

## Conference Paper

# The Influence of Corporate Social Responsibility (CSR) Disclosure Towards Company Stock Return Moderated By Profit

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## Abstract

This study aims to empirically test and prove the influence of Corporate Social Responsibility (CSR) Disclosure towards the stock return in a company. The population of the study is listed in LQ 45 Indonesia Stock Exchange observed in 2013. The sample is taken by applying purposive sampling method and 36 companies become the samples. The analysis of inferential statistic in this study employs Moderated Regression Analysis (MRA) with the residual test. The findings show that: 1) CSR Disclosure significantly influences stock return, 2) ROA and ROE variable do not moderate the influence CSR Disclosure towards a stock return. This study also results that CSR Disclosure is the most fundamental variable to predict stock return.

**Keywords:** stock return, ROA, ROE, CSR Disclosure

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## 1. BACKGROUNDS OF THE STUDY

Improving company's value is one of the main objectives of a company. The value can be observed through some aspects, not excluding the stock return. Without the stock return, indubitably the investors will not have any intention to do investment [13]. Basically, investors are interested in investing stock which offers the great amount of growth, stable growth, and growth rate from the income they can obtain [6].

The stock value of the companies listed on LQ 45 Indonesia Stock Exchange in commerce closing in 2013 showed a great achievement in Asia Pacific Region ([www.neraca.co.id/2012/12/12/20/tuntutan-prestasi-pasar-modal-jadi-tantangan](http://www.neraca.co.id/2012/12/12/20/tuntutan-prestasi-pasar-modal-jadi-tantangan)) retrieved on 22nd December 2013. Stock price will be influenced by stock demands and offers in the capital market. One of the references taken into account by the investors while purchasing and selling the stock is the information about either accounting or non-accounting drawing performances of a certain company. Information about CSR disclosure is one nonaccounting information published by the company.

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There are so many explanations about the concept of CSR, yet basically, CSR is a charitable agenda to gain profit and to help people and environment sustainably based on set procedure [17]. Through CSR activity, a company attempts to harmonize a company's errands in upgrading the company's value and to fulfill the society's privilege owing to the presence of the company

CSR disclosure is a part of social responsibility which connects social information to stockholders and stakeholders. Sayekti and Ludovicus (2007) state that CSR disclosure in an annual report is another path to build, sustain, and legitimate a company's contribution in the aspect of economy and politic. Consequently, the higher CSR disclosure is, the better investors' trust will become forwards sustainability if company's operation.

Prior findings of a relationship between CSR disclosure and stock return do not show consistency. Karagiorgos (2010) in his study claims that company's stock return can be increased through the implementation of CSR disclosure in the annual year. However, the findings by Hanifa et.al (2005) do not find out any significance of CSR towards the stock return, yet they figure out the positive significance of CSR towards financial performance.

Though theoretically, the execution of CSR relates positively to financial performance and marketing performances, the implementation in actuality has not done the best. In the year 2005-2006, the themes of CSR disclosure from public companies in an annual report is no more than 30% [12]. This fact reflects on the qualms of public companies about incentive be received soon if the companies conduct CSR. Through any empirical studies which enhance positive influence on company's ethics and financial performance through CSR, it is hopefully expected that the company can encourage the businessmen the main role of CSR in a company.

The initial researchers which do not draw consistency and many companies which are ensured yet to see the impact of CSR have become the reasons underpinning the researcher to do the further study about CSR disclosure influences towards stock return with Return on Asset (ROA) variable and Return on Equity (ROE) as moderating variable. The subject of this study is companies included in LQ45 in Indonesia Stock Exchange in 2013. In the long run, the findings of this study will aim to see the influence of CSR disclosure to stock return with ROA and moderating variable, ROE.

## 2. RESEARCH METHODS

This study is categorized as associative causality research with a quantitative approach, that is to measure two variables or more by formulating the problems,

organizing the model, collecting the data, finding solvation, implementing the solution, and analyzing the result (Kuncoro, 2004:2).

The population is generalization area comprising of object or subject which possess certain quality and characteristics set by the researcher to be analyzed and then concluded (Sugiyono, 2011:80). The target population is companies included in LQ-45 in Indonesia Stock Exchange in 2013.

The sample is some or the representative be investigated (Arikunto, 2002:109). The sampling is conducted by purposive sampling method in order to obtain representative sample according to assigned criteria. Thirty-six companies are selected based on the criteria to become the sample of this study.

Regression testing in this study involves moderating variable. A moderating variable can be identified when independent variable affects dependent variable [2]. Here are the steps to analyze the moderating regression. First, regress CSR variable disclosure variable towards a stock return to obtain residual value. Second, calculate the exact residual value to get the value  $|e|$ . Third, regress the stock return with exact residual value or  $|e|$ . Regression coefficients Bvalue has small sigma from  $< (0.05)$  with negative value in Unstandardized Coefficients B. This concludes that variable of ROA, ROE, and EVA (partially) are moderating variables, and vice versa.

The moderating effect can be drawn in an interaction between the independent variable and moderating variable [2]. The formula to calculate the moderating effect according to Cohen and Ghazali (2011:212) is:

$$f^2 = \frac{R^2 \text{ Model with moderation} - R^2 \text{ Model without moderation}}{1 - R^2 \text{ Model with moderation}}$$

If  $f^2 = 0.02$  moderation influence is small, if  $f^2 = 0.15$  moderation influence is medium, and if  $f^2 = 0.35$  moderation influence is big.

### 3. FINDINGS AND DISCUSSION

The recapitulation of data analysis coping with CSR disclosure, ROA, ROE, and stock return will be drawn in Table 1 as follows:

According to above data, the following passage will be explaining the detail of each variable.

TABLE 1: The Result of Descriptive Data.

No	Variable	CSR	ROA	ROE	Stock Return
1	The highest value	80.76	39.64	96.01	3.083
2	The lowest value	12.81	1.68	2.28	-1.13
3	Average	37.71	14.11	26.27	0.085
4	Standard Deviation	17.68	11.23	18.74	0.801

### 3.1. Stock Return

Stock return’s standard deviation is 0.8010r beyond the average of stock return (0.0856). according to the data translation above, it is showed that there is fluctuating data during the observation period. Taking a closer look to stock return’s average (0.0856), it is concluded that nineteen companies are below average (52,7%) and sixteen companies encounter capital loss (44%)

### 3.2. Corporate Social Responsibility (CSR) Disclosure

Reflecting on the above data, the index average of CSR disclosure is 37.714 while the standard deviation is 17.68. Besides, among five aspects of CSR disclosure, the aspect of public relation holds the highest value (295 from 473 indexes or 62.37%), then followed by environment, energy, and labor. Meanwhile, the lowest value of CSR disclosure is product aspect (146 from 430 indexes or 34%).

### 3.3. Return on Asset (ROA)

The average value of ROA in a company in this study is 14.11%. If it is observed from data distribution, there are 13 companies or 36.11% have to value above the average whereas 23 other companies are below average. Though the majority of ROA value is below average, all the samples have positive ROA. The standard deviation value is 11.23 smaller compared to other averages, by seeing the standard deviation value which is smaller than the average. Thus, the data used in ROA variable has small data distribution.

### 3.4. Return on Equity (ROE)

The average value of ROE in this study is 26.27%. The standard deviation of inflation is 18.74% smaller than the average. According to the data distribution, there are 22 companies or 61.1% have the value below the average. Then according to data recapitulation, there is no company having negative ROE value which means that there is not any company having the loss of managing the capital. Meanwhile, the standard deviation is smaller than the average so that the data used in ROE variable has small data distribution.

### 3.5. Statistical Test

Below is Table 2 showing the result of regression test and moderation regression.

TABLE 2: The Summary of Statistical Result.

No	Relationship between variables	Unstandardized Coefficients	Standardized Coefficients	Sig	Moderation Effect		Category
		B	Beta		R square	Moderation participation	
1	Influence of CSR Disclosure towards Stock Return	.015	.380	.020	.140	-	-
2	ROA moderates influence of CSR Disclosure towards Stock Return	.587	.376	.024		.142*	Small
3	ROE moderates influence of CSR Disclosure towards Stock Return	.611	.386	.020		.149*	Small

Note: \* $\leq 0.05$   
 \*\*negative

### 3.6. ROA Moderates the Influence of CSR Disclosure towards Stock Return

As shown in Table 2 about residual data testing, it is showed that the value of ROA coefficient in the influence of CSR disclosure towards stock return variable is 0.024 or smaller than  $< (0.05)$ . However, because the value of Unstandardized Coefficients

B is positive 0.587, it indicates that ROA variable is not a moderating variable to CSR disclosure towards the stock return. To put it simply, Null Hypothesis (Ho) is accepted. This result contributes to conclude that ROA value does not predispose CSR towards the stock return.

### 3.7. ROE Moderated the Influence of CSR Disclosure towards Stock Return

According to residual data testing in Table 2 above, it is showed that the value of ROE coefficients in the influence of CSR disclosure towards stock return variable is 0.20 or smaller than  $< (0.05)$ . Because the value of Unstandardized Coefficients B is 0.611, it indicates that ROA variable is not a moderating variable in the influence of CSR disclosure towards the stock return. In other words, Null Hypothesis (Ho) is accepted. These findings conclude that ROE does not predispose CSR towards the stock return.

## 4. DISCUSSION

### 4.1. Influence of CSR Disclosure towards Stock Return

According to the above table, it is showed that determination coefficient ( $R^2$ ) is 0.114 which indicated that CSR disclosure variable can explain the stock return variable in the percentage of 14%, while 86% is explained by other variables. In addition, the coefficient value of CSR disclosure influence towards stock return is 0.02 or smaller than  $< (0.05)$ . Based on this data analysis, it is concluded that there is the positive significance of influence between CSR disclosure towards the stock return. In other words, the higher the CSR disclosure is, the stock return will be increasing in a company.

### 4.2. The Influence of CSR Disclosure towards Stock Return

Having reflected on the findings of this study, there is one way to increase stock return value of a company. That is attaching CSR disclosure in the annual report. Even though CSR activity is improving in term of quantity, it still lacks good quality in the implementation because the target focus is only dealing with public relation and environment. This fact indicates that CSR activity in Indonesia is still philanthropy and legitimated in common. In other words, the CSR implementation is merely planned in a short-term period in order to do face-saving a company's reputation and legitimate its presence in society.

One reason for realizing CSR disclosure is to deepen the investors' trust towards the company. It is because an awareness that a company cannot only gain the enormous amount of profit without having no contribution to community service by looking after the environment and society applying triple bottom line principle. As the time goes by, the community will appreciate the company and investor and acknowledge that the company has a good management or Good Corporate Governance (GCG) through CSR activity. Thus, the findings of this study point out that information about CSR activity in a company can become a preference for the investors to purchase stock so that when the company promotes more about CSR activity, the stock demand can be increased and then goes the same with the higher stock return.

Furthermore, these findings support the prior researchers conducted by Karagiorgos (2010), Muid (2011), Mutmainah (2011), and Uadiale&Fagbemi (2012). Besides, the findings are consistent aligning with Belkaoui theory (2007:231) stating that basically, the users of the financial report needs social information to make any decision about basic allocation. In other words, the decision by the investors pays attention and consider social information depicted in a financial report through wide social disclosure.

#### **4.3. ROA Moderates the Influence of CSR Disclosure towards Stock Return**

According to the result of Moderate Regression Analysis (MRA) applying residual method, it is known that ROA variable is not a variable moderating the influence of CSR disclosure towards the stock return of the companies listed in LQ-45 2013 and the otherwise. The findings indicate that the increasing or decreasing relationship between CSR Disclosure and stock return is nor influenced by ROA's performance in the company. Simply put, ROA does not influence the relationship between CSR Disclosure towards the stock return.

The low rate of CSR implementation on the basis of labor, product, and energy has presumably become the reason why ROA variable is not a moderating variable. The finding of this study reject the empirical studies conducted by Zuliarti (2012), Masita (2011), Suteja et.al (2014), Uadile & Fagbemi (2012), Wibowo A. J. (2012) and Saleh et.al (2011). On the contrary, the findings support the studied administered by Harjito & Aryayoga (2009) claiming that ROA does not have any impact on stock return.

#### 4.4. ROE Moderates the Influence of CSR Disclosure towards Stock Return

According to the testing result of Moderate Regression Analysis (MRA) employing the residual method in the previous part, it is drawn that ROE variable is not a variable moderating the influence of CSR disclosure towards the stock return in the companies listed in LQ 45 2013 and it goes the otherwise. The findings indicate that the increasing or decreasing relationship between CSR disclosure and stock return is not influenced by ROE performance in a company. In other words, ROE in a company does not affect the influence of CSR disclosure towards the stock return.

There is some part of society having an insight into the advantage of CSR activity. Some of them assume that CSR is burdensome and add more cost for the company without obtaining direct feedback income. It is predicted to become the reason where ROE performance cannot moderate the influence of CSR disclosure towards a stock return. These findings also reject the empirical studies held by Masita (2011), Suteja et.al (2014), Uadiale&Fagbemi (2012) and Saleh et.al (2011); yet the findings support the study by Harjito & Aryayoga (2009) stating that ROE does not affect the stock return.

## 5. CONCLUSION AND SUGGESTION

### 5.1. Conclusion

Relying on the objectives and discussion of this study in the earlier part, the conclusion can be drawn as follows:

- a. Corporate Social Responsibility (CSR) Disclosure positively affects the stock return.
- b. ROA does not moderate the influence of Corporate Social Responsibility (CSR) Disclosure towards a stock return.
- c. ROE does not moderate the influence of Corporate Social Responsibility (CSR) Disclosure towards a stock return.

### 5.2. Suggestions

Relying on the previous discussion, below are the suggestion derived from this study:

- a. According to the above result, the value of stock return can be enhanced by improving both quality and quantity of CSR in the annual report of the company.
- b. According to the result of regression moderation, a company can implement CSR disclosure without seeing at the profit gained by the company.
- c. One of the shortcomings of this study is the only one year of research conductance so the long-term result of social responsibility disclosure becomes uneasy to predict. For the further research, it is suggested to lengthen the research period and distinct the industry types and the customs in the company which is presumed to affect the CSR disclosure in company's annual report.

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