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Corporate social responsibility towards investors' wealth: an empirical evidence from agricultural sector in Indonesia

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Abstract:
The purpose of this study is to determine whether Corporate Social Responsibility Disclosure (CSRD), with Leverage and Company Size as control variables, has a significant effect on Earnings per Share (EPS) in the agricultural sector of Indonesia Stock Exchange within 2013-2017. The sample of this study consisted of 13 agricultural companies through a purposive sampling technique. The Corporate Social Responsibility Disclosure (CSRD) guideline applied in this study is the fourth generation Global Reporting Initiative (GRI G.4). The dependent variable of investors' wealth is represented by Earnings per Share (EPS), the control variables represented by leverage is proxied by Debt to Equity Ratio (DER) and company size is proxied by the natural logarithm of total assets. This study applied a panel data model with the estimation model of random effect and Generalized Least Square (GLS) method. The results of this study indicate that CSRD, with control variables of leverage and firm size, has a significant effect on EPS. Based on the results of this research, CSR can be taken into account by shareholders and other stakeholders to assess the company as an entity that is able to generate financial benefits while still caring for the community and the environment as well.

Keywords: *Social responsibility, investors, agricultural sector, indonesia*

I. INTRODUCTION

It is undeniable that all businesses in the world always aim for financial profit. All investors who invest their funds in a business certainly expect to gain wealth. Thus, all businesses are oriented to profit maximization.This is consistent with the classical economics theory that was originated by Adam Smith in 1776 in his scientific writing entitled *An Inquiry into The Nature and Causes of the Wealth of Nations*, which states that a firm was founded with the aim of delivering maximum profit for shareholders for the funds they have invested.

However, the current circumstance of business in emerging countries has changed from the classical "profit maximization" approach to a socially responsible approach. Businesses are not only responsible to their shareholders, but also to the communities and environment around them. This is in line with the theory of legitimacy, in which companies conducting business activities should comply with norms and social values. It leads to the importance of organizational behavior with regard to the environment (Ghozali& Chariri, 2007). In other words, the theory of legitimacy is based on the perception that the rights and responsibilities of companies come from the communities. The business must be operated within the boundaries and norms of society to meet the expectations of the communities which include the provision of better goods and services to the communities (Jitaree, 2015).

Legitimacy theory is closely related with stakeholder theory where stakeholder theory recognizes the important impact of stakeholders on the company's sustainability and success

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(Matuszak &Różańska., 2017). Stakeholder theory and legitimacy theory show that the practices and disclosure of corporate social responsibility will lead to better corporate financial performance. Likewise, with good corporate financial performance, disclosure of corporate social responsibility will also be greater (Ta & Bui, 2018).

In Indonesia, CSR is governed by laws and government regulations. It is done by the government in order to save the environment within the existing industrial activities. There are several laws and regulations governing CSR in Indonesia. The main regulation of CSR in Indonesia is based on Law of Republic of Indonesia Number 40 of 2007 concerning Limited Liability Companies. This law regulates obligations for companies related to natural resources to carry out social and environmental responsibilities. This Law stipulates several rules that are closely related to the implementation of CSR in Indonesia, especially for the business sector that is directly related to utilization of natural resources, including the agricultural sector. In the agricultural sector, agricultural development programs and policies carried out by the government are currently able to boost and significantly contribute to national economic growth (Ismail, republika.co.id, accessed 2 May 2019). Therefore, this sector is a sector that has the potential to be able to continue to develop and encourage the Indonesian economy.

The efforts in carrying out CSR activities can be related with the corporate financial performance, bearing in mind there are costs incurred in carrying out these activities. The financial performance of a company can be measured through several ratios, one of which is Eaning per Share (EPS). EPS is the level of net profit for each share the company achieves when running its operations. EPS is derived from the profit available to ordinary shareholders divided by the average number of outstanding shares. Husnan & Pudjiastuti (2015) stated that investors often focus on Earnings Per Share (EPS) in conducting analysis. Hery (2015) said that EPS is a ratio to measure the success of company management in providing benefits for investors who own common shares. Potential investors will use EPS to make investment decisions among some alternatives. If EPS is calculated for several years, it will show whether the company's profitability is getting better or even getting worse. Investors will usually invest their funds in companies whose earnings per share continue to increase. The higher value of EPS certainly encourages shareholders to invest their more fund due to the greater profit will be provided to them (Tandelilin, 2011).

Another factor related to the company's financial performance is the source of funding. The source of funding can be seen from the leverage analysis. Leverage can be measured through a debt-to-equity ratio (DER), where DER is a measure of a company's financial strength, which is calculated by total interest income divided by total shareholder equity, (Jitaree, 2015). DER is obtained from total debt divided by capital multiplied by 100%, or DER = total debt / capital x 100%. In addition, financial performance is also influenced by company size. Company size can be calculated through several attributes such as total workers, total income, sales volume and also the total assets of the company. The size of the company is calculated or seen from the total assets of the company or by the formula of company size = Ln (total assets). According to Asnawi & Wijaya (2005), company size is a control variable that is considered in many financial studies. This is due to the many assumptions that financial decisions are influenced by company size. Usually, the size of a company is represented by total assets because the value of total assets is commonly very large when compared to other financial variables. It is a common sense that the bigger a company, the greater the demands to carry out social responsibility.

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According to Ta & Bui (2018) there are several non-governmental organizations that have introduced standards and regulations to guide companies in developing and displaying corporate social responsibility information, one of which is the Global Reporting Initiative (GRI). This study aims to examine the effect of Corporate Social Responsibility Disclosure (CSRD) on Earnings per Share (EPS) with Control Variables, namely Leverage which is represented by Debt to Equity Ratio (DER) and Company Size which is represented by the logarithm of total assets, in the agricultural sector listed on the Indonesia Stock Exchange within 2013-2017

II. Theoretical Framework

Corporate Social Responsibility Disclosure (CSRD)

One of the guidelines for CSR disclosure is the Global Reporting Initiative (GRI) standard. GRI is an organization that has the initiation to provide guidelines for companies in reporting business sustainability in a sustainability report. The current guideline for corporate social responsibility reporting used is the fourth generation of GRI or commonly referred to as GRI G.4.

Earning per Share (EPS)

One analysis technique used to assess company performance is through financial ratio analysis. The ratio used is profitability ratio, one of which is EPS. Husnan & Pudjiastuti (2015) states that investors often focus on Earnings Per Share (EPS) in conducting analysis.

Leverage

According to Periansya (2015) leverage is a ratio used to measure the extent to which a company's assets can be financed with debt or financed by parties outside the company. Debt-to-Equity Ratio (DER) is a ratio used to measure the level of leverage against total shareholder's equity owned by a company.

Company Size

According to Jitaree (2015), company size is one of the most important company attributes that can affect company activities. According to Prasetyantoko (2008: 257), the measurement of the size of a company can be described through the size of the company's total assets.

States of The Arts (Research Gap)

There are some literatures figuring the effect of Corporate Social Responsibility Disclosure (CSRD) on the company's financial performance. Adeneye (2015) proved that CSRD had significant effects on financial performance, such as Return on Asset (ROA), Return on Equity (ROE), and Market Book Value (MBV). The similar results were also shown in research by Platonova (2016) and Gianarakis (2016) which stated that CSRD had a significantly positive effect on the company's financial performance as seen through ROA. According to the results of research conducted by Matuszak (2017), Masaray (2017) and Maqbooln & Zameern (2018), CSR disclosure (CSRD) had a positive impact on the financial performances which were represented by financial ratios, i.e. ROA and ROE.

The research gap of this study compared with previous studies is that this study uses the proxy of financial performance in the form of earnings per share (EPS). The reason of using EPS as the dependent variable is that EPS is one of the financial ratios that is able to describe the wealth of investors obtained from their investment activities. EPS is one of the financial ratios that potential investors consider when deciding to invest in a business. In addition, this study also added two control variables, namely leverage represented by Debt-to-Equity Ratio (DER) and company size represented by the logarithm of total assets.

According to Jitaree (2015), company size is one of the most important company attributes that can affect company activities. According to Sawir (2009) there are several reasons that make the company size as a determining factor of the financial structure, one of which is the company size determines the bargaining power in financial contracts. Large companies can usually choose funding from various forms of debt, including special offers that are more profitable than those offered by small companies. According to Asnawi and Wijaya (2005), company size is a control variable that is considered in many financial studies. This is due to the alleged number of decisions or financial results influenced by company size. Usually, the company size is represented by assets because the value of total assets is usually very large when compared to other financial variables.

The relationship between variables in this study is the relationship of Corporate Social Responsibility Disclosure (CSRD) with Financial Performance, namely Earnings per Share (EPS). In line with research, Ahmed et al. (2016), Giannarakis et al. (2016), Mansaray et al. (2017) and Ngoc (2018), this study supports the idea that CSR disclosure has a positive impact on corporate financial performance because social responsibility is considered as a corporate protector against negative information that damages the company's reputation, and hence it can protect financial performance. Ahmed et al. (2016) states that CSR disclosure has a significant positive effect on financial performance seen from Earnings per Share (EPS). Leverage is a source of corporate funding that comes from internal and external funds in the form of debt. Total leverage is related to the relationship between sales and earnings per share (EPS). Total leverage is the use of both fixed costs, namely fixed operating costs and fixed capital costs to increase the effect of changes in sales of EPS. The size of the company can determine the level of ease of obtaining funds from the capital market. Company size is usually described by the total assets of a company. In addition, there are indications that the number of decisions or financial results is influenced by the size of the company (Asnawi & Wijaya, 2005).

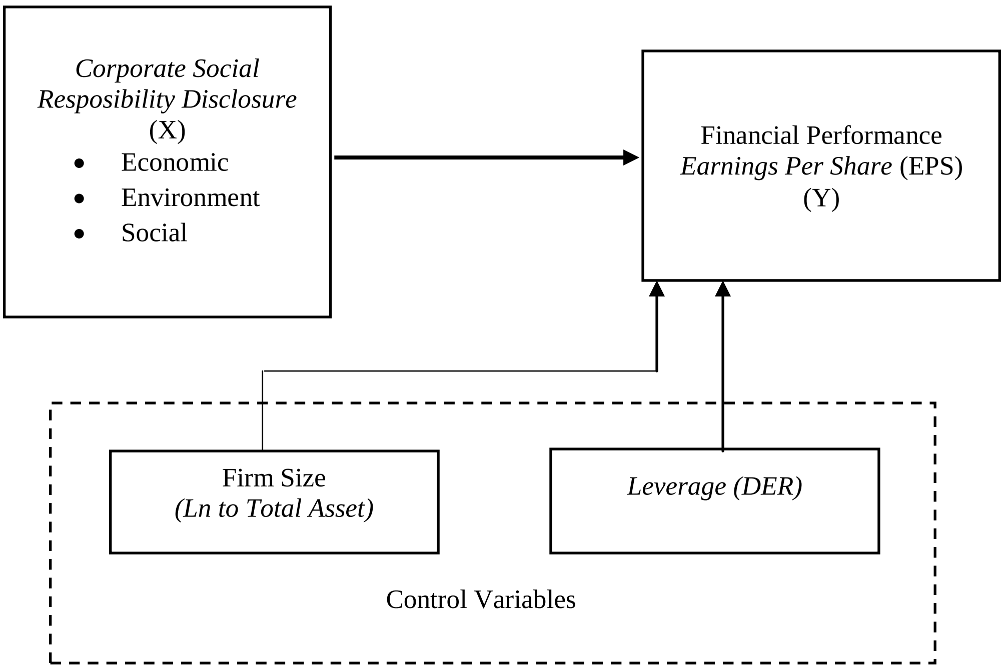

Fig.1. The Theoretical Framework

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Other studies states that one of the objectives of corporate social responsibility disclosure is to reflect the company's accountability, responsibility and transparency to investors and other stakeholders in order to establish good and effective communication between the company and the public. In Indonesia, Financial Accounting Standards (PSAK) No. 1 (Revised 2004) paragraph 9 clearly conveys the policy makers' recommendations regarding CSR disclosure for companies.

Hypothesis

This research will test the following hypothesis:

Corporate Social Responsibility Disclosure (CSRD), with control variables in the form of leverage and company size, has a significant influence on Earnings per Share (EPS) in the agricultural companies listed on the Indonesia Stock Exchange within 2013-2017.

III. Methodology

The research method in this study is a quantitative method. According to Zikmund, et al (2010) quantitative research method is a research method that involves numerical measurement and analysis. The type of research used is descriptive and verification research. Silalahi (2015) explains that descriptive research aims to assess attitudes or opinions about individuals, organizations, even events or procedures. Then the purpose of verification testing is to test the truth of a knowledge in an existing field (Siregar, 2017).

The nature of the data in this study is panel data which is a combination of time-series and cross-section data. According to Siregar (2017), time-series data are data collected from time to time on an object that aims to describe the development of the object. While the cross-sectional type according to Zikmund et al. (2010) is data retrieval from research objects collected at one particular time. Thus, the pooled-data regression is applied in this study as the data analysis technique. The samples are selected by applying non-probability sampling method with a purposive sampling technique. The samples of this study consist of 13 companies in the agricultural sector listed on the Indonesia Stock Exchange (IDX) within 2013-2017.

IV. Result and Discussion

The initial step in processing data in this study is determining the most appropriate model between the common effect, fixed effect, and random effect in estimating the panel data model. First, this study applies a Chow Test that compares common effects and fixed effects. The Chow Test result indicates that the value of prob. Chi-square cross-section is less than 0.05, then the good model is fixed effect. The next test is the Hausman Test due to the result obtained from the Chow Test was fixed effect. Hausman Test compares the fixed effect and random effect. The result of Hausman Test shows that the better model is random effect. Therefore, it is necessary to do the next test, namely the Lagrange Test. The Lagrange test shows the most appropriate results to be used, which is the random effect model. Thus, the best fit model used in this study is random effect model in estimating the panel data within the Indonesia agricultural sector.

The Regression Model

Figure 2 shows the results of pooled-data regression.

Table 1
The Agriculture Sector Panel Data Regression Results

Dependent Variable: EPS
Method: Panel EGLS (Cross-section random effect)

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Periode included : 5
Cross-sections included: 13
Total panel (balanced) observation:65
Swam and Arora Estimator of component variances

Variabel	Coefficient	Std. Error	t-Statistic	Prob
CSRD	541.6558	864.9462	0.626231	0.5335
CSIZE	127.5598	62.15470	2.052296	0.0444
LEVERAGE	27.75555	4.8859542	5.711556	0.0000
C	-3895.526	1727.587	-2.254894	0.0277
Effect Specification				
			S.D.	Rho
Cross-section random			231.4908	0.6573
Idiosyncratic random			167.1345	0.3427
Weighted Statistics				
R-squared	0.416407	Mean dependent var		41.97946
Adjusted R-squared	0.387706	S.D. dependent var		211.2433
S.E. of regression	165.2962	sum squared resid		1666694
F-statistic	14.50833	Durbin-Watson stat		2.898001
Prob(F-statistics)	0.000000			

Based on Table 1 of the Agriculture Sector Panel Data Regression Results, an equation can be formed as follows:

$$EPS = -3895.526 + 541.6558\ CSRD + 127.5598\ CSIZE + 27.75555\ LEVERAGE\ (DER) \quad (1)$$

The equation (1) shows that the intercept coefficient of -3895.526. It means if the value of CSRD, CSIZE or company size, Leverage are constant (0) then the EPS value will be -3895.526. In addition, if there is an increase in CSRD by 1%, there will be an increase in EPS growth of 541.6558 units and if there is an increase of 1% in CSIZE, then EPS will experience an increase of 127.5598 units, and if there is an increase of 1% in leverage then EPS will increase by 27.75555 units, assuming that other variables are considered fixed.

The coefficient of determination, namely R^2 (Adjusted R-squared) of the agricultural sector is 0.387706 or 38.77%. These results can be interpreted that the independent variable Corporate Social Responsibility Disclosure (CSRD) and leverage control variables and company size (CSIZE) can explain the dependent variable, Earnings per Share (EPS) of 38.77%.

With a significance level of 0.05, the F-table value for the agricultural sector is 2.75. Based on table 1, the F-statistic value is 14.50833 which is greater than the F-table 2.75, this means that statistically CSRD, with leverage and company size,simultaneously has a significant effect on Earnings Per Share (EPS). This result supports a previous research conducted by Kamatra & Kartikaningdyah (2015) which states that disclosure of corporate social responsibility or CSRD, with leverage and company size,simultaneously has a significant effect on earnings per share or EPS. In addition, it can also

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be said that earnings per share or EPS is not only influenced by CSRD, but if the agricultural companies need to increase EPS, they must also pay attention to leverage which is represented by Debt-to-Equity Ratio (DER) and company size which is represented by logarithm of total assets.

V. CONCLUSIONS AND IMPLICATIONS

The result of this study proves that in the Indonesian agricultural sector, CSRD with the presence of control variables in the form of leverage and company size simultaneously can significantly influence investor wealth, which in this case is represented by Earning per Share (EPS).

As a suggestion for further research, it is expected to add a longer observation period and the addition of several observation samples so that the results obtained will be more actual. It also needs to add independent variables and control variables as well as add indicators or adjust indicators that can be used in calculating CSR disclosures.

As an implication for business practices, the results of this study provide advices for companies that want to optimize their financial performances, one of which is earnings per share (EPS), so good CSR disclosure (CSRD) is needed. Not only an increase in CSRD, but it must also be accompanied by good management of company assets because it will affect the company's capital structure. Assets that are well managed will also have a good impact on profitability. The results of this study indicate that companies must care about the surrounding environment through CSR activities, so that it will provide prosperity to the community while still generating financial benefits for investor wealth.

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