STRATEGIC CORPORATE SOCIAL RESPONSIBILITY AND FIRM PERFORMANCE

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ABSTRACT

Strategic management literature suggested that social responsibility activities is an opportunity, innovations and a source of competitive advantage that can be used to enhance corporate value. This study discusses the company's ability to alter the activity of CSR into a valuable strategic CSR activities (strategic CSR) and its impact on corporate performance (financial and non financial). The research also compared the ability of manufacturing companies in Indonesia and Malaysia in produce a strategic CSR. Company's ability to generate strategic CSR in this research were measured using five dimensions of strategy disclosure of the Centrality, Specificity, Proactively, Visibility and Voluntarism. While the performance of the company divided into non-financial performance and financial performance. Financial performance is measured by Return On Assets (ROA) and Price Earning Ratio (PER). Non-financial performance is measured by Value Creation that generated from The customer loyalty, Obtain new customer, Develop new products/services, Open new markets, and Improve employee competence. The results show that strategic CSR that the company provides have a significant impact on financial and non-financial performance (value creation) as compared to financial performance. While the country aspects only affecting Return On Assets (ROA).

KEYWORDS

Strategic Corporate Social Responsibility, Non Financial, Financial, Performance, Value creation, Return On Assets (ROA) and Price Earnings Ratio (PER)

INTRODUCTION

Researches regarding the relationship between social responsibility with financial performance, still varied (Nelling and Webb, 2008; Milne and Chan, 1999). Tests on the effects of social responsibility to financial performance based on the opinion that the company can get the financial benefits from social responsibility activities (Husted, 2003; Porter and Kramer, 2006; Husted and Allen, 2007, 2009); Sprinkle and Maines, (2010) . Margolis and Walsh (2001) analyzed a number of empirical studies that tested the relationship between social performance and financial performance. The result showed that, almost 50% research found a positive relationship between the two variables, 25% found no relationship, 20% found the results were mixed and 5% found a negative relationship. The Difference results one of them was caused by variety measurement used. Knox and Maklan (2004) also stated that the empirical evidence regarding the financial benefits of the practice of social responsibility was very little compared to the arguments and claims about the benefits of social responsibility activities. In addition,

research also indicated that the corporate disclosure on social responsibility had only little effect on the market (Milne and Chan, 1999; Murray et al., (2006).

Porter and Kramer (2006) explained why previous research failed to found a strong relationship between social responsibility and financial performance. This might be due to: (i) the company separated the business aspects with social aspects and (ii) the company thought about social responsibility in a general way, not by adjusting with company's strategy. This made social responsibility activities further and be distinguished into non-strategic social responsibility and social responsibility strategic. An issue called strategic if the issue could affect a company's ability to achieve its goals (Ansoff, 1980). Social responsibility activities become strategic, if those activities could affect the company's core business, growth, profitability and sustainability of the company (Kolk and Pinkse, 2008).

In a competitive business environment whose resources were limited, it was imperative for the companies to make every activities conducted measurable, with social responsibility activities. Porter and Kramer (2006) stated that social responsibility activities were opportunity, innovative and a source of competitive advantage that could be used to enhance corporate value. To be able to increase the company's competitive advantage, companies must make social responsible activities to become more strategic, so the cost of social responsibility program can be effective and generate a clear return on investment (Husted, 2003). Husted and Allen (2007) reinforced this statement by stating that a successful social responsibility strategy would result not only on social benefits but also generate profit alone.

Based on the above, the strategic decisions that must be taken by the company about strategic social responsibility were related with two main things (Husted, 2003): (i) the choice of social issues that would be handled by the company, and (ii) managing the cost so program social responsibility can be efficient. Burke and Logsdon (1996), has formulated five dimensions of strategy to measure the success of the strategic corporate social responsibility activities. Five dimensions of these strategies has been tested by Husted and Allen (2007, 2009) by looking its effect on firm value.

Researches that examined about the effect of strategic social responsibility to the company's performance were still a rare (Husted and Allen, 2007, 2009). It has been described previously that the activity of social responsibility that has strategic value has an influence on firm value. Company's value could be distinguished into financial and non financial aspects. Value companies based on financial aspects was known through financial ratios and stock prices, while based on non-financial aspects one could see through the aspects of customers, market share, product development and employee.

Based on the concept of efficient market in financial theory, stock prices, derivatives and other financial instruments were affected by the information provided to investors (Brealey, Myers and Allen 2006). Accordingly, when companies disclosed information about strategically social responsibility activities, the market through stock prices responded to these publications. Husted (2003) stated that strategic social responsibility activities should have a clear return on investment. Implementation of social responsibility activities consumed corporate resources. As a business entity, assets should be productive, it meant the use of assets must give the benefits

for the company. Social responsibility activities were perceived to have benefits not only to the financial aspect but also non-financial aspect. Husted and Allen (2007, 2009) has proved this. They found that the strategic social responsibility could enhance corporate value as measured by non-financial aspects. Non-financial aspects that used (Husted and Allen, 2007, 2009) was customer loyalty, obtain new customer, develop new products / services, open new markets, and Improve employee competence.

This research adopted five dimensions of strategic corporate social responsibility that formulated by Burke and Logsdon (1996) and has been tested by Husted and Allen (2007, 2009). The modifications that made in this research were: (i) transforming the five dimensions of strategic corporate social responsibility in Burke and Logsdon's (1996) and Husted and Allen (2007, 2009) into a disclosure check list to measure strategic corporate social responsibility programs, and examine its effect on financial performance (the accounting performance and market performance). Husted and Allen (2007, 2009) only examined the effect of strategic social responsibility towards the value creation (based on non-financial aspects), (ii) using samples from the two countries, this research used public companies in Indonesia and Malaysia, previous research only used sample from a single country, (iii) using the content analysis method with scoring 0, 1, 2 and 3 to measure the disclosure of strategic corporate social responsibility and non-financial performance (value creation), previous research measure the strategic corporate social responsibility by surveys.Firm performance in this research were measured by three proxies, namely Value Creation (non-financial performance), Return on Assets (ROA) as a proxy of accounting performance and Price Earnings Ratio (PER) as a proxy of market performance. The reason using public company in Indonesia and Malaysia as a sample, because these two countries have many cultural similarities, ethics and religiosity (Zulkifli and Amran, 2006).

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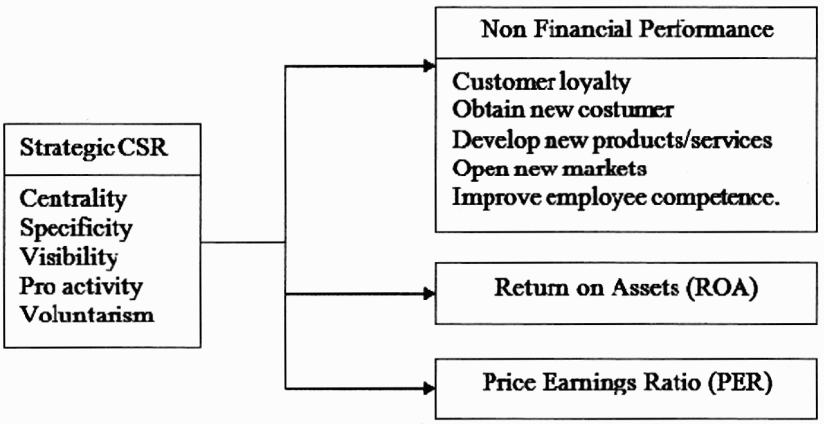
Indonesia and Malaysia are the members of ASEAN. In this area there are regional or bilateral cooperation among its members. Husted and Allen (2007, 2009) noted that the country had effect in their findings. The effect was caused by the regulations, industry activity and tax incentives in each country. Based on this could be hypothesized:

Hypothesis 4: There are differences in the influence of the country to value creation, Return on Assets (ROA) and Price Earnings Ratio (PER).



Graph 2.1 Conceptual Framework

RESEARCH METHOD

Data and Sample

The data used in the form of secondary data from company's annual reports with the following criteria: (1) registered as a public company in Indonesia Stock Exchange (IDX)and Malaysia Stock Exchange in the period 2008, (2) the company's annual report and company's website is available, and (3)Registered as a manufacturing company.

Content Analysis Method

Content analysis is a method of codifying the text or content of an article into several categories based on certain criteria (Milne and Adler, 1999). These methods typically use the disclosure index to assess the disclosure. Accounting literature notes that there are two approaches in conducting content analysis: mechanistic and interpretative (Beck et al., 2010). Mechanistic approach, seeking to capture the description of a description in a report which is assumed to have the same meaning and purpose. An example of application of this approach is word count, sentence count, page proportions and frequency of disclosure (Beck et al., 2010).

Interpretative approach is a type of analysis that seeks to capture a meaning by seeking the narrative description that represents a particular indicator (Beck et al., 2010). Studies using this approach give more attention to quality and broad or character of the narrative. This method is more to the interpretation of texts. This research uses interpretative approach in conducting content analysis. This research uses coding with four ordinal scale as follows: 0 if the information required by the check list instruments available, 1 if the information disclosed in general way, 2 if the information is more clearly expressed qualitatively and 3 if the information disclosed is not only qualitatively but also contain quantitative information, such as percentages, the fee amount, frequency, and so forth.

RESEARCH MODEL

Testing of the hypothesis presented in this study was conducted using multiple regression analysis. This regression equation is as follow:

$$VC_i = \alpha_i + \beta_1 STRCSR_i + \beta_2 LEV_i + \beta_3 SIZE_i + \beta_4 DCOUNTRY_i + \varepsilon_i \ldots\ldots\ldots\ldots \quad (1)$$

$$ROA_i = \alpha_i + \beta_1 STRCSR_i + \beta_2 LEV_i + \beta_3 SIZE_i + \beta_4 DCOUNTRY_i + \varepsilon_i \ldots\ldots\ldots \quad (2)$$

$$PER_i = \alpha_i + \beta_1 STRCSR_i + \beta_2 LEV_i + \beta_3 SIZE_i + \beta_4 DCOUNTRY_i + \varepsilon_i \ldots\ldots\ldots \quad (3)$$

Where:

VC = Value creation is measured using 19 indicators from five aspects: customer loyalty, Obtain new customer, develop new products/services, open new markets, and Improve employee competence.

ROA = Return on Assets (ROA), measured by comparing the operating profit with total assets,

PER = Price Earnings Ratio (PER), measured by comparing adj. closing price with earnings per share

STRCSR =Strategic CSR measured by 19 indicators from five dimensions of strategy: centrality, visibility, specificity, proactivity, and voluntarism.

SIZE = As control variable, measured by the natural logarithm of total assets

Leverage = As control variable, measured by the average ratio of debt to total assets

DCOUNTRY = Dummy variable, 1 for Indonesian and 0 for Malaysia.

RESULT ANALYSIS

Overview of Research Sample

The samples in this study were obtained from the Indonesian Stock Exchange website, www.idx.co.id and Malaysian Stock Exchange website www.bursamalaysia.com. By using Osiris, from a sub menu on Osiris, public companies then were sorted to manufacturing companies only, from the largest to the smallest total assets. The next step was to select 100 manufacturing companies that had the greatest asset values. Summary of sample selection are seen in the following table:

Table 4.1
Sample Selection

Information	Total
Companies listed on a central database of Osiris in the two countries until 2008	1321
Companies selected through a selection of 100 companies with total assets of the largest manufacturing	191
Companies that company websites cannot be accessed	(38)
Companies that annual reports cannot be downloaded	(61)
Companies that meet the criteria for sample selection	70
Number of year observations	1
Outlier data:	
Model 1	(17)

Model 2	(14)
Model 3	(22)
Observations excludeoutlier:	
Model 1	53
Model 2	56
Model 3	48

HYPOTHESES TESTING

The results of empirical regression model 1, 2 and 3 can be seen in table 4.2. The empirical result for Model 1 shows that the value of the F statistic is significant at 0.00. This means that Value Creation which is the qualitative performance measurements can be explained jointly by Strategic CSR, Size, Leverage and the countryat 28.1%. The remaining 71.9% is explained by other variables that have not been included in this study. The empirical result for Model 2 shows that the probability value for F statistic also significant at 0.00, in other words Return on Assets (ROA) can be explained jointly by Strategic CSR, Size, Leverage and the country at 70.4%. The remaining 29.6% is explained by other variables not addressed in this study. The results for model 3 shows that the probability value for F statistic significant at 0.037. This means that Price Earnings Ratio (PER) can be explained jointly by Strategic CSR, Size, Leverage and the country at 20.7%. The remaining 79.3% is explained by other variables that have not been included in this study.

Independently, Strategic CSR on the model 1shows a significant effect on the Value Creation at 0.191 (α = 1%). In model 2, Strategic CSR shows a significant effect on Return on Assets (ROA) at 0.276 (α = 5%). Whereas in model 3 Strategic CSR has a significant effect on Price Earnings Ratio (PER) at 0.242 (α = 10%). These results prove the view of resource-based theory, Burke and Logsdon's (1996)conception, Porter and Kramer (2006) opinion, and generally supports the findings of Husted and Allen (2007, 2009) that social responsibility which linked into company's core business can improve performance of the company.

Size variables as control variables in this research, in the first model had no effect to the Value creation. In model 2, Size also had no effect on Return on Assets (ROA). Contrast to the previous findings, in model 3, Size have a significant effect on the Price Earnings Ratio (PER) at -1.696 (α = 1%). These results were different from the findings of Husted and Allen (2009), who found positive effects, but consistent with Udayasankar (2007). This difference was influenced by factors of economic crisis in 2008.

Leverage in model 1, had no effect on the Value Creation. In model 3, Leverage also had no effect on Price Earnings Ratio (PER). However, in model 2 Leverage effect on Return on Assets (ROA) of -2.389 (α = 5%). This significant findings were not consistent with the findings of Brammer et al., (2006). The difference results were influenced by factors of economic crisis in 2008.

Country as a Dummy Variable in model 1 had insignificant effect on the Value Creation. Similarly in model 3, Dummy country did not have a significant effect on the Price Earnings Ratio (PER). These results contradicted with the findings of Husted and Allen (2007, 2009) which found difference in results when tested on firms in different countries. This might be due to a lot of similarity at the culture, religiosity which existed in both countries. Whereas in model 2, Dummy countries have a significant effect on Return on Assets (ROA) of -9.724 (α = 1%). These results indicated that ROA in Indonesian's companies was lower than Malaysia, as the impact from strategic CSR.

Table 4.2
Empirical Results

	Predicted Direction	Dependent Variable: VC	Dependent Variable: ROA	Dependent Variable: PER
Intercept		5.798 (0.022)	17.620 (0.004)*	25.569 (0.001)*
STRCSR	+	0.191 (0.000)*	0.276 (0.012)**	0.242 (0.073)***
SIZE	Control Variable +	-0.175 (0.397)	-0.759 (0.122)	-1.696 (0.007)*
LEV	Control Variable +	-0.005 (0.99)	-2.389 (0.019)**	-.325 (0.771)
DCOUNTRY	+/-	0.778 (0.246)	-9.724 (0.000)*	2.405 (0.203)
R^2		0.336	0.726	0.207
Adjusted R^2		0.281	0.704	0.134
F-Statistic		6.086	33.725	2.812
Prob. F-Statistic		0.000*	0.000*	0.037
N		53	56	48

Independent variables are (1) Value Creation (VC): measured using five indicators, (2) Return on Assets (ROA): measured by comparing the operating profit with total assets, (3) Price Earnings Ratio (PER): measured by comparing adj.closing price with earnings per share. Independent variables consist of (i) STRCSR: measured by 19 indicators from five dimensions of strategy, (ii) SIZE: measured by the natural logarithm of total assets and (iii) Leverage: measured by the average ratio of debt to total assets (iv) DCOUNTRY, using dummy 1 for Indonesian state and 0 for Malaysia.
*) Significant at the 1% level, **) Significant at the 5% level, ***) Significant at 10%

Source: SPSS.19

CONCLUSION AND SUGGESTION

This research aims to see the effect of strategic corporate social responsibility program to firm performance. The research also aims to see the effect of a country on the influence of strategic corporate social responsibility program to firm performance. The results shows that strategic corporate social responsibility have a positive influence on strategic value creation, Return On Assets (ROA) and Price Earnings Ratio (PER), while the country has only the effect on the model that explains the relationship between strategic corporate social responsibility and Return On Assets (ROA). Size as control variables only has a significant negative effect on the Price Earnings Ratio (PER), while the Leverage only has a significant negative effect on the Return On Assets (ROA).

Suggestions for future research is examined separately between strategic corporate social responsibility and non strategic corporate social responsibility to see its effect on company performance. The next research is expected to test the models in this research using different samples or increase the number of samples involving public companies in many countries. In scoring, future studies are expected to do triangulation, so that the score will not depend on the judgments of the researcher alone.

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