

Corporate Social Responsibility, Intellectual Capital and Firm Value

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Abstract—The lack of a firm's awareness of corporate social responsibility became a major issue in this study. Companies that use resources for CSR activities will improve the company's personal branding in the public view, hence will increase the company's financial performance (CFP). Finding empirical evidence on the role of CSR and intellectual capital to improve financial performance is the aim of this study. Banking companies listed on the Indonesia Stock Exchange (IDX) over the period 2014-2017 used as the research samples. The information presented in the annual report is the secondary data used in this study. Structural equation modeling (SEM) with Warp PLS 3.0. is a data analysis technique used. The result of research shows that CSR has a positive effect on financial performance, CSR has a positive effect on intellectual capital and intellectual capital has positive effect on financial.

Keywords—CSR, intellectual, capital, CFP

I. INTRODUCTION

Rapid economic growth makes many companies competing for the progress of a business in order to win the competition that exists in this free market. Many strategies implemented by companies start from creating new innovations for a product and then improving the quality of employee performance which will affect the company's production. If a company's production results increase better than before then the sales chart will also increase so the company is willing to give a bonus to its employees.

Besides prospering the employees of the company, on the other hand, they also want to prosper shareholders while at the same time giving signals to other shareholders to invest. If the company's sales increase from one year to the next, the company's financial performance can be considered good. This concerns the focus of the company's internal and external conditions in social responsibility activities with stakeholders.

In general, established companies have the main objective to obtain a return on what has been planted before. But now the main goal of a company is not just to focus on profit alone, but also to prosper stakeholders. As the description above stakeholders are not just employees and investors, but the most important thing is the welfare of the local community where the company must care about the environment and social community around it. According to [1] corporate social responsibility (CSR) activities must be carried out as a commitment to the sustainability of a company.

CSR is one of the activities in the form of channeling corporate responsibility directly to improve social and environmental problems due to the company's operational activities. According to [2] CSR activities carried out by the company have many benefits such as can improve the image and attractiveness of the company to investors and can have a good impact for financial sales analysts, and show brand positioning. Likewise, according to [3], companies that spend more on CSR costs will improve company financial performance because indirectly the company has created an attraction for stakeholders compared to companies that do not incur CSR costs.

Intellectual capital is one of the intangible resources that is useful for creating value for a company [4]. The company's intellectual capital is in the form of human capital, organizational capital, and customer capital. A company that carries out CSR activities for company stakeholders by managing resources well will have an impact on employees, namely increasing the ability of employees to create innovative products that will affect the level of sales and this will contribute to the company's financial performance.

The company's financial performance is the final result of the company's operational activities that must be considered in order to see the development of a company. According to [5] the results of the company's financial performance come from processes that sacrifice various resources. One of the company's performance goals is making a profit. Profit for the company is needed for the welfare of the company and the continuity of the company's operational activities. This can be done if the company has good resources. The profitability ratio is one ratio used to measure the level of success in achieving company goals.

Based on the perspective of stakeholder theory, the investment spent for CSR activities can strengthen the relationship between the company and the stakeholders, so that it can help stakeholders in controlling their resources [6]. However, according to [7] states that investments incurred for CSR activities will reduce opportunities in utilizing resources so that it will achieve the achievement of maximum profits so that this will trigger a conflict of interest [8].

If the company's resources are used for CSR activities, it will improve the company's personal branding in the public eye and according to [9] can also increase employee attractiveness. So that it will be able to increase competitive

advantage [10] which will ultimately increase the company's financial performance [11].

II. LITERATURE REVIEW

Stakeholder theory and signal theory are used as grand theories in this research. [12] argues that stakeholders are parties who can influence and can be influenced by company activities. Stakeholders are individuals, groups of people, communities or communities both as a whole or partially who have relationships and interests in the company and have the power to influence and be influenced by company activities. Employees are one of the primary stakeholders of the company while the government, community, creditors, NGOs, and other parties are secondary stakeholders for the company. [13] explains that stakeholder theory is a bridge between stakeholders and information on the condition of financial performance received. In line with this, [14] prove that the facts that companies should really pay attention to are efforts to maintain good financial performance in order to build good relationships with stakeholders.

Signaling theory discusses information between two parties where the source of information is related to the quality of financial statements [15]. Then according to [16] quality relates to how one party shows actions that cannot be observed in return from another party. [17] Actions taken by companies to guide investors about how steps are taken by management in looking at the company's prospects. Likewise, in the quality of financial statements that can be assessed from the financial performance of a company, then the company must also give signals to users of financial statements including the public. So that the community can assess the merits of a company. in the form of information about the company's financial performance.

Corporate social responsibility is an action taken by the company for stakeholders so that the company gets a good reputation or recognition so that the role of stakeholders in the company can help in carrying out the company's operational activities and consequently will have an impact on profits earned. This is a signal given by the company to its stakeholders, especially investors where this signal is found in the company's financial performance. CSR activities carried out by the company aim to establish company relations with stakeholders including employees, surrounding communities, the surrounding environment and to improve corporate governance. CSR activities will contribute to the development of a company's personal branding so that it can increase its marketing productivity [9]. Research [18]; and [11] prove that CSR has a positive effect on financial performance. Based on the arguments and support of previous research, the first hypothesis of this study is:

H₁: CSR influences financial performance

Intellectual capital is the most intangible resource that is most important in generating corporate value [4]. This is a signal given by the company to stakeholders through a good human capital performance that can increase company productivity so that it can also increase product sales which will later have an impact on better financial performance. In addition to human capital, organizational capital also needs to be updated because with the increase, the company's ability to meet the company's routine processes and structure can support the efforts of employees to produce optimal performance. Some researchers conclude that compared to other resources, intellectual capital is one of the main

sources that has a competitive advantage [19]. [20] found that intellectual capital has a positive effect on firm value and has a positive impact on profitability so that it has a positive impact on market value and financial performance and can be an indicator of future financial performance. This is in line with [21]; and [18]. Based on the findings and arguments of previous researchers, the second hypothesis is: H₂: Intellectual capital influences financial performance.

III. RESEARCH METHOD

The population in this study is banking companies listed on the Indonesia Stock Exchange (IDX) for the period 2014 to 2017. Sampling uses a purposive sampling method. This study uses Partial Least Squares-Structural Equation Modeling (SEM) analysis which is used to perform path analysis (path analytic) with latent variables [22].

According to [18] CSR measurements in a number of theoretical and empirical studies in many different objects so that many researchers have measured CSR in various ways. In this study, researchers measured CSR activities by using the total CSR costs incurred by the company in a period of good social, environmental and labor activities. ROA is a reflection of a company's performance in generating profits from its resources (assets). ROA measurement by comparing the net income after tax with the total assets owned by the company. Intellectual capital consists of 3 components, namely human capital, structural capital and customer capital. Intellectual capital measuring devices using VAICTM developed by [23] are as follows:

- VA = OUT - IN..... (1)
- VACE = VA/CE..... (2)
- VAHC = VA/HC..... (3)
- VASC = SC/VA..... (4)
- VAICTM = VACE + VAHC + VASC..... (5)

- OUT = total sales and other revenue
- IN = expenses and costs (other than employee expenses)
- CE = available funds (equity, net income)
- HC = Employee Expense
- SC = the difference between VA and HC

IV. RESULT AND DISCUSSION

In accordance with the purposive sampling method used in this study, the number of companies in accordance with the criteria in this study was 14 banking companies going public from 43 banking companies that published their financial statements on the Indonesia Stock Exchange (BEI) for 4 years in a row starting from 2014 to 2017.

Based on the results of research and analysis that has been done there is the influence of corporate social responsibility on financial performance which is proxied by ROA. The results of testing the effect of CSR on ROA obtained a regression coefficient of 0.531 and a p-value of 0.001 ≤ 0.05. This means that CSR variables have a significant effect on ROA in a positive direction. Then it can be concluded that if the company incurred CSR costs then there could be an increase in ROA of 0.531. This is because the higher the company costs CSR in the surrounding environment, the company can get a good reputation or recognition so that the role of stakeholders in the company can help in carrying out the company's operational activities and consequently will have an impact on corporate profits.

This is in accordance with stakeholder theory which states that companies that operate not only to earn profits but also to provide benefits to stakeholders so that there is

positive feedback on the company. The results of this study were supported by researchers [18] and [21] which shows that CSR has a significant effect on ROA. However, this study is not in line with research by [24] who in their research found no influence of CSR on ROA.

The following pictures are the results of the research obtained based on data begging:

TABLE I. HYPOTHESIS ANALYSIS (PATH ANALYSIS)

No.	Path	Hypothesis Analysis	
		Path Coefficients	p-value
1	CSR->ROA	0.531	<0,001
2	IC->ROA	0.525	<0,001

Source of data processing with PLS, 2018

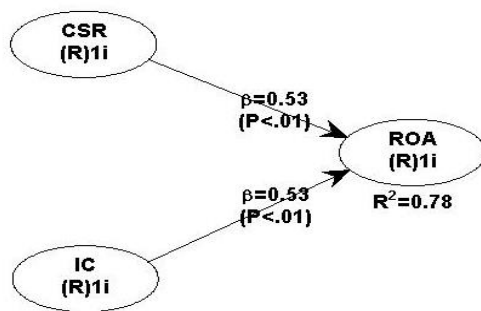


Fig. 1. Research Result

Based on the test results in this study there is the effect of intellectual capital on financial performance which is proxied by ROA. The results of testing the effect of intellectual capital on ROA obtained a regression coefficient of 0.525 and p-value of $0.001 \leq 0.05$ means that the intellectual capital variable has a significant positive effect on ROA. This means that companies that pay attention to intellectual capital well can increase company profits. Because intellectual capital that is managed efficiently will show that the company is able to manage human resources well. Good human resources will lead to increased employee ability, this is what will contribute to the company in improving financial performance.

Intellectual capital has a significant positive effect on ROA, it can be concluded that the higher the intellectual capital, the higher the level of ROA of the company. The results of this study are supported in the research of [18] and [21] which states that intellectual capital has a significant positive effect on ROA.

V. CONCLUSION

The conclusion that can be drawn from the results of this study is that CSR has a significant positive effect on ROA and intellectual capital has a significant positive effect on ROA. So the implications of the results of this study are the importance of corporate social responsibility to stakeholders and intellectual capital to improve company performance.

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