

The Role of CSR on Shareholders Wealth Through Intellectual Capital

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ABSTRACT: This research aims to determine the influence of CSR and financial performance on corporate value through intellectual capital. Sample in this study were 12 State-owned companies listed on the Indonesia Stock Exchange over the 2013-2017 period. The data used in this research was secondary data in the annual financial statements and sustainability reports. Path analysis of data in this research utilized the Eviews 9 application and Sobel Test. The results showed that intellectual capital is not an intervening variable between CSR and corporate value.

Keywords: CSR, financial performance, corporate value, intellectual capital.

1. INTRODUCTION

Over the past decade, the development of the Corporate Social Responsibility (CSR) paradigm receives special attention from academics in the world. Research about CSR has been carried out by academics in various countries. Some countries that have conducted research on CSR are in Korea (Kim, 2015; Chung, Jung and Young, 2018; Park, Park and Lee, 2018; Yoon and Lee, 2018), Romania (Hategan and Curea-Pitorac, 2017), China (Kong and Singh, 2017; Hu *et al.*, 2018; Kong, Shi and Yang, 2018), Indonesia (Kurniasari, 2015; Rahardjo and Murdani, 2016), Egypt (Ding, Ferreira and Wongchoti, 2016; Buchanan, Cao and Chen, 2018; Chang, Shim and Yi, 2019; Zolotoy, Sullivan and Chen, 2019), and South Africa (Sampong *et al.*, 2018).

While, the CSR related to stakeholders inside and stakeholders outside was studied by Kurniasari, 2015; Wahyuni, 2015; Yudharma, Aditya Satya, 2016; Kong and Singh, 2017; Margaretha and Witedjo, 2017; Hu *et al.*, 2018; Park, Park and Lee,

2018; Sampong *et al.*, 2018; Phillips, Thai and Halim, 2019). Based on stakeholder theory (Freeman and Mcvea, 2008), it was explained that corporate social responsibility influences stakeholders in achieving company goals. On legitimacy theory (Suchman, 1995), it is increasingly explained that the company relates closely to stakeholders. The legitimacy of stakeholders in the company is closely related to policy and decision making to be able to support the company in achieving goals. The discovery of the controversy over the results of research on the influence of CSR and financial performance toward increasing corporate value is a debate for academics. Several research have proven that there is a positive and significant influence between CSR and corporate value (Kong and Singh, 2017; Chung, Jung and Young, 2018; Hu *et al.*, 2018; Park, Park and Lee, 2018; Sampong *et al.*, 2018; Sheikh, 2018; Choi, Han and Kwon, 2019; Zolotoy, Sullivan and Chen, 2019). However, other research proves that there is no influence between CSR and corporate value (Kurniasari, 2015).

As such, the research gap encouraged researchers to test and analyze intellectual capital as an intervening variable between CSR and corporate value. The contribution of this research is to develop CSR with an intellectual approach so that it can improve corporate value.

Corporate value is a measuring tool to determine the success of the company as the corporate value increases, and the prosperity of shareholders also increases. The corporate value that has to go public can be seen through the market stock price company, while the corporate value that has not to go public can be seen if the company sells its share (Margaretha and Witedjo, 2017). Corporate value reflects how well or bad the management manages the company treasure through financial performance (Margaretha and Witedjo, 2017). Based on this explanation, it can be concluded that corporate value is a measure of appreciation for corporate treasure, as indicated by the company stock price on the stock market.

The term CSR is defined as how the business responsibility of a company in a social order is acceptable to all parties and has an effect on all stakeholders, including the environment (Kang and Wee, 2017). The CSR is a commitment undertaken voluntarily by companies in order to respond to the expectations from employees, clients, the environment, local communities, as well as to the commitment to support education and healthcare performance which aims to improve financial performance in the long-term and support the development of long-term business, even the effects of CSR activities determine the long-term investment strategy company (Simionescu and Dumitrescu, 2018). Meanwhile, CSR is an activity undertaken by a company, where the company concerned with the long-term impact, which affects social identity and the welfare of stakeholders (Freeman and Mcvea, 2008). Based on this definition, it can be concluded that CSR is the company's activity in the sphere of economic, social, and environment for long-term investments to increase stakeholders' and shareholders' welfare.

The intellectual capital is intangible (Clarke et al., 2011). The background of corporate value is usually based on the intellectual capital of a company (Marr et al., 2003). Edvinsson and Malone (1997) defined intellectual capital as the knowledge that can be transformed into value. According to Steward (1997), effective use of the material in the form of knowledge, information, intellectual property, and experience can help to realize the asset value called intellectual capital.

Based on this understanding, it can be concluded that intellectual capital is an intangible company asset, such as knowledge, information, intellectual property, and experience.

Research about the influence between CSR and intellectual capital has been done by Lin, Chang, and Dang (2015). According to Lin, Chang, and Dang (2015), CSR and intellectual capital are related to stakeholders so that CSR influences intellectual capital. The higher the CSR, the higher the intellectual capital. The intellectual capital measurement indicator used was VAICTM (Lin, Chang, and Dang, 2015). The result of the research Lin, Chang, and Dang (2015) found that there is a positive influence between CSR on intellectual capital.

H1: There is a positive significant between CSR and intellectual capital.

Research about influence between CSR and corporate value has been done by Kim, 2015; Rahardjo and Murdani, 2016; Hategan and Curea-Pitorac, 2017; Chung, Jung, and Young, 2018; Sampong et al., 2018; Sheikh, 2018. The same corporate value measurement indicator used was Tobin's Q. According to the above researches, CSR can create public images so that it can influence the increase in corporate value. The higher the CSR, the higher the corporate value. The result of the research found the same results that there was a positive influence between CSR and corporate value.

H2: There is a positive significant between CSR and corporate value.

Research about the influence between intellectual capital and corporate value has been done by some researchers such as Chen, Cheng, and Hwang, 2005; Huss and Britzelmaier, 2014; Nuryaman, 2015. According to their studies, intellectual capital can create public images and generate profit so that it can influence an increased in corporate value. The higher the intellectual capital, the higher the corporate value. The result of the research found the same results that there was a positive influence between intellectual capital and corporate value.

H3: There is a positive significant between intellectual capital and corporate value.

Research about the role of intellectual capital as an intervening variable has been done by Lin, Chang, and Dang (2015). They found a significant positive influence between CSR and intellectual capital. The intellectual capital measurement indicator used was VAICTM. Research on the role of intellectual capital is very rapid. Research

findings of intellectual capital show a significant positive impact on the corporate value measured by Tobin's Q (Chen, Cheng, and Hwang, 2005; Huss and Britzelmaier, 2014).

H4: There is a positive significant between CSR and corporate value through intellectual capital.

Conceptual Framework

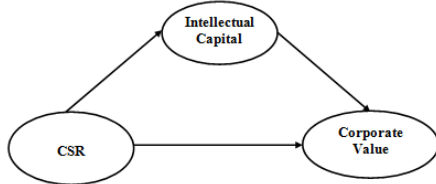


Fig 1. The Role of CSR toward Shareholders Wealth through Intellectual Capital

2. RESEARCH METHODS

The research used a population of 115 companies. The samples used were 12 companies over the 2013-2015 period. The method of analysis used in this research was regression analysis with CSR as an independent variable, intellectual capital measured by VAICTM as intervening, and corporate value measured by Tobin's Q as the dependent variable. This research used several regression models to test the hypothesis. Some of these models are presented in the equation as follows:

$$\text{Intellectual Capital} = \beta_1 \text{CSR} + \varepsilon$$

$$\text{Corporate Value} = \beta_1 \text{CSR} + \beta_2 \text{Intellectual Capital} + \varepsilon$$

3. RESULT AND DISCUSSION

3.1. Descriptive Statistics

Table 1. Descriptive Statistics

	Corporate Value	CSR	Intellectual Capital
Mean	0.6278	0.4261	5.1995
Median	0.6100	0.4000	4.4150
Maximum	0.9200	1.0000	1.,710
Minimum	0.3200	0.0400	1.0400
Std. Dev.	0.2054	0.2307	2.4377
Observations	60	60	60

Source: Processed Secondary Data, 2019

This indicates that the standard deviation of the descriptive statistic is smaller than the mean,

meaning the data is spread commonly and unbiased.

3.2. Regression Analysis

Table 2. Regression Analysis Model 1

Dependent Variable: Intellectual Capital				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	-0.3722	0.1405	-2.6482	0.0104

Source: Eviews 9, 2019.

The coefficient of CSR was -0.372239 with probability value of $0.0104 < 0.05$, meaning H_0 is accepted and H_1 is rejected. The results showed there is a significant and negative influence between CSR and intellectual capital.

Table 3. Regression Analysis Model 2

Dependent Variable: Tobin's Q Corporate Value				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
CSR	0.0382	0.0305	1.2536	0.2152
Intellectual Capital	0.0088	0.0056	1.5751	0.1208

Source: Eviews 9 output, 2019.

The coefficient of CSR is 0.038239, with probability value $0.2152 > 0.05$, meaning H_0 is accepted, and H_2 is rejected. The results of this test showed that there is no significant and positive influence between CSR and corporate value. The coefficient of intellectual capital 0.008827 with probability value $0.1208 > 0.05$, meaning H_0 is accepted, and H_3 is rejected. The results of this test showed that there is no significant and positive influence between intellectual capitals toward corporate value.

3.3. Indirect Influence Between CSR toward Corporate Value through Intellectual Capital

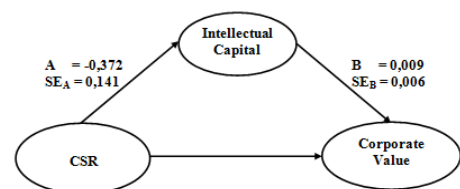


Figure 2. The Influence between CSR toward Corporate Value through Intellectual Capital

The calculation results using the Sobel test are as follows:

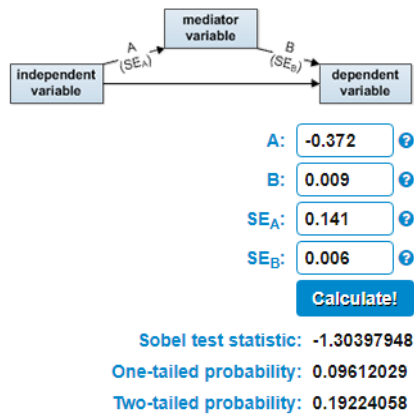


Figure 3. The Calculation for the Sobel Test of CSR toward Corporate Value through Intellectual Capital

Based on a Sobel test, the t value is equal to -1.30397948, which is less than 1.96, and the significant value in the one-sided test is equal to 0.09612029, which is more than 0.05. This result means there is no influence between CSR toward corporate value through intellectual capital. Therefore, H₀ is accepted, and H₄ is rejected, signifying intellectual capital is not an intervening variable between the CSR and corporate value.

The results of this test showed that there is a significant and negative influence between CSR and intellectual capital. It means if CSR increases, then intellectual capital decreases. The role of CSR includes a considerable aspect of economic performance, environmental performance and social performance as well as an understanding of the role of CSR that is still lacking so that the allocation of CSR funds in the gained from the fluctuating profit can sometimes not optimizing all aspects of the performance in order to affect the inside and outside stakeholders. This resulted in CSR not focusing on increasing the value-added in intellectual capital.

The results of this test showed that there is no significant and positive influence between CSR toward corporate value. It means CSR does not influence corporate value, but if CSR increases, then corporate value also increases. The understanding of the goals of CSR roles in Indonesia is still very low. Business assumes that CSR is a burden for the company so that the company conducts CSR only because of fulfilling the obligations of regulations applied by the Government and the Ministry of State-Owned enterprises. It resulted in CSR practices in the company is less optimal. If the company can optimize the CSR practices, maybe CSR can influence the corporate value.

The results of this test showed that there is no significant and positive influence between intellectual capitals toward corporate value. It means, intellectual capital has no influence on corporate value, but if intellectual capital increases, then corporate value also increases. The added value generated by intellectual capital is not disclosed in the company's performance report so that the potential intellectual capital power as intangible assets owned by the company has not become an important aspect for the company or investors. Therefore, intellectual capital is not yet a corporate consideration to raise the price of stocks that can eventually increase corporate value.

The results of this test showed that intellectual capital is not an intervening variable between CSR and corporate value. It is because the understanding of CSR practices and intellectual capital is still very lacking so that CSR and intellectual capital has not been used as a management strategy to increase the interest of investors to invest. Therefore, CSR is not able to increase corporate value through intellectual capital.

4. CONCLUSION

Based on the research results, it can be concluded that the understanding of CSR practices and intellectual capital is still very lacking so that CSR and intellectual capital has not been used as a management strategy to increase the interest of investors to invest. Therefore, CSR is not able to increase corporate value through intellectual capital. The State-Owned companies and investors are advised to pay more attention to CSR companies and intellectual capital owned by the company because if the CSR is well applied, and the intellectual capital that the company has can be maximized, then the company can use them to improve corporate value. Based on research results, the limitation of this research was the small number of samples (60 samples of 12 companies) over five years. The measurement indicator of corporate value needs to be added with the related CSR and intellectual capital.

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