Conference Paper

Value Relevance of Corporate Social Responsibility Disclosure on Public Companies in ASEAN Countries

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Abstract

This study aims to examine the value relevance of corporate social responsibility (CSR) information for measuring the company's value. The sample used in this study is the companies included in the ASEAN Stars. The results show that accounting information, earnings, book value of equity, and operating cash flow are the relevant information. CSR information is relevant information because it can increase the value relevance of cash flow information, but is not able to increase the value relevance of earnings and book value information. CSR information is relevant, but its value relevance is not consistent. This indicates that the quality of CSR reports is still lacking and needs to be improved so that the relevance of its information value becomes greater and consistent. The results also indicate that the presence of book value and the cash flow information result in a decline in the value relevance of earnings information. Despite the decline in value relevance, the earnings information show the most consistent value relevance in all countries, which means that the earnings information is still the most relevant information for measuring the company's value.

Keywords: value relevance, CSR, earnings, book value of equity, operating cash flow

1. Introduction

Relevant information allows investors to measure company value well so that investors can make decisions rationally. The value relevance approach shows that investors want to make their own predictions regarding the future return of securities and investors are able to collect and process all information to achieve this goal (Scott, 2015: 154). This study wants to analyze the value relevance of accounting information in companies in several ASEAN countries. This research also wants to examine the value relevance of corporate social responsibility information, given that the issue of CSR is an issue that is beginning to be considered.

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The most commonly used accounting information in decision-making is earnings information, because earnings information has the ability to evaluate past, present, and predict future events, and is able to confirm expectations that have been made previously (Chariri & Ghozali, 2014). However, several studies have shown that the relevance of information value of earnings has decreased (Brown, Lo, & Lys, 1999; Lev & Zarowin, 1999; Lev, 1989; Pinasti, 2004) but these studies have different reasons for explaining the decrease in the value relevance of the earning information (Idowu & Filho, 2009: 210).

Scott (2015: 220) said that one of the causes of a decrease in the value relevance of earnings information is due to an increase in the impact of other sources of the information on stock prices. One alternative information that is starting to become a concern for companies and other users of financial statements is corporate social responsibility information. This information began to be considered as important information because the company began to realize that in addition to economic aspects, companies need to pay attention to social and environmental aspects to maintain the survival of the company. Several surveys and studies show that CSR provides benefits to the company (Cone Communication & Ebiquity, 2015; Cone Communication, 2015; Cone, 2012; Giannarakis & Theotokas, 2011; Master Card, 2015; Thomé, 2009; Tse, 2011).

Various evidences regarding the positive impact of CSR activities in increasing the profitability and value of the company, make CSR an alternative information that is relevant to describe the value of a company. The decision usefulness approach and value relevance approach (Scott, 2015) explains that not only accounting information, especially corporate earnings information that can influence decision-making by investors, but also other disclosures in the annual report are also a consideration in investment decision-making.

When companies provide information related to the environment, shareholders and analysts will take this information into account in making investment decisions (de Klerk & de Villiers, 2012). Research conducted by Hassel, Nilsson, & Nyquist (2005) shows that financial performance alone cannot explain the company's market value, but the value relevance of financial statement information can be increased when combined with environmental related information. Carnevale et al. (2012) also shows that in several countries in Europe, the publication of corporate social reports produces a positive and significant influence on stock prices.

This study aims to examine the value relevance of accounting information and CSR in measuring company value in companies in countries in ASEAN. The sample used in this study are companies in several ASEAN countries.

2. Research Method

2.1. Samples

The population of this study includes ASEAN Stars companies 2013-2015. The population of this study were 120 companies each of 30 companies from Malaysia (Bursa Malaysia), Singapore (Singapore Exchange), Indonesia (Indonesia Stock Exchange), and the Philippines (The Philippine Stock Exchange).

Through purposive sampling method, there are 71 research samples. This research was conducted using data in the 2013-2015 period, so the total research data was 213 data.

2.2. Variable measurements

The variable consists of independent variables, namely accounting information, the dependent variable of stock prices, and the moderating variable of corporate social responsibility information. Variable measurements in this study refer to the measurements used by Narullia & Subroto (2018).

2.2.1. Stock price

Stock price (Y). The value used as the dependent variable (Y) is the average of the closing stock price for ten days after the date of the announcement of the financial statement.

2.2.2. Earnings

Earnings (X1) is measured using basic EPS. The basic value of earnings per share is obtained from basic earnings divided by the number of shares outstanding.

$$EPS = \frac{Basic\ earnings}{The\ number\ of\ shares\ outstanding}$$

2.2.3. Book Value per Share

Book value per share (BVS) (X2) obtained from total equity divided by the number of shares outstanding.

$$BVS = \frac{Total\ of\ equity}{The\ number\ of\ shares\ outstanding}$$

2.2.4. Cash flow from operating activities per share

Cash flow from operating activities per share/CFOS) (X3) obtained from the total operating cash flow divided by the number of shares outstanding.

$$\text{CFO} = \frac{\text{Cash flow from operating activities}}{\text{The number of shares outstanding}}$$

2.2.5. Corporate social responsibility information

The instrument for measuring CSR reports in this study uses the GRI (Global Reporting Initiative) Guidelines index, namely GRI G3.1 and GRI G4. The score of the disclosure will be assessed based on how many indicators are expressed in one aspect, with a score of each aspect scale 0 to 1. The formula for calculating scores for each aspect is as follows.

$$\text{CSR Disclosure Aspect Scores (CSR}_a) = \frac{\sum I_i}{n_i}$$

With:

I_i: indicators disclosed at i aspect

n_i: amount of indicators at i aspect

After obtaining a score on aspects of CSR disclosure, the CSR index is calculated using the following formula.

$$\text{CSRI}_j = \frac{\sum \text{CSR}_{a,j}}{a_j}$$

With:

$CSRI_J$: CSR Disclosure Index Scores at company j

$CSR_{a,j}$: CSR Disclosure Aspect Scores at company j

a_j: Number of aspects of GRI disclosure

- GRI G3.1 34 aspects
- GRI G4 46 aspects

2.3. Data analysis

This study uses the Ohlson Model which is modified to examine the relevance of accounting information, such as company earnings, book value of corporate equity, operating cash flow, and corporate social responsibility (CSR) in assessing the company. This study uses moderation regression analysis through tiered regression analysis methods or hierarchical regression analysis.

2.4. Research hypothesis

Accounting information is considered as relevant information if the information is responded to by stock prices (Scott, 2015: 153) or can be said to have a significant relationship with stock prices. An information is said to be useful if the information is relevant to investors when measuring company value (Barth, Beaver, & Landsman, 2001). A relevant accounting information will be able to influence investors in making investor decisions. Ohlson's net surplus theory presents a framework that is consistent with the decision usefulness measurement approach, by showing how the company's market value can be expressed in the fundamental components of the income statement and balance sheet. In addition, Kwon (2009) revealed that operating cash flows are important information in financial statements and are relevant to assessing companies as well as earnings and book value information. The following are research hypotheses related to the value relevance of accounting information:

H1: Earnings information is relevant for measuring company value.

H2: Book value of equity information is relevant for measuring firm value.

H3: Operating cash flow information relevant to measuring company value.

Lako (2011: 149) explains that the disclosure of corporate social responsibility will provide benefits to the company, including the value of assets, equity, and earnings presented in the financial statements to be more accurate, relationships and reputation increases, stock prices and market share increases, employees work are increasing, and also the relevance of the financial statements presented by the company is increasing. In the value relevance approach, it is explained that investors will try to predict the future benefits of an investment by 'swallowing' all information that is considered relevant and useful (Scott, 2015: 154). Based on this, the hypothesis in this study is as follows.

H4: CSR information is relevant for measuring company value

H4a: CSR information increases the value relevance of corporate earnings information.

H4b: CSR information increases the value relevance of the company's book value information.

H4c: CSR information increases the value relevance of the company's operating cash flow information

3. Research Results & Discussion

A relevant information allows investors to judge the company well so that investors can make decisions rationally. Information is said to be useful if it can affect investor's confidence and actions (Scott, 2015: 154). This study examines the value relevance of these information and also corporate social responsibility information that is rapidly increasing in Asian companies.

3.1. Value relevance of earning information

The results show that earnings per share information affects the company's stock price. This proves that the company's earnings per share information is relevant information to measure company value. The overall test results are also supported by the results of testing for each country which shows the same results, namely information on the company's earnings per share relevant to measuring company value. The results of this study support previous research in the studies conducted by Collins, Maydew, & Weiss, (1997), Francis and Schipper (1999), Almilia & Sulistyowati (2007), Agusti & Rahman (2011), and Azhmi & Subekti (2014) prove that earnings information is still relevant information to assess a company.

Many studies have recognized that the relevance of earnings values has decreased over the past few decades as measured by the level of the relationship between stock prices and company earnings (Brown et al., 1999; Lev, 1989; Lev & Zarowin, 1999; Pinasti, 2004). This study shows the same results, although earnings information is still the most relevant information, but the level of value relevance has decreased. Previous studies have different reasons in explaining the decrease in the relevance of earnings value. This decrease was caused by the shift of investors to alternative information other than accounting information (Pinasti, 2004), the occurrence of economic crisis in Indonesia (Almilia & Sulistyowati, 2007), earnings management by the company (Subekti, 2010), and adoption of IFRS in Indonesia (Sukma & Yadnyana, 2016). Scott (2015: 220) said that one of the causes of a decrease in the value relevance of earnings information is due to an increase in the impact of other sources of information on stock prices. This study shows that one of the causes of a decrease in the value relevance of earnings information is due to an increase in the relevance of other information values, namely book value of equity and operating cash flow informations of the company.

3.2. Value relevance of book value and operating cash flow informations of the company

This research is focused on several accounting informations such as earnings, book value and the company's operating cash flows informations. The results of this study prove that overall book value and operating cash flow information is relevant informations to measure company value. The results of testing these two information in each country show different results with the overall results. The testing results of each country show that only Indonesia and the Philippines show that the book value of equity information is relevant information to measure company value, while in Malaysia and Singapore, it does not provide significant evidence that the company's book value of equity information is relevant information for measure company value.

The test on the value relevance of operating cash flow information for each country provides evidence that Indonesia and Malaysia are the countries that show operating cash flow information is relevant information to measure company value, while in the Philippines and Singapore, it does not provide significant evidence that the company's operating cash flow information is relevant information to measure company value. The results of the testing as a whole and each country prove that the information on the equity book value and operating cash flow information of the company is relevant information but its relevance is not as strong as earnings information as indicated by the inconsistency of the overall test results with the testing of each country.

The value relevance of informations on book value of equity and operating cash flow of the company can be said to be still lower and inconsistent than the value relevance of earnings information, but the existence of these two information is proven to cause a decrease in the value relevance of earnings information. The results of this study support Ohlson's net surplus theory perspective which shows that the company's market value can be reflected in the income statement and balance sheet (Scott, 2015: 219). The overall results of the study indicate that in addition to earnings information, book value and operating cash flow information of the company are also relevant informations that can help investors in measuring company value. The results of this study support previous research in the studies conducted by Collins, Maydew, & Weiss, (1997), Francis and Schipper (1999), Almilia & Sulistyowati (2007), Agusti & Rahman (2011), and Azhmi & Subekti (2014) prove that book value information is relevant information to measure a company. This study also supports the results of previous studies by Bowen, Burgstahler, & Daley (1987), Cheng, Liu, & Schaefer (1997), Kwon (2009), and Wilson (1986) which prove that the company's cash flow information is the relevant information.

3.3. Value relevance of corporate social responsibility information

One of the alternative information that is starting to become a concern for companies and other users of financial statements is information about corporate social responsibility (CSR). This study aims to examine the relevance of CSR information in companies in several ASEAN countries given the rapid increase in Southeast Asia. The overall test results indicate that CSR information is partially relevant information because it can increase the value relevance of the company's operating cash flow information, but it cannot improve the relevance of earnings and book value information. Tests in each country show different results with the overall test results. The test results in the countries of Indonesia, Malaysia and Singapore show that CSR information is not relevant information to measure company value. CSR information is proven to have relevance of information value only in the Philippines because the CSR information can improve the relevance of the company's operating cash flow information.

This difference shows that CSR information still does not have strong and consistent value relevance such as information on corporate earnings. This is because despite the rapid increase in CSR reporting in Southeast Asia, the quality of CSR information reported by companies in Southeast Asia is still lacking (KPMG International, 2013; Shah, 2016; Suastha, 2016; Tan, 2016). When we are talking about the quality of reporting, the perspective about this quality is still quite broad and diverse, for example many companies disclose CSR information of the company, but not all of the report are based on the GRI index, which is considered a 'gold standard' for CSR disclosure (Shah, 2016). The companies that were the sample of this study also showed the same thing, that is, although the majority of companies disclose CSR information but not all use the GRI index as the disclosure standard.

CSR information begins to show its value relevance, but the value relevance is not good enough and consistent. This indicates that CSR information begins to be considered as relevant information, as expressed by Lako (2010), but on the other hand it also indicates that the quality of CSR reports still needs to be improved so that the relevance of information values becomes greater and consistent. Companies in Singapore see value relevance in the sustainability report information, but the majority of them find it difficult to identify key impacts, risks, and opportunities with that information (Tan, 2016). Even companies that report their good corporate sustainability activities find that it is very difficult to deliver accurate and timely information, but also meaningful and successfully attract the attention of their stakeholders (Shah, 2016).

This research as a whole succeeded in providing empirical evidence about the theoretical approach to the use of decisions or decision usefulness and the theory of value relevance. These theories explain that investors will try to predict future profits from investments made through all relevant information (Scott, 2015: 154). In addition to accounting information, relevant information can be obtained through disclosures in the company's annual report, one of which disclosures regarding corporate social responsibility.

4. Conclusion

This study shows that accounting information such as earnings, book value, and cash flow information are the relevant information in measuring company value. CSR information is one of the relevant information because it can increase the value relevance from cash flow information, but it is not able to increase the value relevance of earnings and book value information. So, the CSR information proved as relevant information, but the value relevance is not good enough and consistent. The lack of consistency in the relevance of CSR information values indicates that the quality of CSR reports is still lacking and needs to be improved so that the relevance of the information value becomes greater and consistent.

Earnings information is relevant information to measure the value of the company, as revealed in many literatures and the results of this study, but this study also proved that the value relevance of earnings information is decreased. The results of this study indicate that the existence of book value and cash flow information of the company decreasing the value relevance of overall earnings information. Although there is a decrease in the value relevance of earnings information, earnings information is still shows the most consistent value relevance in all countries, which means that in this study earnings information is still the most relevant information for measuring firm value.

5. Research Limitations and Suggestions

The limitation in this study is this study only analyzes the presence or absence of the company's CSR disclosure based on the indicators in the GRI index, and cannot test the quality of each CSR disclosure indicator. Subsequent research is expected to be able to analyze the quality of CSR disclosures conducted by the company, and find out the quality effects of CSR disclosures on the value relevance of CSR information.

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