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Do Indonesian Companies with High CSR Rankings Have Lower Pandemic Damage?

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Abstract

The crisis condition during the Covid-19 period has become a worldwide concern because all sectors are experiencing a crisis. Not only a health crisis, but this pandemic has also caused economies worldwide to go into recession. In this crisis, the debate regarding how stakeholder involvement in protecting and preserving shareholder wealth begins to be questioned. Stakeholder involvement, in this case, is reflected through the company's Corporate Social Responsibility (CSR) activities. This study aims to test whether companies that carry out CSR can minimize the impact of the Covid-19 pandemic on the value of their companies. The focus of the research is that there are 404 companies listed on the IDX from 2018 to 2020. The data of this study were obtained from the capital market site and the company's official website with documentation data collection techniques. Based on the different tests carried out, there was no difference in the impact of the pandemic on company value during the Covid-19 pandemic between companies with good CSR or not. This is due to differences in investor motivation in buying shares, the quality of CSR disclosure in Indonesia is low, and the information presented is less relevant to investors' needs. This research implies that investors are good at assessing the company's sincerity in carrying out CSR activities. Therefore, company managers should increase the honesty and disclosure of CSR so that the company's image rises in the eyes of investors.

Keywords: *Corporate Social Responsibility (CSR); Company Value; Impact of Covid-19*

Introduction

The emergence of Coronavirus Disease 2019 (COVID-19) caused dramatic changes in all aspects of life. The COVID-19 pandemic is forcing businesses and regulators to work hard to balance individual and economic health aspects (Manuel & Herron, 2020). During this pandemic, the business world experienced a major crisis. In Indonesia, more than 10,000 tourism sector companies were forced to stop operating, and airlines lost up to US$812 million or Rp11.36 trillion (CNN, 2020). In the manufacturing industry, the supply chain obstruction causes a decrease in production output and increases costs. The implementation of the policy of limiting activities (social distancing) has also stopped official and promotional activities, which contributed to a decline in sales figures (Catriana, 2020).

To overcome the spread of the virus, the government has implemented various policies, including testing, tracing, and treatment (3T) and increasing the availability of health facilities (Kominfo, 2021). Not only the government but also companies contribute to efforts to overcome the impact of the pandemic through CSR activities (Laucereno, 2021). Although CSR is a social activity, these social activities can increase the company's value and shareholders (Bae, Ghoul, Gong, & Guedhami, 2021). The increase in company value arises because the company's reputation in the community's eyes is getting better along with the increase in CSR activities carried out. The increasing reputation of this company will also increase customer loyalty (Bae et al., 2021; Chemmanur, Gounopoulos, Koutroumpis, & Zhang, 2021)

In Indonesia, CSR activities have been regulated in Law Number 40 of 2007 concerning Limited Liability Companies, Law Number 25 of 2007 concerning Investment, and BUMN Regulation Number 5 of 2007 concerning the BUMN and Small Business Partnership Program and Community Development. The regulation contains sanctions imposed on companies that meet the requirements if they do not carry out CSR activities in accordance with existing regulations. Of course, this regulation aims to protect sustainability in Indonesia's social, environmental, and economic aspects.

The increasing attention and demand for CSR activities present an opportunity to test the idea that CSR activities undertaken by companies can protect the value and sustain the company's life during periods of crisis. Jensen & Meckling (1976) state that CSR activities can have a positive effect on shareholder wealth. This is because the company's policies that focus on the stakeholders will make them support all activities and policies taken by the company in the long term. Following the stakeholder theory, which states that to survive and grow, companies must pay attention to the interests of various stakeholders and legitimize their activities to maintain conformity between the goals of society and the company (Frynas & Yamahaki, 2016). CSR activities can increase shareholder value when their policies and actions align with stakeholder and environmental demands (Bae et al., 2021).

Companies that invest resources in CSR activities tend to be stronger, survive in the long term, and go through and recover faster from crises. It can be explained that, by carrying out CSR activities, the company will gain legitimacy from stakeholders, they will also get a good reputation, which in turn will increase loyalty and support for company policies and products. Thus, in crisis and post-crisis conditions, consumers and suppliers will remain loyal to the company, then this situation causes a faster recovery from a crisis for companies that have better CSR policies (Bae et al., 2021; Chemmanur et al., 2021).

Previous research stated that CSR carried out by companies under normal conditions can increase company value (Hu, Chen, Shao, & Gao, 2018; Jo & Harjoto, 2011; Mishra, 2017). Corporate involvement in social responsibility is considered to improve the company's image, build relationships with clients, and improve performance (Zhang, Chong, & Jia, 2019). In crisis conditions, research results show a positive relationship between CSR ratings and company viability (Chemmanur et al., 2021). In line with this, Boubakri, El Ghoul, Wang, Guedhami, & Kwok (2016) stated that investors give a higher assessment of CSR activities by companies that are in an environment exposed to risk. Thus, there is a possibility that companies that actively carry out CSR during the crisis period will have better performance and resilience compared to those that do not carry out CSR activities (Chemmanur et al., 2021). Some of these studies indicate that increasing CSR activities can reduce the impact of the crisis experienced by companies compared to companies that do not carry out CSR.

Although several studies have stated that CSR increases firm value, other studies show the opposite result (Buchanan, Cao, & Chen, 2018). Buchanan et al. (2018) stated that companies that did CSR had a higher value than companies that did not do CSR before the financial crisis. Still, during the crisis, companies that did CSR experienced more declines in company value. In line with this, companies that disclose a lot of CSR activities show low financial performance (Zhang et al., 2019). The study conducted by Bae et al. (2021) stated no relationship between CSR activities and stock value Besides, CSR activities carried out by companies before the crisis did not effectively protect shareholder wealth during a crisis. This happens because the company does not consider the costs of social engagement and corporate governance that outweigh the benefits received.

Studies that discuss the relationship between CSR activities and firm value in crises are mostly conducted on American companies as a sample (Bae et al., 2021; Chemmanur et al., 2021). This study analyzes the relationship between CSR activities and firm value as measured by share prices as a proxy using Indonesian company data. This is done to see possible differences in the results with previous studies due to differences in the characteristics of investors in Indonesia and America that may differ in viewing CSR activities carried out by companies. The study conducted by Buchanan et al. (2018) observed the impact of CSR on the crisis on company value in the context of the economic crisis that occurred in 2008; they observed CSR activities on company value during the economic crisis caused by the Covid 19 pandemic. Differences in characteristics and causes of the crisis may result in a different perspective.

This study contributes to increasing the literature on corporate social responsibility (CSR). Previous research has researched a lot about CSR and corporate value (Buchanan et al., 2018; Gao & Zhang, 2015; Narullia & Subroto, 2018) regarding the relationship between CSR and company reputation and loyalty, such as Ailawadi et al. (2013), Choi & La (2013), Menqes & Yuanqiong (2019), Roig (2020). On the other hand, some link CSR activities with company values affected by the economic crisis, such as (Bae et al., 2021; Boubakri et al., 2016; Buchanan et al., 2018; Chemmanur et al., 2021). However, research investigating the relationship between CSR and company value during the crisis caused by the COVID-19 pandemic in the Indonesian context is still rare. For this reason, this study examines whether companies in Indonesia that have carried out CSR activities before the economic crisis due to the COVID-19 pandemic can affect the company's value.

Hypothesis Development

Previous research has shown mixed results regarding the implications of CSR activities on firm value. Nonetheless, most conclude that high levels of CSR encourage better financial performance and increase shareholder value (Lins, Servaes, & Tamayo, 2017; Servaes & Tamayo, 2013). Carroll (1991) also states that companies that adopt CSR can increase profits in the capital market. This positive association is in line with stakeholder theory which states that CSR activities increase value when they are truly in line with the demands of stakeholders and the environment (Bae et al., 2021). Guthrie, Petty, & Ricceri (2006) said that according to the perspective of stakeholder theory, an organization must meet the expectations of various stakeholder groups, not just shareholders.

A company's motivation in doing CSR is driven by the desire to manage and be accountable to all stakeholders regardless of their economic power (Fernando & Lawrence, 2014). CSR carried out by the company is considered to improve the image, reputation, and loyalty of stakeholders. With this optimistic view, even in crisis conditions, companies with a good history of CSR can still survive and have higher values than other companies that do not carry out CSR activities (Lins et al., 2017). In conditions full of uncertainty due to the pandemic, of course, various elements of society have high hopes for the company's contribution to social activities. Therefore, the hypothesis in this study is formulated as follows:

H: There is a difference in the impact of the Covid-19 pandemic crisis on the company's value that disclose CSR compared to companies that do not disclose CSR.

Methods

This study aims to obtain empirical evidence of differences in the impact of the Covid-19 pandemic crisis on the value of companies that disclose CSR compared to companies that do not disclose CSR. This study uses quantitative methods because it is considered appropriate to explore the issues in this research. The sample in this study were companies listed on the IDX in 2018 – 2020 (n = 359 companies). We chose this period to see the difference in stock prices that occurred before and during the pandemic through the CSR availability in the company's report. The type of data used in this study is secondary data in company stock price data, *CSRHub* ranking data, and company CSR reports.

The variables in this study consist of the dependent variable (Y) share price and the company's CSR dummy variable. The CSR dummy variable is measured by *CSRHub* Ranking and the presence or absence of a company's CSR report. The dependent variable in this study uses stock prices by adapting the price model. Compared to the return model, stock prices in the price model reflect historical information and shock information cumulatively (Kothari & Zimmerman, 1995). The research data that has been collected is then analyzed using One-Way ANOVA to see the difference in the impact on the value of companies that disclose CSR and those that do not disclose CSR.

Results and Discussion

CSR is one way that companies can gain legitimacy from the community (Gavana, Gottardo, & Moisello, 2017). Companies often use CSR activities to achieve the long-term survival of the company and the joint sustainable development of the company, society, and the environment (Kotler & Lee, 2005). By disclosing CSR activities, it is expected to give a positive signal to stakeholders to improve a positive image which in turn will increase the company's performance and value (Aksak, Ferguson, & Atakan Duman, 2016). The plethora of studies in the literature examining the relationship between CSR and corporate performance has led to the ongoing discussion. However, some academics have focused on this relationship in developed countries, and studies related to developing countries are few. Therefore, this study focuses on whether there is significant difference in the impact on the value of companies that disclose CSR and those that do not disclose CSR. The first step of the analysis that must be done is the homogeneity test using *Levene Test*. *Levene Test* shows the results whether the variance is homogeneous or not.

Table 1 Test of Homogeneity of Variances

Levene Statistic	df1	df2	Sig.
.600	4	354	.663

From the Table 1 we can see that significancy score is 0.663 (>0.05), which mean the average share price of each company's CSR disclosure category is not homogeneous. Because the test results do not meet the assumption of homogeneity, the analysis of this study uses nonparametric analysis, namely the Kruskal Wallis Test.

The Kruskal Wallis Test’s result shown in Table 2 Descriptive Statistics, Table 3 Mean Rank, and Table 4 Test Statistics.

Table 2 Descriptive Statistics

	N	Mean	Std. Deviation	Minimum	Maximum
GPrice20	359	1.6545	1.66634	0.05	16.97
CSR20	359	3.0251	0.66175	0.00	4.00

Table 3 Mean Rank

CSR20		N	Mean Rank
GPrice20	CSR1	7	131.07
	CSR2	23	179.85
	CSR3	263	177.43
	CSRHub	61	182.25
	Total	354	

Table 4 Test Statistics

	GPrice20
Chi-Square	1.585
df	3
Asymp. Sig.	.663

a. Kruskal Wallis Test

b. Grouping Variable: CSR20

Table 4 shows the results of the different tests using *Kruskal Wallis* to test the significance and conclude, whether the impact of the pandemic on the company's stock prices that do CSR compared to those that do not have a significant difference or not. The study results showed a p-value of 0.663 (> 0.05), indicating no significant difference between the samples tested. Based on the results of this test, H1, which states that there is a difference in the impact of the Covid-19 pandemic crisis on a company's value that discloses CSR compared to companies that do not disclose CSR, is rejected. It can be concluded that there is no difference in the impact of the Covid-19 pandemic crisis on the value of companies that disclose CSR compared to companies that do not disclose CSR. In other words, the company's participation in social and environmental responsibility through the disclosure of high CSR activities is not followed by high market performance, so it cannot minimize the impact of the Covid-19 pandemic crisis on company value. These results are inconsistent with the studies of Chemmanur et al. (2021), Hu et al. (2018), and Yoon et al. (2018), but in line with the research of Bae et al. (2021) and Firmansyah & Yusuf (2020), which found that CSR ratings did not significantly impact stock returns during the crisis period caused by the Covid-19 pandemic.

We can explain the absence of a difference in the impact of the pandemic crisis on company value with low or high CSR disclosure in several ways. First, the motivation of investors in buying shares. In a crisis due to the current Covid-19 pandemic, investors in Indonesia tend to buy shares to get capital gains by only looking at the economic market and the news that appears so that they tend to buy and sell shares daily. Therefore, CSR information in Indonesia has received less attention and has not been able to become an aspect that is considered important in making business decisions. Companies that engage in the disclosure of CSR activities can only add value if these activities are in line with the company's reputation (Servaes & Tamayo, 2013). That is, a company with a bad reputation is unlikely to reap immediate benefits.

Second, the low quality of CSR disclosure in Indonesia (Laskar & Maji, 2018). Based on data obtained from 404 sample companies over the last three years, only 61 companies that reported their CSR activities were also ranked by CSRHub. In addition, many companies in Indonesia have not separated

CSR reports from annual reports (Kencana, 2019), causing investors confusion in assessing whether a company has good CSR reporting quality or not (Laskar & Maji, 2018). Therefore, the disclosure of CSR information is not used by investors in making investment decisions. These results are in line with the research of Lins et al. (Lins et al., 2017), which states that there is no difference in stock return performance between companies that have high and low CSR during the crisis period.

Third, based on stakeholder theory, it is explained that in maintaining the company's long-term sustainability, companies must pay attention to the interests of various stakeholders by conveying information related to company activities to stakeholders, one of which is through CSR disclosure (Choi, Lee, & Park, 2013). However, the information provided by the company is not urgent information for investors in Indonesia, especially during the pandemic, because they consider the company to have no added value when companies disclose CSR activities (Firmansyah & Yusuf, 2020). Therefore, company expenditures used to support sustainable development by conducting CSR in the community during this crisis are considered useless due to the materialistic nature of investors in Indonesia (Firmansyah & Yusuf, 2020). This study shows that in companies that do CSR or do not do CSR experience the impact of the Covid-19 pandemic crisis, in the same way, there is no significant difference between the two. This shows that CSR before the crisis was not effective in protecting shareholder wealth from the adverse effects of the crisis (Bae et al., 2021).

Conclusion

The crisis condition during the Covid-19 period has become a worldwide concern because all sectors are experiencing a crisis. Not only a health crisis, but this pandemic has also caused economies worldwide to go into recession. In these uncertain conditions, corporate CSR shows its commitment to stakeholders' interests as a means to create and preserve shareholder value. The benefits expected by the company by implementing CSR include reducing the company's business risk. The increasing attention and demand for CSR present an opportunity to test the idea that CSR protects firm value during periods of crisis. Some of these studies indicate that doing CSR can reduce the impact of the crisis experienced by companies compared to companies that do not do CSR. This study aims to test whether companies in Indonesia that do CSR can minimize the impact of the Covid-19 pandemic on company value compared to companies that do not do CSR. The results of this study contribute to the discussion of claims of good CSR by conducting empirical testing.

Based on the test results, the hypothesis that there is a difference in the impact of the Covid-19 pandemic crisis on the value of companies that disclose CSR compared to companies that do not disclose CSR is rejected. It can be concluded that there is no difference in the impact of the Covid-19 pandemic crisis on the value of companies that disclose CSR compared to companies that do not disclose CSR. In other words, the company's participation in social and environmental responsibility through the disclosure of high CSR activities is not followed by high market performance, so it cannot minimize the impact of the Covid-19 pandemic crisis on company value.

Several reasons justify why CSR activities do not affect stock prices. First, the motivation of investors in choosing stocks is based on the desire to get capital gains. Second, the quality of CSR disclosure is still relatively low, and there is no separation of CSR reports from annual reports. Third, based on stakeholder theory, companies' presentation of CSR information is not relevant to market needs. This study presents the implication that CSR activities, both social and environmental, have become the responsibility of each company to stakeholders. In addition, high CSR activities carried out by companies with a bad image also did not get appreciation from investors. This study shows that in companies that do CSR or do not do CSR experience the impact of the Covid-19 pandemic crisis, in the same way, there is no significant difference between the two.

Recommendations

Further researchers can research the same topic in various countries, both developed and developing countries. This is done to know the effectiveness of CSR in minimizing risk and protecting stakeholders, especially during the Covid-19 pandemic

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