



Optimization of Monetary Corporate Social Responsibility Value Added in Reducing Financial Distress in Indonesia

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ABSTRACT

This study tried to investigate about a form of solution model and new empirical evidence which is not only related to how the effect of the application of corporate social responsibility (CSR) to improve financial performance (FP) but also the measurement of benefits and costs of CSR activities as corporate strategy that allows to reduce financial distress so as to improve the FP of the company. The study sample was the whole companies which are included in the SRI-KEHATI index in 2009-2015, a total sample of 175 companies. This study used analysis tools structural equation modeling with a 3.00 version WarpPLS program to test the hypothesis. Outcomes of this research is that company can determine the optimization of CSR in terms of benefits and costs so that it can be used as a strategy for policy making in implementing CSR activities that can have positive implications on the sustainability of the company.

Keywords: Corporate Social Responsibility, Financial Distress Reduction, Financial Performance, Financial Risk Management

JEL Classifications: G1, G3, M4

1. INTRODUCTION

The implementation of corporate social responsibility (CSR) is becoming an inevitable requirement for companies in Indonesia. (Undang- Undang Republik Indonesia No. 40 Tahun 2007). The company recognizes that its success in achieving its goals is not only influenced by internal factors but also the external factors that are around him. There has been a paradigm shift, a company initially positioned itself as a donation provider through charity and philanthropy, now positions the external company as partners to contribute to the survival of the company. CSR as one of the company activities from the perspective of a business is considered capable to increase the competitiveness of companies and can improve financial performance (FP). This is in accordance with research conducted by Carmen et al. (2011), Weshah et al. (2012), Flammer (2013) and Iqbal et al. (2014) stating that CSR positively have an effect on the FP of the company. Several studies have shown inconsistency of the results is that CSR does not give a positive implication on the company's FP as research conducted by Brine et al. (2009), Mwangi and Jerotich (2012) and

Rahmawati et al. (2014). The diverse research results indicate a research gap that this research is still feasible to be developed. The diverse research results also showed that CSR can provide positive implications on FP improvement depends on the company's strategy in implementing CSR.

Previous studies have focused on analyzing how the effects of CSR on FP. Measurement of CSR mostly used CSR index measurement based on the global reporting initiative or ISO 26000 about the application of CSR. The measurement method has the disadvantage that can not measure the contribution of CSR based on the benefits and costs of the CSR activities. Therefore, these studies can not be used as a reference to assist managers in making decisions rationally and in evaluating the successful implementation of CSR undertaken by the company. Previous studies did not help managers evaluate their CSR engagement at the company level or even a specific project conducted by the company.

This study was conducted to address the research gaps by not only analyzing the CSR index on FP but by analyzing how to

measure the value of a company's CSR activities (monetary CSR value added [CSR MVA]). The CSR value measurement model focuses on measuring the CSR benefits and CSR cost developed by Weber (2008). CSR MVA is a calculation in monetary terms to measure the quantitative impact of CSR activities undertaken by the company so it can be determined the contribution of the main values of CSR is overvalued or undervalued, and then it can be used by companies as a policy making strategy in implementing CSR activities in order CSR activities have a positive impact on the competitiveness and increase the value of the company.

Because of the inconsistency of the results of research that CSR has an influence on the FP, this study uses a measurement of CSR MVA and it can be used as company's strategy to reduce the company's financial difficulties (financial distress). Research by Goss & Roberts (2007) states that companies that implement CSR has a negative and significant relationship to the risk of financial distress. It affirms that CSR investments as a legitimate instrument to influence the perception of stakeholders. Companies face some kind of financial distress that provides risk for investors, which would have an impact in the decision making of investors at the time they contribute funds to the company. According to Levine (2008) and Wang (2011) CSR action can help to reduce financial risk perceived by modifying future expectations and corporate image by acting on what we might call liability risk and risk of economical-vulnerability. Therefore the optimization of CSR activities can give a positive signal to the investors so as to reduce financial distress.

Optimization of CSR activities based on the benefits and costs that have the ability to reduce financial distress and its measurement is the originality of this research. It is expected that the measurement of CSR MVA can provide a new model for the development of the theory, especially regarding CSR that can be used to measure the effectiveness of CSR activities that have the ability to reduce the company's financial difficulties which could ultimately improve the FP of the company. Based on description of the background above, formulation of the problem posed is how to optimize the activity of CSR by using measurement model of CSR MVA so that we can know the benefits and costs and their effect on the ability to reduce financial distress that could affect the company's FP improvement.

This study tried to investigate about a form of solution model and new empirical evidence which is not only related to how the effect of the application of CSR to improve FP but also the measurement of benefits and costs of CSR activities as corporate strategy that allows to reduce financial distress so as to improve the FP of the company. Hopefully, by using the measurement model of monetary value added, the company will not do overinvestment on CSR activities so as to give a positive implication on improving FP of the company. This research is necessary because the implementation of CSR a claim against the company to provide information that is transparent, accountable organization increasingly forced companies to provide information about its social activity. Measurement of sosialnya CSR MVA is urgent need for the company because of the demands of implementation of Law

No. 40 of 2007 reinforced by PP No. 47 of 2012 that companies have the obligation to do CSR as one of its business activities.

Implementation of CSR for the company certainly needs to be done as one of the company's strategy to enhance shareholder value. It is necessary for the measurement of the benefits and costs of CSR so that it can be measured how much the monetary value of the implementation of CSR and how its implications on FP. Measurement of CSR MVA can be relied upon by managers for decision-making, especially the development of strategies for CSR implementation. Measurement of CSR in this study does not only look at the benefits and costs of CSR activities but also measures how to optimize the benefits and costs of CSR may have the capability of reducing the financial difficulties (financial distress) which in turn can improve FP and maintain the company's viability in the long term.

2. LITERATURE REVIEW

In conducting its operational activities, a company will be faced with the problems associated with the company's goal that is the maximization of corporate value. The purpose of a company is based on a development strategy that does not only provide benefits for the shareholders only, but also respond to all stakeholders involved either directly or indirectly in the production process (Poddi and Vergalli, 2009). Freeman et al. (2004), describes stakeholdes are as individuals and groups that are affected by the achievement of the objectives of the organization and in turn may affect the achievement of these goals.

One form of giving benefits to the company's stakeholders is with their CSR. According Brine et al. (2009), the company that implements the concept of social responsibility realizes that the long-term interests of the company financial can be reached by acting fairly in the interests of stakeholders (other than shareholders). This is consistent with stakeholder theory where economic value created in a voluntary basis to improve well-being of society and contribute to sustainable development (Freeman et al., 2004). Some form of responsible social behavior can actually increase the present value of the future stream of companies that can ultimately enhance shareholder value. Thus, this means it is consistent with efforts to maximize shareholder value of the company (McWilliams and Siegel, 2001).

Another theory underlying influence on the performance of CSR is signaling theory. Signaling theory emphasizes the importance of information released by the company about investment decisions to the outside party of company. One of the types of information released by the company that can be a signal to parties outside of the company, especially for investors is a social accountability report. According to Spicer (1978), the announcement of social responsibility information gives signal that the company has good management and prospects in the future (good news) so that investors are interested to trade shares, thus the market will react, reflected through changes in the volume of stock trading, which of course it will boost the company's value.

Carmen et al. (2011) in the research results show that implementation of CSR strategies, the level of economic development of the country and the size of the company determine the company's FP. Weshah et al. (2012) concluded that there is a significant positive relationship between CSR, the size of the bank, the risk level in the bank to finance company performance in Jordan banking. Studies state the importance of adopting CSR in the banking sector because in addition to impact on FP improvement can also minimize the risk of banking.

Flammer (2013) found that adopting CSR related to the improvement of superior FP. Iqbal et al. (2014) examined the company of banking sector in Pakistan, found a positive relationship between the disclosure of a company's CSR and corporate performance on a net profit margin and earning per share. When companies spend money in the community (donations), communities benefit from it, but that does not mean that people will not pay for the company. Society also paid for the company in the sense of goodwill or reputation or good image of the company in the minds of customers and investors.

Several studies showed the inconsistency of results. As research conducted by Mwangi and Jerotich (2012) in the construction sector manufacturing companies listed on the Nairobi stock exchange, results showed that the practice of CSR does not have a significant influence on the FP. Rahmawati et al. (2014) examined the impact of the real manipulation on the relationship between CSR and FP in the future. 27 companies listed in Indonesia stock exchange (IDX) during 2006-2008 was selected as the sample for this study. This study provides empirical evidence that companies engaged in the practice of real manipulation does not affect the activities of CSR. The results showed that the high-level of the real manipulation on operating cash flow causes negative effects on the relationship between CSR and FP.

Goss (2009) found that the implementation of CSR in the company negatively affect financial distress. This research was motivated by a shift in the context of CSR to the belief that environmental, social and governance performance serves as a proxy and the main indicator of the overall management quality. The study was supported by research by that found a negative influence of CSR to financial distress.

3. RESEARCH METHOD

The study population was the whole company included in the SRI-KEHATI index in 2009 until 2015. The SRI-KEHATI Index formed by the Indonesian Biodiversity Foundation (KEHATI) in cooperation with the IDX, which refers to a system of sustainable and responsible investment (SRI), so it is named SRI-KEHATI Index. Sampling method in this study used purposive sampling. Criteria of sample selection is companies that publish financial statements and annual reports in the period of research as well as provide complete data corresponding to the variables of the study, companies whose shares are actively traded during the study period. Each year SRI-KEHATI Index published two indexing period, i.e. in May to October and in November to April. This study used the period from May to October, so it is found a total sample of 175 companies.

The independent variable in this study is the CSR MVA. CSR MVA is a measure of the monetary value of CSR activities undertaken by the company in terms of the magnitude of the benefits of CSR and CSR costs incurred. Weber (2008) developed a measurement of CSR MVA as follows:

$$\text{Monetary CSR value added} = \sum_{n=1}^{\infty} \left(B_n^{\text{CSR}} - C_n^{\text{CSR}} \right) \frac{1}{(1+i)^n}$$

Where:

n = Period; B^{CSR} = CSR benefits; C^{CSR} = CSR costs; i = discount rate,

CSR benefits = Selling increase + cost savings + tax deductions,
CSR costs = Donation cost + personel cost + sustainable CSR cost + investment cost.

The dependent variable in this study is the FP of the company. The FP is the ability of company managers in managing assets and capital. In this study, the measurement of FP used economic value added which is operating profit after tax reduced by the cost of capital of total capital used to produce profit.

Variables which mediate in this study is the reduction of financial distress. Financial distress is the stage where the financial condition declines prior to the bankruptcy or liquidation (Goss, 2009). Springate has conducted research and produce a bankruptcy prediction model. Springate models use four financial ratios to predict the potential financial difficulties in a company. Springate models can be used to predict bankruptcy with accuracy value of 92.5%. This model has the following formula:

$$S = 1.03 A + 3.07 B + 0.66 C + 0.4 D$$

Where:

A = Working capital/Total asset;

B = Net profit before interest and taxes/Total asset;

C = Net profit before taxes/Current liabilities;

D = Sales/Total asset

If the scores $S > 0.862$ then the company is classified healthy and if the score $S < 0.862$, the company is classified as potentially bankrupt.

Financial distress reduction (FDR) is a decrease in financial distress. It is said to occur reduction (decrease) in financial distress if the value of financial distress in the current year is lower than the value of financial distress on previous year ($T < T-1$), this is because in calculating the financial distress value uses Springate models, where the greater value of financial distress means the financial condition of the company is down and there is the possibility of bankruptcy. The formula for calculating the value of FDR is as follows (developed for this study):

$$\text{Financial distress} = FT_{t-1} - FT_t$$

Where:

ACR is agency cost reduction; FT_{t-1} is financial distress in previous period ($t-1$) and FT_t is financial distress in current period (t).

Moderating variable in this study is the management of financial risk (financial risk management [FRM]). FRM is the company's ability to generate profits. Measurement of FRM used the net profit margin.

This study uses analysis tools structural equation modeling (SEM) with a 3.00 version WarpPLS program used to test hypotheses (Latan and Ghazali, 2012). Stages analysis uses partial least squares-SEM at least have to pass through five stages, namely that the process of conceptualization of the model, determine the method of algorithm analysis, determines the resampling method, draw the path diagram. Next is a model evaluation which is done by assessing the results of the measurement model. Evaluation models of mediation and moderation are based according to Baron and Kenny (1986) and Kock (2011). Path diagram in this study is described as presented in Figure 1.

Robustness testing is measuring the level of sensitivity of the data used by using different measurements from before so it can be known whether the data used has consistent results. This research used robustness testing for CSR measurement using CSR MVA which is a measure that is still very rarely used before. To see whether the measures used is accurate or not, it should be tested with other measurements that are commonly used to measure CSR activities, and expected results are consistent. To perform robustness testing in this research is to replace the measurement of CSR MVA with the measurement of CSR disclosure index that are based on ISO 26000.

4. DATA ANALYSIS AND DISCUSSION

4.1. Descriptive Statistics

Descriptive statistics were used to describe the characteristics of variables used in this study. Therefore, an explanation of descriptive statistics of research variables in this research is presented in Table 1.

Table 1 descriptive statistics of research variable showed that the variables of the CSR MVA the period 2009-2015 had an average of 27.7330 which means companies included in the sample averagely have a log value of total CSR funds amounting to 27.7330. The average value for FDR is -0.0375. While the average value of FRM is 0.2278 and the average value of FP is 27.7730.

4.2. Hypothesis Testing

4.2.1. Research model testing (direct effect)

To answer the research hypothesis it must make path analysis that describes causal relationships between exogenous variables which are CSR MVA and FDR with endogenous variables, namely FP. After doing a run- test obtained path analysis is as presented in Figure 2.

Figure 2 shows a causal relationship between variables for direct effect namely CSR MVA (MVA CSR) which is an independent variable that affects FP as the dependent variable which has a value of path coefficient of 0.82 with a $P < 0.01$. FP has the R^2 value of 0.67.

4.2.1.1. Conclusion of testing result of the first hypothesis

The test results of path coefficients and P values to see the coefficient and the level of significance in this research is presented in Table 2.

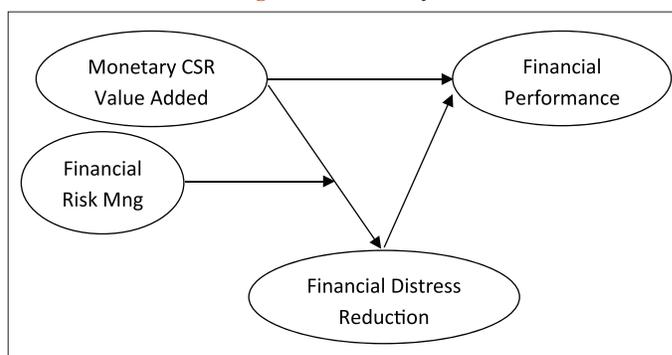
The test results in Table 2 indicate that the CSR MVA variable has significant positive effect on the FP of 0.82 and P value is ($P < 0.01$). Therefore testing of the first model's equations lead to the conclusion that is consistent with the first hypothesis (H1 is accepted) that is the CSR MVA has effect on FP.

4.2.2. Testing of influence of mediation and moderation

4.2.2.1. Research model testing

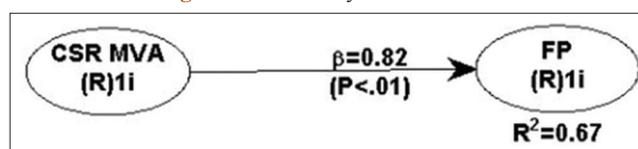
To answer the research hypothesis, it must make path analysis that describes the causality relationship of both mediation and moderation relationships between variables. After doing a run- test obtained path analysis is as presented in Figure 3.

Figure 1: Path analysis



Source: Developed for this study

Figure 2: Path analysis direct effect



Source: Processed data used in this study

Table 1: Descriptive statistics of research variables

Variable	N	Minimum	Maximum	Mean±SD
CSR MVA	175	18.5941	31.5966	27.7330±2.6513
FDR	175	-10.2466	11.8959	-0.0375±1.4650
FRM	175	-0.4607	0.5543	0.2278±0.1547
FP	175	10.8104	33.3466	27.7730±3.7028

Source: Processed data used in this study. CSR MVA: Monetary CSR value added, FDR: Financial distress reduction, FRM: Financial risk management, FP: Financial performance, SD: Standard deviation

Table 2: Result of path coefficients and P value

Path	Dirrect effect	
	Coefficient	P value
CSR MVA→FP	0.82	<0.01

Source: Processed data used in this study. CSR MVA: Monetary CSR value added, FP: Financial performance

Figure 3 shows the causal relationships between variables, namely that the CSR MVA is an exogenous variable affecting FP as an endogenous variable with the path coefficient value of 0.78 and P value of <0.01 and FP has the R² value of 0.62. Influence of CSR to FDR is indicated by the value of the path coefficient of -0.12 and a P value of 0.03. Influence of FDR on FP is indicated by the value of the path coefficient of -0.08 and a P value of <0.01. FRM moderate the relationship between CSR MVA and FP indicated by the path coefficients of -0.11 and a P value of 0.13.

4.2.2.2. Testing the mediation effect of FDR in relation to CSR MVA with FP

To be able to answer the hypothetical effect of mediation on a third hypothesis that is FDR in relation to CSR MVA with FP thus it must go through the stage of testing the first and second hypotheses in advance. The test results of Path coefficients and P values to see the coefficient and the level of significance in this research is presented in Table 3.

Table 3 shows the results of the test that the coefficient of CSR MVA direct effect on the FP on the model (1) is amounted to 0.082 and significant at (P < 0:01). These results indicate that the first condition to be mediating variables is met that is the coefficient of CSR MVA→FP (line c) is significant.

The test results of indirect effect show that path coefficient of CSR MVA to FDR is -0.120 and significant at 0.030 (P < 0.05). It can be concluded that the second hypothesis (H2) is accepted, namely that the CSR MVA affects significantly to FDR. These results indicate that a requirement to be mediating variables is met that is the coefficient of CSR MVA→FDR (line a) is significant.

Furthermore, path coefficient of FDR to FP is -0.080 and is significant at P < 0.01. It can be concluded that the third hypothesis (H3) is accepted, namely that the FDR affects significantly to FP. These results indicate that a requirement to be mediating variables is met that is the coefficient of FDR→FP (line b) is significant.

The test results of CSR MVA to FP showed that the indirect effect coefficient is equal to 0.780 and significant at P < 0.01. The results show that the indirect effect coefficient of CSR MVA→FP (line c'') fell to 0.780 from 0.820 (line c'' < c) but is still significant. These results can be concluded that the FDR mediates relationship between CSR MVA with the FP. It can be concluded that the fourth hypothesis (H4) is accepted, namely that the FDR mediates relationship between CSR MVA with the FP.

4.2.2.3. Moderation influence test of FRM to CSR MVA with FP

Testing the fifth hypothesis (H5) is to test the effect of moderating FRM against CSR MVA with FDR. To answer a moderating influence on the fifth hypothesis (H5) will do the analysis on results of Path coefficients and P values to see the coefficient and significance level, which is expressed as a moderating variable if the test results after moderating variables interactions is significant (Kock, 2011). The test results in this research is presented in Table 4.

The results can be seen in Table 4 shows that the coefficient of the interaction between the FRM and CSR MVA (FRM*CSR MVA)

has a path coefficient of -0.110 with a p value of 0.130 (sig <0.05). These results indicate that p-value is not significant, thus it can be concluded that the fifth hypothesis (H5) was rejected, namely that the FRM did not moderate the relationship of CSR MVA with FDR.

4.2.3. Applying robust test

Results of research on CSR robust test with measurement of indicators using standardized disclosure items in ISO 26000 as many as 37 items by using WarpPLS 3.0 shows as presented in Figure 4.

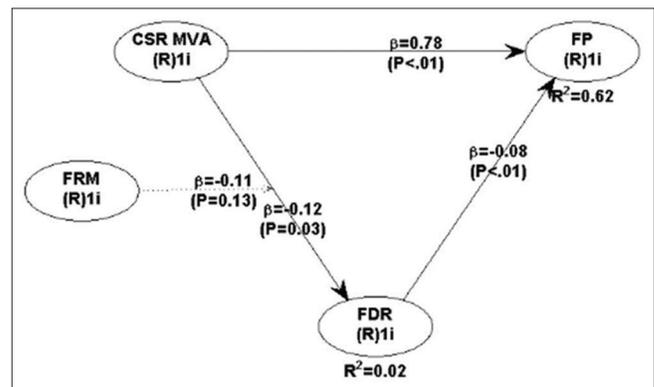
From Figure 4, it can be shown that CSR which is measured using 37 items disclosure standards in ISO 26000 on the FP has a coefficient of 0.11 with a p value of 0.10 (significance level 10%). This indicates that the CSR variable which is measured using the CSR MVA had a consistency level because it gives the same result as in measurement of the CSR using 37 items disclosure standards in ISO 26000. It can be concluded that CSR which is measured using CSR MVA is worth using.

5. DISCUSSION AND RESEARCH FINDING

5.1. Influence Testing of CSR MVA against FP

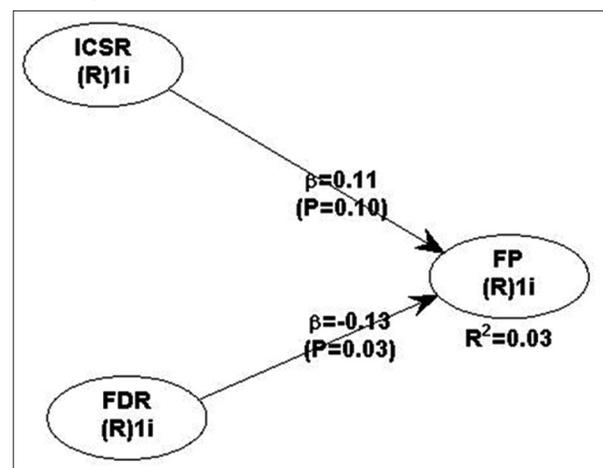
Testing of the first hypothesis which is stating that CSR MVA effect on FP is successfully demonstrated in this study or in other words,

Figure 3: Path analysis mediation and moderation



Source: Processed data used in this study

Figure 4: Path analysis robust test for direct effect



Source: Processed data used for this study

Table 3: Result of path coefficients and P value

Path	Dirrect effect		Indirrect effect	
	Coefficient	P value	Coefficient	P value
CSR MVA→FDR			-0,120	0.030
FDR→FP			-0,080	<0.01
CSR MVA→FP	0.82	<0.01	0.780	<0.01

Source: Processed data used in this study. CSR MVA: Monetary CSR value added, FDR: Financial distress reduction, FP: Financial performance

Table 4: Result of path coefficients and P value

Construct	Coefficient	P value
CSR MVA→FDR	-0.120	0.030
FRM*CSR MVA→FDR	-0.110	0.130

Source: Processed data used in this study. CSR MVA: Monetary CSR value added, FDR: Financial distress reduction, FRM: Financial risk management

the first research hypothesis is successfully accepted. The study’s findings indicate that CSR is one of the causes that could improve the company’s FP. Disclosure of the company’s activities related to CSR is a corporate activity that could give a positive signal to the market that a company that has been doing CSR activity indicates that the internal management of the company has done well. This positive signal is expected to be responded positively by the market so as to influence the decisions of investors, which in turn can increase the value of the company. Result of this study could also be explained by the use of impression management theory that is CSR is a company strategy which is used as forming the image and reputation of the company. By doing impression management then the company’s image will be formed and can enhance a company’s reputation, so it can be responded positively by investors so as to improve the FP of the company. Results of this study are consistent with research conducted by Carmen (2011), Weshah et al. (2012), Flammer (2013) and Iqbal et al. (2014) who found that corporate social performance has a positive and significant impact on FP.

5.2. Influence Testing on CSR MVA against FDR

The results are consistent with agency theory from the standpoint of the conflict-resolution hypothesis which states that companies use CSR as an activity to reduce the potential for conflict (agency problem) between top management and the various parties including shareholders, Jo and Harjoto (2012). CSR can reduce the occurrence of financial distress because stakeholder engagement enhanced through CSR and the information asymmetry is reduced, because of the increased transparency through non-financial reporting. Opportunistic behavior of managers will be limited to CSR activities through the involvement of stakeholders, so as to reduce the behavior of interest maximizing by managers, which would certainly reduce the potential for conflict between managers and principals. This study supports and is consistent with research conducted by Goss (2007) and Mecaj and Bravo (2014) which states that companies that implement CSR has a negative and significant relationship to the risk of financial distress.

5.3. FDR against FP

Research results for the third hypothesis shows that the FDR significantly affects the company’s FP. This result can be explained by using the efficient theory which states that if the company has the ability in conducting financial efficiency so can improve the

overall FP. This indicates that the more company can suppress or reduce the occurrence of financial difficulties, the company’s FP will certainly increase.

5.4. Role Testing on FDR as Relationship Mediator between CSR MVA and FP

Effect of mediation by FDR on the CSR MVA with FP above is in accordance with agency theory from the point of view of the conflict-resolution hypothesis which states that companies use CSR as an activity to reduce the potential for conflict (agency problem) between top management and the various parties including shareholders, which ultimately can improve FP of the company. Involvement of stakeholders which is improved through CSR will reduce the asymmetry of information because transparency enhanced through non-financial reporting. Information asymmetry may occur in the relationship between principal and agent, because in the agency theory, agent is considered to have more complete information than the principal, so that the information asymmetry is one of the agency problems, which could be addressed through CSR.

5.5. Moderation Role Testing on FRM against CSR MVA with FDR

Results of research on the calculation of the fifth hypothesis are rejected, namely that the FRM did not moderate the relationship between CSR MVA with FDR. This shows that the company’s ability to manage risk does not strengthen or weaken the relationship between CSR MVA and FDR. This reinforces previous hypotheses in this study that the CSR MVA is able to reduce the level of financial distress of the company because of its ability to manage benefits and cost as not to charge the company’s FP.

6. CONCLUSION

The main contribution of this research is to provide empirical evidence that CSR is not only as a form of moral responsibility of companies towards stakeholders alone but more than that, CSR is a company’s strategy which can be a long term financial strategy, so that CSR can be implemented by the company not only as a burden but can provide positive implications for the sustainability of company’s efforts.

Based on empirical research model that has been developed in this study, the research problem that has been proposed can be justified with the explanation of the test results namely that the CSR MVA can improve the FP directly (direct effect). CSR is also able to increase FP through the ability of CSR in reducing the possibility level of bankruptcy of the company.

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