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Asking Corporate Commitment on Philanthropy: The Effect to Firm Value

Irwansyah
Accounting Department
Faculty of Economic and Business Mulawarman University

FibriyaniNur Khairin
Accounting Department
Faculty of Economic and Business Mulawarman University

Yoremia Lestari Ginting
Accounting Department
Faculty of Economic and Business Mulawarman University

Siti Narsiah
Corresponding Author, Accounting Department
Faculty of Economic and Business Mulawarman University
E-mail: irwansyah@feb.unmul.ac.id

Abstract

Philanthropy is part of Corporate Social Responsibility in form of a contribution to society. Companies can interpret philanthropy as an investment, because the return on philanthropy expenditure can not be perceived by the company in the short term. Therefore, this study aimed to analyze the influence of philanthropy to firm value by using Profitability as a moderating variable.This research used purposive sampling method so that the sample qualifies as many as 30 companies listed in Indonesia Stock Exchange 2013-2014 period. Philanthropy's variable is proxied by the ratio of corporate giving and firm value using Tobin's Q Ratio. Further, the profitability is proxied by Return on Investment (ROI). The tests carried out using multiple linear regression and Moderated Regression Analysis (MRA).Results of this study indicate that philanthropy negatively affects to firm value, and then with the existence of ROI, it strengthens the effect of philanthropy to firm value. This indicates that investors still doubt the commitment of company's philanthropy, furthermore it will decrease the corporate image so that philanthropy has not been a positive influence on firm value. As well as from the corporate side also showed that management's low commitment for philanthropy, because it has not been considered as part of the company's bottom line.

Keywords: Corporate Social Responsibility, Firm Value, Philanthropy, Profitability, Stakeholder Theory

1. Introduction

Corporate Social Responsibility (CSR) is an idea that makes the company no longer faced with responsibility that rests on the single bottom line, whichthat is corporate value which reflected in financial condition only. But company's responsibility should be based on the triple bottom line which is also concerned about the social. The concept of the triple bottom lines is the continuity of sustainable development concept that explicitly have linked objectives and responsibilities, both to the shareholders (the company owner) and stakeholder (public stakeholders) (Hadi, 2011: 56).Corporate Social Responsibility (CSR) is a mechanism for organizations to voluntarily integrate social and environmental concerns into their operations and their interaction with stakeholders, which exceeds the responsibilities of organizations in the field of law (Darwin, 2004).

So that CSR disclosures in financial statements becomes important for users to analyze the extent to which the attention and corporate social responsibility in running the business. It is expected that CSR disclosures able to positively influence the behavior of investors to pay more attention to social aspects (Natalisa*et.al*, 2014).

Corporate philanthropy (i.e donations) is one of the items on Corporate Social Responsibility and becomes an important element because it can be used as the values of exemplary and company's character in society (Godfrey, 2005). Various strategies contained in philanthropy that is a commitment to sustainable business to behave ethically and contribute to economic development while improving the quality of life of the workforce, the local community and society in general (Zachary, 2013). In addition the company can form a positive image in society so that public believe in company's performance and quality of their products.

Sutopoyudo (2009) showed that the majority of consumers will abandon a product that has earned a bad or negative reported. By implementing CSR one of charitable giving to the community, then the image of the company will be better so that higher consumer loyalty. Along with the increased consumer loyalty in a long time, the company's sales will be better and the company's profitability will also rise (Kusumadilaga, 2010).

Therefore, investment in philanthropy program came from the main purpose to benefit the company by developing the market in the future (Leisinger and Schmitt, 2010). In this regard, social responsibility is not a constraint for companies, but as an obligation. Because it can be used as a corporate strategy for the benefit of society as well as to attract investors and prospective investors in making decisions. A global survey conducted by The Economist Intelligence Unit showed that 85% of senior executives and investors from across the organization to make social responsibility as a primary consideration in decision making (the Economic News, 2006).

According to Hackston and Milne (1996), the company will disclose more CSR activity, if the level of corporate profitability is increasing. Theoretically, the increasing number of CSR activities were disclosed by the company, then the corporate value will increase because the market will give positive appreciation to companies that do CSR. And this is indicated by an increase in the company's stock price. Investors appreciate CSR practices and see CSR as a guide to assess the potential sustainability of a company. Image and reputation is an important asset to maintain the continuity of the company's activities in order goes on as it sustainable.

2. Literature Review

2.1 Stakeholder Theory

Companies should maintain relationships with their stakeholders to accommodate the desires and the needs of of its stakeholders, especially the stakeholders who have the power to availability of resources that are used to company's operational activities, i.e labors, market on the company's products and others (Ghozali and Chariri, 2007).

By providing philanthropy, the company could perform its responsibilities. Additionally the company could create a good image and reputation in the public, in exchange, if the positive response by the public then the company is possible to generate a sustainable profit. Therefore, management decisions must consider the stakeholders because stakeholders have the effect of increasing corporate value (Jensen, 2001).

2.2 Signaling Theory

Signaling theory (Scott, 2012: 475) states that the company executives who have better information about the company will be compelled to pass on such information to prospective investors which companies can increase the value of the company through the reporting by transmitting signals through its annual report. The information is published as an announcement would give a signal for investors in making investment decisions. If the announcement contains a positive value, it is expected that the market will react when the announcement was welcomed by the market (Jogiyanto, 2000).

To corporate responsibility as a result of operational activity of the company is expected to avoid the risk of social conflict in the future. With their philanthropy can be used as a form of commitment from activities related to social issues (Leki and Christiawan, 2013).

2.3 Agency Theory

Meckling (1976) describe an agency relationship in agency theory that is within the company there is a contractual relationship between the agent (manager) and the principal (shareholders). Principal is the party that gives a mandate to the other parties, namely the agent to perform any activities on behalf of the principal in his capacity as the decision making.

According to Monks and Minkow (2004) granting the companies often represent a conflict of interest between shareholders and managers because it is difficult to quantify the benefits of donations (philanthropy). Ambiguity about the benefits of philanthropy for companies attract media attention and so the government called for greater disclosure of the contribution provided by the company (Masulis and Reza, 2012).

2.4 Philanthropy

Corporate philanthropy which the company took the initiative to make a direct contribution such as in the form of donations. However, the company may also contribute to use other resources such as product, scholarships, provide services or technical expertise.

Philanthropy and company's goalcan integrated in spite ofphilanthropy (donations) arejust a few of activities carried out on management concerns. But because the boundaries of communication between company and community, corporate social responsibility has faded. (Pasquero, 1991). Social disclosure is a process of providing information to interested parties on the company's activities and their impact on social (Matthews, 1995).

2.5 Profitability

Profitability is the company's ability to generate profits in a given period. The same sense conveyed by Husnan (2001) that the profitability is the company's ability to generate profits at the rate of sales, assets and certain share capital. To measure the profitability of a the company could use reward ratio that reflected in investment returns through sales activities is the ratio of the Return On Investment (Djarwanto, 2001). Because according to Riyanto (2001) Return on Investment (ROI) as one of the techniques of financial analysis that is comprehensive that are commonly used by managers to measure the effectiveness of the operational activities of the company.

The relationship between profitability and social responsibility disclosure has been a basic assumption to reflect the view that the social reaction requires managerial style. So the higher the level of profitability of the company, the greater disclosure of social information (Anggraini, 2006). Therefore, when the company showed a good performance, the management have a strong incentive to disseminate information, especially financial information company (Anindita, 2014).

2.6 Corporate Value

The company's value will be reflected in its share price (Hardiningsih, 2009). The share price is a reflection of the ability of the business unit generate profits that have been using enterprise resources efficiently. According to Keown (2004) the value of the company is the market value of debt and equity securities outstanding companies. The value of the company is an investor perception of the level of success of companies that are often associated with stock prices.

A company can be said to have a good value when his company's performance is also good which is reflected in its share price. Because the company's main goal is to increase the company's value through increasing affluence owners or shareholders (Nurlela and Islahudin, 2008).

Based on the theory and the results of previous research related to the variable, it can be formulated hypotheses as follows:

H_1: Philanthropy disclosure has significant effect on the firm value.
H_2: Profitability has significant effect on the value of the firm value.
H_3: Profitability may moderate the relationship between philanthropy disclosure and firm value.

3. Research Methods

This research is conducted on all companies listed on the Indonesia Stock Exchange period 2013- 2014 which is accessible via the website www.idx.co.id. We use secondary data sources and data collection through the documentation of the financial statements of all companies listed on the Indonesian Stock Exchange 2013-2014 period which has been available as a information.

Population inthis study uses all the companies listed on the Indonesia Stock Exchange with the number of 498 companies. Sampling using purposive sampling method based on pre-defined criteria that companies listed on the Stock Exchange the period 2013-2014 and has a complete annual report related to the variables in the period. Based on these criteria acquired 30 companies which is used as a sample of this research for 2013-2014.

Data analysis technique usesMultiple Linear Regression and Moderated Regression Analysis (MRA)using SPSS version 20. The test phase carried out with the classical assumption, test the feasibility of this model, multiple linear regression test, test the coefficient of determination and t statistical test and then MRA test.

Operational definitions of variables related to the research are as follows:

Philanthropy Disclosure

Philanthropy disclosure is measured by amount of the donation amount that disclosed as a socially responsible company. $\text{Corporate Giving Ratio} = \text{Log}\left[1 + \frac{\text{Corporate Giving}}{Sales}\right] x10^3$(Masulisand Reza, 2012).

Profitability

We use the Return On Investment ratioto measure a firm's profitability. $\text{Return On Investment} = \frac{\text{Earning After Tax}}{Total\ Investment}$(Sutrisno, 2012),

Firm Value

Themarket's valuation of a firm is measured by Tobin'sQ. This ratio was developed by James Tobin (1967). This ratio shows the current estimate of the financial markets about the return of any amount of investment.Itcapturesthe market's expectationabout the firm's potential growth and hence its future prospect. $Q = \frac{(EMV+D)}{(EBV+D)}$(Rosiana, Juliarsaand Sari, 2013)where Q isFirm Value, EMV ismarket value of equity, D is book value of debt, and EBV is book value of equity

4. Results and Discussions
4.1 Data

This research was conducted on all companies listed in Indonesia Stock Exchange using the data crossection period 2013-2014. The number of samples in this study were 30 companies with two years of observation. Here is the classic assumption test results. Table 1 shows that the Kolmogorov-Smirnov test is obtained probability value 0.638> 0.05, which means regression model to meet the assumption of normality. All independent variables with the tolerance-value above 0.1 and VIF with a value below 10. This indicates that the data in the study did not contain multicollinearity symptoms.Based on the test results heteroscedasticity park models coefficient parameter values for the independent variables nothing significant, it can be concluded that there is no heteroscedasticty on regression model.

Table 1: The Classic Assumption Test

	Normality Test result	Collinearity Statistics		Heteroscedasticity Test	
Std. Deviation	0.4784	Tolerance	VIF	t	Sig.
Kolmogorov-Smirnov Z	0.743				
Asymp. Sig. (2-tailed)	0.638				
(Constant)				-5.498	0
Philanthrophy Disclosure		0.997	1.003	-0.443	0.66
Profitabilitas		0.997	1.003	1.88	0.065

Model and multiple regression test with F-test used to determine whether the independent variables simultaneously affect the dependent variable. Values below F significance alpha level of 0.05. Based on Table 2 the amount calculated F value of 8.434 with a significance level of 0.001 which is indicates that independent variables simultaneously significant effect on firm value.The first and second hypothesis testing performed multiple linear regression tests, with the following results.

Tabel 2: Model and Multiple Regression Test

	Unstandardized B	Std. Error	Standardized Beta	t	Sig.	F	Sig.
Constant	1.277	0.159		8.046	0.000		
Philanthrophy Disclosure	-0.153	0.076	-0.234	-2.009	0.049	8.434	0.001
Profitabilitas	0.682	0.185	0.430	3.693	0.000		

Based on the results of the regression test on the obtained multiple regression equation as follows:

$$Y=1,277-0,153 + 0,682 + \varepsilon$$

1. The constant value of 1,277 and 0,000 significance means that if philanthropy disclosure and profitability is constant, then the value of the company amounted to 1.277.
2. Regression coefficient value of philanthropy disclosure is -0.153 means that any increase in philanthropy disclosure in a single unit, then the value of the company will decrease by -0.153.
3. Profitability regression coefficient value of 0.682 means that any increase in profitability in the unit, it will increase the value of the company at 0.682.

Moderated Regression Analysis

Moderated Regression Analysis (MRA) or test of interactionof multiple regression is a special application in which there is an element of interaction with the regression equation (multiplication of two or more independent variables).The test results in Tabel 3. Absolute Difference Value Test is a test that is used for the independent variables that also serves as a moderating variable developed by Frucot and Shearon in 1991 (Gozali,2013:235). Table 6 shows that the moderating variable (AbsX1_X2) the value of the coefficient of 0.379 with a significance probability of 0.006 which is means that the profitability variable meet the assumptions as moderating variable and can strengthen the relationship disclosure is philanthropy and firm value.

The coefficient of determination (R^2) was used to measure how far the ability of the model to explain variations in the dependent variable. The coefficient of determination is zero and one. Based on Table 3it is known that the R^2 value of 0.201 means that changes in the variation philanthropy disclosure is and profitability resulted in changes in the value of the company amounted to 20.1%. In other words, 79.9% of the company's value changes due to changes in the variation of variables beyond philanthropy disclosure is and profitability.Statistics tTest aims to demonstrate how far the influence of the explanatory variables/ independent individually in explaining the variation of the dependent variable. Based on the test results on disclosure is philanthropy variable (X1) a significance value of 0.049 <0.05, which means that the philanthropy disclosure has significant and negative effect on firm value. Profitability variable (X2) has the significant value of 0.000 <0.05, which means that the profitability effect on firm value significantly.

Table 3: HipotheticalEstimation Test

Model	MRA Test		t- Test		DeterminatsCoeficient	
	t	Sig.	t	Sig.	R Square	Adjusted R Square
Constant	5.977	0.000	8.046	0.000		
Zscore: Philanthrophy Disclosure	-3.168	0.002	-2.009	0.049	0.228	0.201
AbsX1_X2	2.836	0.006	3.693	0.000		

4.2 Philanthropy Dicslosure Leading to Lower Firm Value

In table 3, we observe that philanthropy disclosurehave significant impact on a firm's value (0.049 <0.05), which means that the variable philanthropy disclosure hassignificantly negative effect on firm value. This result support our Hypothesis 1. Profitability variable (X2) the significant value of 0.000 <0.05, which means that the profitability is partially significant and positive impact on firm value.Consistent with Berman *et al* (1999), philanthropy given by the company is considered as an effective way for them fulfill its social responsibility, but the benefits of philanthropy does not meet the interests of stakeholders. In addition the research Masulis and Reza (2012) show that the abuse of shareholder trust their cash reserves by managers using the misuse of giving philanthropy in high quantities. The shareholder give low value to the company.

In table 3, based on the analysis of profitability variable showsthat means that the profitability variable significant and positive impact on firm value (0,000< 0.05). This result support our Hypothesis 2.The profitability of a company will affect investors' decision oninvestment. The company's ability to generate profits to attract investors to invest their funds in order to expand its business. As for the company's profitability as an evaluation of the effectiveness of management of the agency (Hermuningsih, 2012). This could be explained that the greater the profitability of a company provides a good indication of a company's prospects that could triggerinvestors buy shares. In line with the increase in demand for stocks will cause the value of the company also increased (Hardiyanti, 2012).

In this section, we investigate whether a firm's philanthropy disclosure affects firm value with profitability as moderating variable. Based on the analysis of profitability variable coefficient value of 0.379 with 0.006 significance is valued at below 0.05 means that firm's profitability could strengthen negative influence between philanthropy disclosuresto the firm value. This result support our Hypothesis 3.

In line withHeinze (1976) in Hackston and Milne (1996) that profitability is a factor that makes management more freedom and flexibility in expressing CSR to shareholders and stakeholders. Philanthropy companies, one aspect of the broader concept of corporate social responsibility (CSR). CSR is required companies to optimize rather than maximize profits by line consideration the triple bottom lines of the values of economic, social, and environmental (Svitkova, 2006).

5. Conclusion

Based on the test results of the study using a sample of all companies listed on the Indonesia Stock Exchange period in 2014 can be concluded that philanthropy disclosure has a significant and negative effect on firm value. While profitability has a significant and positive effect on firm value. With the use of profitability as a moderating variable can strengthen the relationship between philanthropy disclosure and firm value. In addition to the moderating variable profitability reinforce negative influence philanthropy disclosure of the value of the company.

Whereas to further research can use the time series data of at least 3 years in order to know the long-term impact of philanthropy disclosure. However, inconsistencies with the company in Indonesia in expressing philanthropy can be considered to obtain samples for further research.

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