The Role Of Social Capital In Increasing The Firm Performance

Lilly Anggrayni
Faculty of Islamic Economics and Business, IAIN Manado
Jl. S. H. Sarundajang, Kawasan Ringroad I, Tikala, Manado, Indonesia
lilly.anggrayni@iain-manado.ac.id

ABSTRAK

Penelitian ini bertujuan untuk menganalisis peran modal social dalam meningkatkan kinerja perusajaan. Penelitian ini menggunakan pendekatan kuantitatif yang bertujuan untuk menguji variabel yang dihipotesiskan. Spss digunakan untuk menganalisis data dalam penelitian ini. Sampel penelitian adalah industry pertambangan yang terdaftar pada Bursa Efek Indonesia (BEI) dan sampel dipilih menggunakan metode purposive sampling. Studi ini berkontribusi terhadap agensi teori dan teori stakeholder yang membahas konflik kepentingan antara *shareholder, stakeholder* dan manajemen perusahaan.

Kata Kunci: Modal Sosial, Kinerja Perusahaan, *agency theory* and *stakeholder theory*.

ABSTRACT

Examining the role of social capital in increasing the firm performance is the aim of this current study. This research uses quantitative approach with explanatory research type. SPSS is the tool of analysis which is used in this research. The research sample is the mining industry which was listed in the Bursa Efek Indonesia (BEI) and the sample is selected using purposive sampling method. The result shows that social capital could increase the firm performance. This study contribute to the agency theory and stakeholder theory which discuss the conflict of interest between shareholder, stakeholder and firm management.

Keywords: Social Capital, Firm Performance, agency and stakeholder theory

INTRODUCTION

The issue regarding social capital is attracted major consideration of many researchers and scholars (Lakse, 2020). Especially in this business competition era that demanded the rapid changing of bussiness pattern. Meanwhile in the past the company only focused on the increasing the tangible assets, nowadays they should change their paradigm and focused on doing bussiness that based on knowledge improvement (Hitt, Bierman, Shimizu and Kochhar, 2000) and also should focused on the intangible assets as well.

The company usually measuring the firm performance in a period of accounting in order to evaluate the improvement and the funding situation of the bussiness. The fluctuated profit in a company should be determined, mainly during the crisis and pandemic era. The company is demanded to be more effective and efficient during all condition. The stability of the profit is the main

goal of the company, therefore the company could keep the balance distribution of return to all shareholders and stakholders. The information on the financial statement is an essetial tools which is used in evaluating the firm performance. Generally the company in Indonesia still work and doing its bussiness activity based on the traditional pattern which are more phisycal and tend to ignore the critical resources as instance the intangible assets. This phenomenon was reflected on their financial statements (Prakoso, 2012).

Ideally a bussiness should gain more profit and endure its financial stability in all condition. In the reality, this concept do not always meet the expectations. The declining of the bussiness performance related with the management ability in manage the tangible and intangible assets in the bussiness organizations. Furtheremore, the stakeholders decision on investing their resources depend on the financial information which was published by the firm. The declining performance of corporate performance in Indonesia is due to the decreasing of equity prices the 2008 in the case of global financial crisis. The Indonesian capital market cut its share price from its original position in 2008 by 40% to 60% (Kompas, 2008). Meanwhile, the financial services authority said that in the fourth quarter of 2015, the Indonesian performance banking industry also declined (Rini, Anisa and Fadhila, 2016).

Graph 1.1.
Mining Industries Performance
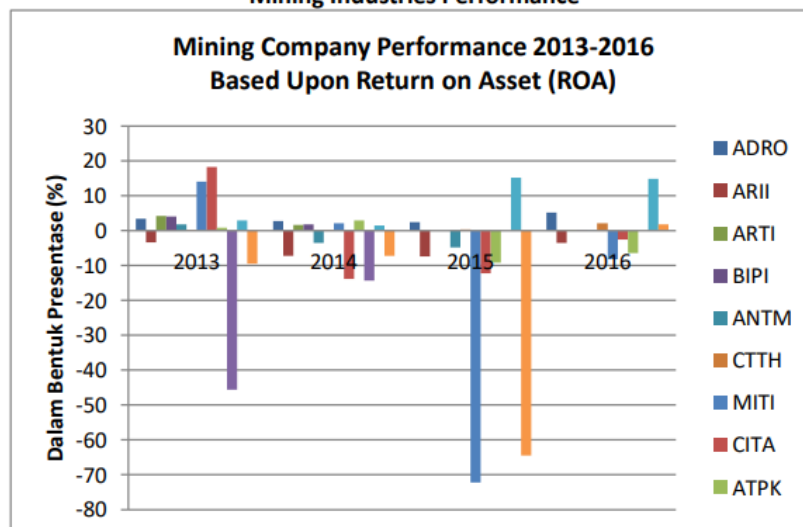
(source: financial reporting of Bursa Efek Indonesia 2016)

The mining industry also experienced declining performance from 2013 until 2016. Graph 1.1. describe that the mining industry performance from 2013 to 2016 experienced declining. This evidence is reflected by the value of return on assets (ROA) which decreased year by year. The graph also describe that Adaro Energy Tbk (Adro), one of the mining company in Indonesia, had experienced declining value in ROA ratio, which is 3,49%, 2,86% and 2,53% in 2013, 2014, and 2015 respectively. This case also happend in Bumi Resources Tbk (BUMI), which was falling dramatically about -9,42% in 2013, -7,17 in 2014 and -64,39% in 2015.

This problem can be tackled by investing in social capital, bacause social capital could enhance the well-functioning markets financial stability (Lins, et. al

2017). Putnam (1993) suggest that higher social capital, display higher economic development. These studies demonstrate the importance of social capital in a macroeconomic perspective (Lins, et. al 2017). However, the extent to which social capital and firm performance is a relatively unexplored in the literature. There are several studies about social capital in Indonesia, but the studies only measured the social capital by using the individual social capital measurement and not measured the firm social capital as a whole, such as the study about social capital in small enterprise by Pratono dan Mahmood (2014). The objective of this study is to address this question. To address this challange, this paper focus on corporate social responsibility (CSR) expense as a measured of its social capital, following the recent work by Lins, et.al (2017), which suggesting that firms CSR activities are a good proxy for its social capital. In order to examine wether the social capital could affect the firm performance during the declining of firm performance, the author examine the performance of a sampel of 42 mining firms with CSR data available on the sustainabity reporting and financial reporting.over the 2013-2016.

THEORITICAL FRAMEWORK

According to stakeholder theory the management should disclose the information about the business activity to all stakeholders. Because stakeholders had a right to get information of the company, even the stakeholders did not used the information it still had essential role in the sustainability of the firm (Purnomosidhi, 2006). Thus, social capital is one of the resources which should be disclosed to the stakeholders, since it also assumes that organizational accountability is not limited to economic or financial performance alone, so companies need to disclose intellectual capital, social capital and other information beyond what is required by the body (Purnomosidhi, 2006).

Social capital is a social relationship, networking, and the place to build norm and quantity of the society social interaction (World Bank, 2003). Portes (1998) said that social capital is owned by individual and collective as well. All these concepts are, of course, interconnected: for example, civic engagement can generate trust and cooperation, which, in turn, can foster further civic engagement; likewise, cooperation can build trust and vice versa. Furthermore, social capital can accrue at different levels, such as societal, institutional and individual levels (Lins, et.al 2016). In this context social capital is related with group or collective. Social capital is also asset relational which is focused in the relationship and the result of this relation.

The firm performance is measured by the process efficiency and effective of the firm operational activity (Neely, Platts, Neely, Gregory, dan Platts, 2005). The measurement of management performance is important and could be measured quantitatively and using historical data (ROA) and market value (Tobins-Q) (Lebas, 1995). Lins, Servaes and Ane (2016) revealed that social capital, which measured by the CSR intensity, could influence the firm performance. Agyapong, Asiamah, and Andani (2017) also found the same result. Based on description above, the study hypothesis is follows:

H1: Social Capital (X) has positive and significant effect on firm performance (Y).

| Social Capital | → | Firm Performance |
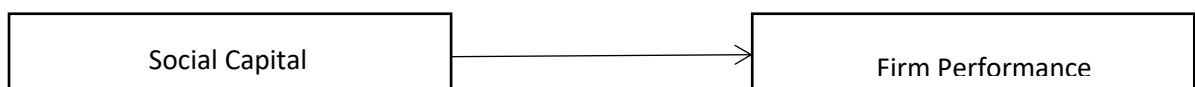
Picture 1. Research Framework

RESEARCH METHOD

Based upon the purpose of this research, this research use positivist paradigm with quantitative approached. This research examines the role of social capital on firm performance. The population of this research is the firm which is listed in Bursa Efek Indonesia over the period of 2013-2016. The mining company is chosen as the sample because this company is a company which is influenced the society and environment the most.

The data is collected from Indonesia capital market directory, ociris site, yahoo finance ad IDX website This research also use purposive sampling method. The sample is selected based upon these criteria:

1. Financial reporting over 2013 to 2016.

2. Sustainability reporting which is provided the data about CSR and CSR expense

3. Mining Companies which is listed in Bursa Efek Indonesia (Indonesian Stock Exchange)

Table 1
Research Sample

No	Criteria	Amount of Data
1.	Mining company which is listed in BEI	41
2.	Mining company which is not given the financial reporting	5
3.	Company Which is not provided data which is required	0
4.	Total sample which is used in the research 35*4	140

Source: Secondary Data Processed 2022

The data is analyzed by using SPSS IBM for windows and in order to get the information about the minimum, maximum, mean and standard deviation, each variable is analyzed by using statistic descriptive (Ghozali, 2016) and the to test whether the model regression is normal, we employed normality test.

Social capital consists of human capital and structural capital, as well as relation with investor, creditor, costumer and also supplier. This variable is measured by the total CSR expense. CSR expense is consist of labor fees and salary, in Indonesia it should be based upon the PSAK 24 (2015) (Yudharma, Nugrahanti dan Kristianto 2016). The second CSR expense is community development expense, and the third is environment expense (Fitriani, 2013). After all the total expense had been found, then the next step is to calculate the total expense. The scale of this variable is ratio scale, which is the total expense of CSR. The firm performance is measured by using return on asset (ROA) and Tobins-Q. These both ratios are combined and factorized by using spss application in order to get the perfect and complete result. ROA is a performance measurement based upon historical data and Tobins-Q based upon the predicted data. This research is analyzed by using linier regression analysis.

RESULT AND RESEARCH DISCUSSION

Table 2

Variable Statistics Decriptive

Variable	N	Minimum	Maximum	Average	Standard Deviation
ROA	130	-18,59	21,14	1,12	7,31
TOBINS-Q	130	25,21	71,28	30,96	6,67
Social Capital	130	15,95	32,44	22,97	3,37

Source: Secondary Data Processed 2022

There are some samples which do not use in this research because of outlier problem, and then we decided to use only 130 samples. The social capital is measured by using the total of CSR expense, after get the total CSR expense, and then the author change the value to the logarithm 10 value using Spss in order to minimize the standard deviation value.

The table 2 shows that the average value of social capital is 22,97 and the standard deviation is 3,37, the minimum value is 15,95 and the maximum value is 32,44. The maximum value describe that the company have enough social capital and this value also reflect that the the company have good networking with the bussiness partners, stakeholders, investors as well as the labour.

The value of social capital also describe the the labour salary, environment expense and social expense. The firm performance is calculated based on two indicators, ROA and tobinsQ. After these both indicators are calculated by using formula, then these two indicators are factorized. The average value of ROA is 1,12% and the minimun is -18,59, and the maximum is 21,14. The minimum value is negatifve and it show that the company performance decrease over the reserach period. The second performance indicator is the market performance, which is measured by using Tobins-Q. The table show that the average value of Tobins-Q is 30,96, the minimum value is 25,21 and the maximum value is 71,28.

Table 3

The Analysis Regression Result

Variable	coefficient Regression	Significance	R-Square	Adj-R Square	Significance F Change	T Value
Constant	-0,764	0,343	0,076	0,047	2,575	-0,952
Social Capital	0,068	0,030***				1,897

Source: Secondary Data Processed 2022

The table above gives information that the constant value is -0,764 which means if the independent variable is constant; the average value of firm performance is about -0,764. This evidence show that return on asset and Tobins-Q value will decrease as many as 0,764 if the independent variable is constant. The coefficient regression of social capital is positive; it means that social capital has a positive effect on the firm performance. The coefficient regression of social capital value is about 0,068 which reflect that each additional of one unit of social capital (the CSR expense) will increase the firm performance about 0,068.

The result of hypothesis analysis shows that social capital effected the firm performance positively. This result similar with Ludfi dan Firdausi (2012)

research finding, which found that social capital positively effect the firm performance. This result is also similar with Fauzi et,al. (2009) which revealed that social capital could affect the firm performance positively.

The company's social capital in this study had a positive impact on the company's performance because the funding provided by the company for CSR expense are large. This study found that mining companies in Indonesia already meet their obligations to government and society on average, the company has spent CSR funding, although the company was suffered from losses due to falling prices for mining products during the study period. This shows the level of attention of mining companies to the internal, environmental and social is good enough. The Internal, environmental and social factors require additional costs and this cost will impact the performance of corporate and automatically affect the percentage of total return on asset.

Therefore, the results of Hypothesis is supported and in line with the stakeholder theory, which states that the company will survive if the company can optimize its interaction with the environment, the community and various stakeholders of the company. In addition, social capital is also a resource and investment which can help companies to build bonds and build interactions with communities and stakeholders, because each increasing the amount of CSR funds spent, the more activities and interactions the company takes with stakeholders.

This finding is also reflect that high social capital firms also earned excess returns firms and it can endured during the declining of firm performance. This phenomenon occurred because social capital can increase the market-wide trust and the labor loyalty. These results are supported the stakeholders principles and also investors intentions to build the firm trustworthy especially, during the crisis situation. In addition, from the firms perspective, this result reflected that the exixsting of social capital towards CSR activities outweigh the costs of these activities when trust declines unexpectedly. As such, the building of social capital can be thought of as an insurance policy which pays off when investors and the economy at large face a severe crisis of confidence and when the reward for being identifiably trustworthy markedly increases (Lin et, al. 2016). Therefore, this result also contribute to the literature which related with CSR, where this proxy could enhance the company value and build a good portrait to the shareholders and stakeholders, because social capital could facilitate these interactions by fostering trust and cooperation between management, shareholder and stakeholders.

CONCLUSION AND SUGGESSTION

Overall, the results of this study supported the theory which used in evaluating business performance. This study aims to explore and intensify the component of social capital. The company's ability to manage the resources, build and maintain relationships with the company's external environment can boost the market trust, can increase the firm value and improve the business performance as well. The results of this study suggest that social capital influences the company's performance. This is reinforced by the fact that although mining companies record losses on average during the observation period, but social capital in mining companies can have a positive impact on the firm performance and increase enterprise value.

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