THE EFFECT OF CSR: EVIDENCE FROM INDONESIA

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Presented at: SIBR 2018 (Osaka) Conference on Interdisciplinary Business and Economics Research, 5th - 6th July 2018, Osaka, Japan.

ABSTRACT

Corporate Social Responsibility (CSR) has a role to sustainable economic development in order to improve the quality of life that is more beneficial to stakeholders. The concept of CSR in Indonesia should follow global standards in order to be compatible to the firm in other countries, such as ISO 26000. This study aims to determine the effect of implementation of CSR and cost of CSR to dividend and how the effect of dividend to firm value. The research methodology used multiple linear regression. This study found that the implementation of CSR based on ISO 26000 issue have no a significant effect on dividend policy. It's because not all samples from this study are ISO 26000 certified, thus the disclosure doesn't adopt CSR disclosure based on ISO 26000. Nevertheless, the cost of CSR have a significant affects to the dividend policy. These results support the notion that CSR investment does not eliminate dividends. Furthermore, if the company share out a high dividend, subsequenly the stock price tends to be high and it will make the high value of the company. The results of this study are expected to contribute to increased awareness and implementation of CSR in business activities.

Keywords: Corporate Sosial Responsibility, Cost of CSR, Dividend, Firm Value.

1. INTRODUCTION

Corporate Social Responsibility (CSR) disclosure is one of the information that should be disclosed by the company in its financial statements and annual reports. Therefore, the annual report show the sustainability of corporate actions in the economic, social and environmental aspects. The concept of CSR in Indonesia ought to follow global standards so that it can be equivalent to an international company, one of which is ISO 26000.

The presence of ISO 26000 as a guideline for companies in implementing CSR practices that provide new colors in the definition and implementation of CSR. The concept of people refers to the concept of social development and human rights which not only concerns the economic welfare of the community (such as the provision of venture capital and vocational training), but will further come into contact with social welfare (such as the provision of social security), strengthening public accessibility to health and education, capacity building of social institutions, and local wisdom. Implementation of ISO 26000 will provide additional value to CSR activities by developing a consensus on the understanding of CSR and issues, providing guidance on translating principles into effective activities and sorting out best practices that have been developed and disseminated for the benefit of local communities or the international community.

Basically the company is run to maximize shareholder value. Likewise, when companies implement CSR. CSR is consistently applied by maximizing shareholder value and to achieving broader social goals (Ferrel et.all, 2016). On the other hand some opinions state that CSR is burdening the company and it is feared that it will affect the dividend distribution. Brav et all. (2005) stated that maintaining the dividend rate is still a top priority for managers. In particular, managers express a strong desire to avoid dividend cuts, except in exceptional circumstances. Even dividend increases are considered only after investment and liquidity needs are met. Therefore, these studies prove that it is unlikely that firms will cut dividends to increase their CSR investment.

However Rakotomavo (2017) found that companies that invest in CSR activities will not reduce corporate dividends. Still according to his research the implementation of CSR and dividend will increase simultaneously. This argue is supported by Fama and French (2001), Grullon et all. (2002), and DeAngelo et al. (2006) proves that if mature companies more to invest in CSR because they have the vehicle to support it, thereby CSR investment should not cut dividends. So the dividend payout scheme will remain consistent.

The further effect of a consistent dividend scheme is ensured to minimize the negative reaction of shareholders. Lundstrum (2005) indicates that dividend payments will reduce the uncertainty and risk that required by shareholders. This is in line with Gordon's (1961) study which states that the value of the company proxied by the stock value will be determined by the present value of the dividend to be received by the investor. Dividend payments can reduce agency conflicts between managers' interests and shareholder interests (Jensen and Meckling, 1976).

2. LITERATUR REVIEW AND HYPOTHESIS DEVELOPMENT

2.1 Theoritical Framework

The term stakeholder was originally introduced by the Stamford Research Institute (SRI), which refers to "those groups without the support of the organization would cease to exist" (Freeman, 1984). The core of the idea leads to the existence of an organization that is strongly influenced by the support of groups that have relationships with the organization. In developing stakeholder theory, Freeman (1984) introduced the concept of stakeholders in two models: first, policy models and business planning; and second, the corporate social responsibility model of stakeholder management.

In the first model, the focus is on developing and evaluating the company's strategic decision approval with the groups whose support is needed for the company's sustainability. It can be argued that, in this model, stakeholder theory focuses on ways that companies can use to manage corporate relationships with their stakeholders. While in the second model, corporate planning and analysis are expanded by including possible external influences for the company. These opposing groups include regulatory bodies (government), neighborhoods and/or groups with special interests that have concerns about social issues.

According to Clarkson (1995) Stakeholders can be divided into two based on the characteristics of primary stakeholders and secondary stakeholders. The primary stakeholder is a person or group without whom the company can not survive for going concern, including: shareholders and investors, employees, consumers and suppliers, as well as defined as public stakeholder groups: the government and the community. Secondary stakeholder groups are defined as those affecting, or being influenced by, the company. Of the two types of stakeholders above, primary stakeholders are the most influential stakeholder for the company's continuity because it has a high enough power over the availability of corporate resources.

According to Gray et. al, (1996) in Hadi (2011) legitimacy is "... a system-oriented view of the organization and society ... permits us to focus on the role of information and disclosure in the relationship between the organizations, the state, individuals and group ". From the definition of legitimacy is a system of corporate management that stands on the community. Therefore, as a community-oriented system, the operations of the company must be in line with the expectations of the community and the environment. Corporate legitimacy can be improved through Corporate Social Responsibility to get a good corporate image by the community.

Shocker and Sethi (1974) in Ghozali and Chariri (2007) provide an explanation of the concept of social contracts "All social institutions are no exception companies operate in society through social contracts, both explicit and implicit, where survival and growth are based on social outcomes can be given to the public and the distribution of economic, social or political benefits to the group in accordance with the power it has. "

The theory of legitimacy is expected to ensure that the activities and performance of the company are acceptable to the public. The company's annual report is used as information to illustrate the impression of environmental responsibility, so that they can be accepted by the community. With the trust of the community can increase the value of the company so that it can affect the company's profit.

The legitimacy of the company can be seen as something that people give to the company and what the company wants from the community. The legitimacy of the company can explain the company's behavior within implement voluntary social and environmental disclosures. The legitimacy of the theory used in this study to support the assumption that corporate actions perform socially acceptable responsibilities in the environment around which the company operates. The conformity of the company's actions to the norms or regulations applicable in Indonesian society will encourage companies to gain legitimacy in the community.

2.2 Hypothesis

The dividend policy is an integral part of the company's funding decision. Likewise, CSR financing is closely related to company funding. The company must have enough funds to carry out its operational activities such as implementation of CSR and to pay dividends. Fama and French (2001), Grullon et al (2002), and DeAngelo et al. (2006) provides evidence that the decision to pay or increase dividends is related to the maturity of the company. Still according to DeAngelo et all. (2006), CSR investment does not cut dividend payouts if the mature company has the vehicle to implement CSR. Rakotomavo (2012) explains that companies that invest more in CSR tend to pay higher dividends than expected. These results support the idea that CSR investment does not relieve dividends. The higher the CSR investment, the higher the actual dividend when compared to the expected dividend. This hypothesises are formally state as:

Ha_1: Implementation of CSR has a positive effect on dividend policy.

Ha_2: CSR costs has a positive effect on dividend policy.

The company must determine the amount of dividends distributed, as the decrease or increase in the amount of dividends paid is often a signal for investors on the prospects for future growth of the company. Indirectly investors can estimate the value of the Company to be purchased shares through a defined dividend policy. Corporate value can also be seen from the company's ability to pay dividends. Gordon and Lintner (1959) in Brigham (2001: 67) state that firm value will be maximized by a high dividend payout ratio, as investors consider that dividend risk is not as big as increases of cost of capital, so investors prefer dividend gains rather than expected returns of the increase in capital value. This hypothesis are formally state as:

Ha_3: Dividend policy has a positive effect on firm value

3 RESEARCH METHOD

3.1 Sample and Data Sources

The type of data used in this study is secondary data . The population in this study is a manufacturing company listed on the Indonesia Stock Exchange (BEI) in 2010-2015. Based on the population will be determined sample as the object of research. The sample selection technique used purposive sampling, with criteria of the company that distributes dividends in 2014-2015. There are 114 sample in this research.

3.2 Research Model

The method used to analyze the data is descriptive statistical test and multiple linear regression. Descriptive statistics are basically a process of transforming research data in tabular form so that it is easily understood and interpreted (Indriantoro & Supomo, 2014). Multiple linear regression used to examine hypothesis testing with significance level at 5% tolerance.

3.2 Operational Variable

Table 1. Shows the operational variable of this research.

Variable	Definition variable	Indicator
CSR Implementation (X_1)	Reflected on CSR disclosure items based on ISO 26000 issues. Total items of disclosure are 36.	$CSRD = \frac{\text{Item of disclosure}}{\text{Total item of disclosure}}$
CSR Cost (X_2)	All costs incurred by the company for the implementation of CSR activities	Total cost of CSR
Dividend Policy (Y_1)	The company's profit-payment policy to its shareholders is proportional to the number of shares owned by the company	*Dividen Payout Ratio* (DPR) = $\frac{DPS}{EPS}$
Company Value (Z)	An investor's assessment of a company that tends to be linked to the company's stock price	*Price Book of Value* (PBV) = $\frac{\text{Price}}{\text{Book Value}}$

The research model as follows:

Model 1 : $Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \varepsilon$

Model 2 : $Z = \alpha + \beta_3 Y + \varepsilon$

4. RESULT AND DISCUSSION

4.1 Deskriptive Statistics

Descriptive analysis used descriptive statistics (minimum, maximum, mean and standard deviation).

Tabel 2. Deskriptive Statistics

	N	Range	Minimum	Maximum	Mean		Std. Deviation
	Statistic	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic
CSRD	114	.78	.00	.78	.3803	.01518	.16203
DPR	114	1.46	.00	1.46	.2095	.02631	.28092
PBV	114	48.66	.01	48.67	3.5884	.66425	7.09226
CSR_COST	114	664.34	.00	664.34	20.7888	7.93685	84.74236

Table 2. show that the average of CSR disclosure is 0,38. This indicates that 38% or 13 items of disclosure under ISO 26000 are disclosed. This indicate that CSR disclosures are relatively few. The average cost of CSR is 20,788. This shows that the average cost of CSR spent by the company is Rp20.788.000.000. Average Dividend Payout Ratio of 0,20. It shows that the company is paying a dividend of 20% compared to its profit. The average Price Book Value is 3,58. The value indicates that throughout the study period the average price is greater than the book value recorded by the company. The ratio of price book value as a measurement of market value that has a value above one indicates the company is applying a better method.

4.2 Hypothesis Testing

This test is done by using the value of probability (p-value) of each regression coefficient independent variable compared with the level of significance (α).

Test results on model 1 and 2 as follows:

Tabel 3. Hypothesis Testing Model 1

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	.215	.069		3.122	.003		
	CSRD	-.125	.161	-.082	-.776	.440	.998	1.002
	CSR_COST	.040	.012	.361	3.425	.001	.998	1.002

a. Dependent Variable: DPR

Tabel 4. Hypothesis Testing Model 2

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.332	.810		2.880	.005		
	DPR	5.996	2.317	.238	2.588	.011	1.000	1.000

a. Dependent Variable: PBV

4.3 CSR Disclosure, Cost of CSR and Dividend Policy

Based on the first hypothesys test that the significance level of X_1 is 0.440. It can be concluded that the implementation of CSR policy has no effect on dividend policy. These results are consistent with research conducted by Matthew Brine, Brown and Hackett (2007) and Auperlle and Collagues (1985) proving that there is no significant relationship between CSR disclosure and financial performance. The samples of this study are not all ISO 26000 certified so that the disclosure does not adopt the disclosure based on ISO 26000.

testing the second hypothesis shows the level of significance of X2 of 0.001. It can be concluded that CSR costs have a positive effect on dividend policy. Fama and French (2001), Grullon et al (2002), and DeAngelo et al. (2006) provides strong evidence indicating that the decision to pay or increase dividends is related to the maturity of the company. If adult companies invest more heavily in CSR because they have the means to do so and if the manager strongly rejects dividend cuts, then CSR investment should not cut dividends. Rakotomavo (2012) proves that companies that invest more in CSR tend to pay bigger than expected dividends. These results tend to support the idea that CSR investment does not eliminate dividends. The higher the CSR investment is, the higher the actual dividend when compared to the expected dividend.

4.4 Dividend Policy and Firm Value

Based on the results of testing Hypothesis third that the level of significance X3 of 0.011. It can be concluded that dividend policy has a positive effect on company value. Gordon and Lintner (1959) in Brigham (2001: 67) state that firm value will be maximized by a high dividend payout ratio, as investors consider that dividend risk is not as big as capital cost increases, so investors prefer dividend gains rather than expected returns of the increase in capital value.

The company must determine the amount of dividends distributed, as the decrease or increase in the amount of dividends paid is often a signal for investors on the prospects for future growth of the company. Indirectly investors can estimate the value of the Company to be invested by capital (purchased shares) through the dividend policy set by the company concerned. Related to how much dividend will be distributed to shareholders, then this is determined based on dividend policy of a company. If the dividends are paid high, then the stock price tends to be high so that the value of the company is also high. The ability to pay dividends is closely related to the company's ability to make a profit. If the company makes a large profit, then the ability to pay dividends is also great. Therefore, with a large dividend will increase the value of the company.

5. CONCLUSION

Based on the above discussion, Implementation of CSR policy has no effect on dividend policy. How much CSR disclosures the company does will not affect management policies to make dividend payments to shareholders. On the other hand the cost incurred by management for CSR will not reduce the dividend payout for shareholders. DeAngelo and DeAngelo (2006) revealed that based on the thought of Miller-

Modigliani dividend policy is an optimal policy by paying the present value of free cash flow.So investors do not have to worry that dividend payments are not affected by corporate spending because of CSR. While the dividend payer will affect the value of the company seen from the price book value. If the dividends are paid high, then the stock price tends to be high so that the value of the company is also high. This study shows that shareholders do not have to anxious about CSR expenditure by management because it will not affect dividend payout, and dividend payout will affect company value.

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