



PROFITABILITY, DIVIDEND POLICY, CORPORATE SOCIAL RESPONSIBILITY AND STOCK PRICE (STUDY ON THE REGIONAL DEVELOPMENT BANK OF WEST JAVA AND BANTEN PROVINCES IN INDONESIA)

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Abstract

In general, stock prices are influenced by fundamental factors and technical factors. The objective of this study is to analyze the effect of profitability, dividend policy, and corporate social responsibility (CSR) on the stock price. The Profitability measured by Return on Assets (ROA), dividend policy by Dividend Payout Ratio (DPR), CSR by CSR expenditure, and stock price by closing price. Descriptive and verification methods will be used in this study, with data from the financial statements of Regional Development Bank of West Java and Banten Provinces for the period 2012-2018 while data analysis uses multiple linear regression. The results stated that partially the ROA had a positive but not significant effect on stock price; DPR has a positive and significant effect on stock price, and CSR has a positive and significant effect on stock price; Simultaneously, ROA, DPR, and CSR have a significant effect on stock price.

Keywords: Corporate Social Responsibility (CSR), Dividend Payout Ratio (DPR), Return on Assets (ROA), Stock Price

INTRODUCTION

Historically and according to regulations, the Regional Development Bank (RDB) in Indonesia was established to accelerate development in the region (Law no. 13 1962). As a development bank, the characteristics of the RDB should be that the bank's funding sources are mostly long-term funds such as capital and other long-term loans. Likewise, the use of funds is long-term

credit for the infrastructure sector and productive sectors which can directly drive the economy. But in reality, all RDBs in Indonesia rely on a large portion of their funding sources from third parties whose duration is relatively short. Likewise, the use of funds is channeled to the consumptive sector even though the term is long.

Limited capital is one of the factors that inhibit the development of RDB in carrying out its functions along with other factors such as brand awareness community to RDB is still very low; quality of service does not meet the expectations of society; quality and human resources competencies have not been standardized; innovation and product development is still limited; networks office services is still limited; not optimal strategic partnership; structure of public funding is relatively low; composition of the productive loan portfolio is relatively low, and not consolidate information technology (Buchory, 2014). Even though bank capital plays a very important role in supporting the operations and survival of banks in the long run (Rose, 2013:486). If not supported by additional capital banks are limited in extending credit (Buchory, 2016).

The capital was considered increasingly important for Indonesian banking after Bank Indonesia as the Central Bank of Indonesia issued a regulation on business activities and a network of bank offices based bank's core capital. Under the regulation, the scope of products and business activities, as well as the network business area, is limited by the amount of core capital held by banks.

One alternative that can be done by RDB management to overcome this capital limitation is by offering or selling part of its shares to the public through an Initial Public Offering (IPO) program as carried out by RDB of West Java and Banten Province in 2010. By selling shares to the public through the capital market, the stock price of RDB of West Java and Banten Province will fluctuate influenced by various factors such as fundamental factors related to issuer's financial performance and technical factors related to changes in market variables. Fundamental aspects are the factors identified can affect stock prices. Fundamental analysis is also often referred to as company analysis because it uses the company's financial data in calculating the intrinsic value of shares (the actual value of a stock traded). Intrinsic value is also called fundamental value (Fakhrudin, 2001: 55).

The stock prices of RDB of West Java and Banten Province during the period of 2012 - 2018 have fluctuated, which tend to decline. The lowest price occurred in 2014 amounting to IRD 730.00. With the largest number of decreases reaching -25.67%. Even though in 2016 the highest price of IRD 3,390.00. But in 2018 it declined again to IRD 2,090.00. These stock price fluctuations are influenced by various factors, including bank profitability, dividend policies implemented by banks and corporate social responsibility programs implemented by banks.

The objective of this study is to analyze the effect of profitability, dividend policy, and corporate social responsibility on stock prices. Profitability is measured by return on assets (ROA), dividend policy is measured by dividend payout ratio and corporate social responsibility is measured by spending funds on CSR programs. The results of this study are expected to be useful for companies and investors.

LITERATURE REVIEW AND HYPOTHESIS

Banks as intermediary institutions between surplus units and deficit units play an important role in the economy of a country. Commercial banks play an important role in facilitating economic growth. On a macroeconomic level, they represent the primary conduit of the Federal Reserve monetary policy. On a microeconomic level, banks represent the primary source of credit to the smallest business and many individuals (Koch, 2014:43). In order to play an optimal role, the bank must be healthy. Banks are called healthy if a bank implements good corporate governance and risk management well, has strong profits and capital (Bank Indonesia Regulation No. 13/1 / PBI / 2011). Bank capital plays a very important role in supporting the operations and survival of banks in the long run. That role is: (1) Capital provides a cushion against the risk of failure by absorbing financial and operating losses until management can address the institution problem and restore its profitability, (2). Capital provides the funds needed to charter, organize, and operating a financial firm before other sources of funds come flowing in, (3). Capital promotes public confidence and reassures creditors concerning an institution's financial strength, (4). Capital provides funds for the development of new services and facilities, and(5). Capital serves as a regulator of bank growth (Rose, 2013:486).

One alternative to meet capital requirements, banks can be done by selling shares to the stock market. By selling share to the stock market, the market value of shares that occur on the stock market at a certain time is determined by market participants. This market value is determined by the demand and supply of the shares in the stock market (Hartono, 2010: 129). The market value or the market price of a share is a key factor that influences the investment decision of the stock market. Market price of the share is one the most important factor which affects the investment decision of investors but market price of the share depends upon many factors, such as earnings per share, dividend per share, dividend payout ratio, size of the firm, dividend yield, management and diversification, etc. (Sundaram & Rajesh, 2016).

There has been a lot of research on the factors that influence stock prices both fundamental factors and technical factors with different results, in this study, we will try

again to see whether profitability, dividend policy, and corporate social responsibility affect banking stock prices. The reason the authors chose these three factors related to stock prices is (1) profitability is the main consideration for investors to decide on investments in shares; (2) high profit if not followed by dividend policy with a low payout dividend ratio is expected to reduce stock prices; and (3) corporate social responsibilities activities carried out by the company are expected to improve the positive image and reputation of the company so that it will increase stock prices. The firms that adopt CSR practices positively signal investors that their firms have superior capabilities for filling institutional voids (Weichieh Su, et.al., 2014).

The Effect of Profitability on Stock Price

The main purpose of the bank is to make a profit. Banks profits are derived from the spread between the rate they pay for funds and the rate they receive from borrowers (Buchory, 2017). By obtaining profit the bank can maintain business continuity and fulfill obligations to shareholders including paying dividends. Aggregate bank profitability is measured and compared in terms of ROE and ROA (Koch, 2014:93). ROA equals net income divided by average total assets and thus measures net income per dollar of average assets owned during the period (Koch, 2014:93). The higher the ROA value indicates that the bank is better at generating profitability which will ultimately affect the bank's stock price.

Several previous studies found that profitability (ROA) has a positive and significant effect on stock price (Avdalović and Milenković, 2017; Pradhan and Paudel, 2017; Mogonta and Pandowo, 2016; Mittal and Goyal, 2015; Almunani, 2014). Meanwhile, according to Djamaluddin, Arisandy, and Djumarno (2018).state that Return on Assets (ROA) partially have a negative and significant influence on shares price. Similar results were obtained from studies Saeidi and Okhli (2012) which stated that there is no significant relationship between assets return rate and stock price.

The Effect of Dividend Payout Ratio on Stock Price

Dividends are part of profits for shareholders. For stock investors, cash dividends are the main return variable that will determine the value of shares for owners and investors. Besides, those cash dividends are a source of cash flow for shareholders who provide information about the company's current and future performance. Profitability achieved by the company but dividends are not paid it will give a negative signal to the company's stock price. Thus the dividend distribution by the company will affect the stock price in accordance with the dividend relevance theory, which states that a direct relationship between the dividend policy and its market value

(Gitman, 2015: 627). While dividend policy is a plan of action that must be followed in making dividend decisions. Therefore dividend policy must be formulated for two basic objectives by taking into account the maximization of wealth from the owner of the company and sufficient financing. In this study the variable dividend policy with a dividend payout ratio.

Some previous studies found that the dividend payout ratio has a positive and significant effect on stock price (Adaramola, 2018; Telesphore and Patrick, 2018); Velankar, 2017; Pradhan and Paudel, 2017; Chelimo and Kiprop, 2017; Müller, and Wikström, 2016; Ali, and Sharif, 2015; Majanga, 2015; Zafar, Chaubey, and Khalid, 2012). Meanwhile, according to Dhungel (2013) state that there is no significant impact of dividend on share pricing in most of the banks (40 banks) in Nepal.

The Effect of Corporate Social Responsibility on Stock Price

A company has responsibility for stakeholders, both inside stakeholders and outside stakeholders. Stakeholder refers to persons and groups that affect or are affected by, an organization's decisions, policies, and operation. Those with a stake in the firm's actions include such diverse groups as customers, employees, stockholders, the media, governments, professional and trade associations, social and environmental activist, and nongovernmental organizations (Lawrence and Weber, 2014:7-8).

The Company has three types of responsibilities to stakeholders (Post, et.al. at Solihin, 2008: 3-5), namely: (1). Economic responsibility (The company was formed with the aim of Obtaining the optimal profit, therefore the management company of which have an economic responsibility to shareholders to generate profits then most of the profit is distributed to shareholders in the form of dividends, (2). Legal responsibility (in its operations the company must comply with various regulatory regulations that apply as a form of corporate responsibility), and (3). Corporate social responsibility (a commitment to improving community well being through discretionary business practices and contribution of corporate resources).

Corporate social responsibilities (CSR) means that a corporation should act in a way that enhances society and its habitats and be held accountable for any of its actions that affect people, their communities, and their environment (Lawrence and Weber, 2014: 49). There are still pros and cons of corporate social responsibility actions carried out by the company, as described below:

Table 1. The Pros and Cons of Corporate Social Responsibility

Arguments for Corporate Social Responsibility	Arguments against Corporate Social Responsibility
<ul style="list-style-type: none"> • Balances corporate power with responsibility. • Discourages government regulation. • Promote long-term profits for business. • Improves stakeholder relationships. • Enhances business reputation. 	<ul style="list-style-type: none"> • Lower economic efficiency and profit. • Imposes unequal costs among competitors. • Imposes hidden costs passes on to stakeholders. • Requires skill business may lack. • Places responsibility on business rather than individuals.

Source: Lawrence and Weber, 2014: 53

The implementation of CSR in Indonesia can be grouped into two, namely: First, the implementation of CSR is voluntary business practice, and initiatives come from companies (multinational companies, domestic companies, large companies, small companies). Second, the implementation of CSR is because it is a legal obligation, as in Law No. 40 of 2007 concerning Limited Liability Companies, article 74 paragraph (1) which states that a company that carries out its business activities in the field of and/or related to natural resources must carry out social and environmental responsibilities. Furthermore, in law No. 25 of 2007 concerning Capital Investment, articles 15, item 'b' states that every investor is obliged to carry out corporate social responsibility.

The companies in Indonesia to implement its social responsibility includes dimensions: (1) Environmental, (2). Community, (3). Energy, (4). The employee, (5). The product, and (6). Other. (Hadi, 2014: 134-137).

For Regional Development Bank of West Java and Banten Province, the implementation of CSR is not just an obligation, but it has become the Company's commitment to helping to build the community and environment. This commitment is manifested through the distribution of CSR funds for a number of activities. In this study, CSR variables are measured by the number of funds issued by the RDB of West Java and Banten Province for all CSR activities carried out.

The firms that adopt CSR practices positively signal investors that their firms have superior capabilities for filling institutional voids (Weichieh Su, et al.,2014)

Several studies on the influence of corporate social responsibility show different results. Some researchers found that CSR has a positive and significant impact on stock prices (As research conducted by Sunarta, et.al. 2017; Bowerman, and Sharma, 2016); Marna De Klerk,

Charl de Villiers, and Chris van Staden, 2015; Wang, 2011). While other researchers found that corporate social responsibility has a negative effect on stock prices (Oladipupo and Oladimeji, 2018; Fiori, di Donato, and Izzo, 2015; Zacchaeus, Oluwagbemiga, and Olugbenga, 2014).

Hypotheses

Referring to the objectives of the research, the theory used and previous studies, the research hypothesis can be formulated as follows:

H1: The ROA has a positive and significant effect on stock price

H2: The DPR has a positive and significant effect on stock price

H3: The CSR has a positive and significant effect on stock price

H4: The ROA, DPR, and CSR have a positive and significant effect on stock price

RESEARCH METHODOLOGY

The descriptive and verificative method used in this research. The secondary data sourced from published financial statements of Regional Development Bank of West Java and Banten Province period 2012-2018 (calculated quarterly), and from the Indonesian Banking Statistics Volume 16 No. 9 August 2018. Data analysis techniques using multiple regression. While to test hypotheses using t-test and f-test statistic. The regression equation used is as follows:

$$Y = a + \beta X_1 + \beta X_2 + \beta X_3 + e \quad (1)$$

Where,

Y = Stock Price; a = A constant which is the value of the variable Y when the variable X is 0 (zero); β = Coefficient of the regression line; X_1 = ROA; X_2 = DPR; X_3 = CSR; and, e = Residual

FINDINGS AND DISCUSSIONS

From the data the development of ROA, DPR, CSR, and Stock Price was achieved by RDB of West Java and Banten Province period 2012 – 2018 (see Table 2 below) can be described as follows:

The average value of ROA achieved by the RDB of West Java and Banten Province for the period 2012 - 2018 is 2.19% and Q2/2018 or June 2018 is 2.06%, lower than the average ROA of national banking (2,47%), but for Indonesian banking the average ROA of 2.19% is good or healthy. The lowest value of ROA is 1.94% achieved in Q4 / 2014, while the highest ROA is 2.61% in Q4/2013.

The average value of DPR achieved by the RDB of West Java and Banten Province for the period 2012 - 2018 is 56.29% and Q2/2018 or June 2018 is 55.00%. The lowest value of DPR is 55,00% achieved in Q4/2013, Q4/2015, Q4/2016, Q4/2017, and Q4/2018 while the

highest ROA is 63.00% in Q4/2014. When considering the DPR data, it can be said that the payment of dividends by the RDB of West Java and Banten Province for the period 2012-2018 shows a relatively fixed figure. This is in line with the dividend policy theory proposed by Gitman (2015) is constant-payout-ratio dividend policy. A dividend policy based on the payment of a certain percentage of earnings to the owner in each dividend period.

Expenditure of funds for CSR conducted by the RDB of West Java and Banten Province for the period 2012 - 2018, the average amounted to 80.454 billion. The highest expenditure of CSR funds is 99.547 billion rupiahs in Q4/2017 while the lowest expenditure of CSR funds is 50,716 billion rupiah in Q2/2018. Funding for CSR carried out by the RDB of West Java and Banten Province for the period 2012 - 2018, on average is 80.454 billion rupiah. The highest expenditure of CSR funds is 99.547 billion rupiahs in Q4/2017 while the lowest expenditure of CSR funds is 50,716 billion rupiah in Q2/2018. Expenditure of funds for CSR conducted by the RDB of West Java and Banten Province for the period 2012-2018 each year is increasing, it indicates that the company's commitment to social responsibility continues to increase. CSR program is basically a concrete manifestation of bank participation in improving the public's quality of life. This carried out through the increase and improvement in education, health, and the environment in various parts of West Java, Banten, and other operational areas of the bank.

The average stock price of the RDB of West Java and Banten Province for the period 2012 - 2018 is 1,616 rupiah. The lowest market price is 730 rupiahs achieved in Q4/ 2014, while the highest market price is 3,360 reached in Q4/2016. Stock prices from Q4/2012 continued to decline until Q4/2015. In Q4 / 2016 it increased again, even becoming the highest share price during the period 2012-2018. But it declined again until it was closed in the Q2/2018 period at a price of 2,090 rupiahs. Many factors, both fundamental and technical, affect the bank's stock price.

Table 2. The Development of the ROA, DPR, CSR and Stock Price of Regional Development Bank of West Java and Banten Province, Tbk. Period 2012 - 2018

Years	ROA (Percentage)	DPR (Percentage)	CSR (Billion Rupiahs)	Stock Price (Rupiahs)
Q4/2012	2.46%	56.00%	74,090	1,060
Q4/2013	2.61%	55.00%	86,041	890
Q4/2014	1.94%	63.00%	68,973	730
Q4/2015	2.04%	55.00%	85,737	755
Q4/2016	2.22%	55.00%	98,075	3,390

Q4/2017	2.01%	55.00%	99,547	2,400
Q2/2018	2.06%	55.00%	50,716	2,090
Maximum	2.61%	63.00 %	99,547	3,390
Minimum	1.94%	55.00%	50,716	730
Average	2.19%	56.29%	80,454	1,616

Source: Published Financial Statements, period 2012 - 2018, www.bankbjb.co.id., processed

Based on the results of statistical data processing (see Table 3), the equation can be formulated:

$$\text{Stock Price} = 1.336 + 8.433\text{ROA} - 1.731\text{DPR} + 0.594\text{CSR} \quad (2)$$

Furthermore, the equation is described as follows:

- The constant value of 1.336 positive. This means that if ROA, DPR, and CSR have zero values, then Stock Price will increase by 1.336. The ROA regression coefficient is 8.443, indicating a positive relationship means that if the ROA increases one unit, assuming other variables remain, Stock Price increases 8.443 and vice versa. The regression coefficient for DPR is 1.731 shows a positive relationship means that if the DPR increase one unit, assuming other variables remain, Stock Price increase by 1.731 and vice versa. And the CSR regression coefficient is 0.594, indicating a positive relationship means that if the CSR increases one unit, assuming other variables remain, Stock Price increases 0.594 and vice versa.
- Correlation Coefficient (R) between ROA, DPR, and CSR, with Stock Price, is 0.578, meaning that the correlation level is in moderate correlation (Sugiyono, 2013). And the coefficient of determination (R-Square) was 0.334 or 33.4% indicating that the Stock Price is influenced by ROA, DPR, and CSR of 33.4% while the remaining 66.6% is influenced by other factors not examined in this study. (see Table 4).
- The result of statistical tests obtained a t-test value of 1.103 is lower than t-table (1.993) with a significant value of 0.274 upper 0.05. Thus the H1 hypothesis which states that The ROA has a positive and significant effect on stock prices is rejected. The results of this study support the previous research conducted by Djameluddin, Arisandy, and Djumarno (2018) which state that returns on assets (ROA) partially have a negative and significant influence on shares price. Similar results were obtained from studies Saeidi and Okhli (2012) which stated that there is no significant relationship between assets return rate and stock price. But contrary to the results of research by Avdalović and Milenković (2017), Pradhan and Paudel (2017), Mogonta and Pandowo(2016), Mittal and Goyal (2015), and Almumani (2014) which found that profitability (ROA) has a positive and significant effect on stock price.

- The partial test results of the effect of DPR on stock price show the t-test value -2.238 is upper than t-table (1,993) with a significant value of 0.028 lower 0.05. Thus the H2 hypothesis which states that the DPR has a positive and significant effect on stock price is accepted. The results of this study support the previous research by Adaramola (2018), Telesphore and Patrick (2018), Velankar (2017), Pradhan and Paudel (2017), Chelimo and Kiprop (2017), Müller, and Wikström(2016), Ali, and Sharif, (2015), Majanga (2015), Zafar, Chaubey, and Khalid (2012) which state that the dividend payout ratio has a positive and significant effect on stock price. But contrary to the results of Dhungel (2013) state that there is no significant impact of dividend on share pricing in most of the banks (40 banks) in Nepal.
- The partial test results of the effect of CSR on stock price show the t-test value -3.931 is upper than t-table (1,993) with a significant value of 0.000 lower 0.05. Thus the H3 hypothesis which states that the CSR has a positive and significant effect on stock price can be accepted. The results of this study support the previous research by Sunarta, et.al. (2017), Bowerman, and Sharma (2016), Marna De Klerk, Charl de Villiers, and Chris van Staden (2015) and Wang (2011) found that CSR has a positive and significant impact on stock prices. But contrary to the results of Oladipupo and Oladimeji (2018), Fiori, di Donato, and Izzo (2015) and Zacchaeus, Oluwagbemiga, and Olugbenga (2014) which found that corporate social responsibility has a negative effect on stock prices.
- Based on the F-test in Table 5, F-count was 12.056 greater than the F-table (2.732) with a significance value of 0.000 is below 0.05. Thus the hypothesis H4 which states the ROA, DPR, and CSR has a positive and significant effect on stock price is accepted. This means that The ROA, DPR, and CSR have a positive and significant effect on stock price.

Table 3: *Test Results of Multiple Linear Regression Coefficients*

Model		Unstandardized coefficients		Standardized	t	Sig.
		B	Std. error	Beta		
1	(Constant)	1.336	.961		1.390	.169
	ROA	8.433	7.645	.118	1.103	.274
	DPR	1.731	.773	.252	2.238	.028
	CSR	.594	.151	.401	3.931	.000

Dependent variable: STOCK PRICE

Table 4: Test Results Correlation Coefficient and Coefficient of Determination

Model	R	R square	Adjusted R square	Std. error of the estimate
1	.578 ^a	.334	.307	.1858327

a. Dependent variable: STOCK PRICE;

b. Predictors: (Constant), CSR, ROA, DPR.

Table 5: Simultaneous Test Results (F-Test)

Model		Unstandardized coefficients		Standardized coefficients	F	Sig.
		B	Std. error	Beta		
1	Regression	1.249	3	.416	12.056	.000 ^b
	Residual	2.486	72	.035		
	Total	3.735	75			

a. Dependent variable: STOCK PRICE;

b. Predictors: (Constant), CSR, ROA, DPR.

CONCLUSION

The conclusion of the study shows that partially the ROA had a positive but not significant effect on stock price; DPR has a positive and significant effect on stock price, and CSR has a positive and significant effect on stock price; Simultaneously, ROA, DPR, and CSR have a significant effect on stock price.

Therefore, the author recommends that bank management maintain a high level of profitability, among others by improving the structure of funds into low-cost funds, reducing non-performing loans and increasing efficiency. In addition, the policy to distribute dividends every year is still carried out and the activities of Corporate Social Responsibility (CSR) are still being carried out. This is all intended to provide a positive signal to the market so that stock prices continue to increase. The results of this study can be used as a guide for bank management to manage stock prices to remain stable.

The limitation of this research is only analyzing profitability variables, dividend policy and corporate social responsibility expenditure as factors that influence stock prices. And only use the observation unit in the RDB of West Java and Banten Province. Therefore for future researchers who will further examine bank stock prices, in order to add other variables and add to the observation unit.

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