

Investors Psychology: Mediator of CSR and Market Capitalization

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Abstract. The implementation of CSR program which is on telecommunication industries in Indonesia has still many linkages to business advantages. CSR program is considered to be important variable in investors psychology, whereas the implementation has not been optimum to be conducted by telecommunication industries in Indonesia actually. It reviews from that phenomenon for investors psychology, so the study focuses on the implementation of CSR on investors psychology and its impact to market capitalization. This study is conducted through survey of 69 institutional investors in Indonesia. It is conducted a causality analysis by using quantitative data. The study review is stated that CSR program is unable to change market capitalization directly. However, investors psychology is stated to be able to mediate the correlation of CSR in market capitalization. This finding is useful for telecommunication industries generally and for government also in taking policy which relates to CSR in Indonesia.

1. Introduction

The establishment of the company always relates to advantages that is owned by a performance evaluation [1], besides the fact that company performance is part becomes investors' evaluation [2]. It relates to investment level that is conducted by investors [3]. But one of important elements in company also becomes investor's attention is implementation program of corporate social responsibility (CSR) [4]. In which it is known the impact on investors' behavior in investigating [5]. Concerning about CSR, it has been conducted the study of CSR's correlation with investors psychology [6], remember that investor is part of stakeholders which also feel CSR program from a company. It is assumed that influences of company notice the implementation of CSR program. The development, implementation of CSR currently becomes part in company marketing strategy [7] and it is not again as company's duty on surrounding environment [8]. This phenomenon is also happened on telecommunication industries in Indonesia, actually some telecommunication industries use implementation of CSR to evaluate its company performance [9].

In previous research, it is known in implementation of CSR program, company is closely relate to company performance [10]. Where company conducts CSR program well, financial performance gets better improvement, especially in market capitalization performance [11]. It is stated to be reasonable, remember that stakeholders have interest on company investment, today it also notices of CSR



program. Telecommunication industries are as very oriented industry in case of investment, it is important if noticing of CSR in an attempt to attract investors' attention. Reviewing impact of CSR on investors psychology [3] and the correlation with market capitalization [12]. So, this study aims to review mediating of investors psychology in the correlation of CSR program and market capitalization, on telecommunication industries in Indonesia. This study becomes important to be noticed especially for telecommunication industries relates to the effort of market shared improvement, and regulator's role which is government relates to implementation of CSR company in Indonesia.

2. Literature review

2.1. Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is concept which notices for transparency of social reveal for activity or social activity that is conducted by company. In which its interpretation is become company's responsibility [13], so information revealed by company is not only company financial information, but also reveals information about social impact and living environment that is caused by company activity [14]. CSR appears when industry develops after it is happened industry revolution [15]. Almost companies still focus on itself as organization that searches advantages only. As time goes by, society is not just demanding for responsibility socially [16], [17]. So it is needed the existence of a social form of social responsibility from company, one of them is through implementation of CSR [3]. In the study of CSR relates to service industry explained by Du & Vieira [18] that CSR is "a firm's commitment to maximize long-term economic, social and environmental well-being through business practices, policies and resources". Those opinions contain the meaning that CSR is company commitment in improving long-term economic, social and environmental through business practical, rules and resources.

2.2. Investor psychology

Psychology is essentially study about human [20], like wise with investors psychology where it relates to study of investors behaviour. This case relates to science that learns about investors behaviour in investing on a company which became its target [21]. Investors is person or public institution who invest capital in the capital market or stock exchange both directly and indirectly in the short and long term with the expectation capital owners get benefit from the result of such investment [22]. While the determining investors psychology is about investors behaviour in responding stimulus, both as instinct and mentally (cognitive). In investing, investment decision making is very influenced by information accepted by investors' knowledge about investment [23]. So, investors need more information before decision making for investing and all of information create investors psychology and invest. Almost of investors reveal that financial information presented by company becomes the important consideration in investment decision making process [24]. Although investors behaviour of a company has differentiation, it is especially investors behaviour has state differences because of the existence of cultural differences [25]. Like stated by Chang & Lin [4] who emphasizes that "investor behaviour is dominated by national cultural differences, recent literature on national cultural investigations is needed for empirical analysis". Surely, those cases also apply for investors on telecommunication industries in Indonesia that has difference of behaviour with investors on others industries. The meaning of those opinions is that every investors behaviour is different; it depends on culture from industry of each country.

2.3. Market capitalization

One of variables that can measure financial performance from go-public company can be seen from gaining of market capitalization [27]. In which market capitalization is total dimension of company's value that is listed in Stock Exchange [23]. This value will change depends on investors' desire in investing; it means market capitalization value is controlled fully by investors. Market capitalization is

simply seen through multiplying of total number of shares of the company with market price that is formed in Stock Exchange where those companies booked their shares. Therefore, market capitalization value will change if there is changing on number of shares booked or the changing on stock price in secondary market [28]. Value optimization of company is called as optimizing shareholder wealth, which can be also defined as maximizing stock price from company [29]. Market capitalization is value of a company which depends on calculation of stock price is multiplied by outstanding share [30]. Based on basic theory relates to market capitalization, so the measurement of those variables only focuses on stock price and outstanding share. Investors' wealth is multiplication between stock price per sheet and the number of shares outstanding [23].

3. Methods

Research method was used in this study was verification descriptive, with survey on 73 institutional investors of telecommunication industries in Indonesia. Research data was obtained from questionnaire spread to institutional investors in 2017, those quantitative data processed by Structural Equation Model approach and analysis tools of PLS. CSR that becomes independent variable is measured by some dimensions are philanthropic responsibility, ethical responsibility, legal responsibility, economic responsibility, environment contribution, and consumer protection [19]. While the dependent variable is Market Capitalization, where it is measured by stock price and outstanding share [30]. Investor Psychology itself that becomes connector measured by self-image coincidence, social relevance, advocate recommendation, and personal financial needs [26]. As for variables tested through hypothesis test which was CSR, investors psychology, and market capitalization. According to phenomenon of research problems, it was made hypothesis test design.

Hypothesis 1 (H1). CSR has positive correlation on investors psychology.

Hypothesis 2 (H2). Investors psychology has positive correlation on market capitalization.

Hypothesis 3 (H3). CSR has positive correlation on market capitalization.

4. Results and discussion

From the questionnaire results, it is obtained only 69 data of institutional investors that is valid data. Those investors represent private investor that conduct investment on telecommunication industries in Indonesia. In which those industries are listed in Indonesia Stock Exchange until 2017. The study result is illustrated on Figure 1, where it is found that there is positive correlation from all variables in forming market capitalization.

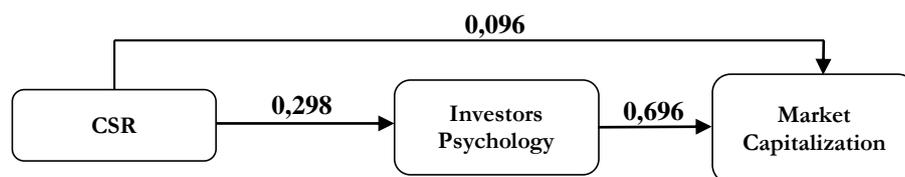


Figure 1. Research Finding

In Figure 1, it is known that CSR has positive correlation with investors psychology, likewise with market capitalization; although the direct correlation of CSR on market capitalization is very low. Besides that, investors psychology has also a close correlation with market capitalization, and it can be reviewed that investors psychology seems to be able to become mediator between CSR with market capitalization. Before conducted further analysis, it is stated the feasibility test of research finding (model) through some assessments which is outer loading value. All of feasibility test result of research model seems to fulfil the requirement, where outer loading (>0.50) fulfils determining standard (Table 1). Remember that research is conducted to use research hypothesis test, so it is stated research hypothesis test result on each correlation between variable (Table 2).

Table 1. Outer Loading Value

	Items	CSR	Market Cap.	Investors Psy.
1	Philanthropic Responsibility	0.549		
2	Ethical Responsibility	0.781		
3	Legal Responsibility	0.877		
4	Economic Responsibility	0.566		
5	Environment Contribution	0.864		
6	Consumer Protection	0.702		
7	Self-Image Coincidence			0.725
8	Social Relevance			0.765
9	Advocate Recommendation			0.826
10	Personal Financial Needs			0.850
11	Stock Price		0.865	
12	Outstanding Share		0.820	

Table 2. Hypothesis Testing

Hypothesis		Path Coefficients	t-value	Results
CSR → Investors Psychology	H1	0.298	2.197	Support
Investors Psychology → Market Capitalization	H2	0.696	4.850	Support
CSR → Market Capitalization	H3	0.096	0.675	Not

4.1. The impact of CSR on investors psychology

CSR that is conducted by company has impact on investors behavior [3]. Those cases are also happened on telecommunication industries in Indonesia, it seems from research result (Figure 1) that there is correlation between CSR with investors psychology through correlation value is 0.298, or it impacts of 8%. Reviewing from those finding seems in line with previous research, so it completes research result for telecommunication industries and others industries. Furthermore, it is known that in controlling investor psychology needs to notice the impact of company CSR program [31]. In implementing of CSR program, the case that becomes important thing for investors is on legal responsibility legal attributes and environmental contribution. It is assumed that institutional investors in Indonesia evaluates law for CSR program and CSR impact to company on environmental sustainability is distinctive features form CSR program implementation of company. Meanwhile less thing to be important attention for institutional investors is on CSR activities through philanthropic responsibility activity and economic responsibility.

4.2. The improvement of market capitalization through investors psychology

Market capitalization is the major goal in this study, which is targeted to be improve its performance by all of telecommunication industries in Indonesia. According to previous study result (Figure 1), found that there is good correlation which is 0.69 or 48% of its influence of investors psychology on market capitalization improvement. Those explanations can be interpreted that the improvement on market capitalization is not separated from the case applied by investors on their behaviour (psychology). This study is in line with study of Filatotchev & Stahl [32], and that becomes important thing on investor psychology is financial needs personal. It means that financial information in detail from telecommunication industries in Indonesia, still are fundamental information in investors investment behaviour.

4.3. Mediating of investors psychology on the correlation of CSR and market capitalization

Another research finding that becomes important is mediating of investors psychology, and the correlation of CSR with market capitalization. In which it is known based on Figure 1, the correlation directly from CSR on market capitalization is smaller; it is compared by investors psychology. However, it needs to be noticed the direct correlation of CSR on market capitalization, remember that

hypothesis test result is not stated significantly. So, it is recommended especially for telecommunication industries in Indonesia do not need to notice of CSR in order to improve market capitalization directly. Becchetti, Ciciretti, & Hasan [33] explains that implementation of CSR program indirectly impact on company stock price. It emphasizes study result that implementation of CSR program on telecommunication industries has indirect correlation on market capitalization.

5. Conclusion

This finding concludes that there is correlation between research variables, where it is known the ability of investors psychology in mediating the correlation of CSR program with market capitalization of telecommunication industries in Indonesia. However the involvement of CSR program implementation is unable directly to influence the improvement on market capitalization. Institutional investors in Indonesia generally is based on its psychology, they are very concerned of company CSR program especially for implementation of legal responsibility and environmental contribution. It is assumed that supports investor psychology before conducting investment on industry assessed. Every research has absolutely limitation, it is the same in this study. It seems that it does not review from political and economic side in reviewing investors psychology, in fact it is known to have close correlation [25], it remembers that study of investors psychology is very important relating to company's share value.

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