ANALYSING THE ROLE OF COPORATE SOCIAL RESPONSIBILITY IN DETERMINING FIRM VALUE

Musa Usman Kabir, Norhani Aripin & Redhwan Ahmed Ali Al-Dhamari
School of Tunku Puteri Intan Safinaz School of Accountancy (TISSA), UUM College of Business (COB), Universiti Utara Malaysia.

Abstract

Business entities are basically established to maximize wealth in order to create additional value for their owners. The concept of corporate social responsibility presupposes that corporate bodies should not only be concerned with shareholders wealth maximization but should equally care for the need of other non-investing stakeholders. Hence, to ensured long-term value for corporate firms, attention should be tailored at satisfying the needs of both investing and non-investing stakeholders. Stakeholder's welfare in overall enhanced corporate valuation. This paper highlight the stakeholder's theory as the underpinning theory of the study.

Keywords: Corporate Social Responsibility, Stakeholder Theory, Firm Value.

1.0 INTRODUCTION

The concept of corporate social responsibility (CSR) and organizational value remained an area of interest due to the little understanding of the medium through which CSR influences the value of the firm (Servaes, & Tamayo, 2013). According to Margolis and Walsh (2001) methodological concern presupposes the unclear nature of the perceived relationship between corporate social responsibility and firm value. Servaes and Tamayo (2013) emphasised model misspecification as the specific nature of the methodological concern. In view of the above, corporate social responsibility becomes an important consideration in determining firm value. Lincoln (2017) observed that corporate social responsibility is significant to corporate value through aligning diverging interests of stakeholders in achieving firm value.

According to The World business council, corporate social responsibility is defined as "*the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large*". Therefore, for an overall economic development to be achieved that will improve the valuation of firms, there is need to considered the interest of the entire stakeholders by analysis the contribution of corporate social responsibility in determining the value of firms.

2.0 STAKEHOLDERS THEORY: OVERVIEW

This theory encapsulate the basis of recognizing stakeholders that constitute the outside socio-political and economic forces for the firms. This is done through stakeholder power (Ullmann 1985) that influence firms and management in their actions. According to Roberts (1992) power is a function of the stakeholder's extent of control over resources required by the firm. Gray, Dey, Owen, Evans and Zadek (1997) maintained that stakeholder control may originate from economic and legal sources. A stake is defined as "a thing of value, some form of capital, human, physical or financial, that is at risk, either voluntarily or involuntarily". Clarkson (1998) defines stakeholders as "*those persons or interests that have a stake, something to gain or lose as a result of firm's activities*".

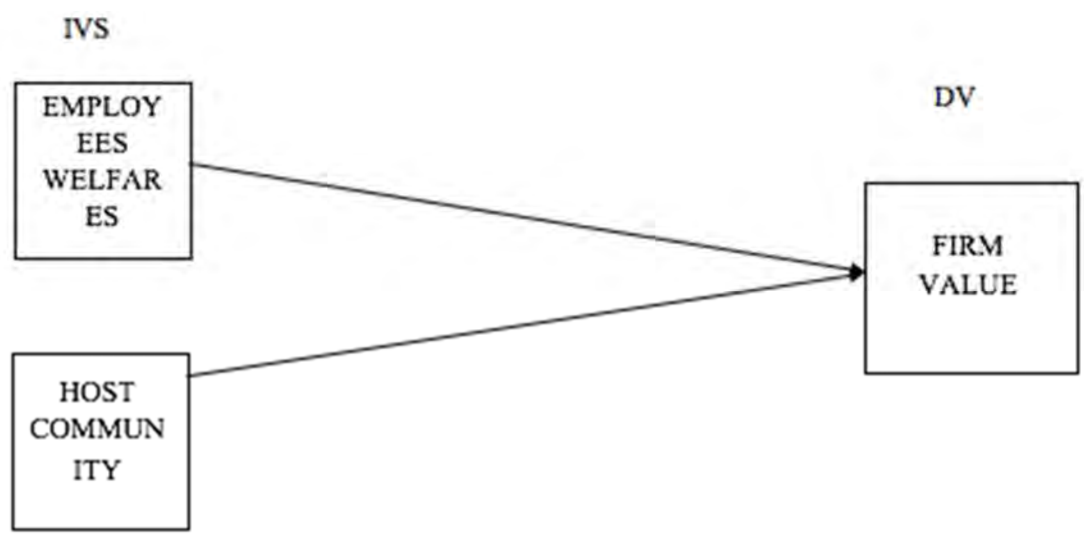
Stakeholders include shareholders, investors and customers (who provide funds) and employees, host community (original dwellers of a locality) and suppliers who provide services/materials (Clarkson 1998; Morard & Balu 2009; Jiao 2010). However, the government are considered as an important stakeholder because of their direct interest on the activities of corporate firms. As stated, the stakeholder's theory is used to explain the practice of considering the entire parties in the business process for the purpose of determining the value of firms for decision making.

The demand for additional information by the various stakeholders of the firms has been driven by the increasing popularity of stakeholders (Boesso & Kumar 2007). Overall, firms can provide all relevant information in their annual reports to enhance the **fi**rm's reputation and value in the eyes of its stakeholder's (Hassan & Marston, 2010). However, it is better to emphasize that the idea to create value for shareholders should be management's top priority. Therefore, firms can deliver the best value to their shareholders only if they deliver value to all their stakeholders (Morard & Balu 2009).

3.0 METHODOLOGY

Conceptually, the framework foresees the role of corporate social responsibility as a determining factors in enhancing the value of a corporate firm. The available empirical evidences support welfare of the employees and the role of the host community as measures of corporate social responsibility in determining firm value (Lincoln 2017). Therefore, employees welfare and host community are considered as the antecedents variables in analysis firm value as the outcome variable. According to Dahlsrud (2008) the CSR definition given by the World business council recognized employees and host community as the primary focus of CSR practices.

4.0 CONCEPTUAL FRAMEWORK OF STAKEHOLDERS THEORY



5.0 DESIGN OF THE RESEARCH

The secondary source of data is presumed to be used. This source of data considered archival source as means of data collection. According to Jiao (2010) expenditure on human capital development can represent the welfare of the employees while firm goodwill is considered as measure of host community. However, to measure the value of the firm, the economic value added will be used (Vaia, Bisogno, & Tommasetti, 2017; Bhasin, 2013).

For data collection technique, study will adopt the purposive/judgmental sampling technique. This is because specialized informed inputs' on the subject matter are vital and using other sampling designs may likely undermined these specialized information. The focus of the paper is the manufacturing firms because Nigeria manufacturing firms are facing declined in the level of investment (Adesina, & Ikhu–Omoregbe, 2015) due to problem associated with value determination.

6.0 CONCLUSION, RECOMMENDATION AND FURTHER RESERACH

The underperformance of the Nigerian manufacturing sector in relation to its contribution to GDP growth (Adofu, Taiga, & Tijani, 2015) presupposes the redirection of this paper to the contribution of corporate social responsibility. It serves as a basis of enhancing the value of firm for investment purposes. This is because manufacturing firms are considered to be significant pillar of economic growth and development (Oluwagbemiga, Olugbenga, & Zaccheaus, 2014). Additionally, according to Tajudeen (2004) valuation and income measurement constitute a major problem in determining firm value in Nigeria.

Corporate social responsibility relationship with firm value have given mixed findings. For example, Jiraporn, Chintrakarn, Davidson and Jiraporn (2016) reported that firms that are socially responsible benefits significantly by having a higher firm value. In the same vain, Su, Peng, Tan and Cheung (2016) indicates a positively significant relationship between CSR practices and firm value. However, CSR engagement can be perceived as insincere gesture, which could create social irresponsibility for practitioners (Lenz, Wetzel, & Hammerschmidt, 2017). Nonetheless, nonparticipation from CSR or CSR engagement may be ill-advised in terms of firm value effects. Furthermore, the relationship between CSR and firm value is more significant in an underdeveloped capital market from empirical evidences.

Findings from underdeveloped economy like Nigeria will shield more light on this areas of study. In addition, subsequent research need to focus attention on the contributing factor of employees and host community on firm value determination.

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