

The Role of Non-Financial Performance in the Relationship between Shari'ah Corporate Social Responsibility and Corporate Value

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The purpose of this study is to examine the influence of Shari'ah corporate social responsibility (SCSR) on corporate value and to examine the role of non-financial performance of companies in mediating the influence of SCSR and corporate value. This research uses an explanatory research method. This study used a sample of 78 observations from 13 companies for 6 years, namely, in 2011-2016 on companies listed on the Indonesia Stock Exchange that are included in Jakarta Islamic Index. Partial Least Square (PLS) is used to analyze the data. In this study, the SCSR is measured by the Islamic Social Reporting Plus index (ISR plus). The values of the company is measured by PER and Tobin's Q, and the company's non-financial performance is measured by contentment and partners. This study provides the results that SCSR has a positive and significant effect on the company's non-financial performance, SCSR has a positive and significant effect on corporate value, and the company's non-financial performance fully mediates the effect of SCSR on corporate value. In further studies, it is expected that researchers use a sample of research on companies that purely run their businesses based on Islamic Shari'ah, so that they can provide better result.

Key words: *Corporate Value, Non-Financial Performance of Companies, Shari'ah Corporate Social Responsibility.*

Introduction

Corporate Social Responsibility (abbreviated as CSR for further mentions) is an increasingly important part of the business environment. Companies perform CSR activities to contribute in order to improve the welfare of stakeholders who are expected to have an impact on the companies' sustainability. Three theories, namely, entity theory, enterprise theory, and Shari'ah enterprise theory (SET) interpret stakeholders differently, so the focus of the implementation of CSR activities is also different. Entity theory shows that CSR activities are more focused on the interests of shareholders. Enterprise theory has considered other stakeholders, not only shareholders. According to Triyuwono (2007), SET stated that stakeholders consist of God, humans, and nature. SET gives broader meaning to stakeholders, so that the implementation of CSR activities by humans as the khalifah fil ardh is obliged to obey the laws established by God to provide welfare to humans and to preserve nature.

Triyuwono (2007) stated that the nature of entity theory will make it difficult to support Shari'ah accounting, which aims to raise awareness of deity to its users. Furthermore, it is said that the difficulty lies in the absence of balance between egoistic and altruistic traits. In modern business, all means can be used to obtain materials so that sometimes in running a business, a modern business often ignores business ethics. However, in a shari'ah-based business, of course every business must be based on shari'ah ethics. In short, it can be said that all forms of shari'ah business are obligatory to be performed in lawful ways.

Previous studies of CSR and corporate value have shown different results. The results of the study that showed no effect were done by Haryono and Iskandar (2015); Mulyadi and Anwar (2012); Kurniasari and Warastuti (2015); and Tjia and Setiawati (2012). Research that shows that CSR influences corporate value was done by Bolton (2013); Gherghina et al. (2015); Mukhtaruddin et al. (2014); and Gherghina and Vintila (2016). The difference in the results of the research is partly due to only considering the egoistic nature. Irmadariyani et al (2019) developed SCSR as a CSR activity undertaken by companies based on Islamic Shari'ah. The SCSR was developed from Shari'ah enterprise theory which considers the balance of egoistic and altruistic qualities. This study was conducted because there are still differences in the results of the previous studies and the follow-up research by Irmadariyani et.al (2019) is to examine the effect of SCSR on the company's non-financial performance.

Literature Review

Shari'ah Corporate Social Responsibility

CSR is implemented with the intention that companies are more ethical in carrying out business activities so that it does not have a negative impact on society and the environment. However, in reality, there are still many companies that do not implement CSR programs

because they consider that CSR to be a burden on companies, or companies implement CSR as a promotion to get a good image. Business is not only influenced by economic conditions, but also by social change, technology, shifts in attitudes, and the perspectives of stakeholders. Irmadariyani et.al (2019) stated that SCSR is a CSR activity performed by companies based on Islamic Shari'ah that had considered the balance of egoistic and altruistic traits. SCSR will provide stakeholders with welfare in the form of Shari'ah value consisting of economic welfare, mental well-being, and spiritual well-being. Economic well-being is called corporate financial performance, while mental and spiritual well-being, in this study, is called corporate non-financial performance

Shari'ah Value Added

Modern accounting has only been thinking of self-interest. The interests of other parties will only be considered if one gets the benefit. The motivation and goals of modern accounting are manifested in the interests of shareholders and markets. Islam encourages how humans can dominate nature and use it for the benefit of humans, which means providing welfare to humans. Welfare will be realized with the fulfilment of the material needs and spiritual needs in an integrated way. The purpose of Shari'ah accounting is based on Islamic economics, namely, the distribution of welfare for all the Ummah. The means of the distribution of welfare in Islam is through zakat, infaq, and sadaqah. Property, although it can be obtained by owning a business legally, must still issue other people's rights on the property.

SET is accepted as the basis for developing Shari'ah accounting theory, so it has the consequence that income recognition is no longer profit as in entity theory, but income as value added. Value added needs to be further developed to become Shari'ah value added, because Shari'ah value added is related to how the value added is obtained, processed, and distributed. Triyuwono (2007) stated that Shari'ah value added is processed and distributed in a lawful manner. Economic added value can be in the form of welfare in the form of money, while the measurement of mental and spiritual added value needs to be developed according to empirical findings. In this study, developing a measurement of mental and spiritual value added is called non-financial performance of the company.

Non-Financial Performance

The non-financial performance of companies in this study is mental well-being and spiritual well-being. The companies' non-financial performance includes contentment and partners. Triyuwono (2007) stated that:

Contentment is a joy that arises because it can help others, get results because of a work done, or because in performing a task there is no pressure. In this study,

contentment is measured by the number of awards a company receives from external parties (such as CSR Awards).

Partnership is a fraternity that is intertwined with its business partners. In this research, partners are measured by the cooperation done by the companies in helping other companies to provide benefits to both parties. These benefits can include training, workshops, or similar activities in an effort to improve the knowledge and skills of other companies which will ultimately benefit on both sides. Partners are measured by the amount of training, workshops, or similar activities performed by the companies.

Corporate Value

The value of a company is used as investors' perceptions of that company in relation to its stock market prices. The stock market price is the price that investors are willing to pay. Market prices tend to be high if the company has an opportunity to invest which can increase stakeholder income, so the value of the company is also high. Corporate value can be measured using market prices, such as price earnings ratio (PER) and Tobin's Q. Price earnings ratio is the ratio between market price per share and earnings per share. The company's low Tobin's Q value indicates that the cost of replacing assets is greater than the market value of the company, or it can be said that the market values the company less. Conversely, high Tobin's Q value means that the company's value is greater when compared to the value of the company's assets

Methodology

The population in this study are consumers who use the Mutiara Timur train in DAOP IX Jember. The sampling technique used was purposive sampling, where the sample was selected using a criterion. The sample criteria are respondents who have enjoyed the Mutiara Timur train which has a minimum age of 15 years. The sample used in this study amounted to 250 respondents. This study uses multiple linear analysis with a confirmatory approach and uses the AMOS program (Analysis of Moment Structures).

This type of research is explanatory research. Explanatory research is a research that aims to explain the position of the variables studied and the causal relationship between one variable with another through hypothesis testing. The population in this study includes all types of companies listed on the Indonesia Stock Exchange (IDX) and are included in the Jakarta Islamic Index (JII). The sample selection uses purposive sampling with the following criteria: (1) they are recorded in the successive Jakarta Islamic Index (JII) within the 2011-2016 period, (2) they complete annual reports for 2011-2016, (3) all other required data are available.

This study uses the SCSR variable as an independent variable, corporate value as a dependent variable, and the company's non-financial performance as an intervening variable. The SCSR variable is measured based on the disclosure of CSR information in the company's annual report using the ISR plus index. The value of the company is measured by PER and Tobin's Q, and the company's non-financial performance is measured by contentment and partners. The ISR plus index consists of 7 themes with 6 themes in ISR (Haniffa (2002) and Othman et al. (2009)) and in fairness. The approach to calculate the SCSR level basically uses a dichotomous approach, where every aspect in the research instrument is given a value of 1 if it is disclosed and a value of 0 if it is not disclosed (Haniffa and Cooke, 2005). Then, the score of each item is added together to get the overall score for each company. The following is the formula for calculating the SCSR level (Haniffa and Cooke, 2005):

Caption:

SCSR_j = the level of shari'ah corporate social responsibility from company j

n_j = the number of SCSR items for the company j
 X_{ij} = dummy variable: 1 = if the item SCSR i was disclosed; 0 = if the SCSR item i was not disclosed

Thus, $0 < \text{SCSR}_j < 1$.

Result and Discussions

The study population is companies listed on the Indonesia Stock Exchange (IDX) that are included in the Jakarta Islamic Index (JII). The research sample was conducted using purposive sampling from which it was obtained as many as 78 observations from 13 companies for 6 years, namely in 2011-2016

Result

Some of the steps taken in analysing the results of PLS testing are as follows:

Outer Model Analysis

The evaluation of outer model measurements aims to determine the validity and reliability of indicators that measure latent variables.

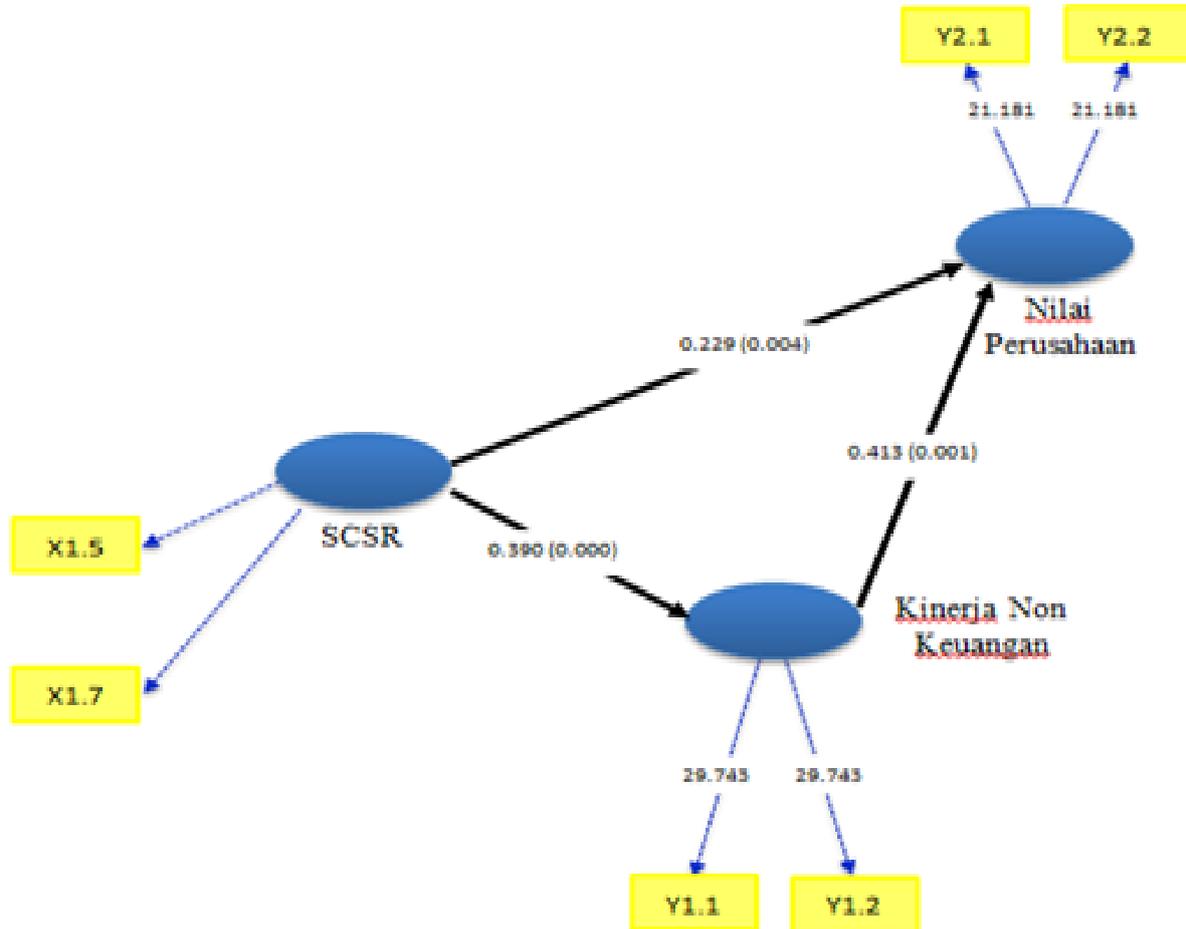
Figure 1. Research Model 1



Figure 1 shows the results that there are 6 (six) indicators that meet convergent validity because it has a loading factor value above 0.5. Meanwhile, there are 5 (five) indicators that must be dropped from the model for not meeting convergent validity. Figure 2 shows that all indicators meet convergent validity because they have a loading factor value above 0.5

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Figure 2. Research Model 2



The construct reliability test was measured using 2 (two) criteria, namely Cronbach's Alpha and Composite Reliability whose values could reflect the reliability of all indicators in the model. The minimum value of Cronbach's Alpha is 0.7, and so is the Composite Reliability's value. The reliability test results are presented in Appendix 1.

Inner Model Analysis

Output Path Coefficient is used to see the significance of the effect of each SCSR variable, non-financial performance, and corporate value. Appendix 2 shows Path Coefficient. The testing of the inner model is conducted by looking at the value of $Rm2 = 1 - (1 - 0,152) (1 - 0,455) = 0.5378$. The accuracy of the model at 53.78% explains that the contribution of the model to explain the structural relationship of the variables studied: SCSR, non-financial performance, and the value of the company is 53.78% and the remaining 46.22% is explained

by other variables which is not examined in the model. The Rm2 value of 53.78% means that the accuracy of the model is categorized as moderate.

Hypothesis Testing

The Partial Least Square Model with the variables of company size, Shari'ah corporate social responsibility (SCSR), non-financial performance, and corporate value shows the results of testing the direct effects hypothesis presented in Appendix 3. Indirect effects show the relationship between independent variables with the dependent variable through mediation variable. Hypothesis testing results are not directly presented in Appendix 4.

The Effect of SCSR on Companies' Non-Financial Performance

The statistical test results on the influence of SCSR on the company's non-financial performance show a parameter coefficient of 0.390 and p-value = 0.000. Therefore, it can be concluded that the influence of SCSR on the company's non-financial performance is significant in a positive direction. The test results have a significant positive and significant effect that the greater the disclosure of SCSR activities, the greater the non-financial performance of the company, and vice versa. Hypothesis 1 (H1) which states that SCSR influences the company's non-financial performance is proven.

The Effect of SCSR on Corporate Value

The statistical test results on the effect of SCSR on corporate value show a parameter coefficient of 0.229 and p value = 0.004. It can be concluded that the effect of SCSR on corporate value is significant in a positive direction. The test results of the influence of SCSR on corporate value show positive and significant tendencies, meaning that the greater the SCSR, the greater the value of the company, and vice versa. Hypothesis 2 (H2) which states that SCSR influences firm value is proven.

The Effect of Non-Financial Performance of the Companies on Corporate Value

Statistical test results on the effect of the company's non-financial performance on firm value show a parameter coefficient of 0.413 and p-value = 0.001. It can be concluded that the influence of the company's non-financial performance on corporate value is significant in a positive direction. The test results of the influence of non-financial performance on corporate value show positive and significant tendencies, meaning that the greater the non-financial performance of the company, the greater the value of the company, and vice versa. Hypothesis 3 (H3), which states that the non-financial performance of the company affects the value of the company is proven.

The Effect of SCSR on Corporate Value through Non-Financial Performance of the Companies

The hypothesis which states that the companies' non-financial performance mediates the effect of company size on corporate value is related to the results of the 2 (two) path coefficients through the SCSR. The companies' non-financial performance and corporate value. A Variance Accounted For (VAF) of 460% or $VAF > 80\%$ indicates that full mediation means the hypothesis is accepted. The results of the companies' non-financial performance test fully mediate (full mediation) SCSR to the corporate value, which means that the SCSR variable is not able to significantly influence the corporate value variable without going through the companies' non-financial performance variable.

Conclusion

The results of this study are in line with the view that the implementation of CSR in Islam is that companies must have Islamic ethical responsibilities in conducting meaningful business practices. This means that existing business practices must contain Islamic religious norms that are marked by a commitment to sincerity in maintaining social contracts in its operations. Businesses that are based on Shari'ah must be run based on Shari'ah ethics, that is, all forms of Shari'ah business must be performed legally. Businesses that are based on Shari'ah ethics will provide Shari'ah value added.

In this study, the more SCSR activities performed and disclosed means the better the competence of the company so that more awards will be obtained (contentment) by the company. The more companies provide CSR costs, the more training activities, workshops, and things alike can be done to provide training to partners or stakeholders. Based on these results, it can be concluded that the more SCSR activities performed and disclosed by the company, the better the company is in conducting social and environmental responsibility obligations so that more awards will be received and the better the company's image for stakeholders will have an impact on the company's non-financial performance better.

The SCSR activities conducted by companies experienced an increase from 2011 to 2016, as did the value of the company proxy both PER and Tobin's Q during the research period. These results indicate that increased SCSR activities cause an increase in the value of the company because SCSR activities are conducted as corporate social responsibility to stakeholders so that the company is sustainable. The results of this study are in line with the view that in general companies interpret welfare as limited to material welfare (profit), so that the success of a company is usually measured by how much the company makes a profit. This view is interpreted that our lives only lead to the life of the material world, so that what

is thought and done by humans will only revolve around material life. According to Triyuwono (2007), welfare is holistic so that welfare is not only material well-being but also mental well-being and spiritual well-being. CSR activities in Islamic Shari'ah will be able to create shari'ah value added which includes economic welfare (material), mental well-being, and spiritual well-being. The better the company is in providing welfare (economic, mental, and spiritual welfare) to stakeholders, the higher the corporate value.

In this study, non-financial performance which is proxied by contentment has an average that fluctuates every year during the research period, namely 2011 to 2016. Results that are almost the same occur in the average value of the company proxy with PER, so it can be concluded that the influence of non-financial performance is significant in a positive direction. These results indicate that the greater the award companies receive, the better the companies' image for stakeholders, and vice versa.

This study has several limitations including the following: First, companies that enter JII meet the criteria of Shari'ah and liquidity, but in reality, some sample research companies are not fully run based on Islamic Shari'ah. Second, there are mandatory sample companies in conducting social responsibility, while others are only voluntary. Future studies are expected to use a population that is a pure Shari'ah company and use a sample of similar companies so that CSR disclosure is relatively the same in both mandatory and voluntary.

Based on this research, we have some significant implications. The non-financial performance measures that have been developed in this study, in the form of contentment and partners, can be used as a basis for formulating policies so that the disclosure of SCSR by companies is getting better. Managers are expected to choose social activities that are directly visible in activities related to the community so that they become one of the right options for companies that want to increase shareholder value.



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Appendix

Appendix 1. *Construct Reliability and Validity*

	Cronbach's Alpha	rho_A	Composite Reliability	Average Variance Extracted (AVE)
X1	0,766	0,779	0,895	0,809
Y1	-0,167	-0,167	0,631	0,461
Y2	0,488	0,488	0,796	0,661

Appendix 2. *Path Coefficient*

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (O/STDEV)	P Values
X1 → Y1	0,390	0,401	0,098	3,960	0,000
X1 → Y2	0,229	0,227	0,077	2,961	0,004
Y1 → Y2	0,413	0,388	0,116	3,562	0,001

Appendix 3. *Direct Effects and Hypothesis Testing*

Hypothesis	Direct Effects	Path Coefficient	p-value	Result
H1	X1 → Y1	0,390	0,000	Significant
H2	X1 → Y2	0,229	0,004	Significant
H3	Y1 → Y2	0,413	0,001	Significant

Appendix 4. *Indirect Effects and Hypothesis Testing*

Hypothesis	Independent Variable	Intervening Variable	Dependent Variable	Indirect Effects	Total Effects	VAF	Result
H	SCSR (X1)	Non-Financial Performance(Y1)	Corporate value (Y2)	-0,161	-0,035	460%	Full Mediation