

CHAPTER I

INTRODUCTION

1.1 Background of This Research

In the last decade, the development of the Corporate Social Responsibility (CSR) paradigm get special attention of academics in the world. Research about CSR have 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), South Africa (Sampong *et al.*, 2018) etc.

The CSR related to stakeholders inside and stakeholders outside (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) explains that corporate social responsibility towards influential 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. One perspective on the benefits of CSR is that in the long-term, CSR is seen as an investment for the company (Friedman, 1970; Sheikh, 2017; González-ramos, 2018; Phillips, Thai and Halim, 2019).

International Standard Organization launched business and organizational guidelines about responsibility for the effect of operating an organization toward society and environment called ISO 26000. This guideline is in line with the basic principles of Global Reporting Initiative (GRI) which establish sustainability reporting guidelines (Menichini and Rosati, 2014a; Jiang, Ph and Wong, 2015; Kim, 2015; Villiers and Sharma, 2017; Sampong *et al.*, 2018). The CSR is disclosed in sustainability reports that are published with the aim of having accountability and transparency for stakeholder.

The CSR is considered as non-financial income so can increase employee motivation and creating public trust in the company so that it can increase customer satisfaction (Parastoo, So and Saeidi, 2014; Ding, Ferreira and Wongchoti, 2016; González-ramos, 2018). If employee motivation and customer satisfaction are high then they will give loyalty to the company. Loyal company employees can realize good and efficient corporate performance and customer loyalty can increase sales so the company is able to generate profits. Therefore, CSR is used as a management strategy (Menichini and Rosati, 2014b; Kim, 2015) because the more companies do CSR, the easier the company gets profits and finally influence the corporate value (Kim, 2015).

The CSR is considered as the reality of the corporate responsibility from the impact of the company operations on society and the environment (Friedman,

1970). The CSR is known as a equal between economic, social and environmental resources (Hu *et al.*, 2018; Sampong *et al.*, 2018) so can play a role in creating moral obligation, legality for operation, sustainability, good corporate performance, positive image, good reputation and trust for companies in the public market (Preston and Turnbull, 2007; Kim, 2015; Ding, Ferreira and Wongchoti, 2016; Hategan and Curea-Pitorac, 2017). The higher the company does CSR, the higher the image of the company and of course it can improve a good reputation for the company in the public market and creating a sustainable business so that the company can more easily attract investors to invest in the company.

On the public market, shareholders wealth seen from the corporate value. The corporate value is a measure of the quality of the company (Muliani, 2014). Corporate value is one of the goals of the company because the corporate value is the basis of the perceptions of investors towards the company because corporate value can reflect the value of assets owned by the company (Dj, 2009; Susanti and Restiana, 2018). The corporate value is also reflects dividend payments to investors (Muliani, 2014) so the high corporate value can increase investor confidence in investing in companies because companies are considered to be able to provide great welfare through dividends to investors (Susanti and Restiana, 2018). Deividends are associated with the profit generated by the company (Muliani, 2014). If the company profits increase, it can increase the corporate value (Muliani, 2014). The company profit is reflected in the financial performance (Rahardjo and Murdani, 2016). Therefore, companies that are high

financial performance can also invite investors to invest (Rahardjo and Murdani, 2016).

Based on literature theory, it can be seen that CSR and financial performance influence the increase in corporate value. Several research have proven that there is positive and significant influence between CSR toward corporate value measured by Tobin's Q (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). In addition, several research also prove that there is positive and significant influence between financial performance measured by ROA (Kurniasari, 2015; Subaida, Ida, 2018) toward corporate value measured by MBV (Kurniasari, 2015) and Tobin's Q (Subaida, Ida, 2018). Based on the results of these research prove that investors are motivated to invest not only in companies that have good financial performance to generate profits (Rahardjo and Murdani, 2016), but CSR is also a consideration in investing decisions (Friedman, 1970; Rahardjo and Murdani, 2016).

The discovery of the controversy over the results of research on the influence of CSR toward increasing corporate value is a debate for academics. Research in the company SRI KEHATI index of the Indonesian Stock Exchange in 2009-2010 proves that there is not influence between CSR toward corporate value measured by MBV (Kurniasari, 2015). This is because there are not too many CSRI disclosures in sample companies (Kurniasari, 2015). It also shows that CSR programs are not an important issue for investors in Indonesia.

The controversy over the results of other research was also found in research about financial performance toward corporate value. Research in manufacturing companies listed in Indonesia Stock Exchange of 2008-2012 prove that there is not influence between financial performance as measured by leverage toward corporate value (Sukiati, 2015). This is because leverage is considered a confounding factor, if there is an error in leverage then financial performance cannot increase the corporate value (Sukiati, 2015).

One of the issue that is currently becoming an attraction for researchers is the issue of the strength of intangible asset owned by the company. Intangible asset as an intellectual capital consists of the structure capital, human capital and capital employee (Chen, Cheng and Hwang, 2005; Ciptaningsih, 2013; Lin, Chang and Dang, 2015). The company element in the form of structural capital such as software system, supply chain and company flows. Human Capital consists of the expertise of employees, knowledge, skills and all that is included in human resource. The customer loyalty, customer relationships, distribution chains, contacts and good licenses are the customer capital. On company performance reports, intellectual capital was not disclosed (Ciptaningsih, 2013), but According to Chen, Cheng and Hwang (2005) state that the intellectual capital is calculated through the VAICTM (Value Add Intellectual Coefficient). The CSR and intellectual capital related to stakeholders so that CSR has an influence toward intellectual capital. The higher the CSR then the higher the intellectual capital (Lin, Chang and Dang, 2015).

The value add company can be created by intellectual capital so the ability to create public images and generate profit so that it can influence the increase in financial performance (Chen, Cheng and Hwang, 2005; Ciptaningsih, 2013) and corporate value (Chen, Cheng and Hwang, 2005; Nuryaman, 2015). According to Chen, Cheng and Hwang (2005) state that Intellectual capital is measured using the VAICTM. The intellectual capital is increasing then financial performance is increasing and if financial performance is getting higher then it can contribute to raise intellectual capital. The intellectual capital is increase, the corporate value will increase too.

The phenomenon of the relation between CSR, financial performance, intellectual capital and corporate value is also evidenced in various research models. The invention of the research proves there is positive and significant influence between CSR toward the financial performance measured by ROA and corporate value measured by Tobin's Q (Kim, 2015; Hategan and Curea-Pitorac, 2017). The research on the influence of the financial performance measured by ROA toward CSR (Hategan and Curea-Pitorac, 2017) and corporate value measured by Tobin's Q (Rahardjo and Murdani, 2016; Hategan and Curea-Pitorac, 2017) proved positive and significant. Research on the influence of financial performance, CSR and corporate value are increasingly strengthened by the presence of empirical evidence indicating the positive and significant influence financial performance measured by ROA toward corporate value measured by Tobin's Q with CSR as moderator variable (Muliani, 2014). The invention of a new research model on the influence of CSR toward financial performance

measured by ROA use intellectual capital as a intervening variable proves the presence of positive and significant (Lin, Chang and Dang, 2015).

The research on the role of intellectual capital is very rapid. Research findings about intellectual capital measured by VAICTM have not only positive and significant toward the financial performance measured by ROA, but also positive and significant impact on corporate value (Chen, Cheng and Hwang, 2005). It is also reinforced with empirical evidence of positive and significant between intellectual capital toward corporate value with financial performance as a moderator variable (Nyoman and Werastuti, 2014). Other research using financial performance as a intervening variable also proves significant positive results (Nuryaman, 2015).

Topic of CSR started to be a trend in the society of Indonesia, along with the increasing awareness of the community about the products produced by the company that concern on the principles of social and human rights (Syukron, 2015). There is high attention to CSR in Indonesia because the impact of environmental degradation as a result of operational company activities to make the society to be aware of the importance of CSR (Rahardjo and Murdani, 2016). Therefore, the Indonesia government began to support the CSR in Indonesia. One of the phenomena of CSR that is revealed by the government is through regulations about CSR.

Some regulations of CSR in Indonesia are law number 40 in the year 2007 article 74 verse 1 about limited liability company (Ltd) written that social and environmental responsibilities must be undertaken by the company with allocating

2% of net income, BUMN ministerial decree Per-05/MBU/2007 about BUMN has implemented the social activities of the society around the community development partnership program by the funds gained from BUMN profit, government regulation number 47 in the year 2012 about social and environmental responsibility is included in the company annual plan in accordance with the company article of association. The regulation shows the government attention to economic, social and environmental sustainability for companies and society through CSR activities carried out by state owned enterprise (BUMN).

Ministry of BUMN noted that there were several BUMN listed of Indonesia Stock Exchange, which meant that several BUMN had sold their shares to the public and were valued by the public so that BUMN their existence is closely related to society. Therefore, CSR of BUMN listed of Indonesia Stock Exchange is a bridge between company and the society. The phenomenon about perception of businesses that the purpose of companies are maximize shareholder profit, while in consider to CSR will increase in cost because extra cost expended to social activities (Mustafa and Handayani, 2011). Supported of the opinion Lako (2011) stated that businesses often consider CSR as a burden, not as long term investment economic benefit for the company.

One of the goals of BUMN listed of Indonesia Stock Exchange is to increase financial performance so that they can increase the corporate value of the ROA. But, the phenomenon of financial performance as a portrait of the health or not of BUMN corporation listed of Indonesia Stock Exchange is measured by ROA of the last 5 years as follows:

Table 1.1
Financial Performance of BUMN Listed of Indonesia Stock Exchange

No	Code	ROA (%)				
		2013	2014	2015	2016	2017
1	ANTM	1,97	(3,38)	(5,50)	0,21	0,46
2	BBNI	3,40	3,50	2,60	2,70	2,70
3	BBTN	1,79	1,14	1,61	1,76	1,71
4	BBRI	5,03	4,73	4,19	3,84	3,69
5	BMRI	3,66	3,57	3,15	1,95	2,72
6	GIAA	0,78	(11,85)	2,36	0,25	(5,67)
7	JSMR	3,66	4,46	3,99	3,53	2,78
8	PGAS	25,95	19,59	14,49	11,81	13,20
9	PTBA	15,88	12,54	12,06	10,80	20,36
10	PTPP	4,09	3,96	5,01	4,56	4,72
11	SMGR	17,40	16,20	11,85	10,22	4,11
12	TINS	7,00	7,00	1,00	3,00	4,00
13	TLKM	11,00	10,20	9,30	10,80	11,20

Source : Collection of Financial Summary.

The financial performance data shows that each Corporation BUMN have a dynamic financial performance from year to year. Financial performance in 2013 to 2014 and 2014 to 2015 of the 13 BUMN companies there are three BUMN companies that are experiencing a rise in financial performance. Financial performance in 2015 to 2016 from 14 BUMN companies there are 5 companies BUMN that are experiencing a rise in financial performance. Financial performance in 2016 to 2017 of the 13 BUMN there were 9 companies of BUMN are experiencing a rise in financial performance. This indicates that the start of the year from the year 2013 to 2015 many BUMN which experience a decrease in 2015 but also BUMN began to rise until the year 2017 the amount of the BUMN that are experiencing increasing financial performance increases.

Based on phenomena in BUMN corporation listed of Indonesia Stock Exchange and some previous research, the author are interested in conducting

research again by integrating CSR, intellectual capital measured by VAICTM, financial performance measured by ROA and corporate value measured by Tobin's Q in BUMN listed of Indonesia Stock Exchange years 2013-2017.

1.2 Problem Formulation

Based on the phenomena about CSR and financial performance toward corporate value than discovery research gap of the reserach about there is positive and significant influence between CSR (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) and financial performance (Kurniasari, 2015; Subaida, Ida, 2018) toward corporate value, while research about there is negative and significant influence between CSR (Kurniasari, 2015) and financial performance (Sukiati, 2015) toward corporate value so formulation problems in this research was "The Influence of CSR and Financial Performance toward Corporate Value through Intellectual Capital" in BUMN listed of Indonesia Stock Exchange.

1.3 Research Statement

Research statement expressed in question research as follows :

1. How does influence between CSR toward intellectual capital.
2. How does influence between financial performance toward intellectual capital.
3. How does influence between CSR toward corporate value.
4. How does influence between financial performance toward corporate value.

5. How does influence between intellectual capital toward corporate value.
6. How does influence of CSR toward corporate value through the intellectual capital.
7. How does influence of financial performance toward corporate value through the intellectual capital.

1.4 The Objective of This Research

1. Describing and analyzing the influence of CSR, intellectual capital, financial performance and corporate value.
2. Construct model of development corporate value based CSR, financial performance and intellectual capital. (Designing the model of development in improving corporate value based CSR and financial performance through intellectual capital)

1.5 Benefit of This Research

1. Theoretical benefits will contribute to the development of management sciences especially in financial management in improving corporate value.
2. Benefits practical become a source of information and a reference for BUMN listed of Indonesia Stock Exchange an effort to improving corporate value.