The Effect of Corporate Social Responsibility (CSR) and Financial Ratio to Corporate Values

TANTO KURNIA*
Universitas Katolik Parahyangan

MATHIUS TANDIONTONG
Universitas Kristen Maranatha

Abstract: This paper studies the effect of corporate activities in environmental and social responsibility (CSR), as well as financial ratios, on corporate values. Corporate managers may only be focusing on pleasing their investors and forget about their responsibilities to the other stakeholders. The performance of corporate financial ratios portrays manager’s responsibilities toward shareholders and investors, while CSRs incorporate the whole stakeholders. Corporate managers, who are responsible for corporate sustainability, would focus not only on the interest of shareholders, instead, to the overall stakeholders to reduce the agency problem. We examine public companies which are listed on the Indonesia Stock Exchange, focusing in the period from 2006 to 2013. A combination between time series and cross-section data make the sample data of this study fits into the category of panel data. Some statistical tests are performed to get an overview of the relationship between CSR and financial ratios to corporate values, which is quantified through Market Value Added (MVA) analysis. Corporate activities in environmental and social responsibilities are measured by certifications owned by the corporation, such as ISO9000, ISO14000, OHSAS18000 and the availability of employee stock ownership plan (ESOP). On the other hand, financial performances are measured through financial ratios, including current ratio, debt-to-equity ratio, total asset turnover, return on sales and price-earnings ratio.

Keywords: Agency Issues, Financial Ratios, Social And Environmental Responsibility Of The Corporate, The Value Of The Corporate.

Abstract: Makalah ini mempelajari pengaruh kegiatan perusahaan dalam tanggung jawab sosial dan lingkungan (CSR), serta rasio keuangan, pada nilai-nilai perusahaan. Manajer perusahaan mungkin hanya berfokus pada menyenangkan investor mereka dan melupakan tanggung jawab mereka kepada para pemangku kepentingan lainnya. Kinerja rasio keuangan perusahaan menggambarkan tanggung jawab manajer terhadap pemegang saham dan investor, sementara CSR melibatkan seluruh pemangku kepentingan. Manajer perusahaan, yang bertanggung jawab untuk keberlanjutan perusahaan, akan fokus tidak hanya pada kepentingan pemegang saham, sebaliknya, kepada seluruh pemangku kepentingan untuk mengurangi masalah

* Corresponding author: tanto@unpar.ac.id


1. Introduction

Corporate Social Responsibility (CSR) for a public corporation in Indonesia is an obligation. CSR is a commitment that is made by the government as one of the general provisions contained in Article 1 verse (3) of Republic Indonesia Law number 40 the year 2007 about Public Corporate (UU-40, 2007). CSR application and reporting is voluntary. CSR discretionary brings about various results, and there are corporations which implement CSR with full commitment, while the others modestly implement CSR to fulfill the regulatory requirements barely.

The corporate managers, especially in the manufacturing industry, tend to think that their responsibility is to generate profits for business owners. Corporate social and environmental responsibility, on the other hand, have yet perceived to have a significant effect on corporate profits. The managers of the corporation should be able to realize other goals and commitments which need to be aligned, namely the interests of stakeholders. The corporate managers, should not only be responsible for generating profits for business owners but also to be responsible for maintaining the social and environmental conditions where the corporation carries out its business activities. The previous study was to find whether investors are affected by the management's policy to manage social and environmental responsibility (William, 2012). The result showed that the corporate's image for investors was affected not only
by management's policy in generating profits but also by the social and environmental responsibility management.

This study discusses corporate image which is affected by CSR commitments and financial ratios, for manufacturing corporations listed on the Indonesia Stock Exchange. A corporate image will be measured using Market Value Added (MVA). Financial ratio analysis used in this study are Current Ratio, Debt-Equity Ratio, Total Asset Turnover, Return On Sales and Price-earnings ratio. The corporation's commitment to fulfilling its social responsibility is indicated by the existence of ISO9000, ISO14000 and OHSAS18000 certification and the availability of stock incentives for its employees in corporate policy (ESOP).

2. Theoretical Framework and Hypotheses Development

Agency problems arise because the agent and principals have different goals in their effort to fulfill their interests (Ross, Westerfield, and Jaffe, 2010); (Wheelen & Hunger, 2012). The corporate manager is actually able to do things to get excellent short-term performance, such as making excellent the corporate's financial ratios. The victims of their activities are the corporate image and the interests of stakeholders. To fulfill the interests of stakeholders, the corporation should also be responsible socially and environmentally in which the corporation carries out its business activities. Corporations, which have good financial ratios and also notice the interests of stakeholders, tend to have a positive corporate image.

2.1 Corporate Image and Market Value Added

Kuang-Hui Chiu and Chien-Lung Hsu, defined a corporate image, as an overview of corporation's evaluation as a whole (holistic) and not in separate activities or division, from market's point of view (Chiu & Hsu 2010).

The alignment of interest between the agent and principal was also accumulated in corporate image. The good corporate image described a good performance of corporate managers and shareholders expectations and trust. George Bennet Stewart III, as a pioneer who introduced and popularized the concept of MVA, his statement
was quoted by Rina Ulfayani. George Bennet Stewart III endorses MVA as a measure to assess a corporation's success or failure in creating wealth for shareholders (Ulfayani, 2008).

2.2 *The Effect of Corporate Social Responsibility to MVA*

Kuang-Hui Chiu and Chien-Lung Hsu, in their literature study, said that corporate responsibility to the environment and social development was closely related to the corporate image. If the corporation sets some activities of social and environmental responsibility seriously, then the corporate image in the eyes of society will get even better (Chiu & Hsu, 2010). Corporate image, which is the result of corporate managers who are responsible for environment and social development, involving stakeholders, is expected to be noticed by the shareholders. The corporate image is indicated by Market Value Added (MVA).

2.3 *Corporate Certification: A Proof of Corporate Social Responsibility*

Catalina Soriana Sitnikov and Claudiu George Bocean said that ISO9000 provides various tools for corporations to ensure the fulfillment of customer desires and satisfaction and rewards for employees, which are the area of corporate social responsibility. On the other hand, ISO14000 is related to corporate responsibility for the environment where the company operates (Sitnikov & Bocean, 2012).

Pavel Castka and Michaela A. Balzarova showed that the ISO14000 and OHSAS18000 unwittingly force the corporations to be socially and environmentally responsible in every step of their corporate value chain (Castka & Balzarova, 2008).

Based on their study, it can be concluded that corporations which own the certification of ISO9000, ISO14000 and OHSAS18000 take responsibility for their social and business environment seriously. Also, to support the alignment of interest between the corporation and its employees, the corporations could make a stock incentive program for employees (ESOP).
2.4. The Effect Of Financial Ratios to Market Value Added

Principal parties would also assess the agents through the company’s financial performance. According to Rina Ulfayani, financial ratios, which describe agents’ performance, are signals to investors whether to invest their capital or not (Ulfayani, 2008). The signal is a representation of corporate performance evaluation, which is previously defined as a corporate image.

The agents’ performance, which would be a signal for investors, is judged by corporate resource management, profits, assets management, liabilities, and capital. The result is reflected in the corporate financial ratios:

1. The higher the current ratio, the corporate is more likely to be able to meet short-term liabilities. An extreme current ratio indicates that the corporate is less capable of managing its current assets and the stakeholders consider this as a poor indicator.

2. The higher the debt-equity ratio, the higher is the risks faced by the corporation. Investors, who invest their capital in a corporation with a high debt-equity ratio, would ask for more profit, as corporate value increases.

3. The higher the total assets turnover, the corporation is considered to be more efficient in allocating its assets, which would increase its business income.

4. The higher the return on sales value, the better the corporate performance is. This is due to a higher contribution of each sale to profit.

5. The higher the price-earnings ratio, indicates the higher the expectations of investors to the corporate profit growth.

Based on the description above, a corporate image captured by the stakeholders, including shareholder, is represented by MVA. The corporate image will increase if stakeholders observe that the corporation runs its social and environmental responsibilities seriously. The corporate image in the eyes of stakeholders can also be increased by the increase in corporate performance, which is described by financial ratios. This research can be described as the following model:
Research hypothesis

Ha1: Corporate Social Responsibilities dan all financial ratios have a positive effect on the Market Value Added simultaneously

Ha2: Corporate Social Responsibility (CSR) through ESOP has a positive effect on the Market Value Added

Ha3: Corporate Social Responsibility (CSR) through ISO9000 has a positive effect on the Market Value Added

Ha4: Corporate Social Responsibility (CSR) through ISO14000 has a positive effect on the Market Value Added

Ha5: Corporate Social Responsibility (CSR) through OHSAS18000 has a positive effect on the Market Value Added

Ha6: Current ratio (CR) has a positive effect on the Market Value Added

Ha7: Debt-Equity Ratio (DER) has a negative effect on the Market Value Added

Ha8: Total Asset Turnover (TAT) has a positive effect on the Market Value Added

Ha9: Return on Sales (ROS) has a positive effect on the Market Value Added

Ha10: Price-earnings ratio (PER) has a positive effect on the Market Value Added
3. Research Methods

This study focuses on corporations in the manufacturing industry in the period 2006 to 2013 as the research object. The manufacturing industry is chosen as the research object because the industry has a lot of contact with society. The views of manufacturing corporate owners are different from mining and plantation corporations, which have direct contact with the environment. The manufacturing corporations can try to avoid the responsibility of preserving the environment since they do not cause damage to the environment directly. Total manufacturing corporations in 2013 are 138 corporations.

The methods used to select research objects for this study is purposive sampling. Considerations underlying the sampling used in this study are as follows:

1. The corporations are always listed on the Stock Exchange from 2006 to 2013.
2. The corporations should have a complete financial statement data for the period 2006-2013.

This study is conducted to assess the impact of social and environmental responsibility and corporate financial ratios to market value added as a representation of a corporate image. Following the purpose of the study, we apply the correlation research design method. Creswell (Creswell, 2012), divides correlation research design into two main groups, explanatory design, and prediction design. The design that fits this study is explanatory design.

3.1 Data Collection Technique

The technique of data collection that is relevant to this study is secondary data collection, obtained from historical data and statistics provided in Indonesia Stock Exchange (IDX), Indonesian Capital Market Directory (ICMD), corporation profiles and financial statements provided in the internet, articles, journals and other sources. The collected data is then monitored using specific testing methods.

3.2 Operationalization of Research Variables

Table 1 describes the operationalization of the variables in this study. The table consists of variables, definitions, formulas, and scale.
Table 1.
Operationalization of Research Variables

<table>
<thead>
<tr>
<th>No.</th>
<th>variable</th>
<th>variable definition</th>
<th>formula Measurement</th>
<th>Scale</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Dependent variables</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Market Value Added (MVA)</td>
<td>MVA describes the efforts of corporate managers in maximizing the wealth of shareholders.</td>
<td>$MVA = \frac{(\text{market value of corporate stock} - \text{book value of corporate stock})}{\text{book value of corporate stock}}$</td>
<td>Ratios</td>
</tr>
<tr>
<td></td>
<td><strong>Independent variables</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Corporate Social Responsibility (CSR)</td>
<td>indicates the existence or inexistence of employee stock ownership plan (ESOP) in the corporation, as a characteristic of CSR commitments.</td>
<td>$= 1$, if it has the ESOP, $= 0$, if it does not have ESOP</td>
<td>Nominal</td>
</tr>
<tr>
<td>3.</td>
<td>Corporate Social Responsibility (CSR)</td>
<td>Indicates if the corporation holds ISO9000 certification, as a characteristic of CSR commitments.</td>
<td>$= 1$, if it has ISO9000 certification, $= 0$, if it does not have ISO9000 certification</td>
<td>Nominal</td>
</tr>
<tr>
<td>4.</td>
<td>Corporate Social Responsibility (CSR)</td>
<td>Indicates if the corporation holds ISO14000 certification, as a characteristic of CSR commitments.</td>
<td>$= 1$, if it has ISO14000 certification, $= 0$, if it does not have ISO14000 certification</td>
<td>Nominal</td>
</tr>
<tr>
<td>5.</td>
<td>Corporate Social Responsibility</td>
<td>Indicates if the corporation holds OHSAS18000 certification, as a</td>
<td>$= 1$, if it has OHSAS18000 certification,</td>
<td>Nominal</td>
</tr>
<tr>
<td>No.</td>
<td>variable</td>
<td>variable definition</td>
<td>formula</td>
<td>Measurement</td>
</tr>
<tr>
<td>-----</td>
<td>-----------------------------------------------</td>
<td>-------------------------------------------------------------------------------------</td>
<td>-----------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>6.</td>
<td>Current Ratio (CR)</td>
<td>CR indicates the proportion of the current corporate assets to meet their short-term liabilities</td>
<td>CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}</td>
<td>Ratios</td>
</tr>
<tr>
<td>7.</td>
<td>Debt to Equity Ratio (DER)</td>
<td>DER describes the proportion of corporate liability with internal funding</td>
<td>DER = \frac{\text{Total Current Liabilities}}{\text{Total Equity}}</td>
<td>Ratios</td>
</tr>
<tr>
<td>8.</td>
<td>Total Assets Turnover (TAT)</td>
<td>TAT describes the level of asset management efficiency to generate sales.</td>
<td>TAT = \frac{\text{Sales}}{\text{Total Assets}}</td>
<td>Ratios</td>
</tr>
<tr>
<td>9.</td>
<td>Return on Sales (ROS)</td>
<td>ROS is used to calculate corporate success rate in selling their products.</td>
<td>ROS = \frac{\text{Net Income}}{\text{Total Sales}}</td>
<td>Ratios</td>
</tr>
<tr>
<td>10.</td>
<td>Price to Earnings Ratio (PER)</td>
<td>PER is a description of how owners of capital are willing to invest in the corporation.</td>
<td>EPS = \frac{\text{Net Income}}{\text{Shares Outstanding}} \text{PER} = \frac{\text{Market price/share}}{\text{Earnings/share}}</td>
<td>Ratios</td>
</tr>
</tbody>
</table>
Multiple regression models for this study are:

\[
Y_{it} = \beta_0 + \beta_1 D_{1it} + \beta_2 D_{2it} + \beta_3 D_{3it} + \beta_4 D_{4it} + \beta_5 X_{1it} + \beta_6 X_{2it} + \beta_7 X_{3it} + \beta_8 X_{4it} + \beta_9 X_{5it} + \epsilon_{it}
\]

Description:

\(i\) = corporation \(i = 1,2, ..., 101\)

\(t\) = the time period \(t = 1,2, ..., 7\)

\(Y\) = MVA = the dependent variable

\(\beta_0\) = coefficient of slope

\(\beta_1 \beta_2 \beta_3 \beta_4\) = intercept coefficient for dummy variables of CSR activities

\(D_1\) = ESOP. It takes the value of 0 if there is no incentive policy stock and the value of 1 if there is a stock incentive policies. (dummy variable)

\(D_2\) = ISO9000. It takes the value of 0 if there is no ISO9000 certification and a value of 1 if there is ISO9000 certification. (dummy variable)

\(D_3\) = ISO14000. It takes the value of 0 if there is no ISO14000 certification and a value of 1 if there is ISO14000 certification. (dummy variable)

\(D_4\) = OHSAS18000. It takes the value of 0 if there is no OHSAS18000 certification and a value of 1 if there is OHSAS18000 certification. (dummy variable)

\(\beta_5 \beta_6 \beta_7 \beta_8 \beta_9\) = intercept coefficient for independent variables

\(X_1\) = CR = Current Ratio (independent variables)

\(X_2\) = DER = Debt-equity ratio (independent variable)

\(X_3\) = TAT = Total Asset Turnover (independent variable)

\(X_4\) = ROS = Return on Sales (independent variable)

\(X_5\) = PER = Price-earnings ratio (independent variable)

\(\epsilon\) = error, residual
4. Result

Based on the completeness of financial data obtained from IDX, then the following table is made:

Table 2.
Number of Samples

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporations listed on the JSE / BEI after 2007</td>
<td>27</td>
</tr>
<tr>
<td>Corporations relisting after 2007</td>
<td>1</td>
</tr>
<tr>
<td>A corporation which delists in 2013</td>
<td>1</td>
</tr>
<tr>
<td>The corporation listed on the JSE / BEI before 2007</td>
<td>109</td>
</tr>
<tr>
<td>Total Listed Corporations on Indonesia Stock Exchange in 2013</td>
<td>138</td>
</tr>
</tbody>
</table>

(Source: Processed Data)

According to the table above, the sample size for this study is the number of listed corporations on the JSE/BEI before 2007, which are 109 corporations. Based on 109 corporations, there is only one corporation which can not be identified to have the proof of ownership on ISO9000, ISO14000, OHSAS18000 certifications and the activities of the ESOP. Then, the corporation is considered to have a missing value. Therefore the corporation is excluded from the sample. For 108 other corporations, their existence as sample remains, despite there are some data which have extreme values (outliers data).

The result of data processing using Hausman test is as follows:

Table 3
Hausman test

<table>
<thead>
<tr>
<th>Correlated Random Effects - Hausman Test</th>
</tr>
</thead>
<tbody>
<tr>
<td>Test cross-section random effects</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Test Summary</th>
<th>Chi-Sq.Statistic</th>
<th>Chi-Sq. df</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cross-section random</td>
<td>0.000000</td>
<td>9</td>
<td>1.0000</td>
</tr>
</tbody>
</table>

(Source: Data processed)
Based on table 3, the value of Chi-square statistic is 0.000000 with the p-value equal to 1.0000. Chi-square table value = 16.919 (α = 5%, k = 9), it is much larger than the Chi-square statistic and the value of p-value is greater than α = 5% or 0.05, therefore we must accept H0, where Random Effect is more appropriate.

The model equation used is as follows:

\[
MVA_{it} = \beta_0 + \beta_1 ESOP_{it} + \beta_2 ISO9000_{it} + \beta_3 ISO14000_{it} + \beta_4 OHSAS18000_{it} \\
+ \beta_5 CR_{it} + \beta_6 DER_{it} + \beta_7 TAT_{it} + \beta_8 ROS_{it} + \beta_9 PER_{it} + \epsilon_{it}
\]

Applying regression technique with Random Effect approach, we obtain the following estimation result.

Table 4
The Result of Regression Estimation using Random Effect Approach

<table>
<thead>
<tr>
<th>Variable</th>
<th>coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>C</td>
<td>12.80494</td>
<td>4.438170</td>
<td>2.885185</td>
<td>0.0040</td>
</tr>
<tr>
<td>CR?</td>
<td>-0.000339</td>
<td>0.001149</td>
<td>-0.294837</td>
<td>0.7682</td>
</tr>
<tr>
<td>DER?</td>
<td>0.103776</td>
<td>0.029392</td>
<td>3.530719</td>
<td>0.0004</td>
</tr>
<tr>
<td>ROS?</td>
<td>0.082898</td>
<td>0.260736</td>
<td>0.317938</td>
<td>0.7506</td>
</tr>
<tr>
<td>TAT?</td>
<td>-7.797683</td>
<td>4.451782</td>
<td>-1.751587</td>
<td>0.0802</td>
</tr>
<tr>
<td>PER?</td>
<td>0.005667</td>
<td>0.006044</td>
<td>0.937678</td>
<td>0.3487</td>
</tr>
<tr>
<td>ESOP?</td>
<td>-7.001999</td>
<td>2.441236</td>
<td>-2.868219</td>
<td>0.0042</td>
</tr>
<tr>
<td>ISO9000?</td>
<td>10.27433</td>
<td>4.645910</td>
<td>2.211478</td>
<td>0.0273</td>
</tr>
<tr>
<td>ISO14000?</td>
<td>-24.78338</td>
<td>14.04449</td>
<td>-1.764634</td>
<td>0.0780</td>
</tr>
<tr>
<td>OHSAS18000?</td>
<td>12.01995</td>
<td>8.113310</td>
<td>1.481510</td>
<td>0.1388</td>
</tr>
</tbody>
</table>
Using the data shown in Table 4, we obtain the following result:

Table 5.
Testing Results $t$-statistic

<table>
<thead>
<tr>
<th>Variable</th>
<th>$t$-statistic</th>
<th>Prob.</th>
<th>$H_0$</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESOP</td>
<td>-2.868219</td>
<td>approximately 0.0042</td>
<td>Rejected</td>
</tr>
<tr>
<td>ISO9000</td>
<td>2.211478</td>
<td>0.0273</td>
<td>Rejected</td>
</tr>
<tr>
<td>ISO14000</td>
<td>-1.764634</td>
<td>0.0780</td>
<td>Accepted</td>
</tr>
<tr>
<td>OHSAS18000</td>
<td>1.481510</td>
<td>0.1388</td>
<td>Accepted</td>
</tr>
<tr>
<td>CR</td>
<td>-0.294837</td>
<td>0.7682</td>
<td>Accepted</td>
</tr>
<tr>
<td>DER</td>
<td>3.530719</td>
<td>0.0004</td>
<td>Rejected</td>
</tr>
<tr>
<td>TAT</td>
<td>-1.751587</td>
<td>0.0802</td>
<td>Accepted</td>
</tr>
<tr>
<td>ROS</td>
<td>0.317938</td>
<td>0.7506</td>
<td>Accepted</td>
</tr>
<tr>
<td>PER</td>
<td>0.937678</td>
<td>0.3487</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

The coefficient of determination ($R^2$) describes how well the regression line fits the data. The perfect regression line would be constructed if the data, based on the estimation, fit on the regression line and is represented by the value of $R^2 = 1$, but of course, this is very rare. In this study, the $R^2$ value obtained from the estimation is
2.82%. Generally, this means that the regression line can explain the phenomenon by 2.82%, while other variables outside the model explain most of the others.

Researchers consider a small value of $R^2$ as a failure of regression modeling. Wooldridge in Ariefianto declared that in social science research, a low value of $R^2$ in a model is not uncommon (Ariefianto, 2012). Agus Widarjono explained that a low value of $R^2$ is common in cross-section data (Widarjono, 2013). This study uses panel data which is a combination of cross section data and time series data, so the low value of $R^2$ may be due to the cross section feature.

A research model does not only use the coefficient of determination ($R^2$) to see the effect of all independent variables to the dependent variable. F test can be done to see the significance of the regression model. In this study, the result of F-test statistical calculation shows that all independent variables have a significant effect with $\alpha = 5\%$, to variable MVA simultaneously.

The results of t-test statistical calculation to see how independent variables affect dependent variable individually is as follows:

1. For variables related to CSR; **ESOP Variable**, ESOP individually has a significant effect with $\alpha = 5\%$ on MVA negatively. This means that corporations that implement ESOP have a smaller corporate image compared to corporations which do not implement ESOP. **ISO9000 Variable**, ISO9000 individually has a significant effect with $\alpha = 5\%$ on MVA positively. This means the corporations who hold ISO9000 certification has a greater corporate image than they who do not. **ISO14000 Variable**, ISO14000 individually has no significant effect with $\alpha = 5\%$ on MVA, but it has a significant impact with $\alpha = 10\%$ on MVA negatively. This shows that corporations which hold ISO14000 certification have a weaker corporate image compared to corporations that do not hold ISO14000 certification. **OHSAS18000 Variable**, OHSAS18000 individually does not have a significant effect with $\alpha = 5\%$ on MVA positively. This means that corporations, which have OHSAS18000 certifications, have a better corporate image than
corporates that do not have OHSAS18000 certification, although the effect does not give a clear distinction statistically.

2. For the variables related to financial ratios; **CR Variable**, CR individually has no significant effect with $\alpha = 5\%$ on MVA negatively. This shows that corporates, which have higher the current ratio, will have a weaker corporate image, although the distinction is unclear. **DER Variable**, DER individually have a significant effect with $\alpha = 5\%$ on MVA positively. This means that the corporate image will be greater as the value of Debt-Equity Ratio gets higher. **TAT Variable**, TAT individually has no significant effect with $\alpha = 5\%$ on MVA, but it has a significant impact with $\alpha = 10\%$ on MVA negatively. This means an increase in Total Asset Turnover would also enhance the corporate image. **ROS Variable**, ROS individually has no significant effect with $\alpha = 5\%$ on MVA. However, the estimation shows a positive coefficient. This indicates that corporations with higher Return on Sales would boost the corporate image, although it does not show any clear distinction. **PER Variable**, PER individually does not have a significant effect with $\alpha = 5\%$ on MVA, but it has a positive coefficient estimate. This means that corporations with higher Price-Earning Ratio tend to have a better corporate image, although the distinction between corporations is still unclear statistically.

5. Conclusion and Implications

5.1 Conclusion

ESOP, ISO9000, ISO14000, OHSAS18000, current ratio (CR), the debt-equity ratio (DER), total asset turnover (TAT), return on sales (ROS) and the price-earnings ratio (PER), have a significant effect on Market Value Added (MVA) simultaneously.

The investors or shareholders and stakeholders expect the corporate managers to have good performance. As the awareness about environmental conservation grows, the managers are expected not only to generate profits for the corporation but also to participate in conserving the natural and social environment. Corporations that preserve the natural and social environment actually also maintain the continuity of
their corporate survival. Stakeholders and shareholders would entrust the financial, employment and environmental sustainability on corporations that are considered to have the ability to manage them all in a well manner. The ability to manage financial, human resource and environment is inseparable to corporate image. The corporate image cannot be made in one night, but it is a continuous process to maintain the trust of the stakeholders and shareholders.

The image of Indonesian manufacturing corporations listed on the Indonesia Stock Exchange, is mainly built from the corporations’ ability to maintain the quality of products and services to customers, as well as the financial management of the corporate in long-term debt. On the other hand, incentive management in the form of employee stock ownership plan (ESOP), which is expected to increase the motivation and welfare of employees, does not give a positive effect for employees.

The discussion about the influence of the corporation’s ability in managing finance, human and environment, are as follows: As described by Robert Anthony and Govindarajan, that to achieve goal congruence between agent and principal, contract of incentives was made. A contract of incentives which discuss bonuses is more preferable (Anthony & Govindarajan, 2005). Employees and managers of manufacturing corporations in Indonesia seem to like the type of bonus that is directly correlated with the performance and effort of employees as a sign of self-achievement. While bonus shares are considered does not indicate corporate recognition to employees' performance. Every employee does not easily understand ESOP. Employees will feel like they lose their bonus when the stock price goes down. Employees also feel like the corporation is not capable of paying their bonus and therefore replacing them with stock ownership. Because of this matters, the process of implementing a cash disbursement to be ESOP is also seen negatively by the employees (BAPEPAM, 2002).

Corporations that have ISO9000 certification are considered to have a documentation system that can keep the quality of products and services to customers. Catalina Soriana Sitnikov and Claudiu George Bocean declare that ISO9000 provides various tools for corporations to ensure the fulfillment of the customer needs and
satisfaction and rewards for employees, which are the area of corporate social responsibility (Sitnikov & Bocean, 2012). Clear documentation system can also reduce asymmetric information between agents and principals so that corporate value seen by the stakeholders is considered better. This is what cause corporations which own the ISO9000 certification to have a better corporate image. A negative assessment can occur in corporations which are considered to care for the environment. This happens on a corporation who actually hold ISO14000 certification. This is consistent with the research of Henri Servaes and Ane Tamayo. Their study showed that the corporate image that indicates social responsibility activities will have a negative impact if it is not following the corporation’s reputation (Servaes & Tamayo, 2013).

Corporations who hold OHSAS18000 certification are more likely to have a better corporate image because the employees have a sense of work security under the standard that will affect their health and safety. Even though this certification does not contribute any significant changes to the corporate image.

The current ratio shows that the greater the current ratio, the stakeholders and financiers would doubt the managers' ability to manage corporate finance. This is consistent with the corporate theoretical concept according to Jensen and Meckling (Jensen & Meckling, 1976). Our result, however, shows that the increase of this ratio fails to demonstrate a statistically significant negative effect on the corporate image.

Investors did not favor corporations which apply the Pecking-order Theory and therefore tend to have a low Debt-Equity Ratio. Investors would no longer invest their money in the corporation if the manager does internal funding (Ross, Westerfield, and Jaffe, 2010). Agency problems arise that the manager does take corporation’s interests a priority by applying Pecking-order approach. On the contrary, to get the investors’ attention, managers raise the value of DER ratio, despite the greater long-term liability risk faced by the corporation. The corporate theoretical concept by Jensen and Meckling also showed the same fact. The manager does not worry if the corporation would collapse as a result of long-term unpaid debt. This condition will improve managers' performance (Jensen & Meckling, 1976). So the image of the corporation will increase if the corporation has adequate DER ratio.
When there is a growth in sales, general managers and investors will be happy and expect that corporate assets will increase. Sales growth was found to be the problem: to sell more, and then the corporation needs more funding. Funding could come from internal parties, as well as from external parties. A need for more significant funding means greater risk for the corporation. If the corporation cannot support the sales growth with adequate funding, the corporate will not generate profit but will be exposed to the risk of bankruptcy. That's the concern of investors, so that the corporate value, at a certain level of sales growth, is getting worse (Ross, Westerfield, and Jaffe, 2010). This is why huge total asset turnover ratio gives a worrisome corporate image seen by stakeholders and shareholders.

The Return on Sales ratio calculates the profit corporate generates in each sale (Farris, Bendle, Pfeifer, and Reibstein 2010). The higher the return on sales means that the managers have better performance because each sale contributes more to profit. Stakeholders and shareholders see a better corporate image as the return on sales grows. However, we found that an increase in this ratio does not indicate a difference in the corporate image.

Price-Earning Ratio (PER) provide signals to the managers regarding the view and expectations of shareholders on the corporation’s risks and potential. The higher the price-earnings ratio, the higher the expectations showed by investors regarding profit growth (Ross, Westerfield, and Jaffe, 2010). However, an increase in this ratio does not indicate an enhancement on the corporate image (market value ratios).

5.2 Research implications

A literature review showed that all activities on social and environmental responsibility (CSR), which are identified through the certification of ISO9000, ISO14000, OHSAS18000, and the ESOP activity, causes the corporation to get a better assessment from the stakeholders. All CSR activities are expected to bring a significant enhancement in the corporate image, compared to those who do not do any CSR activity. Here are the research implications related to CSR activities:
1. ESOP is intended to achieve harmony between the agent and principal objective. This principal-agent relationship could be between the shareholders and management, and it could also be between management and employees. Corporations that are eager to implement ESOP and expect to align the interest of agents and principals need to plan a knowledge transfer about ESOP to their employees. This new knowledge is beneficial in preventing demotivated employees when they know that the bonus received is in the form of stocks.

2. ISO9000. Research shows that corporations which implement this quality standard management system, gain the trust of stakeholders. Thus, corporations need to have this certification and maintain the fulfillment of its tasks following the ISO9000 standard.

3. ISO14000. Corporate award in environmental conservation is a platform for corporations to demonstrate their concern about its surrounding environment. The corporate image is defined as an overall view of a corporation, and then the industry image is also an overall view of stakeholders about an industry. Corporations that earnestly perform waste management, invested huge funds to take care of the environment, are not strong enough to change the view of stakeholders that specific industries are to maintain their environment. If the corporation was awarded on environmental conservation aspect, but the stakeholders view a different reality on the field, then there will be a strong negative assessment for these corporations.

4. OHSAS18000. A corporation with OHSAS18000 certification has an image as a corporation that cares about the safety and health of its employees. Corporations in Indonesia adopt some standards, OHSAS18000 become a standard related to occupational health and safety, known as the occupational health and safety management system (SMK3). The purpose of OHSAS18000 and SMK3 is indifferent, that is to give protection to the employees from undesirable things in work activities and environment. To assess if
corporations which care about their employee's health and safety have a better corporate image significantly, it is necessary to include SMK3 certification in addition to OHSAS18000 in the analysis.

In general, the higher the value of financial ratios, it shows that the performance of corporate financial management is better. Several ratios have a higher risk as the value increases, one of them is a debt-equity ratio.

The return on sales (ROS) ratio and the price-earnings ratio (PER), provide the positive effect as expected; they describe the growth of corporate image as their value increase, though there is not any clear enough distinction related to corporate image growth rate. Other ratios, such as current ratio (CR), the debt-equity ratio (DER) and total asset turnover (TAT), give an unusual effect and need to be observed further. These three ratios show clearly that the desire of stakeholders, especially the shareholders, are to get profit from their investment.

Shareholders, dare to take risks by choosing corporations which have a higher debt-equity ratio (DER), rather than a higher the current flow (CR), but with certain limitations regarding the exchange of assets (TAT). Being aware of the agency theory, such as observing a mind games, agent (management) will undergo what principals (owners of capital) wants and disregard the survival of the corporation so that they are favored by the shareholders, and there will be higher capital inflow. If the shareholders do not take careful considerations, then the shareholders who feel powerful against corporate finance, are being used to satisfy the urge of corporate managers.

Reference


