The Effect of CSR Activities during the COVID-19 Pandemic on Value Relevance

Mursalam Salim1, Muhamad Yamin Noch2,, Asri Ady Bakri3,
Yapis Papua University1,2, Indonesian Muslim University3
lamsalim72@gmail.com

Abstract

The impact of the coronavirus pandemic has caused significant changes in the capital market industry, especially the equity market value of financial industry companies. Good financial governance is an effective way to help companies survive a pandemic. Corporate Social Responsibility (CSR) as a corporate responsibility that affects the market value of the company's equity, in general, is still limited, especially to financial assets' fair value during the pandemic. This research uses the case study method and panel data analysis. The results of the study state that the value relevance of financial assets' fair values is not all associated with the firm's CSR activities during the pandemic. CSR activities can improve the relationship between the hierarchy of fair value financial assets level 1 and level 2, earnings per share, and book value of equity to the company's stock price. These results also show that financial companies in Indonesia seeking to increase the market value of equity during the pandemic can still take advantage of CSR activities to encourage investors to invest.

Keywords: Corporate Social Responsibility, Value Relevance

1. Introduction

This paper investigates the effect of corporate social responsibility activities on the value relevance of financial asset fair values in Indonesia during the pandemic 19. Value relevance is the most fundamental information for giving feedback and predicting value for the investor. Although the value relevance of earning has decreased over time, the presence of other information accounting in the form of free cash flow agency problem (Maksy, 2016), earnings management (Mostafa, 2017; Rahman, 2011), book value (Narullia et al., 2019; Pathirawasam, 2013), the fair value could give meaning information for the investor (Siekkinen, 2017c)

The implementation of PSAK 68 in Indonesia which was adopted from IFRS 13 has also given importance to the market value of the company's equity. Its application instead of the value bases histories has brought changes in the quality of information that is more transparent for investors. It can provide quality financial statement information (Khurana & Kim, 2003). However, their implementation requires deep understanding from users of financial statements (Laux & Leuz, 2009). The use of a fair value hierarchy affects reducing information asymmetry related to reasonable value estimates. Xiaoqing et al. (2012) argue that fair value has increased relevance. Paoloni et al. (2017) found the high quality of aggregate earnings from financial instruments' fair value. Several previous studies revealed that increasing fair value is affected by corporate governance mechanisms (Song et al., 2010), board characteristics (Siekkinen, 2017b), institutional environment (Fiechter & Novotny-Farkas, 2017), audit quality (Siekkinen, 2017a), corporate governance and legal systems (Mechelli & Cimini, 2019). Nevertheless, fair value has longer financial reporting accuracy (Lin et al., 2017) Business practices that lead to CSR activities can also be beneficial and profitable for companies (Mishra & Suar, 2010). Although CSR information does not provide value relevance to company value (Narullia & Subroto, 2018). On the other hand, the relatively unstable condition of the country due to the Covid-19 pandemic tends to trigger changes in value relevance. Examining the value relevance of fair values in the Indonesia pandemic situation may offer insights into how CSR activities affect the relevance of fair value disclosures.

Using a sample of 96 firm-year observations from 48 financing firms, the purpose of this study is to analyze CSR activity's effect on the value relevance of financial assets' fair values varies. by analyzing the pooled sample of 48 companies, this study found that CSR activities affect are not all value relevant for investors. Second, by CSR activities as moderating variables on the value relevance of financial assets fair value estimates, the results indicate that the CSR activities are not all positively associated with the value relevance of the financial assets fair value hierarchy. CSR activities strengthen the value relevance of level 1 and 2 financial assets' fair value. Investors are willing to pay higher for level 1 and 2 financial assets when the company has CSR activities compared to level 3. Investors seem to have complete confidence in the measurement estimation process used by the market price.

We organized the paper as follows: the following section reviews the literature on value relevance studies and CSR activities, mainly focusing on value relevance studies of the fair value hierarchy and the factors that influence it. The third section presents data and methodology, descriptive statistics, four sections 4 presents the results and discussion, and the final section concludes the study.

2. Literature Review and Hypotheses Development

Accounting literature has extensively examined the value relevance to distinguish how investors evaluate accounting information of fair value by using various aspects. Based on the accounting standard (PSAK 68) used in Indonesia, the fair value is arranged as follows: Level 1 (quoted prices in active markets), level 2 (inputs other than quoted prices that are observable either directly or indirectly, or quoted market prices for similar assets or liabilities), and level 3 (unobservable inputs generated by entities) (Ikatan Akuntan Indonesia, 2014). Several previous researchers tested the value relevance of fair value by relating it to investor protection, board characteristics, audit quality (Siekkinen, 2016, 2017a, 2017c), corporate governance and legal system, and institutional environment. The results of the study indicate that there are differences in the value relevance of the estimated fair value hierarchy. Siekkinen (2016) found the difference in value relevance between the hierarchy of fair value either market prices (level 1), inputs other than market price (level 2), or fair value estimates generated entities (level 3). Value relevance of fair value decreases with the quality of investor protection. The information on fair value estimates also depends on the quality of the legal system in their firms. This statement was confirmed by Mechelli & Cimini (2019) that the legal system positively affects the value relevance of fair value estimates. Investors gain confidence that each of the three levels helps reduce uncertainty toward the more opaque fair value estimates (Chung et al., 2017). They have been associated with higher market pricing and lower information risk for level 3 estimates. Fair value measurements levels 1 and 2 have higher analytical prediction accuracy than level 3 (Ayres et al., 2017). Large fair value reporting in financial statements has higher quality persistence, predictability, variability, and income smoothing (Paoloni et al., 2017)

The use of a fair value hierarchy has succeeded in reducing information asymmetry related to reasonable value estimates. Fair value accounting at levels 1 and 2 has a higher analytical prediction accuracy than level 3 measurements (Ayres et al., 2017). Nevertheless, a measurement level of 3 reduces uncertainty in the analyst's information environment (Barron et al., 2016). Valuation of value relevance is also the difference in corporate social responsibility activities. Narullia & Subroto (2018) stated that CSR information is not relevant to firm value. On the other hand, Qiu et al. (2021) confirm that firms' CSR activities can increase the movement of stock returns during the pandemic. Communities involved in CSR activities have more impact than employees or customers during a pandemic. Pandemic conditions provide great business opportunities to maximize CSR activities and contribute to overcoming social and environmental challenges (He & Harris, 2020). García-Sánchez & García-Sánchez (2020) found the company's efforts to protect the interests of shareholders and investors' CSR activities. The Pandemic also affects the financial effect of small-scale companies (Bartik et al., 2020). The welfare of the employees during the Covid-19 pandemic and government policies have a significant positive impact on retailer performance, while customer and brand protection, technology use, and supply chain have a significant positive impact on retailer performance (Khaled et al., 2020).

2.1 Value relevance of financial assets level 1, level 2, and level 3

The value relevance of the hierarchy of the fair value of financial assets based on IFRS 13 has not been studied extensively in Indonesia. it implemented a fair value hierarchy through PSAK 68 in 2015. Fair value relevance research generally used samples in America (Goh et al., 2015; Song et al., 2010) and Eropa (Siekkinen, 2016, 2017b, 2017a). Song et al. (2010) found that all fair values in the fair value hierarchy are relevant values for investors. Investors place higher valuations on level 1 and level 2 fair value assets than on level 3. Goh et al. (2015) extend the research of Song et al. (2010) using a more extended period and confirmed that all fair value levels are also relevant. Level 1 and 2 fair value assets are more value-relevant than level 3 fair value assets. Lu & Mande (2014) documented a similar result that fair value relevance decreased by fair value hierarchy. This stated also explained by Siekkinen (2016) that the fair value hierarchy has value relevance and decreases to hierarchy.

All studies examining the relevance of fair value by hierarchy found relevant information and diminish by hierarchy. However, several previous studies analyzed the relevance of fair value in US and European standards. The results have not been valid for the Southeast Asia sample, especially Indonesia. Based on the findings of Song et al. (2010), Lu & Mande (2014), Goh et al. (2015), and Siekkinen (2016, 2017a, 2017c) The research hypotheses are as follows:

H1. The fair value of financial assets is relevant and decreases according to hierarchy.

2.2 CSR activities and Relevance of the value of the fair value of financial assets level 1, level 2, and level 3

CSR activities use the size of the company's costs and the actual expenses of the company's activities as a proxy for measurement (Ramzan et al., 2021). Investors predict the future income earned from their investments using all relevant information (Scott, 2015, p. 154). Disclosure of social responsibility will be beneficial for the company in terms of assets, profits, and equity presented in the financial statements as well as an increase in stock prices (Lako, 2011, p. 149). CSR activities are business practices considered profitable and beneficial for companies (Mishra & Suar, 2010) The higher the market value of the company, the greater the CSR activities available from the firm owned. Companies with a high commitment to CSR activities will affect financial performance (Bag & Omrane, 2022). Firms with continuous CSR activities will have a relatively greater capacity to develop, maintain, and replace assets. Thus, the relevance of the financial statements presented will be more relevant. CSR activities also have a significant impact on financial performance and provide a broad view for managers to integrate CSR activities into business objectives (Maqbool & Zamir, 2021). Companies with CSR activities are considered capable of affecting the value relevance of financial statements. It makes Investors tend to place their funds fairly in companies' CSR activities consistency will provide confidence for investors to own company assets and encourage high share price offerings. Based on previous research, CSR activities will tend to affect the value relevance of the financial assets hierarchy. The second hypothesis is as follows:

H2. CSR activities increase the value relevance of the financial assets hierarchy

3. Data and Methodology

The aim is to analyze the value relevance of the fair value of financial assets and the impact of activity CSR variables using annual panel data over the period 2020 - 2021, which covers 48 firms in the Indonesia Stock Exchange. Thus, the number of observations is 96 company-year. One of the advantages of a panel data structure is that this study has more observations, and degrees of freedom and. offers a parsimonious panel data approach from a dynamic and broader structural model. The fair value of financial assets per level in the fair value hierarchy, earnings per share, the book value of equity each share, and shares outstanding are hand-collected from firms' annual reports. Stock price data used sources were from the official site (yahoo.com), and CSR activities data were used in the sustainability report. Table 1. presents descriptive statistics of each variable.

Table 1
Descriptive statistics

Panel A: Test variable (per share)				
Variable	Mean	Maximum	Minimum	Std. Dev
Price	2195.65	27.475	50	3951.19
VFA1	1173.90	32.765	0	2912.54
VFA2	3619.36	129.717	0	10613.95
VFA3	2144.21	114.422	0	8689.55
EPS	178.95	2108,00	31.35	114.03
NBS	1721.32	17491,37	32.13	1355.59
CSR	24.67	29.91	14.50	2.69
Panel B: Relative size of variables				
Variable	Mean (%)	Maximum (%)	Minimum (%)	Std. dev (%)_
VFA/ Total assets	57.28	99.07	0	32.04
VFA1/ Total assets	12.86	61.41	0	11.96
VFA2/ Total assets	24.88	99.07	0	28.81
VFA3/ Total assets	19.53	98.72	0.19	31.50

Table 1 presents descriptive statistics of the test variable. The number of observations is 96—the average price of stock prices three days before and before the announcement of the financial statements. VFA is all fair value financial assets combined into one variable. VFA1, VFA2, and VFA3 are fair values of financial assets per share for every fair value hierarchy level. EPS is the earnings per share, NBS is the book value of equity per share, and CSR is CSR activities.

The mean share price is 2195,65 rupiahs, and the mean of levels 1, 2, and 3 fair value of financial assets per share are 1173.90, 3619.36, and 2144.21 rupiahs, respectively. Finally, the mean earnings per share (EPS) and the book value of equity per share (NBS) are 178.95 and 1721.32. All variables are presented as per-share values.

The relative amount of fair value financial assets to total assets is 57.28 percent, meaning that the value of 57.28 percent of the total assets is measured at fair value in the 2020 – 2021 financial assets. On average, 19.53 percent of total assets are classified as level 3 fair value of financial assets. Hence, 19.53 percent of the total assets of the 96 observations are merely estimates made by the firms themselves. Thereby, on average, a financial firm measures the value of 19.53 percent of its total assets without any observable market price.

Method

Estimating the value relevance of accounting numbers used model prior value relevance studies the fundamental Ohlson (1995) model or a modified Ohlson (1995). A modified (Ohlson, 1995) model is applied to the accounting numbers of 2020 – 2021 financial statements to test the value relevance of the fair values in the fair value hierarchy. Following the model used by Goh et al. (2015) and Siekkinen (2016). This model research is divided into independent variables (VFA1, VFA2, VFA3), control variables (EPS, NBS), and moderating variables (CSR activities). All independent variables have been share-scaled to reduce scale effects, as proposed by Barth & Clinch (2009). The modified Ohlson (1995) model used to test Hypothesis 1 is as follows:

$$Price_{it}= \beta_0 + \beta_1 VFA1_{it} + \beta_2 VFA2_{it} + \beta_3 VFA3_{it} + \beta_4 EPS_{it} + \beta_5 NBS_{it} + \varepsilon_{it} \quad (1)$$

Price is the price of a stock of firm i seven days around the publication of financial statement (-3 days, 1 day, +3 days), $VFA1_{it}$, $VFA2_{it}$, $VFA3_{it}$ is the fair value of financial assets per share of firm i related to the fair value hierarchy at the end of the fiscal year t. The fair values hierarchy of financial assets is collected from annual reports and divided by outstanding shares. EPS is the earnings per share excluding extraordinary items of firm i at the end of the fiscal year t. NBS is the book value of equity per share of firm i at the end of the fiscal year t

The pool of the observations from 2020 to 2021 for testing Hypothesis 1 used a sample consisting of 96 firm-year observations. The levels of fair-value financial assets are value-relevant if their coefficients are positive and significantly different from the value of zero (Barth & Clinch, 2009; Siekkinen, 2016). The effect of CSR activities on the relevance value of the fair value of financial assets for testing hypothesis 2. The CSR activities variable interacts with each fair value level, earning per share, and book value equity. The equation model for testing hypothesis 2 is as follows:

$$Price_{it}=\alpha_0 + \alpha_1 VFA1_{it} + \alpha_2 VFA2_{it} + \alpha_3 VFA3_{it} + \alpha_4 EPS_{it} + \alpha_5 NBS_{it} + \alpha_6 CSR_{it} +\alpha_7 VFA1_{it}*CSR_{it} + \alpha_8 VFA2_{it}*CSR_{it} + \alpha_9 VFA33_{it}*CSR_{it} + \alpha_{10} EBS_{it}*CSR_{it} + \alpha_{11} NBS_{it}*CSR_{it} + \varepsilon_{it} \quad (2)$$

Equation (2) examines potential changes in the coefficients for every independent and control variable. The coefficients interaction variables how much the coefficients have changed before and after the interaction. If e.g., α_7, α_8, α_9 is more than α_1, α_2, α_3 and significant, it means that CSR strengthens the association between the market price of equity and fair value of level 1, level, level 3.

4. Result and Discussion

4.1. Value relevance of the fair value of financial assets

The research results using test the pooled sample (48 firms). The test value relevance of fair values in the fair value hierarchy uses the modified Ohlson (1995) as suggested by Goh et al. (2015), and Siekkinen (2016) The regression is estimated with a sample of financial industry firms to obtain comprehensive results on fair value relevance. The regression analysis presented in Table 2 shows that not all fair values in the fair value of financial assets hierarchy according are relevant.

Table 2
Value relevance of the fair value of financial assets

Variable	Coefficient	t-stat	p-value
Intercept	1074.80	8.107	0.000***
VFA1	0.443	3.497	0.000***
VFA2	0.181	3.413	0.000***
VFA3	0.156	3.256	0.000***
EPS	4.110	7.531	0.000***
NBS	0.232	3.923	0.000***
n	96		
Adj. R-squared	0.946		

Table 2 presents the results of the regression analysis. The dependent variable is PRICE. VFA1, VFA2, and VFA3 are fair values of financial assets per share for every single level of the fair value hierarchy. EPS is the earnings per share excluding extraordinary items. NBS is book value equity per share. the regression use Firms and year-fixed effects

* Indicates statistical significance at 0.10 levels.
** Indicates statistical significance at 0.05 levels.
*** Indicates statistical significance at 0.01 levels

The adjusted R-squared is 0.946 and substantially higher than 0.837, as reported by Siekkinen (2016) and 0.74 by Goh et al. (2015) The coefficients for financial assets' fair value in level 1 (0.443) and level 2 (0.181) are significantly higher than the coefficient for level 3 (0.443) financial assets (Table 2). Investors seem to stay willing to pay a higher price for levels 1 and 2 than for level 3 financial assets. Earning per share (EPS) coefficient of 4.110 is higher than the book value equity per share coefficient (0.232), indicating that the market value of equity is more extensively driven by earnings than the book value of equity.

The coefficients in the regression results are relatively low compared to the coefficients reported by Goh et al. (2015) and Siekkinen (2016). The level 2 financial assets coefficient is 0.181

compared to 0.216, as written by Siekkinen (2016), and (0.96), as documented by Goh et al. (2015). There are multiple explanations for the differences in coefficients. First, the economic condition heterogeneity across firms in the sample may drive the results in the regression analysis. Second, financial assets are more value-relevant in firms with high assets due to the heterogeneity across firms in Indonesia and the other potential explanations. However, the value relevance of fair values is monotonically decreasing when descending in the fair value hierarchy from level 1 to level 3. Thus, hypothesis 1 is accepted.

4.2. CSR Activities and value relevance of fair values

The impact of CSR Activities on the fair value relevance of financial assets using moderating each fair value level. Table 3 presents the regression results.

Table 3
Impact CSR activities on the value relevance of financial assets fair values

Independent Variables	Coeff.	t-stat	p-value
Intercept	1225.132	7.977	0.000
VFA1	0.307	3.101	0.001
VFA2	0.059	2,341	0.013
VFA3	0.027	2.288	0.043
EPS	3.970	6.344	0.000
NBS	0.249	4.722	0.000
CSR	20.811	3.024	0.004
VCSR1 (VFA1*CSR)	10.462	3.560	0.002***
VCSR2 (VFA2*CSR)	5.980	3.267	0.005***
VCSR3 (VFA3*CSR)	4.399	1.497	0.116***
ECSR (EPS*CSR)	66.597	2.797	0.015***
NCSR (NBS*CSR)	11.692	2.754	0.024***
Adj. R-squared	0.919		
N	96		

Table 3 present the result of the regression analysis. The dependent variable is price. VFA1, VFA2, VFA3: fair value of financial assets level 1, level 2, level 3 per share; EPS: earnings per share; NBS: book value per share; CSR: corporate social responsibility activities; VCSR1, VCSR2, VCSR3: Interaction of fair value financial assets level 1, level 2, level 3 per share with corporate social responsibility: ECSR: Interaction of earnings per share with corporate social responsibility; NCSR Interaction of the book value of equity per share with corporate social responsibility

* indicates statistical significance at 0.10 levels
** indicates statistical significance at 0.05 levels
*** indicates statistical significance at 0.01 levels

The Investigating value relevance of financial assets' fair values CSR activities using a whole sample without different companies. CSR activities rates in the Indonesian financial industry. It is observable that the vast majority of financial asset fair values are value-relevant when the company has CSR activities. Regarding CSR activities, level 1 and level 2 fair value assets are increasingly relevant for investors, while level 3 has no effect. The correlation coefficients of CSR1 (VFA1*CSR) and CSR2 (VFA2*CSR) are 10,462, 5,980 respectively. CSR activities strengthen the fair value of financial assets relevance levels 1 and 2 with a significance level of 1%. Level 3 financial assets are not more value-relevant in the availability company the company's CSR activities. Investors are willing to pay relative equally for level 1 assets and level 2 assets in CSR activities. The explanation for the findings may be that investors believe that firms in CSR activities produce` relevance for fair value level 1 and level 2. Finally, the results indicate that CSR activities are more dominant than book value in increasing the company's equity value. Thus, the value relevance of financial assets' fair values is positively not all associated with the firm's CSR activities. Therefore, The results rejected hypothesis 2.

5. Conclusion

This paper investigates whether the fair value has still a value relevance in the pandemic and how CSR activities during the pandemic 19 affect the value relevance of financial assets' fair values varies. The research used a modified Ohlson (1995) valuation model on the sample financial companies from 48 in Indonesia). The results show that all fair values of financial assets in the fair value hierarchy are relevant for investors. Level 1 fair value of financial assets is more relevant than level 2 and level 3. Investors are willing to pay more for level 1 and level 2 fair value financial assets than for level 3 fair value. Investors assume managers are not more credible in conveying fair value information that is not available in an active market when estimating fair value. Thus, investors are reasonably confident and willing to pay a higher price for the fair value of financial assets level 1 and level 2 financial assets.

Second, CSR activities increase the fair value relevance of financial assets as measured using levels 1 and level 2. However, the fair value relevance of level 3 financial assets has no effect. Investors find level 1 (quoted prices in active markets) and level 2 (inputs other than quoted prices that are observable directly or indirectly) more relevant to determining the market value of equity. For fair value assets level 3, where management ultimately discretion plays a role, investors do have not sufficient confidence in the fair value estimates made by the company. In addition, investors are skeptical of fair value estimates. Therefore, investors seem to focus on fair value assets levels 1 and 2 when analyzing a company's financials with CSR activities. Therefore, fair value requirements may differ with different levels of CSR activities.

This study contributes to value relevance as well as CSR literature. Information on earnings, equity book value, and financial asset fair value can reflect the market value of equity. CSR is a moderating variable that affects the value relevance and financial asset fair values 1 and 2. This study develops the literature by presenting global evidence of the value relevance of fair values under IFRS 13 that are associated with firm CSR activities. This paper is not without limitations. First, the sample consists of only limited social activities, thus allowing for differences in results with economics and environmental aspect. Second, the research design is only specific to financing companies to be different in other sectors. Future research can use GRI (Global Reporting Initiative) Guidelines index measurements to obtain comparable results with the issue of fair value relevance of financial assets of companies.

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