

VALUE RELEVANCE OF ACCOUNTING INFORMATION AND CORPORATE SOCIAL RESPONSIBILITY IN INDONESIA AND SINGAPORE

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Abstract: This study aims to examine the value relevance of accounting information and corporate social responsibility (CSR) for measuring the firm value of companies in Indonesia and Singapore. This study used secondary data in the form of financial statements, annual reports, CSR/ sustainability reports, as well as the company's stock price data. 34 companies were taken as a sample in this study during period 2013–2015. The results show that earnings information was relevant for measuring firm value, both in Indonesia and Singapore. The book value of equity and operating cash flow information was considered relevant in Singapore companies, but in Indonesia, this information was not considered relevant for measuring firm value. CSR information was considered irrelevant in both countries.

Keywords: value relevance, earnings, book value of equity, operating cash flow, CSR.

Research on the value relevance of accounting information has been widely conducted, but there is no study that compares value relevance of accounting information in Indonesia to other countries. This study was conducted with the aim to analyze value relevance of accounting information in a number of companies in Indonesia and compare with value relevance of accounting information in a number of companies other countries. In addition, this study also examined value relevance of corporate social

responsibility information, given that CSR issues are being noticed currently.

The relevant information allows investors to measure firm value well so that investors can make informed decisions rationally. Value relevance approach has a view that investors want to make their own predictions about the future return on security; investors collect and process all information to achieve this goal (Scott, 2015: 154). Generally, in decision making, the information first seen by most investors as a consideration is earnings information, since earnings information has the ability to evaluate past events, present events, and predict future events, and to assert expectations that have been created before.

In line with changes in economic conditions, there is an issue that value relevance of earnings information is decreasing. Many studies have found that value relevance of earnings information de-



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creased (Brown, Lo, & Lys, 1999; Lev, 1989; Lev & Zarowin, 1999; Pinasti, 2004); however, these studies had different reasons for explaining the decrease in value relevance of earnings information (Idowu & Filho, 2009: 210). This decrease was because investors shifted to use information other than accounting information (Pinasti, 2004). Scott (2015: 220) also states that one of the causes of the decline in value relevance of earnings information is due to an increase in the effect of other sources of information on stock prices. Alternative information beginning to be concerned by companies and the users of other financial statements is corporate social responsibility (CSR) information. This information begins to be considered as important information because companies begin to realize that in addition to economic aspects, companies need to pay attention to social and environmental aspects as well to maintain company's survival.

The number of CSR activity disclosure has increased dramatically-95% of 250 companies in the world have made reports on corporate social responsibility-and it can be said that this is a mainstream thing done by companies worldwide (KPMG International, 2013; NCSR, 2013). This increase showed that companies have realized that doing social responsibility and reporting it will have a positive impact on the company. Several surveys and research indicated that CSR provides benefits to company (Cone, 2012; Cone Communication, 2015; Giannarakis & Theotokas, 2011; Master Card, 2015; Thomé, 2009; Tse, 2011)

Various evidence of positive impact of CSR activities in improving firm profitability and firm value lead CSR to be relevant alternative information to

describe firm value. Decision usefulness approach and value relevance approach explain that not only accounting information, particularly corporate earnings information, which can influence investor's decision-making, but also other disclosures in the annual report are also considered in making investment decisions. This study aims to test value relevance of accounting information and CSR in measuring firm value. This study also examined the effect of CSR information on the value relevance of accounting information. The sample of this study include companies in Indonesia and Singapore. This study is expected to analyze the differences between the value relevance of accounting information and corporate social responsibility in Indonesia and the value relevance of accounting information and corporate social responsibility in Singapore.

METHOD

Population and Sample

The study population was companies in Indonesia and Singapore included in ASEAN Stars 2013–2015. ASEAN Stars are 30 leading companies in each country that collaborate in the ASEAN Capital Market. This population was used in this study after considering that the sample in both countries at least has similar economic conditions. 30 companies in Indonesia and 30 companies in Singapore were taken as the population of this study; those companies are members of ASEAN Stars. The purposive sampling method was used to select the sample of this study. Table 1 shows the sample selection procedure of this study.

Table 1 Sample Selection Procedure

Criteria	Indonesia	Singapura
Companies included in ASEAN Stars are:	30	30
1) Companies that had not published their Financial Statements in 2013–2015	(1)	
2) Companies that report financial statements in other currency	(4)	(10)
3) Companies that had not published Company's CSR Report and/or Sustainability Report during 2012–2014		(2)
4) Companies that had not had complete stock price data during 2013–2015	(2)	(2)
5) Companies that do not have complete data required in this research (5)	(5)	
Research Sample	18	16

Based on the criteria used in the sample selection procedure, the research sample obtained was 34 (thirty-four) companies. This study was conducted using data in period 2013-2015, so the total data of this research was 102 (one hundred two) data.

OPERATIONAL DEFINITION OF VARIABLES

Variables of this study consist of independent variables (accounting information and stock price) and the dependent variable (stock price) and moderator variable (corporate social responsibility information). The following is definitions and measurement of each variable in this study.

STOCK PRICE

Stock price (Y). This study used data of stock closing prices for ten days after the date of financial statement announcement (Carnevale, Mazzuca, & Venturini, 2012). The value used as a dependent variable (Y) is the average of stock closing prices for ten days after the date of financial statement announcement.

ACCOUNTING EARNINGS

Accounting earnings (X1) are measured using earnings per share (EPS). Earnings per share used were Basic Earnings per Share (Basic EPS). The value of basic earnings per share is derived by dividing accounting earnings by the number of outstanding shares.

$$EPS = \frac{\text{Accounting earnings}}{\text{The number of outstanding shares}}$$

BOOK VALUE PER SHARE

Book value per share (BVS) (X2) shows the total net assets of shareholders for each share owned. Net assets are equal to the total equity of shareholder, so book value per share is derived by dividing total equity by the number of outstanding shares.

$$BVS = \frac{\text{Total Equity}}{\text{The number of outstanding shares}}$$

OPERATING CASH FLOW

Cash flow from operating activities (CFO) (X3) is the cash flow generated by the company from its operating activities, primarily the main revenue-generating activities of the company and other activities outside of investment activities and financing activities.

$$CFO = \frac{\text{Cash Flow from Operating Activities}}{\text{The number of outstanding shares}}$$

CORPORATE SOCIAL RESPONSIBILITY INFORMATION

The measurement instrument of CSR report used in this study was GRI (Global Reporting Initiative) Guidelines index. The GRI indices used were GRI G3.1 and GRI G4. Both of these indices were used because GRI G4 guideline was released in 2013, while the period of CSR report in this study was 2012-2014; therefore, GRI G3.1 was also used as CSR index in this study. There were 34 disclosure aspects of GRI G3.1 and 46 disclosure aspects for GRI G4; disclosure will be scored based on how many indicators are disclosed in one aspect; the scale of the score in each aspect was from 0 to 1. The calculation formula for the score of each aspect is as follows.

$$\text{Score of CSR Disclosure Aspect } (CSR_a) = \frac{\sum I_i}{n_i}$$

Note:

I_i : Indicator disclosed in aspect i

n_i : Number of the indicator in aspect i

The number of aspects in GRI G3.1 and GRI G4 is different so that the disclosure of each aspect is summed to get the overall score for each company; the total score is divided by the total number of aspects in GRI G3.1 and GRI G4. The formula for CSR index calculation is as follows:

$$(CSRI_j) = \frac{\sum CSR_{a,j}}{a_j}$$

Note:

CSRI_j : Score of CSR Disclosure Index of Company j

CSR_{a,j} : Score of CSR Disclosure Aspect Company j

a_j : The number of GRI disclosure aspect

- GRI G3.1 34 aspects
- GRI G4 46 aspects

DATA ANALYSIS TECHNIQUE

This study used Ohlson's model to test the relevance of accounting information i.e. corporate earnings, the book value of corporate equity, and operating cash flow in assessing the company. This study added variable corporate social responsibility (CSR) in Ohlson's model to test the effect of CSR information on the relevance of accounting information. This study uses price model because according to Kothari & Zimmerman (1995), compared with return model, the stock price in price model reflects both historical information and surprising information cumulatively so there is no error in the price model regression.

This study used moderation regression analysis through hierarchical regression analysis. This study examined value relevance of accounting information and CSR using price model. Here is the formula of regression equation in this research:

$$1) P_{it} = \alpha + \beta_1 \cdot EPS_{it} + \beta_2 \cdot BVS_{it} + \beta_3 \cdot CFO_{it}$$

$$2) P_{it} = \alpha + \beta_1 \cdot EPS_{it} + \beta_2 \cdot BVS_{it} + \beta_3 \cdot CFO_{it} + \beta_4 \cdot CSR_{it}$$

$$3) P_{it} = \alpha + \beta_1 \cdot EPS_{it} + \beta_2 \cdot BVS_{it} + \beta_3 \cdot CFO_{it} + \beta_4 \cdot CSR_{it} + \beta_5 \cdot EPS_{it} \cdot CSR_{it} + \beta_6 \cdot BVS_{it} \cdot CSR_{it} + \beta_7 \cdot CFO_{it} \cdot CSR_{it} + \varepsilon$$

In which,

P_{it} = Stock price of company i in period t

α = Constant

β = Regression coefficient

EPS_{it} = Earnings per share of company i in period t

BVS_{it} = Book value per share of company i in period t

CFO_{it} = Cash flow from operating activities per share of company i in period t

CSR_{it} = Corporate Social Responsibility Index of company i in period t

ε = Error Term

P_{it} = Company share price i in period t

α = Constants

β = Regression coefficient

[EPS]_{it} = Earnings per share of company i period t

[BVS]_{it} = Book value per share of company i period t

[CFO]_{it} = Operating cash flow per share of company i period t

[CSRI]_{it} = Corporate Social Responsibility Index of company i period t

ε = Error Term

RESEARCH HYPOTHESIS

Relevant information is information that can provide a basis for consideration for investors to describe firm value. Relevant information is not only accounting information, but also including non-accounting information. Accounting information is regarded as relevant information if the information is responded by stock price (Scott, 2015: 153); in other words, it has a significant relationship with stock price. Relevant accounting information will be able to influence investors in decision-making. Ohlson's clean surplus theory presents a framework that is consistent with the approach of decision usefulness measurement, by showing how company's market value can be expressed in the fundamental components of the income statement and the balance sheet. Here are hypotheses related to value relevance of accounting information:

H1: Earnings information is relevant for measuring firm value.

H2: Book value of equity information is relevant for measuring firm value.

H3: Operating cash flow information is relevant for measuring firm value.

Value relevance approach explains that investors try to predict future earnings from the investments made; to do so, investors will "swallow" all the information considered relevant and useful (Scott, 2015: 154). Lako (2011: 149) states that corporate social responsibility disclosure will provide benefits

to the company i.e. a value of assets, equity, and earnings presented in the financial statements become more accurate and fair; public relations and reputation increase; stock prices and share market increase, and employee work ethic increase. In addition, the relevance of the financial statements presented by the company including earnings value reported will increase. Based on this, hypotheses formulated in this study are as follows.

- H4 : CSR information is relevant for measuring firm value
- H4a: CSR information increases value relevance of company's earnings information.
- H4b: CSR information increases value relevance of company's book value information.
- H4c: CSR information increases value relevance of company's operating cash flow information

RESEARCH METHOD

Descriptive Statistics

Descriptive statistics are used to show mean, minimum value, maximum value, and standard deviations of each variable used in a study. Here is the result of descriptive statistics of each variable in this study for each country.

Table 2 shows the results of descriptive statistical analysis of research variables of the sample. The lowest earnings per share (EPS) in this study was the EPS of XL Axiata Company in 2014 (Indo-

nesia: IDR -105.20) and Semcorp Marine in 2015 (Singapore: SGD -0.14). The highest EPS was found in Gudang Garam Company in 2015 (Indonesia: IDR 3,344.78), and Keppel Corporation in 2014 (Singapore: SGD 1.04).

The lowest value of book equity per share (BVS) in this research sample was BVS value of Surya Citra Media Company in 2013 (Indonesia: IDR 190.78) and Starhub in 2013 (Singapore: SGD 0.05). The highest value of BVS was found in Gudang Garam Company in 2015 (Indonesia: IDR 19,753.73) and City Development Ltd. in 2015 (Singapore: SGD 12.33).

The lowest Cash Flow from Operating Activities per Share (CFOS) values in this study was found in *Bank Negara Indonesia* in 2013 (Indonesia: IDR 2,556.94) and OCBC in 2013 (Singapore: SGD -1.42). The highest CFOS was found in *Bank Rakyat Indonesia* in 2014 (Indonesia: IDR 3,442.26) and Keppel Corporation in 2014 (Singapore: SGD 2.60).

Unlike the previous three variables, the CSR, which was the moderator variable in this study, had the same unit because the disclosure index used to measure this variable was the same for all countries: Global Reporting Initiative Index. The lowest CSR disclosure value was found in Ascendas Real Estate (Singapore), ie 0.05 in 2013, and the highest disclosure value found in Indocement Tunggal Prakasa (Indonesia) in 2013-2014 and Cement In-

Table 2 Descriptive Statistics

Variable	Maximum	Minimum	Mean	Standard Deviation
INDONESIA				
Earning per Share (EPS)	3,344.78	-105.20	683.28	678.61
Book Value of Equity per Share (BVS)	19,753.73	190.78	3,924.89	4,234.96
Cash Flow from Operating Activities per Share (CFOS)	-268.47	3,442.76	870.29	830.24
Corporate Social Responsibility (CSR)	1.00	0.06	0.36	0.30
Stock Price	69,625.00	2,229.29	13,882.65	14,071.24
SINGAPURA				
Earning per Share (EPS)	1.04	-0.14	0.35	0.30
Book Value of Equity per Share (BVS)	12.33	0.05	3.87	3.80
Cash Flow from Operating Activities per Share (CFOS)	2.60	-1.42	0.35	0.71
Corporate Social Responsibility (CSR)	0.82	0.05	0.34	0.20
Stock Price	11.66	0.74	4.89	3.06

evant if the variable book value of equity per share (BVS) influences stock price. Based on the test results, it can be seen that for the variable book value of equity per share, companies in Indonesia had coefficient and t value of -0,87 (-1,46), which was not significant. Companies in Singapore had a coefficient of the book value of equity per share (BVS) and t value of 0.29 (2.80), significant at 0.01 level. The results of this research analysis showed that in Singapore, an increase of S \$ 1.00 in book value of equity per share (BVS) will increase the firm value of S\$ 0.29. Thus, the book value of equity information was considered relevant information in Singapore. In Indonesia, the regression coefficient of the book value of equity per share was not significant, which means that book value of equity information was considered irrelevant information in Indonesia. The result of hypothesis testing supported hypothesis 2 in Singapore.

Hypothesis 3 states that operating cash flow information is relevant for measuring firm value. Operating cash flow information is considered relevant if variable Cash Flow from Operating Activities per Share (CFOS) affects the stock price. Based on the test results, can be seen that for the variable operating cash flow per share, companies in Indonesia had coefficient and t value of -1.50 (-1.08), which was not significant. For companies in Singapore, the coefficient of Cash Flow from Operating Activities per Share (CFOS) and t value of 1.02 (2.68) significant at 0.01 level. The results of this research analysis showed that in companies in Singapore, an increase of S\$ 1.00 in Cash Flow from Operating Activities per Share (CFOS) would increase the firm value of S\$ 1.02. Thus, operating cash flow information is relevant information in companies in Singapore. In Indonesia, the regression coefficient of cash flow from operating activities per share was not significant, which means that the operating cash flow information was not relevant information in companies in Indonesia. As hypothesis 2, the result of hypothesis testing supported hypothesis 3 in Singapore.

Hypothesis 4 states that Corporate Social Responsibility (CSR) information is relevant for measuring firm value. In regression model 2, respec-

tively coefficient and t value for variable CSR in Indonesia and Singapore were -3,846.58 (-1.14), which was not significant, and - 1.75 (-1.42), which was not significant. Hypothesis 4 regarding value relevance of corporate social responsibility information (CSR) was not supported by the results of hypothesis testing; thus, it can be concluded that CSR was not relevant information for measuring firm value directly. The next hypothesis states that CSR increases value relevance of accounting information. Hypothesis testing was conducted with CSR as a moderator variable between the relationship of earnings, book value of equity, and operating cash flows and firm value. Based on the results of regression model 3, the coefficient and t value of all variable earnings, the book value of equity, and operating cash flows on CSR was not significant, both in Indonesia and Singapore. These results indicated that corporate social responsibility (CSR) information could not improve value relevance of either earnings information, the book value of equity, or operating cash flow. Thus, hypothesis 4a, hypothesis 4b, and hypothesis 4c in this study were not supported by the results, both in Indonesia or Singapore

DISCUSSION

Value Relevance of Accounting Information

This study shows that earnings information is relevant information to measure company value. This was shown by empirical evidence that profit information positively affects company's stock price. The results of this study supported the previous research studies ie studies conducted by Collins, Maydew, & Weiss, (1997), Francis and Schipper (1999), Almilia & Sulistyowati (2007), Agusti & Rahman (2011), and Azhmi & Subekti (2014), proving that earnings information is relevant information to assess company.

Earnings information is relevant information both in Indonesia and Singapore. In this study, the authors also examined the relevance of earnings information without incorporating book value of equity and operating cash flow. The test showed that earnings information is relevant information in both countries, but the relevance of profit information in

Indonesia was higher than in Singapore. This is indicated by the value of determination coefficient or Adjusted R-Square of Indonesia (75.1%) which was greater than the value of determination coefficient or Adjusted R-Square of Singapore (59.4%), which showed that earnings information explained company's share price of 75.1% in Indonesia and 59.4% in Singapore. Scott (2015: 220) reveals that low Adjusted R-Square value indicates an increase in the impact of other information on company's stock price. This research shows that one of the causes of the decrease in value relevance of earnings information is the increase in value relevance of other information, that is book value of equity and operating cash flow.

Accounting information other than earnings information, ie book value information and company's operating cash flow information. The results of this study prove that book value information and operating cash flow information is relevant information to measure the firm value of companies in Singapore. In Indonesia, this two information did not show value relevance in measuring firm value. To examine value relevance of book value of equity and company's operating cash flow, this study also incorporated variables in the regression equation one by one. This analysis was conducted to determine the change of determination coefficient when the variable of the book value of equity is included; the result of the analysis showed that there was an increase in determination coefficient of 8.2% in Singapore and 0.9% in Indonesia. Book value information had high-value relevance in Singapore, as also shown in research which was conducted by Der, Polak, & Masri (2016). Der et al., (2016) even suggest that book value is more relevant, followed by earnings and then cash flow. This study shows that company's book value of equity is one of alternative information beside earnings information being considered by an investor in measuring firm value. Unlike in Singapore, in Indonesia, information on the book value of equity cannot be said to be relevant information for measuring firm value; determination coefficient before and after book value of equity information also has not changed much.

Similar to book value of equity information, operating cash flow information was also relevant information for measuring firm value in Singapore. When variable operating cash flow was included in the regression equation, there was an increase in determination coefficient of 3.9% in Singapore and 0.1% in Indonesia. This increase shows that in Singapore, operational cash flow information is considered as relevant information for measuring the firm value of the company, as well as book value information. However, companies in Indonesia did not show the same results, company's operating cash flow information is not considered as relevant information. This study in both countries shows that accounting information that most investors pay attention to is profit information, while book value of equity and operating cash flow is not considered relevant in Indonesia.

The relevance of the book value of equity and operating cash flows can be said to be lower than the relevance value of earnings information; however, that two information may lead to decrease in value relevance of earnings information in previous studies (Brown et al., 1999; Lev, 1989; Lev & Zarowin, 1999; Pinasti, 2004). The research results for companies in Singapore support the perspective of Ohlson's net surplus theory, showing that company's market value can be reflected in the income statement and balance sheet (Scott, 2015: 219). In Singapore companies other than earnings information, book value information and cash flow information of the company's operations are also relevant information that can assist investors in measuring company value. The results of the study in Singapore support previous research such as research conducted by Agusti & Rahman (2011), Almilia & Sulistyowati (2007), Azhmi & Subekti (2014), Collins et al. (1997), and Francis & Schipper (1999) proving that book value information is relevant information for measuring company value and supporting research Bowen, Burgstahler, & Daley (1987), Cheng, Liu, & Schaefer (1997), Kwon (2009), and Wilson (1986), proving that cash flow information is relevant information.

Value Relevance of Corporate Social Responsibility Information

One of alternative information beginning to be a concern for companies and users of other financial statements is information on corporate social responsibility (CSR). Corporate Social Responsibility (CSR) reporting has risen rapidly-95% of 250 companies in the world report corporate social responsibility and it can be said that this is a mainstream thing conducted by companies around the world (KPMG International, 2013; NCSR, 2013). This increase shows that company realizes that doing social responsibility and reporting it will have a positive impact on the company. The highest increase in CSR disclosure was found in Southeast Asia; it increased by 49% in 2011 to 71% in 2013.

This study aims to examine the relevance of CSR information in companies in Indonesia and Singapore as part of Southeast Asia which has rapidly increased in terms of CSR disclosure. Results of the test conducted at companies in Indonesia and Singapore show that CSR information is not relevant information for measuring firm value. This is because apart from the rapid increase of CSR reporting in Southeast Asia, the quality of CSR information reported by companies in Southeast Asia is lacking (KPMG International, 2013; Shah, 2016; Suastha, 2016; Tan, 2016). The lack of uniformity in CSR reporting led to CSR information which was not relevant. Many companies disclosed company's CSR information, but not all reported based on GRI index, which is considered a "gold standard" for CSR disclosure (Shah, 2016). The companies being sample in this study also showed the same thing, that is; although the majority of companies disclosed CSR information, not all used GRI index as the standard of disclosure. This may be one reason why this information cannot be said to be relevant information. When report users try to consider CSR information; they have no knowledge of how good CSR reports are, they do not know how to use that information as considerations in decision-making. This study shows that the quality of CSR report still needs to be improved so that this information becomes relevant information for measuring firm value. Companies in Singapore considered value

relevance in a sustainability report, but the majority of them found it difficult to identify key impacts, risks, and opportunities with that information (Tan, 2016). Even companies that report on corporate sustainability activities will find it extremely difficult to convey not only accurate and timely information, but also meaningful and successfully attracting the attention of their stakeholders (Shah, 2016).

CONCLUSION

This research indicates that accounting information, namely earnings information, is relevant information to measure firm value both in Indonesia and Singapore. Information on a book value of equity and operating cash flows is information relevant to Singaporean companies, but in Indonesia, this information is not considered relevant information for measuring firm value. Corporate social responsibility information (CSR) is not relevant information in both countries. This is because there is still a lack of quality of CSR information reported by companies. In general, this study managed to provide empirical evidence about the approach of decision-usefulness theory and value relevance theory. These theories explain that investors predict the future earnings from investments made through all relevant information. In this study, the most relevant information is earnings information, while book value of equity and operating cash flow is relevant information in Singapore.

RESEARCH LIMITATIONS AND SUGGESTIONS FOR FURTHER RESEARCH

This study has a limitation, ie this study only analyzed the presence or absence of CSR disclosure of companies based on indicators in GRI index, but this study cannot test the quality of each indicator of CSR disclosure. The next research can analyze the quality of CSR disclosure done by the company, so it can reveal the influence of quality of CSR disclosure on the value relevance of CSR information.

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