (Salewski, 2014).

CSR becomes necessary as a result of conflicts between communities and companies following negative effects of the companies' activities on the environment. In its existence, the company cannot be separated from society as a supporter of the external environment (Ali et al., 2012). To improve the social impact of the company's activities can be seen as improvement of the company itself (Dhaliwal et al., 2011).

Most research in this field analyzes the relationship between CSR and corporate performance. Mishra & Suar (2010) state that the relationship between CSR and CFP is largely inconclusive. Some studies reveal a positive correlation (Jo & Harjoto 2011; Margolis & Walsh 2003; Orlitzky et al., 2003). Others show a negative relationship (Wright & Ferris, 1997), orno relationship at all between CSR and CFP due to their complexity (Crisostomo et al., 2011).

According to Ullmann (1985), a company's social activities are more than just a way of achieving economic results. Through these activities the company can develop a good relationship with the community and, indirectly, create added value for the stakeholders. That is, the company's attitude towards disclosure data related to social responsibility activities can develop and maintain good relationships with society in general (Branco & Rodrigues, 2006).

CSR often overlaps with similar approaches such as corporate sustainability, sustainable development and the company's social responsibility (Fisman &Wang, 2012). In addition, CSR has a variety of potential meanings. It can be considered as a way of integrating the economic interests of the private sector with wider social and environmental activities (Dhaliwaletal, 2011).

Barnett (2005) focuses on two main characteristics of CSR: social welfare, and the relationship with stakeholders. Many small businesses adopt CSR, and managers of larger businesses facean increasing pressure to justify the allocation of scarce resources of the company. Accurate measurements are needed (Barnett, 2005), especially of manufacturing companies. But retail companies also consumelarge amounts of natural resources, such as paper and energy, and create waste (Ullmann, 1985; Margolis et al., 2007). Therefore, how they contribute to the conservation of energy and natural resources and recycling activities is important. Retail traders may not directly pollute the environment, but still have the responsibility to report on their activities in a way that is transparent and open to the public. Previous studies are inconclusive about this issue (Margolis & Walsh, 2003; Margolis et al., 2007). Further investigation and research is needed, especially in the field of retail trade (Branco & Rodrigues, 2006).

Hypothesis Development

In the literature there are two main theories about how CSR affects performance. Several authors (Graves & Waddock, 1994; Griffin & Mahon, 1997; Waddock & Graves, 1997; Margolis & Walsh, 2003; Orlitzky et al., 2003) argue that investment in CSR has a positive return in terms of image and overall financial results. Benefits from CSR investment are greater than the related costs. Ruf et al. (2001) identify a period of three years during which the companies are positively affected. This is the first theory.

The second is that the relationship between CSR and corporate performance is negative (Bromiley & Marcus, 1989; Wright & Ferris 1997; Barnett & Salomon, 2006; Barnea & Rubin, 2006). If managers can reduce the investment in CSR, they say, it will improve the short-term profitability of the companies.

This idea is opposed by Preston & O'Bannon (1997), who advance the thesis of opposite trend associated with the same phenomenon.

In fact, corporate responsibility can be more important to stakeholders than maximizing the profits, and in this sense CSR is a way of responding to the real needs of the investors. Every company is a social agent with several stakeholders. Management has the task of creating a balance between investors, employees, suppliers, the community, and the environment (Pyo & Lee, 2013). Satisfying their interests and being responsible to them all can positively affect all dimensions of the company, including financial performance. CSR is therefore an important aspect of a company's strategy, because of the possibility of financial scandals and a consequent decline in investor confidence.

CSR, in fact, is strongly connected to the idea of a company's reputation. Barnett (2005) asserts that CSR initiatives improve investors' confidence, create new market opportunities, and gain positive reaction from the capital market. Positive reputation is often associated with positive financial returns. However, reputation's value depends on the inability of competitors to imitate reputation (Klein & Dawar, 2004).

Margolis et al. (2007) propose that CSR is a form of insurance policy against negative events. Even if it does not immediately increase profitability, it reduces the impact of damaging events. The studies show that consumers are more willing to punish the bad behavior of a company than to reward itsgood behavior (Roberts and Dowling, 2002).

Empirical studies by Ruf et al. (2001) report a positive relationship between both short-term benefits (for example, sales growth) and long-term benefits (eg ROE). Orlitzky et al. (2003) use a meta-analysis to showthat CSR is related to financial performance demonstrated by ROE. Chand (2006) uses measures of profitability ROE and DER to support the thesis that CSR is positively related to the CFP. According to Inoue & Lee (2010), the ROE indicates that companies from four tourism industries (airlines, casinos, hotels, restaurants) can improve their financial performance through every level (Setiawan & Darmawan, 2011).

However, Dkhili &Ansi (2012) state that ROE is negatively related to CSR. Similarly, Fiori et al. (2007) find that DER has a negative effect on the share price, ROE has a positive effect on it, and CSR disclosure has no effect on stock prices at all.

Our initial proposition (*Ha0)* is that CSR does not affect the stock price of Indonesian companies, because the financial market in Indonesia is not efficient enough and because most stakeholders are short-term oriented. We argue that in Indonesia there is no understanding of the real impact of social and environmental policies on the performance and image of the companies. Our several hypotheses are:

Ha1*: CSDiLAhas a negative effect on and does not significantly influence SR.*
Ha2*: CSDiHR has a negative effect on and does not significantly influence SR.*
Ha3*: CSDiSO has a negative effect on and does not significantly influence SR.*
Ha4*: CSDiPR has a negative effect on and does not significantly influence SR.*
Ha5*: DER has a negative effect on and does not significantly influence SR.*
Ha6: *ROE has a positive effect on and significantly influences SR.*

RESEARCH METHODOLOGY

Brief & Lawson (1992) define two potential financial returns for the company resulting from CSR. The first is additional profit as a reward for positive behavior and the second is mitigation of any negative consequences of corporate behavior, the so-called safety net. In previous studies the two methods are used to establish a correlation among Corporate Financial Performance (CFP), and the level of investment in CSR (based on data from the CFP), and some financial index performance, such as stock prices (Knox & Maklan, 2004).The focus of our research is the relationship between CSR and stock price. To measure the performance of the company we use profitability, liquidity, solvency, financial efficiency and stock return (Fombrun et al., 2000). These five factors underpin the market valuation of the company. Accounting-based measures of financial performance are sufficient predictors of market-based appraisal of the companies and their returns. (Peasnell, 1996). Stock price reflects the fundamental value of the stock from which come the dividends to the shareholders (Fombrun et al., 2000).

We use the closing prices derived from the Capital Market Reference Center (PRPM) of the Indonesia Stock Exchange, and the annual reports of the companies (GRI, 2006).

The hypothesis of no correlation between stock prices and CSR is tested through cross-sectional analysis. In particular it is done through the regression model for the three-year observation sample, which is used to verify the relationship between the stock price and the model variables. For the purposes of linear regression we consider these variables: the share price as the dependent variable, and CSR, DER, and ROE as independent variables.

This research uses a multiple regression model as follows:

$$SR_{it}=\beta0+\beta1\ CSDILA_{it}+\beta2\ CSDIHR_{it}+\beta3\ CSDISO_{it}+\beta4\ CSDIPR_{it}+\beta5\ DER_{it}+\beta6\ ROE_{it}+\varepsilon_{it}$$

Where,

SR: Stock Return.
CSDI: Corporate Social Disclosure Index (CSRI).
DER: Debt to Equity.
ROE: Return on Equity.
$\beta0$-$\beta6$: The estimated coefficient.
εit: error term.
i:1,2,..., N.
t: 1,2,..., T.
N: number of observations and T: amount of time.

Information about Corporate Social Disclosure Index (CSDI) based on the GRI helps this study (www.globalreporting.org). GRI coexists with CSDI as a part of sustainability reporting. CSDI calculation uses a dichotomous approach, that is, each item of CSR in the research instrument is rated with level 1 if it is disclosed, and 0 if it is not disclosed. Furthermore, scores of each item are summed to obtain the overall score for each company. The CSDI calculation formula is as follows (Graves &Waddock, 1994):

$$CSDI_j = \frac{\sum X_{Ij}}{n_j}$$

Where,
CSDIt : Corporate Social Responsibility Disclosure Index company j, including Labor (LA), Human Rights (HR), Society (SO), and Product Response (PR).
nj : number of items for firm j, nj=40.
Xij : 4=if *item* i disclose level; 0=if *item* i no disclose.
Thus, 0<**CSDIt**<1

RESULTS

Descriptive Analysis

The initial phase of data analysis is a descriptive statistical analysis of the selected 15 companies. The result is shown in Tables 1-4 below.

Table 1
ANALYSIS DESCRIPTIVE ALL VARIABLES

	Mean	Std. Deviation	N
SR	0.3373	0.69247	45
CSDILA	0.7320	0.04495	45
CSDIHR	0.2102	0.06966	45
CSDISO	0.6598	0.05198	45
CSDIPR	0.6822	0.06725	45
DER	0.9020	8.13101	45
ROE	24.0811	55.08639	45

Table 2
ANALYSIS CORRELATION ALL VARIABLES

		SR	CSDILA	CSDIHR	CSDISO	CSDIPR	DER	ROE
Pearson Correlation	SR	1.000	0.236	-0.120	-0.256	-0.020	0.093	-0.187
	CSDILA	0.236	1.000	0.174	0.009	-0.339	0.297	-0.356
	CSDIHR	-0.120	0.174	1.000	0.331	-0.209	0.191	-0.180
	CSDISO	-0.256	0.009	0.331	1.000	-0.035	0.171	0.115
	CSDIPR	-0.020	-0.339	-0.209	-0.035	1.000	-0.178	0.175
	DER	0.093	0.297	0.191	0.171	-0.178	1.000	-0.689
	ROE	-0.187	-0.356	-0.180	0.115	0.175	-0.689	1.000
Sig. (1-tailed)	SR	0.000	0.059	0.215	0.045	0.447	0.271	0.110
	CSDILA	0.059	0.000	0.126	0.477	0.011	0.024	0.008
	CSDIHR	0.215	0.126	0.000	0.013	0.084	0.105	0.118
	CSDISO	0.045	0.477	0.013	0.000	0.410	0.130	0.226
	CSDIPR	0.447	0.011	0.084	0.410	0.000	0.122	0.125
	DER	0.271	0.024	0.105	0.130	0.122	0.000	0.000
	ROE	0.110	0.008	0.118	0.226	0.125	0.000	0.000
N	SR	45	45	45	45	45	45	45
	CSDILA	45	45	45	45	45	45	45
	CSDIHR	45	45	45	45	45	45	45
	CSDISO	45	45	45	45	45	45	45
	CSDIPR	45	45	45	45	45	45	45
	DER	45	45	45	45	45	45	45
	ROE	45	45	45	45	45	45	45

Table 3
ANOVA RESULTS ANALYSIS[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.966	6	0.494	1.036	0.018[b]
	Residual	18.133	38	0.477		
	Total	21.099	44			
a: Dependent Variable: SR.						

b: Predictors: (Constant), ROE, CSDISO, CSDIPR, CSDIHR, CSDILA, DER.

Table 4
REGRESSION MODEL

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)[a]	-0.485	2.855	-	-0.170	0.006
	CSDILA	3.588	2.609	0.233	1.375	0.177
	CSDIHR	-0.984	1.659	-0.099	-0.593	0.006
	CSDISO	-2.925	2.299	-0.220	-1.273	0.008
	CSDIPR	0.521	1.672	0.051	0.311	0.757
	DER	0.003	0.019	0.032	0.145	0.885
	ROE	-0.001	0.003	-0.083	-0.364	0.718

a: Dependent Variable: SR.

Hypothesis Testing

Hypothesis testing is done by looking at the 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 the t-test to see the significance of each variable included in the model, as well as to test the research hypothesis**.**

Table 5
t-TEST RESULT

H	Dependent	Independent	b	t	Sig	Result
Ha1	SR	CSDiLA	3.588	1.375	0.177075	**Rejected**
Ha2	SR	CSDiHR	-0.984	-0.593	0.006804	Accepted
Ha3	SR	CSDiSO	-2.925	-1.273	0.00883	Accepted
Ha4	SR	CSDiPR	0.521	0.311	0.757247	**Rejected**
Ha5	SR	DER	0.003	0.145	0.885328	**Rejected**
Ha6	SR	ROE	-0.001	-0.364	0.717696	**Rejected**

DISCUSSION

Ha1: CSDiLA has a negative effect on and does not significantly influence SR (Rejected).

Analysis shows that CSR disclosure in labor activity of the selected companies has a positive but not significant statistical effect on corporate market performance that proxies by Stock Returns (SR). In this case, CSR in labor activity benefits the companies that were analyzed. Payment for CSR does not reduce corporate profits. In fact, the positive effect of SR increases with improvement of company's CSR in labor activities. In this respect, by implementing CSR the profits of the companies are maximized. Our results confirm the theories of Kang et al. (2010); Chen & Wang (2011); Setiawan & Darmawan (2011); and Ehsan & Kaleem (2012).

Ha2: CSDiHR has a negative effect on and does not significantly influence SR (Accepted).

Analysis confirms that CSR disclosure in human rights activities has no significant statistical impact but has a negative effect on corporate market performance proxied by SR. By improving CSR, Indonesian retail and trade sectors may be able to fulfill the concept of Triple

Bottom Lines especially in human rights indicators. SR reflects the company’s profit derived from capital. A high SRshows the investors’ good opinion. In this aspect we confirm the research conclusions of Fiori et al. (2007) and Dhkili & Ansi (2012).

Ha3: CSDiSO has a negative effect on and does not significantly influence SR (Accepted).

CSR has a negative but not statistically significant effecton market performance proxied by SR. CSR is a long term benefit. Although a company must pay for CSR implementation, it is not a cost that reduces corporate profits. The positive effect of SR increases as the company's CSR increases. We confirm the work of Fiori et al. (2007); Dhkili & Ansi (2012) and Ehsan & Kaleem (2012).

Ha4: CSDiPR has a negative effect on and does not significantly influence CSDiPR (Rejected).

We note that CSR has a positive but not significant effect on SR. In this case, CSR is beneficial. While companies do pay for CSR , it is not a cost that reduces overall profits. The positive effect of SR increases with CSR. However, this is not statistically significant. We support the conclusions of Kang et al. (2010); Fiori et al. (2007); Dhkili & Ansi (2012); and Ehsan & Kaleem (2012).

Ha5: DER has a negative effect on and does not significantly influence SR (Rejected).

Debt Equity Ratio (DER), according to the research, does not have a significant statistical effect but does have a positive effect on SR. The Indonesia retail and trade companies that we analysed manage risk properly. Good service increases the loyalty of consumers and investors, and will ultimately increase sales. We show opposite results from those of Fiori et al. (2007).

Ha6: ROE has a positive effect on and significantly influences SR (Rejected).

ROE has a statistically significant*negative* effect on corporate market performance measured by SR. We once again show opposite results from those of Fiori et al. (2007).

CONCLUSION AND IMPLICATION

As a main conclusion it can be pointed out that improving the CSR data disclosed by companies in Indonesia will improve the corporate market performance as proxied by SR. In this respect, CSR in annual reports is considered as an investment and not as an expense.

CSR, especially in human rights and community benefits, enhances the perceived corporation value, which then becomes a real added value to the shareholders.

The retail and trade ISX companies in this study generate capital gains and assets to affect their value. It should be noted that profit from operating income can affect corporation value, because income need not reflect a company's high stock prices.

This study has one limitation: few companies publish sustainability reports for social responsibility. We use data from the annual reports, and we cannot generalize. The absence of company guidelines increases subjectivity in determining items to measure social responsibility with all indicators by GRI models.

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