Social Investment and Ownership Structure

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Abstract. CSR can be represented as a long-term investment, exchanging current profitability with long-term sustainability. The value of social investment by the company shows an increasing trend. The value of this investment may differ according to the pattern of share ownership, because different types of investors will have different goals and decision-making. Thus, it is necessary to analyze the relationship between various types of owners and corporate social investment, because the results of previous studies cannot be concluded. In this study, the types of shareholders are divided into two categories– foreign and local ownership.The abstract needs to summarize the content of the paper. This study uses 215 firm years as samples that cover two years 2017-2018. Data on stock ownership is obtained from the Indonesian capital market and measured by the percentage of ownership. CSR investment is measured by the value of the rupiah for corporate social activities, which is obtained from disclosures in the annual report. The method used to estimate the parameters of the research model is linear regression. The results showed that the higher foreign ownership in companies would increase social investment. Whereas if local ownership is higher then social investment will be lower.

Keywords: Social investment · Corporate social responsibility · Ownership · Foreign investor

1 Introduction

The concept of corporate social responsibility (CSR) is often discussed in literature and research. The results of the study still identify knowledge and empirical result gaps that require academic attention. First, differences of opinion about the potential uses of CSR and corporate strategies. Second, many variables are used in the context of company operations, size, type of organization, and ownership that seem to have different effects on corporate CSR practices in various countries. Third, many CSR studies are carried out in the context of developed countries (Western Europe, the United States, and Australia), but there is still limited research in developing countries. CSR activities are usually driven by various motivations, such as economic, legal, ethical, or discretionary motives [1]. Business social responsibility can also reflect implicit conformity to social norms of business behavior and the regulatory framework developed by consensus [2].

Research on CSR is generally divided into two, first investigating the impact or benefits of CSR. Second, investigate the factors or motivations that drive these activities. This research belongs to the second category, and specifically explores the type of company ownership. The relationship between the owner and management of the company is complicated because their interests are not aligned. There is limited

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research in the types of ownership and social responsibility investment. Barnea and Rubin [3] say that ownership structure is able to explain the company's social performance. This is due to every owner have different goals and decision making horizons. In this study, ownership is categorized into two - foreign ownership and local ownership. Foreign investors tend to differ from domestic investors in terms of preferences, time horizons, and the problem of information asymmetry. Given these differences, it is predicted that different owners have different preferences regarding corporate social investment. In addition, foreign investors may be more inclined to pay attention to social problems because they are familiar with these problems and put more emphasis on CSR in their home countries, and because of the role of CSR involvement as an important signaling mechanism that can reduce information asymmetry [4].

This study ultimately gave two contributions to the existing literature. First, comparing CSR motives and practices of foreign and local companies under the operational context provided to determine how cultural policies and obligations affect corporate CSR decisions. Second, by conducting studies in Indonesia, this research contributes to limited knowledge about CSR investments in Indonesia and seeks to offer policy guidelines and strategies to government institutions that plan to initiate or promote better CSR practices.

2 Theory and Hypotheses

2.1 CSR Concepts

Wood's research [5] was based on the conceptualization of Carroll. He used the concept because in previous studies often it did not identify various types of responsibilities adequately for CSR empirical research. He suggested that researchers should in detail study the factors that trigger CSR initiatives from certain businesses or industries in a country (ie principles or reasons that motivate to be involved in CSR activities). There

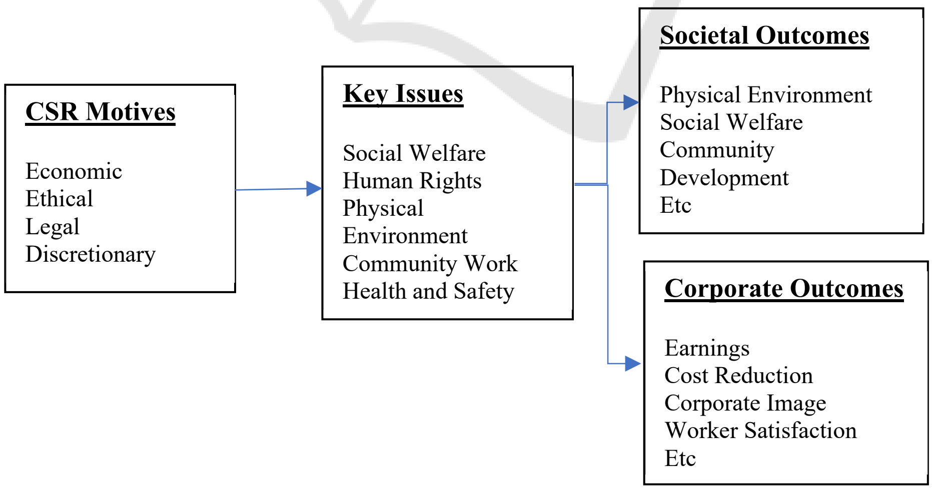

Fig. 1. CSR Antecedent Consequence (Kuada and Hinson, 2012).

are many definitions for corporate social responsibility but basically all companies must act in a socially responsible manner. That is, they must be more involved and promote sustainable development. First, by taking responsibility for the impact on the community. Second, involved in community investment and other projects that can help improve the environment and society in general.

We use the analytical framework of the Kuada and Hinson research [6], which uses the CSR Carroll category (Economy, law, ethics, and wisdom) as the basis for reasons (motives) that underlie corporate CSR decisions. Within this framework, the consequences (benefits / results) of CSR are grouped into two: (1) community outcomes - including benefits for the physical environment, social welfare benefits, and community development; and (2) company results - including (but not limited to) economic benefits such as cost reduction, company image enhancement, and employee satisfaction.

2.2 Foreign Ownership and Social Investment

It is assumed that the level of investment from abroad might have a greater influence than domestic practices [7, 8]. For example, current CSR implementation trends in many Asian countries are largely influenced by Western-style management practices, which are assumed to have a higher level of social involvement. Empirical findings also support this argument. For example, Chapple and Moon [9] noted that globalization increased the involvement of corporate CSR in Asian countries. When reviewing the literature discussing international strategies that can provide social benefits to the host country, the literature leads to CSR and business ethics [10,11]. Infrastructure improvements through foreign funds, for example Chinese investors in Africa improve roads, telecommunications, or educational institutions [12,13].

Besides having a high preference for social activities, companies with foreign ownership are also more compliant with laws and regulations [6]. Outside countries, especially Europe and the United State are countries that are very concerned about social issues such as violations of human rights, education, labor, and environmental issues such as, the greenhouse effect, illegal logging, and water pollution [14]. This also makes in the last few years, multinational companies began to change their behavior in operating in order to maintain the legitimacy and reputation of the company [14]. Multinational companies or with foreign ownership mainly see the benefits of legitimacy derived from its stakeholders based on the home market (market where it operates) that can provide high existence in the long run [15,16]. In other words, if a company has foreign ownership, the company will be more supported in making social investments.

H_1 : The greater the foreign ownership in a company, the greater the value of social investment.

2.3 Local Ownership and Social Investment

Each country has different behaviors towards social responsibility activities. CSR patterns are based on national specific norms of business-community relations, corporate governance, government responsibilities, and broader community governance norms [9]. Several previous studies have shown that companies in Indonesia carry out less social responsibility than other countries. Chapple and Moon's research [9] shows that Indonesia not only has the lowest level of CSR penetration, but also has the lowest level of community involvement. On the other hand, Indonesian investors also do not respond well to CSR activities. One of the CSR activities is the environment, in Indonesia environmental performance actually has a negative impact on the value of equity costs, the more environmental activities carried out will increase the company's equity costs [17]. Mulyadi and Anwar's research [18] has proven that investors in Indonesia still do not pay too much attention to social and environmental responsibilities. Indonesia as a growing market and still attracts many investors because of its potential to increase in the future, and focus on financial issues.

Prihatiningtias and Dayanti [19] also show that CSR disclosure does not affect market performance, which means investors do not value the activity. Based on the description above, the second hypothesis is :

H_2 : The greater the local ownership in the company, the smaller the value of social investment.

3 Data and Methodology

The total sample of this study was 215 and determined by several criteria. First, all companies listed on the IDX in 2017-2018, except the financial and service industry sectors. Second, the Company discloses the amount of CSR investment in the annual report. Third, other variable data used in the study are available. Social investment (INVCSR) is proxied by the amount of CSR expenditure for social activities, the environment, employees, and community development mentioned in the annual report. This study includes donations as CSR expenditures assuming they serve the same social purpose because many companies do not provide details of CSR expenditures. The greater this investment is assumed to have more CSR activities. Foreign ownership (FOREIGN) is measured by the number of shares owned by foreign investors compared to the outstanding shares. Local ownership (LOCAL) is measured by the number of shares owned by local investors compared to outstanding shares. The percentage of ownership is obtained from The Indonesia Capital Market Institute (TICMI). The control variables of this study are Return on Assets (ROA), Leverage (LEV), and company size (SIZE). The purpose of this study is to determine the relationship between social investment with foreign ownership and local ownership. The statistical model is as follows :

$$INVCSR_{i,t} = \beta_0 + \beta_1 FOREIGN_{i,t} + \beta_2 LOCAL_{i,t} + \beta_3 ROA_{i,t} + \beta_4 LEV_{i,t} + \beta_5 SIZE_{i,t} + \varepsilon \quad (1)$$

Dimana:

INVCSR	: Social Investment
FOREIGN	: Foreign Investor
LOCAL	: Local Investor
ROA	: Return on Assets
LEV	: leverage

SIZE	: Firm‟s Size
β0 - β2	: the estimated coefficient
εit	:error term
i	: 1, 2, ..., N (number of observations)
t	: 1, 2, ..., T (amount of time)

4 Result

Empirical test results support the research hypothesis. These results can be seen in Table 1. Hypothesis 1 is supported, the greater the foreign ownership in a company the greater the value of social investment. The FOREIGN variable shows a significance level of five percent with a positive beta coefficient. Hypothesis 2 is supported, showing that the greater local ownership will reduce the value of investment for CSR activities. This can be seen in the LOCAL variable which shows a negative and significant beta coefficient at the 5 percent level. The ROA and SIZE variables are significant at the one percent level, while the LEV variable has no significant effect on social investment.

Table 1. Empirical Result.

Dependen Variabel : social investment (INVCSR).

Independen Variabel	B	t
Constanta		
FOREIGN	1.341	2.564**
LOCAL	-1.027	-2.371**
ROA	7.520	5.118***
LEV	0.011	1.621
SIZE	0.100	2.837***

***significant 1% **significant 5% *significant 10%

Foreign institutional investors have high monitoring capabilities, and encourage increased governance arrangements in the companies where they invest, resulting in high performance [10]. Foreign investment can also have a greater influence on the adoption of Clean technology in companies and CSR ratings increase in the proportion of equity held by all foreign parties [4]. The results of this test can be explained with two reasons. First, foreign investors are more concerned with social long-term goals and are accustomed to having a concern for social and environmental conditions, for example environmental protection. The company will still get a positive advantage, which is getting legitimacy from the community which will ultimately have an impact on increasing company profits in the future. Second, the resources owned by companies with greater foreign ownership, so they are able to make large amounts of CSR investment. The results of this study are consistent with Rustiarini's research [21] which found that there was a significant positive relationship between foreign ownership and CSR disclosure. This shows that in general foreign ownership in Indonesia also cares about social issues such as human rights, education, labor, and the environment which must be disclosed in the company's annual report.

Conversely, local investors in Indonesia tend not to encourage social investment. This may be explained by several reasons, first, local investors in Indonesia are not yet concerned about social responsibility, as long as the company has fulfilled existing obligations in law and regulations, it is considered unnecessary to invest large amounts of CSR. Second, local investors still focus on financial performance. Based on several previous studies, it appears that Indonesian investors do not respond to social responsibility activities [9,12].

5 Conclusion and Implication

This research enrich the literature on ownership structure and social investment. The ownership structure is divided into two - foreign and local ownership. This category is based on theory and the results of previous research, which states that each investor in a different country has a different social activity preferences. Foreign investors in Indonesia show a great preference for social responsibility activities. The greater the ownership of foreign investors will encourage large amounts of CSR investment. Whereas local investors, showed less interest in CSR investments. This shows that the ownership structure has an influence on corporate social investment decisions.

The results of this study illustrate that the motives of foreign and local investors are reversed so that it can have implications for regulatory or policy-making bodies in Indonesia. The low motivation of local investors in Indonesia should receive attention, so that the company's sustainability is not only from the economic side but also from the social and environmental condition.

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