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Kontakt/Contact

ZBW – Leibniz-Informationszentrum Wirtschaft/Leibniz Information Centre for Economics
Düsternbrooker Weg 120
24105 Kiel (Germany)
E-Mail: [rights\[at\]zbw.eu](mailto:rights[at]zbw.eu)
<https://www.zbw.eu/>

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

Wiwiek DIANAWATI*, Dian AGUSTIA and Nisful LAILA

Universitas Airlangga, Indonesia

This study is focused on evaluating CSR programs in Indonesia by examining the influence of CSR disclosure on the 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 which enlisted at Indonesia Stock Exchange (IDX) from 2012 to 2014. A saturated sample technique is implemented to draw the sample and this study employs a structural equation modeling (variance-based). The implication of these results suggests that the government, as a regulator in the stock market, should provide a complete guidance about how to make a good CSR report which refers to Global Reporting Initiative. Eventually, this guidance could be used by stakeholder to make appropriate economic decisions. For companies, it is important to pay attention to CSR disclosure on the annual report or the company's sustainability report because it is positively associated with the reaction of employees and investors.

Keywords: CSR disclosure, stakeholder reaction, firm value

JEL Classification: L20, L26

1. Background of the Study

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

This research model examines the companies' initiative 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 on the CSR that is expected to give a meaningful contribution to the firm value. The reasons for examining the stakeholders' reaction from the perspective of customers and employees are as follow: (1) understanding the customers' need becomes an important point in industry. According to Lafferty

* Corresponding Author:
Wiwiek Dianawati, Faculty of Economic and Business, Universitas Airlangga, Indonesia

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et al. (1999), a good corporate image and reputation positively correlate with the intention to buy and to help the customers in comparing the offer from a certain company with its product or service. Therefore, customers' 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 that become a concern of the company in implementing CSR (Gond et al., 2010).

Understanding the importance of CSR activities for the company and the society, particularly in Indonesia, has grown rapidly. Along with this development, Government of Indonesia responds it by establishing the Law Number 25 year of 2007 in April regarding the investment, especially Article 15, and the Law Number 40/2007 regarding the Limited Liability Companies, which require companies whose operations related to natural resources to implement CSR

The motivation to conduct this research is to provide empirical evidence on 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 value. In other words, CSR disclosure is a signal for stakeholders whether to purchase for customers and whether to increase productivity for employees.

1.1. Statement of the Problem

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

1.2. 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 the firm value.

2. Literature Review

2.1. Signaling Theory

Signaling Theory was first introduced by Akerlof (1970). It 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 financial and non financial information. One of the important information to be disclosed by the company is information about CSR.

2.2. Hypotheses Development

Researches on the level of consumer awareness about environmental sustainability have been done by many scholars in Indonesia. Nawangpalupi and Pratama's research (2012) led to the conclusion that consumers want to reduce the use of plastic bags and they 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 and affects a customer's decision to whether accept or decline a sales offer. It is also supported by the value linking chain model that explains how CSR is part of a product offered by a company that can influence a customer's decision to whether accept the offer or not.

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

CSR is a form of corporate investments, oriented to the interests of all stakeholders and not only focused on the interests of shareholders. 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 by employees as their interests are not ignored by the company and their rights have been fulfilled. This will motivate employees to work better so as to increase their productivity, in accordance with the statement from Epstein and Roy (2001) that by undertaking social responsibility in the labor aspect, one of the benefits gained by the company is the increased productivity.

The research result 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 give a meaningful contribution to corporate financial performance by influencing the employees' behavior.

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

3. Research Design

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

3.1. Population and Sampling

The target population in this study is public companies listed on Indonesia Stock Exchange (IDX) IN 2012-2014. Saturated sample technique is implemented to draw the sample.

3.2. 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 i.e. each CSR item is rated 1 if it is disclosed, and 0 if it is not.

$$\text{Corporate Social Responsibility Index} = \sum_{i=1}^{m_j} \frac{d_i}{N}$$

d_i = number of items disclosed by company j

N = maximum number of items that should be disclosed by the company

Customer Reaction

The proxy used in this study to see whether the reactions exist is the revenue (sales growth), whether it increases or not, in accordance with the model proposed by Epstein and Roy (2001).

$$\text{Sales Growth} = \frac{(\text{Sales } y) - (\text{Sales } y - 1)}{\text{Sales } y - 1}$$

Employee Reaction

The level of productivity is measured using Productivity Index (PI) by comparing the input with the output (Sinungan, 2003, pp.49-50).

$$EPI = \frac{\text{Sales or Revenue}}{\text{Direct labor cost}}$$

Employee Reaction

= *Employee Productivity Index t (current year)*

– *Employee Productivity Index t – 1 (previous year)*

Firm Value

Measurement of the firm value in this study uses 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 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 the path from the mediation variable to the dependent variable is significant as well.

4. Results and Discussion

The data in this research were secondary data obtained from IDX and NCSR websites. The sampling was conducted using saturated sampling method and resulted 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 rest 8% engaged in agriculture. The following is a table showing 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 * Disclosure Items	Disclosure Realization	% of Disclosure Realization
Economics	289	9	2601	806	30.98
Environment	289	30	8670	1367	15.77
Labor 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 most assessment indicators disclosed that got a lot of attention from the company are listed as follow: the labor practices and decent work of 31.88%, the next is the disclosure of economic performance of 30.98%, followed by environmental performance of 15.77%, public performance of 15.66%, product responsibility of 15.65% and the last is the human rights performance of 10.92%. Based on these disclosure figures, it can be seen that CSR disclosure conducted by public companies in Indonesia is still very low.

The significance test was done by comparing p-value with 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

Exogenous Variable	Endogenous Variable	Mediation Variable	Direct Effect without Mediation		Direct Effect and Indirect Effect/mediation		Conclusion
			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	

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

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, not a culture that influences their behavior including the decision making whether to buy a product or service. From the statistical data analysis, 10% of variable mediating CSR influence on the customers is not significant as it is higher than the α used, which is 5%, and the result of this research supports Arli and Lasmono's research (2010) on the customers perception toward CSR of the companies in Indonesia. They found that CSR disclosure is just a concept waiting to be applied, and most of the customers do not aware of and not fully support the implementation of CSR.

From the statistical data analysis, there is a significant influence of CSR disclosure on company value without 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), indicated 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 CSR influences employee reactions. This is supported by CSR disclosure data related to labor 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 further will positively influence the organizational efficiency. The Service-Profit Chain model developed by Heskett and Schlesinger (1994) also states that there is a relationship between the quality of the company's internal services and job satisfaction meaning that if companies have provided internal services to employees adequately, granting their rights and treating them well will satisfy the employees and will have an impact on improving productivity. Moskowitz (1972) said that the CSR implementation of the labor-power costs a lot of money but can increase employee productivity. The existence of Law No. 13 year of 2003 on workforce and Law No. 1 year of 1970 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 the firm value. The results of this study show that the implementation and disclosure of CSR have become the attention of investors in Indonesia 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 Indonesia stock market. The company 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, 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 by investors, shown by the increase of firm value. This indicates an increase in awareness of Indonesian people, especially investors in the stock market in making stock purchase decisions by paying attention to CSR factors. Based on the Signaling 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 ensure the sustainability development (Epstein and Roy, 2010). Institutional investors are those who pay detailed attention to additional information such as CSR and have capabilities to analyze 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 CSR variable on the firm value is in accordance with the results of a research conducted by Roberts (in Pava and Krausz, 1996) and a research conducted by Bowman and Haire (in Ullman, 1985). In addition, the findings of this present study are also supported by the statement of United States-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 and it further will become a sustainable strategy which positively influence the company's long-term performance.

5. 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 the investors at Indonesia Stock Exchange. 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.

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