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The Effect of Corporate Social Responsibility on Stock Returns with Profitability as a Moderating Variable on the LQ-45 Stock Index

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ABSTRACT

This research type is a causality with the aim of analyzing the effect of corporate social responsibility on stock returns with profitability as a moderating variable on the LQ-45 stock index during the 2013-2017 period. The research population is all companies listed in the LQ-45 Index on the Indonesia stock exchange during 2013-2017. The sampling using a purposive sampling method with a total sample of 23 companies. Data of this research is quantitative type, with data analysis techniques consisting of descriptive analysis, testing classic assumptions, moderating regression analysis, and testing hypotheses. The results showed that there was a significant positive effect on testing the effect of corporate social responsibility on stock returns. High or low profitability (return on equity) is considered unable to moderate the influence of corporate social responsibility on stock returns because the large expenditure incurred for corporate social responsibility can have a negative impact on business operations that will reduce the level of profitability obtained by the investor.

1. Introduction

The company is an organization that has certain objectives in running its business. Every company certainly wants to meet the needs of its members. The presence of a company in an environment is responded to positively by the community. This is because the presence of a company in an environment is expected to provide welfare to the community, one of which is the absorption of labor, which can reduce the unemployment rate of the community. In addition to the application of labor the presence of the company is expected to be able to provide the goods needed by the community, and can contribute taxes to the government.

Based on these government regulations, a business entity is obliged to carry out corporate social responsibility. Although it is clearly stated in government regulations regarding corporate social responsibility for limited liability companies, it is unfortunate that companies in Indonesia still do little to carry out social responsibility programs or corporate social responsibility properly and seriously. There are still many companies that are less concerned about social environmental issues, and this can be seen in the 2013-2014 corporate performance assessment program (PROPER) organized by the Ministry of Environment and Forestry as follows.

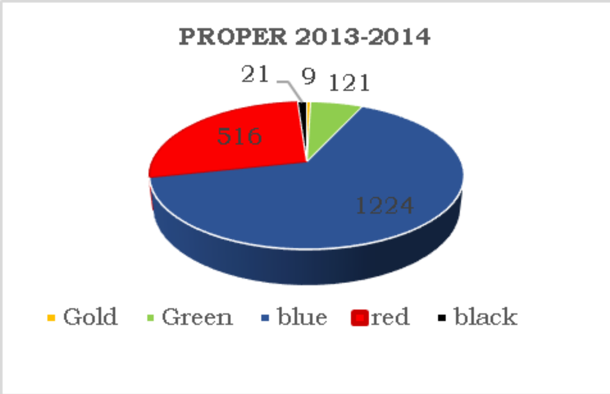

Figure 1. Company performance assessment program (PROPER) in 2013-2014.

Companies that have good CSR and increase profitability will indirectly influence stock returns. Stock returns are the results obtained from an investment. Stock returns can be realized returns, namely returns that have already occurred, or expected returns, namely returns that are expected in the future (Hartono, 2013). Stock returns can be calculated using past data or historical data. The return calculation consists of capital gain (loss) and yield. Capital gain (loss) is the difference between profit or loss between the current investment price and the investment price in the previous period. If the difference between the initial investment price and the current selling price is higher, then the investor gets a profit called capital gain. However, if the initial investment price is higher than the current selling price, the investor experiences a loss, which is often referred to as capital loss. To avoid investment risks, an investor can choose companies whose performance is recognized, such as companies listed on the LQ-45 stock index.

Previous research that has conducted good research on corporate social responsibility, profitability, and stock returns has shown different results. Research conducted by Nitasari (2016) stated that there was no influence between corporate social responsibility on stock returns and profitability, which could not moderate the influence of Corporate Social Responsibility on stock returns. The results of research conducted by Adriawan (2015) and research conducted by Utama (2015) show different results from previous research results. The results of this research show that the corporate social responsibility variable has an effect on stock returns. Other research conducted by Karim (2015) and research conducted by Putri shows the results that profitability influences stock returns. Research conducted by Suryani (2014) states that corporate social responsibility influences company value and profitability as a moderating variable that can influence the relationship between CSR and company value.

2. Literature Review

Disclosure of corporate social responsibility

Currently, disclosure of social responsibility or corporate social responsibility is an obligation that must be carried out by companies. Disclosure and implementation of corporate social responsibility is no longer considered solely as a voluntary contribution from the company. In Indonesia, disclosure of corporate social responsibility has been regulated in the limited liability company law regarding disclosure of corporate social responsibility No. 40 of 2007 article 66 paragraph 2 which states that companies are obliged to report the implementation of social responsibility in their annual report.

Disclosure of social responsibility or corporate social responsibility (CSR) in annual reports certainly has standards, CSR disclosure standards refer to global reporting initiative (GRI) standards. GRI standards are universal standards that every organization uses to prepare sustainability reports. Sustainability reporting provides disclosure of the most important impacts of an organization, both positive and negative, on the environment, society, and the economy. Currently, the latest global reporting initiative (GRI) standard is GRI G-4, which was launched in May 2013 (www.globalrepoting.org)

In the GRI G-4 standard, performance indicators are divided into 3 main components, namely: economic, environmental, and social.

The social component covers 4 categories, namely: labor practices and decent work, human rights, product responsibility, and society. In assessing the extent of corporate social responsibility disclosure, these corporate social responsibility items will be given a score that refers to the indicators mentioned in GRI-G4. The number of indicators contained in the GRI G-4 standard is 91 indicators (www.globalrepoting.org).

CSR calculations are carried out with dummy variables, namely:

Score 0: If the company does not disclose the items on the statement list.

Score 1: If the company discloses the items on the statement list.

Corporate Social Responsibility Disclosure Index (CSRDI) can be formulated as follows:

CSRI_j=(ΣX_ij)/n_j

Information:

CSRI_j= Corporate Social Responsibility Disclosure index of the company.

ΣX_ij= Number of Corporate Social Responsibility items disclosed by the company.

n_j = Number of items based on GRI G-4 is 91.

Source: Suryani (2014).

Profitability

According to Warsono (2003), profitability is the net result of a number of company policies and decisions. The profitability ratio measures how much the company's ability to generate profits.

Meanwhile, according to Sartono (2001) profitability is the company's ability to earn profits related to sales, total assets, and own capital.

$$\text{Return On Equity} = \frac{\text{Earning After Interest and Tax}}{\text{Equity}}$$

Stock return

The calculation of stock returns consists of the difference between the current investment price and the difference in the previous investment price. If the selection obtained from the initial investment price to the current selling price is higher, the investor gets a profit called a capital gain, but if the initial investment price is higher than the current selling price, the investor experiences a loss or is often referred to as a capital loss (Hartono, 2013).

$$\textbf{Stock Return} = \frac{(\mathbf{P_t - P_{t-1}})}{\mathbf{P_{t-1}}}$$

Where:

Stock return = The difference of the current investment price relative to the past period price.

Pt = Share price at the current investment

Pt-1 = Share price at last period's investment.

3. Methods

The scope of this research is the LQ-45 Index for the period 2013-2017. The indicators used are corporate social responsibility disclosure, profitability using the return on equity variable, and stock returns. This type of research is causality research. A causal relationship is a causal relationship (Sugiyono, 2016). This type of research is causality quantitative research. The population in this study were all companies listed in the LQ-45 Index on the Indonesia stock exchange from 2013 to 2017, as many as 45 companies. Sampling in this study used a purposive sampling method by setting sample criteria with a total of 23 samples.

Classical assumption testing

The classical assumption test is carried out to determine whether the resulting model can be further analysed or not. In order for the model to be analysed and provide representative results, the model must meet basic classical assumptions, namely, no symptoms of multicollinearity, autocorrelation, and heteroscedasticity:

Moderated regression analysis test

The regression analysis carried out in this study is moderated regression analysis (MRA) using the absolute difference test. The analysis is used to determine whether there is an effect of CSR on stock returns and whether profitability can moderate the effect of CSR on stock returns.

$Y = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X1\text{-}X2 + e$

Description:

Y = Stock return

α = Constant

β = Regression coefficient

X1= Corporate social responsibility

X2= Return on equity

X1-X2= Relationship between corporate social responsibility and profitability.

4. Results and Discussion

Based on the data normality test with one sample Kolmogorov-Smirnov test, it was found that the data were not normally distributed, where the Asymp. Sig (2-tailed) is smaller than 0.05, so it is stated that the data is not normally distributed. After updating the research sample, it was found that the data had been normally distributed with Asymp. Sig (2-tailed) more than 0,05. The following are the results of the normality test that have been updated in the table.

Based on regression data analysis, the equation is obtained:

Stock Return = 3.804+7.760 CSR+24.460 ROE+6.827 (CSR-ROE)

Hypothesis test

T-statistical test

The t-statistical test shows how far the influence of independent variables (independent variables) is in explaining related variables (dependent variables) (Ghozali, 2013). The basis for making t-test decisions is by comparing the calculated t value with the t table and comparing the significance value. The following are the results of the t-test using the SPSS programme:

The effect of corporate social responsibility on stock returns

Based on the results of research using the t-test, it shows that the t value is 2.081 and the significance value is 0.041, and this shows that the t value of 2.081 is greater than the t table of 1.663, so H0 is rejected, and H1 is accepted. The significance level in this study is 0.05, which means that 0.041 is smaller than 0.05. Based on this explanation, it can be concluded that corporate social responsibility has a positive and significant effect on stock returns.

The effect of corporate social responsibility on stock returns with profitability as a moderating variable.

Based on the results of research using the t-test, it shows that the t value is 1.089 and the significance value is 0.281, and this shows that the t value of 1.089 is smaller than the t table of 1.663, so H0 is accepted, and H1 is rejected. The significance level of this study is 0.05, which means that 0.281 is greater than 0.05. Based on this explanation, it can be concluded that profitability (return on equity) cannot moderate the effect of corporate social responsibility on stock returns.

R2 test (determination coefficient)

The determination coefficient test is carried out to determine how far the model's ability to explain the independent variable changes in the dependent variable. The R2 value ranges from 0 (zero) to 1 (one). A small R2 value indicates that the independent variable explains limited changes in the dependent variable. If the R2 variable is close to 1 (one), then the independent variable is able to provide all the information needed to predict the dependent variable (Ghozali, 2013). The results of the R2 test in this study showed a value of 0.204.

5. Conclusion

Corporate social responsibility has a positive and significant effect on stock returns, and this indicates that the higher the level of corporate social responsibility disclosure, the higher the stock returns. profitability (return on equity) cannot moderate the effect of corporate social responsibility on stock returns.

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