Corporate Social Responsibility and Indonesian Stock Market Valuation

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Abstract

In this study the importance of corporate social responsibility performance was established in predicting stock market valuation of companies listed on the Indonesia Stock Exchange. Based on 237 observations from 2013 to 2018, the findings indicated a negative and significant effect of overall corporate social responsibility performance on stock market valuation measured by Tobin's Q. The market considered corporate social responsibility as a costly activity that can reduce company profits, thereby reducing shareholders' wealth. Furthermore, considering the different categories of corporate social responsibility, the findings showed a negative and significant effect of the community category on stock market valuation. This indicated that the market was not convinced that investing in the community can have a profitable impact. The effectiveness of community service activities was doubted by the market. Meanwhile, the three other categories, namely, employee, environment, and governance did not have a significant effect on stock market valuation. This could be related to investors' view that corporate social responsibility activities were conducted just to comply with legal and regulatory requirements rather than motivated by a sense of responsibility or ethical behavior.

Keywords: *Corporate social responsibility, Indonesia, market valuation, Tobin's Q*

Introduction

In August 2007, the Indonesian government enacted a corporate social responsibility (CSR)/ sustainability law, mandating that companies in energy and extractive industries disclose their CSR activities. However, after 10 years had passed, the implementing regulations had not been issued, thus making it unenforceable. Even so, companies in Indonesia are implicitly aware that doing good for society may create a competitive advantage for them, and voluntary CSR implementation is carried out by many national and multinational companies in Indonesia. Increased awareness about CSR in the country has resulted in program progress and collaboration in various sectors. Therefore, CSR in Indonesia is expected to reach even higher levels soon (Phuong & Rachman, 2017). While CSR has been an important issue in developed countries for decades, it has just recently become a concern in emerging markets (Cheng et al., 2016)

Studying CSR in the Indonesian context is relevant as foreign investors are interested in investing in Indonesia (Ekberg et al., 2015), but the issue of distinguishing between mandatory or voluntary CSR investment remains. The Law of the Republic of Indonesia No. 40 (2007) Article 74 on Limited Liability Company Law states that companies engaged in extracting natural resources are obliged to implement social and environmental responsibility; if they fail to do so, they will be subject to sanctions. On the other hand, the Law of the Republic of Indonesia No. 25 (2007) Article 15 states that while investors without exception are obliged to implement corporate social responsibility, no sanctions are declared if companies fail to implement it. Meanwhile since 2007, CSR has become an increasingly important issue (Waagstein, 2011). Currently, Indonesia does not have a mandatory manual for CSR. Therefore, companies in Indonesia carry out their CSR programs according to their own discretion, and it is difficult to measure their level of successful implementation (Gayo & Yeon, 2013). The implementation is often not on target due to a lack of clear guidelines to meet society's needs. The Limited Liability Company Law, lacking sanctions and supervisory mechanisms, fails to provide legal clarity and certainty (Andrini, 2016). Moreover, recent changes in the meaning of CSR for investors has further

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complicated matters. Nevertheless, CSR has become an integrated part of how company business operations, and it impacts what they do for customers, employees, and society at large (Kyriakou, 2018).

As investors have become more cautious, they have become more concerned about the importance of CSR (Kyriakou, 2018). In America, 83% of professional investors are more likely to invest in the stocks of companies known for their social responsibility; CSR initiatives are taken as an indicator of greater transparency and honesty in operations and financial reporting, resulting in lower risk (Holmes Report, 2016). Kyriakou (2018) noted, however, that there was a slight difference in the meaning of CSR for investors depending on different perspectives in regard to a company's CSR activities, even though the bottom line was the same. This difference in CSR meaning is important.

Environmental and community welfare issues are covered by the CSR concept in the Law of the Republic of Indonesia No. 40 (2007). Law No. 25 (2007) concerning investment explains that every investor is obliged to apply the principles of good corporate governance, continue to create harmonious, balanced relationships, and take into consideration the environment, values, norms, and culture of the local community. Law No. 13 (2011), Article 41, Paragraph 3 addresses requirements for business actors that provide environmental development funds as a form of social responsibility for the poor (Law of the Republic of Indonesia No. 13, 2011). Article 4, Paragraph 1 of Government Regulation No. 47 (2012) addresses social and environmental responsibilities implemented by the Board of Directors based on a company's annual work plan after obtaining approval from the Board of Commissioners or general meetings of shareholders in accordance with its articles of association, unless otherwise specified in statutory regulations (Government Regulation of the Republic of Indonesia No. 47, 2012).

In previous articles (Deloitte, 2011; Holmes Report, 2016; Kyriakou, 2018), another point suggested that is relevant to this study is the helpfulness of investigating the extent to which corporate social responsibility performance can predict stock market valuation. The selection of a stock market valuation variable was motivated by Alajlani and Posecion's (2018) recommendation. They argued that investors should have practical knowledge and experience in terms of stock market valuation, and must be guided to invest appropriately in stocks with a sound market value. As suggested by Davidson et al. (2002), Tobin's Q is just such a measure, and it has an important role as a future market performance indicator. Therefore in this study, Tobin's Q was used in measuring stock market valuation.

Existing studies on CSR in the Indonesian context have generally focused on such issues as the specific industry classification, different indicators of CSR, and relationships between CSR and various types of company performance (e.g., Aditya & Juniarti, 2016; Afiff & Anantadjaya, 2013; Angelia & Suryaningsih, 2015; Hendarto & Purwanto, 2012; Natanagara & Juniarti, 2015). They have documented different effects of CSR on performance. Aditya and Juniarti (2016), for example, investigated the Miscellaneous Industry category of the Indonesia Stock Exchange (IDX), and showed that CSR performance measured by the Global Reporting Initiative Index had no significant effect on accrual quality. Afiff and Anantadjaya (2013) studied three types of CSR performance (employee, environmental, and community) derived from the management reports of 13 selected firms from the LQ45 over the period from 2004 to 2011. They found that both employee and community indicators had a significant negative effect on stock prices. Angelia and Suryaningsih (2015) reported a significant positive effect of the environmental dimension on return on assets and return on equity of 17 companies using a Performance Rating Program in Environmental Management, or PROPER participant companies. Using content analysis, Hendarto and Purwanto (2012) reported that voluntary CSR activities by companies led to positive abnormal returns being gained. Based on 120 observations in the chemical, cement, ceramic, and plastic industry from 2009 to 2013, Natanagara and Juniarti (2015) found that CSR disclosure, as measured by the Global Reporting Initiative Index, significantly affected a firm value's as measured by Tobin's Q. The implementation of CSR is considered positive by shareholders because it reduces the risk of conflict with communities. On the other hand, it also has the potential to improve the company's reputation in the eyes of customers, resulting in increased sales and profits. The increase in profit leads to higher shareholder returns, which in turn leads to higher stock prices and firm value.

In this study, contributions to the literature were sought in several areas. First, in line with Friedman (2007) and Krüger (2015), it was contended that the stock market in Indonesia reacts negatively to high CSR performance. Second, Bajic and Yurtoglu (2018) claimed that using only a single aspect in CSR measurement and ignoring various other measures can lead to inaccurate conclusions. Therefore, in addition to the overall measure of CSR performance, four different categories of CSR were considered in this study, specifically, community, employees, environment, and governance categories based on CSRHub ratings in predicting stock market valuation as measured by Tobin's Q. Third, several company aspects are most likely related to the Q value. Accordingly, the following control variables were included to minimize omitted variable bias, in particular age, size (Ghafoorifard et al., 2014), and leverage (Ararat et al., 2017). Lastly, considering CSR ratings, the results obtained in this study could help regulators, policy makers, and management of public companies to have better insights on the importance of CSR practices in predicting stock market valuation in Indonesia. This study was based on financial data collected from the Thomson Reuters database and CSR data from the CSRHub database.

In the next part of this article, a brief literature review is given and several hypotheses are stated.

Literature Review, Conceptual Framework, and Hypotheses Proposed

Corporate Social Responsibility

An important part of current company evaluation is based on their CSR, which has become a new metric of corporate performance (Chung et al., 2018). CSR is defined as a process to help achieve sustainable development in society by treating stakeholders within and outside an organization in an ethically acceptable manner according to international norms while maintaining profitability or integrity. Social responsibility includes economic, financial, and environmental factors (Hopkins, 2014). It must be an important component of the organization's operating ethos, values, and goals. Every organization must implement CSR (Pontefract, 2017); it is an integrated part of the way companies are now expected to operate. As part of their business operations, companies need to show what they do for customers, employees, and the wider community, and this is an international phenomenon (Kyriakou, 2018). A survey conducted by Deloitte (2011) to review CSR awareness of Polish investors, for example, concluded that a growing number of companies implemented CSR strategies as part of their business strategies. Investors tend to perceive that CSR is a business risk mitigation tool, and this trend is expected to increase. Corporate social responsibility can also be significant in an emerging economy, such as Dubai, where it positively impacted employee commitment (Rettab et al., 2009). Not surprisingly, it figures prominently in the United States (Maignan et al., 1999). Moreover, a company's commitment to implementing CSR results in consumer satisfaction and trust that encourages customers to remain loyal (Maignan et al., 1999; Park et al., 2017). Thus, practicing CSR does not constitute a cost, but rather can be viewed as a means to maintain profits.

Ethical theories recommend that CSR activities be promoted simply because these are the right things to do (Garriga & Melé, 2004). In relation to this, Kim et al. (2012) contended that CSR performance reflects ethical interests, and Muttakin et al. (2015) stated that CSR activities must be performed for the stakeholders' benefit. In legitimacy theory, it is argued that companies operating in society must be involved in social activities to provide welfare for society, and in exchange receive benefits provided by society (Guthrie &Parker, 1989). In stakeholder theory it also is asserted that the market reacts positively to socially responsible companies (Cordeiro & Tewari, 2015; Karim et al., 2016).

Stock Market Valuation

Previous researchers have used many indicator to measure stock market valuation, but an impressive set of studies has considered Tobin's Q as an important measure of stock market valuation.

Chung et al. (1998) found that the Q ratio measured marginal profitability of a firm's investment opportunities, and Fell (2001) contended that Tobin's Q has a strong macroeconomic basis and was highly reliable as a predictor of future stock price trends. It has been used as a variable to explain real investment activity. Similarly, Davidson et al. (2002) concluded that Tobin's Q has an important role as an indicator of future market performance. Alajlani and Posecion (2018) used this indicator as a measure of market valuation due to its relationship with investment valuation that indicates investment performance. Saji (2019) observed that Tobin's Q is a good measure of a firm's intrinsic and market valuation.

Conceptual Framework (CSR and Stock Market Valuation)

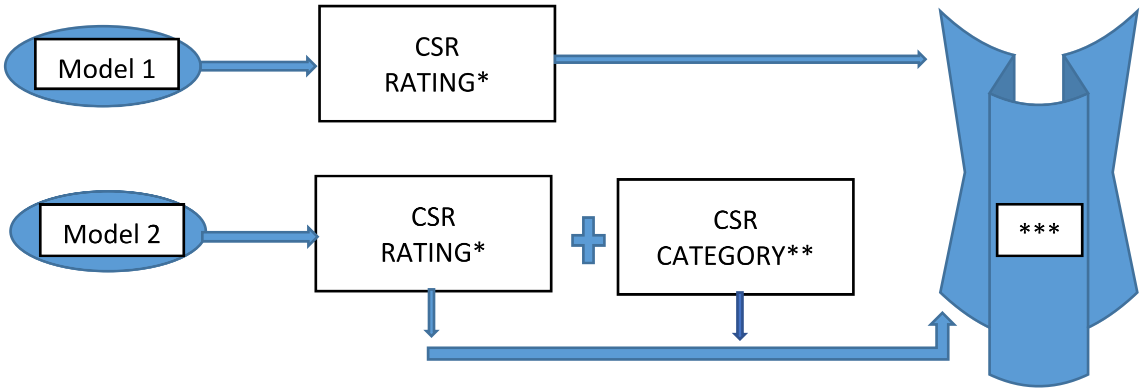
Earlier studies have reported on the relationship between various measures of CSR and financial performance (e.g., Angelia & Suryaningsih, 2015; Erhemjamts et al., 2013; Katsikides at al., 2016; Wang, 2011). Specifically, in a study of 17 Indonesian companies that were participating in the PROPER program, Angelia and Suryaningsih (2015) found evidence that enrivonmental issues had a significant effect on both return on assets and return on equity for gold ratings. By decomposing the KLD index (developed by Kinder, Lydenberg, Domini & Co., Inc.) into strengths and concerns components, Erhemjamts et al. (2013) found that the relation between CSR strengths and firm's performance measured by Tobin's Q and return on assets was positive. An event study conducted by Katsikides at al. (2016) looked at two events from the oil industry (BP and Exxon oil spills) and three ethical problematic events involving the banking industry (HSBC-money laundering; Barclays and Royal Bank of Scotland-LIBOR interest rate scandals). These industries were at the forefront of criticism related to their CSR. The results of the study indicated that other than the HSBC money laundering, all CSR events had a significant effect on stock market performance measured by abnormal returns. A study by Wang (2011) aimed to determine the impact of fulfilling CSR on corporate stock performance using a sample from Taiwan publicly listed firms during the period from 2001 to 2009. The CSR index was constructed based on three dimensions (economic, social, and environmental), while corporate stock performance was measured by stock returns. The findings implied that implementation of CSR does not always result in additional costs, but investors may appreciate socially responsible firms due to their better corporate image, and this can have a positive impact on stock returns.

Using the three aspects of CSR (i.e., environmental, social, and corporate governance) taken from Thomson Reuters ASSET4 database of 23,803 firm-years from 35 countries during 2003 to 2016, Bajic and Yurtoglu (2018) showed that the social aspect was the only one that consistently predicted a firm's market value measured by Tobin's Q. Environmental and governance aspects had no consistent predictive value. Chung et al. (2018) examined the impact of CSR on a firm's value in Korea using the Korea Economic Justice Institution Index (KEJI Index). They found that CSR activities positively affected a firm's value. Further analysis on the components of the KEJI Index showed that variables such as soundness, fairness, and environmental responsibility had a significant effect on a firm's value in the case of the manufacturing industry, but not in other industries.

Omar and Zallom (2016) focused on four CSR activities: environmental, human resources, community, and products reported on the annual reports of listed companies on the Amman Stock Exchange in Jordan to evaluate the CSR effects on market value as measured by Tobin's Q. They showed that environmental, community, and products decreased market value. Furthermore, human resources had no effect on market value in the food and beverage industries. This negative effect of environmental activities on market value might have been caused by companies not complying with applicable laws, therefore resulting in a negative reaction from the market. Another possible reason for lower market valuations could be that CSR activities involve costs, thus worsening a company's competitive position. Poor employee awareness of CSR could lead to no effect of human resource activities being observed on market value. For the pharmaceutical and medical industries, community activity decreased market value, but the other three activities had no effect. In the chemical industry, none of the four activities had a significant effect on market value.

The conceptual framework generated from the review of the literature and adopted for the present study is illustrated in Figure 1.

Figure 1 *Conceptual Framework Used in the Present Study*



*CSR, Fage, FLev, FSize. **Community, Employee, Environment, Governance.
***Stock Market Valuation

Hypotheses of the Study

The existing literature indicates that stakeholders have more confidence in and give more support to socially responsible companies. Companies that expend effort and resources on CSR are considered more trustworthy (Gao et al., 2014, Kim et al., 2012, Lins et al., 2017). Consequently, public acceptance is expected to increase company value. Therefore, Lins et al. (2017) contended that compared to firms with a low level of social responsibility, firms with high CSR experienced higher sales, profitability, and growth. Chung et al. (2018) concluded that CSR activities positively affected company value. Furthermore, Chen and Wang (2011) contended that CSR activities not only improved current period performance, but also subsequent performance. These arguments are in line with legitimacy theory (Guthrie & Parker, 1989), and are confirmed by stakeholder theory (Cordeiro & Tewari, 2015; Karim et al., 2016). However, other authors have argued differently. Madorran and Garcia (2016) found no clear relationship between CSR and financial performance in a Spanish case, whilst Friedman (2007) contended that CSR activities were costly and actually decreased profit. Similarly according to Krüger (2015), CSR is a costly investment that gives benefits to managers and/or other stakeholders at the expense of shareholders. Thus, investors may react negatively to positive news about CSR. The main problem identified by Bartlett and Preston (2000) was that organizational mechanisms were designed to generate profits, and did not factor in interests for the benefit of society. Hence, the following hypotheses were proposed for this study:

H_{1a}: CSR performance significantly predicts stock market valuation.
H_{1b}: The community category of CSR performance significantly predicts stock market valuation.
H_{1c}: The employee category of CSR performance significantly predicts stock market valuation.
H_{1d}: The environment category of CSR performance significantly predicts stock market valuation.
H_{1e}: The governance category of CSR performance significantly predicts stock market valuation.

Methodology

Data Used

Financial data required for this study were derived from the Thomson Reuters database, and industry classification was based on the Global Industry Classification Standard. The CSR-related data came from the CSRHub database, which provided corporate sustainability ratings and information for firms around the world. This study focused on companies listed on the Indonesia Stock Exchange that were also found in the CSRHub database. The final sample was an unbalanced panel of 237 firm years with CSR data from 2013 to 2017, and financial data from 2014 to 2018.

Data Analysis

The independent variables were measured by each firm's overall CSR rating and the four categories of CSR according to CSRHub, namely, community, employee, environment, and governance. Stock market valuation as a dependent variable was measured by Tobin's Q following a previous study by Downs et al. (2016). Tobin's Q is calculated as the market value of equity minus the book value of equity plus total assets scaled by total assets. Several firm characteristics are probably related to Tobin's Q; therefore, the following set of covariates were included in this study to minimize omitted variable bias. Ghafoorifard et al. (2014) discovered that age and size had a significant relationship with Tobin's Q. Age was measured by the number of years since listing, and size was measured by a firm's total assets. Total assets was also the denominator of Tobin's Q. Ararat et al. (2017) showed that leverage had a positive effect on firm value. Leverage is measured by total debts scaled by total assets; leverage and Tobin's Q both use the same denominator. The year (dummy variable) was adopted to control for year fixed effects, and the industry (dummy variable) was added to control for possible industry-level effects. The regression equations for the two models were as follows:

$$SMV_{i,t} = \beta_0 + \beta_1 CSR_{i,t-1} + \beta_2 FAge_{i,t-1} + \beta_3 FLev_{i,t-1} + \beta_4 FSize_{i,t-1} + Year_{+} Ind + e \ldots\ldots\ldots\ldots \ldots\ldots\ldots\ldots \text{(Model 1)}$$

$$SMV_{i,t} = \beta_0 + \beta_1 Community_{i,t-1} + \beta_2 Employees_{i,t-1} + \beta_3 Environment_{i,t-1} + \beta_4 Governance_{i,t-1} + \beta_5 FAge_{i,t-1} + \beta_6 FLev_{i,t-1} + \beta_7 FSize_{i,t-1} + Year + Ind + e \ldots\ldots\ldots\ldots \text{(Model 2)}$$

The dependent variable of the first model was the stock market valuation measured by Tobin's Q. The independent variable was the overall CSR rating, and control variables were firm age, leverage, and size as determinants of stock market valuation, as well as year and industry-level effects. The second model was constructed to examine the effects of different CSR categories on stock market valuation. The dependent variable was stock market valuation measured by Tobin's Q. The independent variables were the four categories of CSR, namely, community rating, employee rating, environment rating, and governance rating, along with the same control variables used in the first model.

Results and Discussion

Model 1 and Model 2 were assessed according to their respective statistical behaviour.

Model 1

Table 1 shows the regression results relevant to testing hypothesis H_1a, which was to examine whether the overall CSR rating significantly predicted Tobin's Q for all 237 observations. In line with prior studies (Friedman, 2007; Krüger, 2015), the findings on Model 1 indicated a negative and significant effect of overall CSR rating on Tobin's Q ($\beta = -.042$, $p < .05$). Thus, H_1a was supported by the result of the first research model. However, this result contradicted the claims made under stakeholder theory that the market reacts positively to socially responsible companies (Cordeiro & Tewari, 2015; Karim et al., 2016). This suggested that for this sample of companies, the Indonesian stock market reacted negatively to a high level of CSR performance. If the sample chosen is the basis for generalization, then market participants consider CSR as costly activities that can reduce a company's profits, thereby reducing shareholder wealth.

Firm age, on the other hand, had a positive and significant effect on Tobin's Q. The results showed that according to Model 1, the firm age as a control variable had a significant effect on stock market valuation, and the positive coefficient indicated that stock market valuation was higher for older firms. This is consistent with the data of Ghafoorifard et al. (2014). However, leverage and size had no significant effect on stock market valuation. These results were not consistent with those obtained by Ararat et al. (2017) and Ghafoorifard et al. (2014).

Table 1 *Overall CSR Performance and Stock Market Valuation*

Variable	Unstd. Coeff β	Std. Coeff. β	*p*-value
(Constant)	5.398		.170
CSR	**0.042**	**-.106**	**.036**
FAge	0.099	.269	.000
FLev	-1.111	-.105	.113
FSize	-0.100	-.038	.556
Year Dummy	Included		
Industry Dummy	Included		
Adjusted R^2	0.538		
F-value	12.006		
Sig. (*F*)	.000		
Dependent Variable	Tobin's Q		

Note. $N = 237$; CSR (overall CSR rating); FAge (number of years since listing); FLev (total debts scaled by total assets); FSize *(*natural logarithm of firm's total assets)

Model 2

Table 2 shows the regression results relating to different categories of CSR performance. The results show that H_{1b}, which stated that the community category of CSR performance significantly predicts stock market valuation, was supported (β = -.046, $p < .05$). This finding was consistent with the data of Omar and Zallom (2016), who suggested that community activity may decrease market value. This implies that the stock market in Indonesia in general consider that investment in the community is costly, and does not provide benefits to shareholders. Therefore, the market responded negatively to the community category of CSR performance. However, the empirical results showed that H_{1c}, H_{1d}, and H_{1e} were not supported. Although the coefficient relevant to employees was positive, and the coefficients for both environment and governance factors were negative, the results were not significant ($p > .05$). Hence, employee, environment, and governance ratings were not significant factors in predicting stock market valuation. These results are supported by previous studies (Omar & Zallom, 2016; Chung et al., 2018; Bajic & Yurtoglu, 2018). In the context of the food and beverage industry, human resources would appear to have no effect on market value as measured by Tobin's Q, and none of the four CSR activities significantly affected the Q value in the chemical industry (Omar & Zallom, 2016). Furthermore, the environmental aspect had a significant effect only on Tobin's Q in the case of manufacturing, but not in other industries in the study of Chung et al. (2018). Additionally according to Bajic and Yurtoglu (2018), environment and governance aspects could not predict the Q value consistently.

The findings of this study for Model 2 showed that both age and leverage significantly predicted stock market valuation ($p < .05$), whereas size was insignificant in predicting stock market valuation ($p > .05$). The results agreed with those found by applying Model 1: that is, age predicted stock market valuation positively. However, this result was not consistent with that of Ararat et al. (2017). The negative coefficient of leverage on stock market valuation found in the present study indicated that the market reacted negatively to higher debt levels due to the higher risk taken. Firm size did not significantly predict stock market valuation. This was not consistent with the study of Ghafoorifard et al. (2014).

Table 2 *Four Categories of CSR Performance and Stock Market Valuation*

Variable	Unstd. Coeff β	Std. Coeff. β	*p*-value
(Constant)	6.740		.090
Community	**-0.046**	**-0.167**	**.043**
Employee	0.020	0.079	.166
Environment	-0.004	-0.014	.855
Governance	-0.005	-0.017	.764
FAge	0.090	0.245	.000
FLev	-1.615	-0.153	.029
FSize	-0.144	-0.054	.403
Year Dummy	Included		
Industry Dummy	Included		
Adjusted R^2	.547		
F-value	11.188		
Sig. (*F*)	.000		
Dependent Variable	Tobin's Q		

Note. *N* = 237; Community (CSR community rating); Employee (CSR employee rating); Environment (CSR environment rating); Governance (CSR governance rating); FAge (number of years since listing); FLev (total debts scaled by total assets); FSize (natural logarithm of firm's total assets)

Summary of Findings

The results showed that overall CSR activities are viewed negatively by the market in Indonesia. This could be due to the lack of market confidence in the implementation of CSR in Indonesia because, as Gayo and Yeon (2013) have argued, Indonesia does not yet have a CSR standard manual, clear sanctions, or control mechanisms. Thus, companies in Indonesia carry out CSR activities according to their own respective policies, making their level of success difficult to measure. The negative effect of the community category on stock market valuation indicates that the market is still not convinced that investing in the community can have a profitable impact. The effectiveness of community service activities is doubted by the market. As argued by Andrini (2016), there are no clear guidelines to meet society's needs; thus, the implementation often does not reach the right target. Further, the results showed that the three categories of CSR performance, namely, employee, environment, and governance do not significantly predict stock market valuation. This may be due to investors' view that CSR activities are conducted just to comply with legal and regulatory requirements. They are not motivated by a sense of responsibility and ethical behavior. Thus, stock market valuation is unaffected by the rating, whether it is high or low.

Conclusions

This study examined the importance of corporate social responsibility performance in predicting stock market valuation of companies listed on the Indonesia Stock Exchange. In prior studies Tobin's Q was used, with CSR, as a predictor variable of stock market valuation. The CSR data were collected from various sources. Bajic and Yurtoglu (2018) observed USA, Japanese, UK, and European firms from the ASSET4 database of Thomson Reuters, while Chung et al. (2018) evaluated Korean firms from the KEJI Index, and Omar and Zallom (2016) investigated Jordanian firms from the Amman Stock Exchange. No previous study had utilized CSR ratings and stock market valuation (Tobin's Q) from the CSRHub database, with financial data from Thomson Reuters database and using the Global Industry Classification Standard for industry classification. Thus, this study tried to fill the gap, specifically in the Indonesian context.

This study's findings contribute to the literature by revealing that the stock market in Indonesia reacts negatively to high overall CSR performance, and responds negatively to the community category as well. In addition, this study provides insights to investors, policy makers, regulators, and to corporations on the management of public companies in Indonesia. Investors in Indonesia must be convinced of the importance of CSR awareness as argued by legitimacy theorists. The perspective promoted by the theory is that companies operating in society must be involved in sharing goodness with society, and in return will get benefits provided by society. A firm's social responsibility efforts may increase firm value, as they ensure firm legitimacy. Hence, policymakers and regulators should re-evaluate laws and regulations governing CSR implementation, paying special attention to the mechanisms, sanctions, and controls. Moreover, the market must be convinced of an implementer's conformity with applicable regulations, as well as their effectiveness.

Recommendations

This study has potential limitations. First, only one country–Indonesia–was considered. Because cultures differ across countries, CSR policy and implementation differ from one country to another. Future studies might compare the impact of CSR performance on stock market valuation between countries in emerging economies. Second, this study was limited to the four main categories from the CSRHub database. Future studies could investigate the full range of twelve subcategories provided by CSRHub. Third, this analysis used only Tobin's Q as a measure of stock market valuation. Hence, it might be useful to add other market measures (e.g., price to earnings ratio and dividend yield).

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