

# CSR & PERFORMANCE

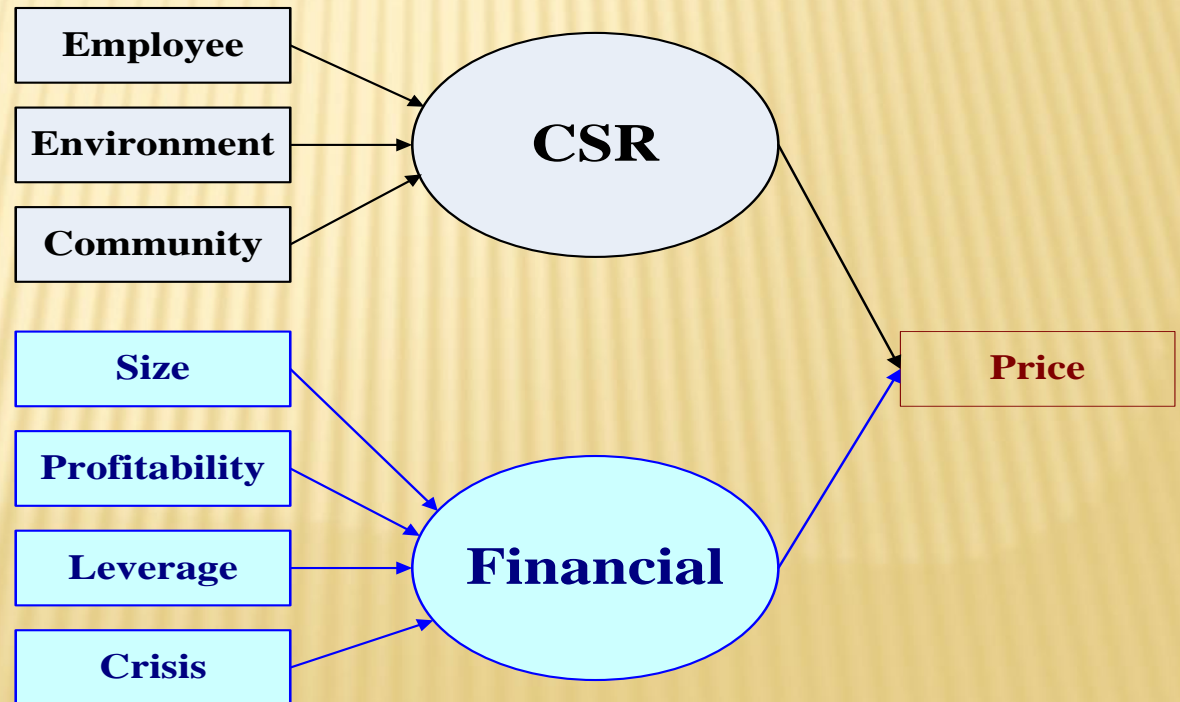
## any evidence from Indonesian LQ45?

Saffana Afiff  
&  
Samuel PD Anantadjaya

- ✘ CSR represents the set of programs whereby firms take into account their own societal involvement (Fiori, et al, 2007; World Business Council for Sustainable Development, 2000)
- ✘ CSR has become a part of firm's strategy (Lantos, 2001; Pearce & Robinson, 2011)
- ✘ CSR affects firm's financial performance (Bird, et al, 2007; Fiori, et al, 2007; Oeyono, et al, 2011; Utaminingsyas & Ahalik, 2010)
  - + But, the positive impact of CSR toward firm's financial performance remains inconclusive (Margolis & Elfenbein, 2007)
  - + CSR in Indonesia appears to be a corporate-level novelty between dreams and expectation (Kemp, 2001)

# RESEARCH MODEL

- ✘  $H_1$  : CSR influences stock price
- ✘  $H_2$  : Financial ratio influences stock price



- × This study relies on secondary data from firms' at Indonesian LQ45 during 2004-2011
  - + CSR parameters
    - × CSR on employment relations
    - × CSR on environment
    - × CSR on community development
  
  - + Financial performance
    - × Market size
    - × Profitability
    - × Financial leverage
    - × Operating risk

- ✘ LQ45 consists of 45 most-liquid Indonesian stocks
- ✘ Sampling criteria
  - + From 96 firms listed in LQ45 from 2004 – 2011
  - + Ending up with 13 firms **listed every year** from 2004 - 2011

# SELECTED FIRMS

No	Code	Firm
1	AALI	Astra Agro Lestari Tbk.
2	ANTM	Aneka Tambang (Persero) Tbk
3	ASII	Astra International Tbk.
4	BBCA	Bank Central Asia Tbk.
5	BDMN	Bank Danamon Indonesia Tbk.
6	BNBR	Bakrie & Brothers Tbk
7	BUMI	Bumi Resources Tbk
8	INCO	International Nickel Indonesia Tbk
9	INDF	Indofood Sukses Makmur Tbk
10	ISAT	Indosat Tbk
11	PTBA	Tambang Batubara Bukit Asam Tbk
12	TLKM	Telekomunikasi Indonesia Tbk
13	UNTR	United Tractors Tbk.

Source: BEI, 2012

# SELECTED VARIABLES

Variable	Definition	Indicator
<b>CSR</b>	CSR is defined as a commitment to improve community via business practices and contributions of firm's resources. CSR is associated with positive corporate benefits and reflects firm's status and activities with respect to its perceived societal obligations (Kotler and Lee, 2005).	<b>Employment</b> (Fiori, et al., 2007; Orlitzky, et al, 2003; Neal, 2008; Liu and Fong, 2010)
		<b>Environment</b> (Fiori, et al., 2007; Orlitzky, et al, 2003; Lyon and Maxwell, 2008; Iamandi, 2007; Kärnä, et al., 2003; Spada, 2008)
		<b>Community</b> (Fiori, et al., 2007; Orlitzky, et al, 2003; Iamandi, 2007; Handelman and Bello 2004)
<b>Financial Ratio</b>	Financial ratios can help investors in making investment decisions, including making predictions on firms' performance and stability (Ross, et al, 2008; Subramanyam and Wild, 2009).	<b>Size</b> (Fiori, et al., 2007)
		<b>Profitability</b> (Fiori, et al., 2007)
		<b>Leverage</b> (Fiori, et al., 2007)
		<b>Crisis</b> (Adriyanto, 2010; Sheng, 2009)
<b>Stock Price</b>	Fiori, et al (2007) defined financial performance can be parallel to organizational reputation. Financially, this can be seen from the level of firm's stock price. As the level of stock price increases, this becomes a valuable resource for firms.	

# CSR INDICATORS

CSR Indicator	Category	Index Grade
Employee performance index	Health and safety, training and development, equal opportunities policies, employee relations, systems for job creation, and job security	Rated from 0 to 3 (0 = not stated, 1 = few stated, 2 = slightly stated, 3 = completely stated)
Environmental performance index	The quality of environmental policies, environmental management systems, and environmental reporting	Rated from 0 to 4 (0 = not stated, 1 = few stated, 2 = slightly stated, 3 = completely stated, 4 = very completed)
Community performance index	Safeguard the environment, support human rights, eliminate child labor, adopt codes of ethics, enter into partnerships with NGOs, display openness and transparency in relationships with customers, employees, community groups, and governmental organizations, promote diversity in the workplace, help communities solve their social problems, and consult with community residents on business plans and strategies	Rated from 0 to 3 (0 = not stated, 1 = few stated, 2 = slightly stated, 3 = completely stated)



**Table 4.2: Descriptive Statistics**

	N	Minimum	Maximum	Mean	Std. Deviation
EMPL	104	.00	17.00	11.5000	4.15711
ENV	104	.00	16.00	6.7212	5.03860
COMM	104	.00	24.00	13.4808	5.45232
LEV	104	.18	14.06	2.4202	2.90949
PRO	104	-211.88	117.06	21.7325	30.74877
SIZE	104	14.68	19.76	17.1571	1.19096
DCRISIS	104	.00	1.00	.5000	.50242
SP	104	40	96250	9292.61	13911.117
Valid N (listwise)	104				

Source: SPSS

**Table 4.3: Multicollinearity**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics		
	B	Std. Error	Beta			Tolerance	VIF	
1	(Constant)	-3.252	2.212		-1.470	.145		
	EMPL	-.061	.032	-.170	-1.893	.061	<b>.654</b>	<b>1.529</b>
	ENV	.051	.033	.169	1.550	.124	<b>.441</b>	<b>2.269</b>
	COMM	-.042	.023	-.153	-1.851	.067	<b>.769</b>	<b>1.300</b>
	LEV	-.268	.050	-.518	-5.309	.000	<b>.552</b>	<b>1.810</b>
	PRO	.027	.004	.555	6.945	.000	<b>.822</b>	<b>1.217</b>
	SIZE	.727	.134	.575	5.410	.000	<b>.465</b>	<b>2.150</b>
	DCRISIS	-.041	.265	-.014	-.155	.877	<b>.672</b>	<b>1.488</b>

a. Dependent Variable: LNSP

Source: based on Coefficients<sup>a</sup> results, SPSS

**Table 4.4: Autocorrelation Test**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.708 <sup>a</sup>	.501	.459	1.10798	<b>1.986</b>

a. Predictors: (Constant), DCRISIS, BETA, LEV, ROE, CSR\_EMPL, CSR\_COMM, SIZE, CSR\_ENV

b. Dependent Variable: LNSP

**Source: based on the result on model summary<sup>b</sup>, SPSS**

**Table 4.3: Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square
1	.708	.501	.459

a. Predictors: (Constant), DCRISIS, BETA, LEV, ROE, CSR\_EMPL, CSR\_COMM, SIZE, CSR\_ENV

b. Dependent variable: LNSP

**Source: SPSS**

# DATA ANALYSIS

- ✘ Stock Price = -0.170 EMPL + **0.169 ENV** - 0.153 COMM - 0.518 LEV + 0.555 PRO + 0.575 SIZE - **0.014 DCRISIS**
- ✘ SP = -0.170 EMPL - 0.153 COMM - 0.518 LEV + 0.555 PRO + 0.575 SIZE

**Table 4.5: Hypothesis Testing Using t test (Coefficients<sup>a</sup>)**

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-3.252	2.212		-1.470	.145
EMPL	-.061	.032	-.170	-1.893	.061
ENV	.051	.033	.169	1.550	.124
COMM	-.042	.023	-.153	-1.851	.067
LEV	-.268	.050	-.518	-5.309	.000
PRO	.027	.004	.555	6.945	.000
SIZE	.727	.134	.575	5.410	.000
DCRISIS	-.041	.265	-.014	-.155	.877

a. Dependent Variable: LNSP

Source: SPSS

- ✘ As the CSR's employee initiatives increase by 1%, firm's stock price declines by 17%.
  - + employee CSR initiatives incur expenses for health and safety (Frans, 2012),
  - + training and development (Liu and Fong, 2010),
  - + employment friendly policies (Kärnä, et al, 2003; Neal, 2008),
  - + governance (Kärnä, et al, 2003; Neal, 2008),
  - + job creation (Liu and Fong, 2010), and
  - + job security (Liu and Fong, 2010).
  
- ✘ These initiatives represent cash out, which is translated into a negative impact toward stock price

- × CSR's community initiatives increases by 1%, the prevailing stock price slides by 15.3%.
  - + these community CSR initiatives also incur expenses for all kinds of activities targeted toward the betterment of the society as a whole (Handelman and Bello, 2004; Jamandi, 2007; Kärnä, et al, 2003; Neal, 2008).
    - × These initiatives correspond to expenses, the market may react as additional financial burden for firms. Therefore, a negative respond toward stock price is prominent.

- × As firm's leverage increases by 1%, the prevailing stock price slides by 51.8%.
- + Firm's leverage symbolizes borrowings, the payment of interests may portray financial burdens.
  - × Though such borrowings may well be solely targeted into capital expenditures and/or expansion projects by firms, nonetheless, the market may perceive them as hurdles toward profitability.

- ✘ As firm's profitability increases by 1%, the prevailing stock price jumps by 55.5%.
- + This is evident that the market recognizes the vital role of profitability for firms.
- ✘ As profitability rises, the market views it as a "comfortable cushion" to leap toward sustainability. This is what the public looks for.

- ✘ As firm's size increases by 1%, the prevailing stock price jumps by 57.5%.
- + As firms accumulated assets, the existence may become powerful in the market.
  - ✘ This powerful existence may be perceived as a crucial ingredient toward fighting-off rivals with deep-pocket competition.



- ✘ The results show that CSR employee, CSR community, firm's size, profitability and leverage have significant effect toward firm's stock price.
  - + It means that firms may have to consider increasing attention on employee and community CSR initiatives.
  - + Other variables that have significant influences toward stock price are profitability, size, and leverage.

# RECOMMENDATION

- ✘ CSR initiatives are relatively new schemes in Indonesia.
  - ✘ The quality of disclosures for CSR may not be easily measurable as firms use CSR disclosures as a mere instruments toward advertising.
  - ✘ From the investor's perspective, it is also apparent that the timeline orientations between CSR results and investor's expectations may not be closely matched.
- + Investors have relatively short-sighted orientations while CSR's impacts are mostly medium to longer terms.

- ✘ Future research should add influencing variables, such as;
  - + governance,
  - + ownership structure,
  - + quality of human resources,
  - + opinions from employees and community on CSR initiatives, including other external parameters.
  
- + Also, the use of other quantitative method may be incorporated to note the differences and/or applicability across firms and industries.