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The Influence of Corporate Philanthropy and Risk Management on Company Value

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Abstract: Corporate sustainability has become a critical concern for stakeholders, emphasizing that management's focus should extend beyond short-term profit maximization to encompass the broader welfare of all stakeholders. Through the adoption of strategic philanthropic initiatives and the implementation of robust risk management practices, companies can address stakeholder expectations while strengthening their competitive position in dynamic market environments. This study aims to analyze the influence of corporate philanthropy and risk management on firm value. Utilizing a sample of 112 manufacturing companies listed on the Indonesia Stock Exchange for the 2022 period, this research employs regression analysis, preceded by classical assumption tests to ensure the validity and reliability of the data. The findings reveal that both corporate philanthropy and risk management have a significant positive effect on firm value, underscoring the importance of socially responsible practices and effective risk mitigation in fostering sustainable corporate growth and long-term stakeholder trust.
Keywords: Corporate Philanthropy; Company Value; Risk Management; Stake Holders Theory

INTRODUCTION

Corporate philanthropy can increase stakeholder trust and ultimately increase company value. Companies are not only required to achieve short-term profitability but also to increase the value of the term. One approach that is getting more and more attention in these efforts is corporate philanthropy, which refers to social contributions made by companies voluntarily. Based on studies that have been conducted, corporate philanthropy is able to strengthen the company's relationship with stakeholders and improve the company's reputation in the eyes of the public. This social contribution has a positive impact on the company's image, which can ultimately contribute to increasing the company's value (Schnurbein et al., 2016) dan (Gautier & Pache, 2013).

The stakeholder theory explains, as stated by (Freeman et al., 2010), The company not only has responsibilities to shareholders, but also to various other stakeholders, such as employees, consumers, local communities, and the government. Therefore, corporate philanthropy can be considered as one of the company's strategies to fulfill this responsibility. When companies are actively involved in philanthropic activities, they strengthen relationships with stakeholders, which in turn can result in increased loyalty and support from those parties. This is supported by (Jones et al., 2018) which states that good relationships with stakeholders can affect the increase in the overall value of the company.

In addition to corporate philanthropy, risk management also plays an important role in a company's strategy to increase value. Companies that are able to manage risk well will be better able to face the challenges that arise from market uncertainty, economic fluctuations, and operational risks. Haines et al. argue that a firm's ability to manage risk provides financial stability and increases investor confidence (Ricks, 2005). In the context of signal theory, effective risk management can serve as a positive signal to investors and other stakeholders regarding the quality of a company's management.

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Greenwood & Buren (2010) and Miller (2008) suggest that companies that can control risk well tend to have more stable long-term prospects, which can increase investor interest in investing their capital.

Signal theory also strengthens the importance of corporate philanthropy in building a positive perception among stakeholders. When a company is consistently involved in philanthropic activities, it can be seen as a signal that the company cares about its social environment and is committed to operating responsibly. In the analysis conducted by (Moriarty, 2012), It was concluded that the philanthropic actions carried out by the company provide a positive signal to the market regarding the quality of management and the sustainability of the company in the long term. Companies that are active in philanthropic activities are more likely to improve their performance in various industries, especially if those activities are aligned with market interests.

Previous research has shown a strong link between corporate philanthropy and corporate values, although results may vary by industry and cultural context. Brammer and Millington revealed that companies that engage in philanthropy tend to have a higher market value compared to companies that do not engage in similar activities (Jones et al., 2018). This is due to the improvement of the company's image in the eyes of the public as well as the strengthening of consumer loyalty. However, other research by Servaes and Tamayo emphasizes that the positive effects of philanthropy on corporate value will only be achieved if the activities are in line with stakeholder expectations and well received by the market (Gautier & Pache, 2013); (Miller, 2008).

Finally, this study aims to empirically examine the influence of corporate philosophy and risk management on company value. By using stakeholder theory and signal theory approaches, this research is expected to contribute to the literature that explains how companies can increase value through managing relationships with stakeholders as well as effective risk management.

Based on stakeholder theory, companies must consider the interests and influence of various stakeholders, including customers, employees, suppliers, and the public, in their decision-making. This theory emphasizes that the success of a company depends not only on the value of its shareholders but also on how it manages its relationships with all stakeholders (Jones et al., 2017). For example, corporate philanthropy can improve stakeholder perception and engagement, which ultimately improves the company's reputation and market value (Cuypers et al., 2016).

One of the important aspects of stakeholder theory is stakeholder salience or excellence. Mitchell et al. illustrate that stakeholder attributes, such as strength, legitimacy, and urgency, play a crucial role in determining how companies prioritize and respond to their interests. This affects the company's strategy, including philanthropy, which is geared toward strengthening relationships with key stakeholders (Song et al., 2016). Thus, successful philanthropic strategies tend to consider stakeholder salience to maximize their impact.

In addition, signal theory provides a different but complementary perspective on how corporate actions, such as philanthropy, can serve as signals for the market. Corporate philanthropy can be considered a signal of a company's commitment to social responsibility, which has the potential to improve its reputation and attract positive attention from stakeholders, such as customers and investors (Fedorova et al., 2023). Companies that engage in philanthropy are often perceived as more trustworthy and responsible, leading to increased customer loyalty and investor trust (Azuma et al., 2023) (Madsen & Rodgers, 2014)

The effect of this signal is very important, especially in times of crisis. During times of uncertainty, corporate philanthropy can serve as a means of convincing stakeholders of the company's stability and commitment to social values. Muller & Kräussl (2011)

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shows that philanthropy in times of crisis not only provides social support but also builds a positive perception of the company, especially among its employees. Cha et al. (2022) added that the strategies of companies that incorporate philanthropy as part of their response to the crisis can produce better performance results because of such signals.

Based on these two theories, it can be hypothesized that corporate philanthropy has a significant positive impact on the value of the company. Empirical supports this hypothesis, where companies that are strategically involved in philanthropy tend to experience increased market value and stakeholder support (Cuypers et al., 2016) (Arco-Castro et al., 2020). Further, effective risk management practices can strengthen this relationship by reducing the potential negative impact on a company's value during adverse events. Companies that manage risk well are in a better position to maintain their philanthropic efforts and maintain stakeholder trust, which is essential for long-term value creation (Chung et al., 2019) (Su & Sauerwald, 2015)

Finally, it can be concluded that both corporate philanthropy and risk management play an important role in increasing the value of a company. The integration of stakeholder theory and signal theory provides a comprehensive framework for understanding these dynamics. Based on the description above, the hypothesis of this study is:

H1: Corporate philanthropy has a positive effect on the company value

H2: Risk management has a positive effect on the company value

METHODS

This study uses a quantitative approach with a regression analysis method to test the influence of corporate philosophy and risk management on company value. The data used is secondary data from companies listed on the Indonesia Stock Exchange (IDX) in 2022. The population in this study is all companies listed on the Indonesia Stock Exchange (IDX) in 2022. Based on the inclusion criteria set, namely companies that publish complete annual reports and have the necessary data for the measurement of corporate philanthropy variables, risk management, and company value, purposive sampling techniques will be carried out. The selected sample is companies that report corporate philanthropy activities in accordance with GRI standards and have DER and PBV data available in their financial statements.

The variables in this study are defined and measured as follows: Corporate philanthropy (X1) is measured based on the disclosure of corporate social activities that refer to the Global Reporting Initiative (GRI) standard. The GRI includes indicators that include philanthropic activities, social contributions, and corporate support for the community. Risk management is measured using the Debt-to-Equity Ratio (DER) ratio, which is a comparison between a company's total debt and its equity. The lower the DER ratio, the better the company's ability to manage its financial risk. The value of a company is measured using Price to Book Value (PBV), which is the ratio between the market price of a company's shares and its book value per share. The higher the PBV ratio, the higher the market valuation of the company's value.

The data used in this study is secondary data obtained from the annual reports of companies listed on the IDX in 2022. The annual report data was sourced from IDX's official website and the official websites of the companies that were part of the research sample. Information related to corporate philanthropy was taken from the CSR disclosure section referring to GRI standards, while risk management data was measured based on financial statements using the DER ratio, and company value data was measured using the PBV ratio.

This study uses multiple linear regression analysis to examine the influence of corporate philosophy and risk management on company value. Before conducting

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regression analysis, a series of classical assumption tests are carried out to ensure the validity of the regression model. The stages of data analysis include the Normality Test: Testing whether the residual distribution follows the normal distribution. This test was carried out using the Kolmogorov-Smirnov or Shapiro-Wilk test. Heteroscedasticity Test: Tests whether the residual variance is homogeneous. This test is performed using the Glejser test or by looking at the scatterplot plot between the residual and the predicted value. Autocorrelation Test: Tests whether there is a correlation between the residuals of one observation and another. This test was carried out using the Durbin-Watson Test (DW). Furthermore, the regression model test used in this study is as follows:

$$PVB = \alpha + \beta 1.IR + \beta 2.LEV + \epsilon$$

Where: PVB = Company value, IR= Corporate philanthropy, LEV = Risk management

Hypothesis tests were carried out to determine the influence of each independent variable on the dependent variable. Hypothesis testing using p-value < 5% or t-test is used to test the significance of the influence of partial independent variables on dependent variables. The hypothesis tested is:
H0: There is no influence of corporate philanthropy and risk management on the company value.
H1: There is an influence of corporate philanthropy and risk management on company value.

RESULTS AND DISCUSSION

The research sample is 112 manufacturing companies listed on the Indonesia Stock Exchange for the 2022 period. Table 1 shows the descriptive statistics of PVB, LEV, and IR.

Table 1. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PVB	122	.04	19.12	4.3187	4.16821
LEV	122	-1.79	20.86	1.4598	2.62234
IR	122	.15	.97	.5120	.17264
Valid N (listwise)	122				

Source: Data processing results (2024)

The following is an explanation of Table 1 above, the PVB in this study has a minimum value of 0.04 and a maximum of 19.12 with a mean of 4.32. A very low minimum score (0.04) may indicate that some of the companies in the sample have a significantly lower market value compared to their book value, which could be interpreted as a lack of investor confidence in the company's future prospects or the presence of financial problems (Fama, 2012). On the other hand, a high maximum value (19.12) indicates that there are companies with very high market valuations compared to their book value, which could be due to high growth expectations or strong profitability.

The LEV in this study has a minimum value of -1.79 and a maximum of 20.86 with an average of 1.46. A negative leverage value, as seen at the minimum value of -1.79, may occur due to the presence of negative equity, which is a very unusual condition and often indicates significant financial risk (Myers, 1999) . A high maximum value (20.86) indicates that there are companies that rely heavily on debt for their business operations, which can increase financial risk but also potentially increase returns to shareholders if used effectively (Jensen & Meckling, 1976).

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Corporate Philanthropy as measured through the Global Reporting Initiative (GRI) index, with a minimum value of 0.15, a maximum of 0.97, and an average of 0.51. A minimum value of 0.15 indicates that some companies report only a fraction of the standards recommended by the GRI, which may reflect a low commitment to sustainability or a lack of capacity to implement comprehensive reporting practices (Kolk, 2010). In contrast, a maximum value of 0.97 indicates the presence of companies that are almost fully compliant with GRI guidelines, which is often associated with higher transparency and a better corporate reputation among investors (Clarkson et al., 2008).

Classical assumption testing is a crucial step in multiple linear regression to ensure the validity and reliability of the model's interpretation. Common tests include multicollinearity tests, heteroscedasticity tests, normality tests, and autocorrelation tests.

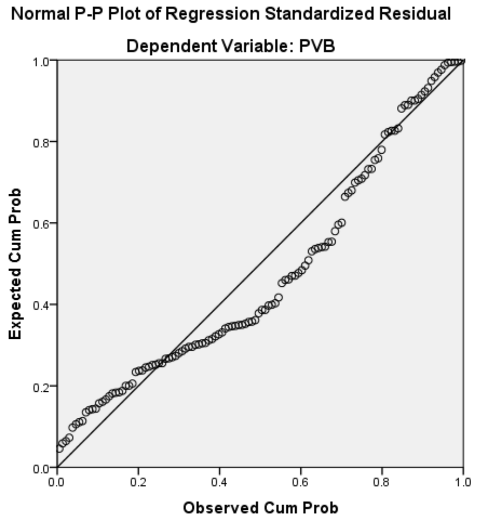

Figure 1. The Normality Test
Source: Data processing results (2024)

The P-plot (Figure 1) compares the cumulative probability of the observed residuals with that expected if the residuals were normally distributed. The points that follow the diagonal line indicate that the residuals are close to a normal distribution, supporting the assumption of normality**.**

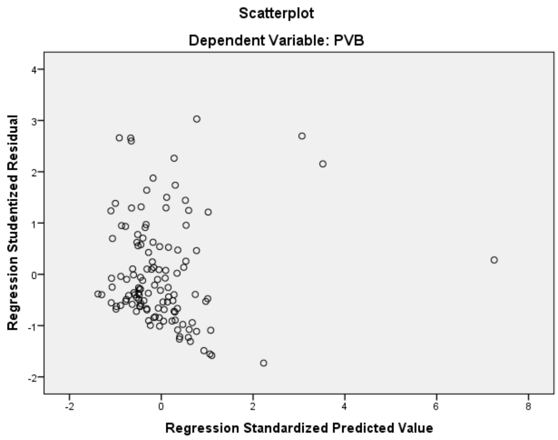

Figure 2. The Linearity and Homoscedasticity Test
Source: Data processing results (2024)

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This scatterplot (figure 2) is used to test linearity and homoscedasticity. The points are randomly scattered around the zero line without a particular pattern indicating that the assumptions of homoscedasticity and linearity are mostly met.

The next stage is the regression analysis, which is shown in Table 2 below. Based on Table 2, the regression equation is obtained as follows:

$$PVB = 1.033 + 0.533\ LEV + 4.899\ IR$$

Table 2: Result of Regression

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.033	1.087		.949	.344
	LEV	.533	.134	.335	3.978	.000
	IR	4.899	2.034	.203	2.408	.018

a. Dependent Variable: PVB

Source: Data processing results (2024)

The Coefficients Table 2 provides information about the influence of independent variables (LEV and IR) on the dependent variable (PVB) in this regression model. Here is a statistical explanation:

LEV coefficient is 0.533, indicating that every one-unit increase in LEV will increase PVB by 0.533 units, assuming other variables remain constant. This value is statistically significant (Sig. = 0.000 < 0.05), which means that LEV has a significant influence on PVB. The Beta (Standardized Coefficient) value of 0.335 indicates that LEV makes a strong positive contribution to the dependent variable PVB in this model.

IR coefficient is 4.899, meaning that every one-unit increase in IR will increase PVB by 4.899 units, assuming other variables remain constant. This value is also statistically significant (Sig. = 0.018 < 0.05), indicating that IR has a significant influence on PVB. The Beta value for IR of 0.203 shows that IR also makes a positive contribution to the dependent variable PVB,

Table 3: ANOVA

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.417[a]	.174	.160	3.82063	.255

a. Predictors: (Constant), IR, LEV

b. Dependent Variable: PVB

Source: Data processing results (2024)

The Model Summary table (table 3) shows the summary results of the regression model that analyzes the relationship between the independent variables (IR and LEV) with the dependent variable (PVB). The R-value of 0.417 indicates a moderate relationship between the independent and dependent variables. With an R Square of 0.174, this model is able to explain 17.4% of the variation in the dependent variable (PVB), while the remaining 82.6% is explained by other factors not included in the model. The Adjusted R Square value of 0.160 is slightly lower, which is an adjustment to the

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number of variables and samples used, indicating that the model has quite low predictive power.

The Effect of Risk Management on Company Value

The findings of this study reveal that risk management (LEV) has a p-value of 0.00 (<0.05) and a coefficient of 0.533, indicating a positive and significant relationship between risk management and firm value. By effectively managing financial risks, companies can enhance operational efficiency, which ultimately improves profitability. Long-term debt management is crucial, as interest and litigation costs can erode profits if not well managed. Previous research, such as by Hoyt & Liebenberg, (2011), indicates that companies with integrated risk management tend to have higher firm values, largely due to their ability to manage financial uncertainties and create shareholder value.

Furthermore, this study aligns with the findings of Bromiley et al., (2015), which show that firms with strong risk management practices tend to have higher market valuations than those neglecting risk oversight. Research reveals that risk management plays an essential role in reducing financial uncertainty, which, in turn, attracts investors (Baxter et al., 2013). These findings suggest that companies with more effective risk management are better positioned to navigate economic and market fluctuations, indirectly enhancing their value.

The results of this study show that companies that can manage risk well are considered more reliable by shareholders because of their ability to handle uncertainty (Jensen & Meckling, 1976; Freeman et al., 1984). Ultimately, effective risk management not only safeguards against short-term losses but also drives long-term value growth. (Beasley et al., 2005) add that firms with comprehensive risk management practices demonstrate more stable performance and resilience to market uncertainties, ultimately strengthening firm value. Companies with effective risk governance tend to consistently enhance their value. Research by Pagach & Warr (2011) reveals that the appointment of a Chief Risk Officer (CRO) signifies a company's commitment to risk management, thereby attracting investors and increasing market valuation.

The Effect of Corporate Philanthropy on Company Value

The findings in Table 2 indicate that corporate philanthropy significantly impacts firm value, as evidenced by an IR value of 0.018, which falls below the 0.05 threshold for statistical significance. Corporate philanthropy is an integral component of sustainability reporting, reflecting a company's strategy aimed at enhancing firm value. Prior studies corroborate these findings, revealing that transparency in sustainability disclosures positively influences investor perceptions and bolsters stakeholder trust, both critical for value creation. For instance, (Gómez-Trujillo & González-Pérez, 2020) asserts that transparent sustainability reporting fosters favorable perceptions among investors, thereby strengthening the company’s credibility and appeal within financial markets, which ultimately raises its value. Similarly, research by Eccles et al., (2014), as well as highlights that firms committed to sustainability reporting often receive stronger investor backing and higher stock valuations. Collectively, these studies suggest that sustainability reporting functions as a strategic instrument for companies striving to increase their value by meeting rising transparency expectations.

Moreover, Khan et al., (2021) found that sustainability reporting not only boosts investor confidence but also lowers the cost of capital by reducing information asymmetry between firms and stakeholders. Disclosures of sustainability efforts provide essential data, enabling investors to make well-informed decisions, thus decreasing uncertainty and perceived risk. This aligns with findings from Dhaliwal et al., (2011), which observed that firms engaged in sustainability reporting often experience reduced capital

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constraints, facilitating better access to financing. Additionally, Verrecchia & Weber, (2006) demonstrated that enhanced disclosure practices minimize uncertainty, effectively lowering capital costs. These findings support legitimacy theory, positing that companies employ sustainability reporting to signify alignment with social and environmental norms, thus strengthening their market positioning. This theoretical perspective suggests that sustainability reporting bridges the gap between corporate actions and public expectations, enhancing a company's resilience and appeal to investors.

Mock et al., (2021) further emphasize that companies focused on sustainability reporting are often better equipped to address long-term challenges, such as regulatory shifts and evolving consumer preferences. By embedding sustainability into their strategies, companies position themselves as adaptable to external pressures, thereby increasing their competitive advantage. Supporting this view, Friede et al., (2015) concluded that firms with robust sustainability practices generally achieve superior market performance and long-term viability. A KPMG report additionally notes that sustainability-driven companies are more likely to succeed in volatile markets due to their strategic resilience and adaptability (KPMG, 2020). These insights reinforce the notion that sustainability reporting contributes to sustainable growth. By integrating social and environmental considerations into corporate strategy, companies strengthen their market position and long-term value.

The findings of this research illustrate that corporate philanthropy positively and significantly enhances firm value. Corporate philanthropy activities disclosed in sustainability reports go beyond "greenwashing" and can substantially elevate consumer loyalty and employee confidence, ultimately bolstering the company’s financial performance (Wang et al., 2019) (Cha et al., 2022b; Cuypers et al., 2016; Gautier & Pache, 2013; Schnurbein et al., 2016).

CONCLUSION

This study shows that corporate philanthropy and risk management influence company value. Social activities and company concerns can increase the trust of stakeholders in the company. As explained in the stakeholder theory, the company must be able to create value not only to shareholders but to all stakeholders. Likewise, risk management has a significant effect on the value of the company. Proper risk management can reduce the risk of litigation and ultimately improve operational efficiency. This research contributes to science, especially sustainability reports, but further research can add control variables such as profitability (ROA, NPM, Growth) because company performance can increase company value and needs to be tested for the long term because the influence of corporate philanthropy is believed to increase company value in the long term.

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