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THE IMPLEMENTATION OF SOCIAL RESPONSIBILITY DIVERSIFICATION (SRD) AS AN ATTEMPT OF FIRM VALUE CREATION Empirical Study on Public Companies in Indonesia

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Abstract: This research attempts to test the influence of social responsibility diversification (SRD) implementation as an effort of the creation of firm value. This study would fill the gap between IOS with the company value and offer one single solution which was by developing the result of the synthesis from the IOS variable with diversification strategy and corporate social responsibility (CSR) concept. The sample of this study was 49 companies listed in Indonesia Stock Exchange during the 2006-2010 periods. The test result concluded that the Social Responsibility Diversification positively influenced the company value.

***Keywords**: Diversification, Corporate social responsibility (CSR), firm value and corporate governance*

***JEL Classifications:** G30, G32*

I. INTRODUCTION

Globalization today has encouraged each company to improve their firm value. According to Fama (1978) and Jiambalvo and Rajgopal (2002), stock price, investment, and various financing decisions reflect the firm value. This firm value that then will bring investment opportunities. As an effort of improving the firm value, an accurate financial management capability is required. A financial decision made will give effects on the other financial condition which in the end will influence the firm value condition. A good management of the company finance can be reflected through the improvement of the firm value as seen from its stock price (Fama, 1978; Chhaochharia and Grinstein, 2007). The financial management functions include the management of pivotal

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decisions taken by the company. One of the pivotal ones is the decision for Investment Opportunity Set or so called (IOS). Those investment opportunities can bring positive signal on the company's future's growth that eventually will improve the firm value. Decision on IOS is influenced by several factors, such as firm liquidity, financial need to pay debts, business expansion plan through diversification by calculating the environmental and social condition.

Many studies on diversification and its effects toward the firm value have been conducted with various outputs. Many of the previous studies on IOS effect towards the firm value were still not consistent yet. This brings gap between IOS and firm value. Fama (1997); MacKay (2003); Hasnawati (2005); Akhtaruddin and Hossain (2008); Méndez, Jara *et al.* (2011); Lee, Hooy *et al.* (2012); Hidayat (2010); Efni, Hadiwidjojo *et al.* (2011) Patrick (2012) explained that investment which is carried out through diversification will improve the firm value, which means investment opportunities exist so that the company is able to choose the profitable investment set to obtain profitability. However, Kallapur & Trombley (1999), Suharli (2007), Berger and Ofekb (1995), Lamont (2005), and Bernadi (2008) concluded that IOS through diversification did not affect the firm value, which means the investment conducted is still in the early stage or the company is unable to choose a set of investment which has positive NPV Value. It potentially decreases the firm value.

A research from Fama and French (1997) indicated that one of the determiners for the firm value is the investment decision. Whereas, the Investment Opportunity Set (IOS) is employed to create firm value. Myers (1976) drew the level or amount of investment opportunity in its relation to achieve the company goals. The amount of the investment opportunity demand the company select the most suitable type of investment. Myers elaborated that the value of an organization covers asset (the real asset shown in balance) and the future investment choice, which is investment on the project with positive Net Present Value. The unobservable future investment choice like growth can bring a better firm value in the future. Riahi-belkaoi (2001), components of the firm value resulted from these various opportunity options make the chosen future investment is called as investment opportunity set (IOS) (J.J. Gaver & Gaver, 1993; Kallapur & Trombley, 1999, 2001; Myers, 1976; Skinner, 1992; Smith & Watts, 1992).

This research offers one single solution which is operated as a medium of the influences between IOS with the firm value by developing the result of the synthesis between IOS variable with diversification strategy and the corporate social responsibility (CSR) concept), i.e. social responsibility diversification (SRD). The main reason in taking this variable is the time when the company determines the diversification strategy, several investment opportunities will also come by calculating the environmental and social condition. It will make the IOS option wider due to the company commitment which is operated based on the economy, social, and environmental principles and also balancing various interests. Hence, the company is expected to receive investment with high return. This will contribute to the high profitability gain which potentially improves the firm value. Each of the investment decisions should calculate the environmental condition, both external and internal (Yuliani, *et al.* (2012). Internal environment covers all company condition, owned resources, and the company's basic competence, while the external one includes industry, competitor, and stakeholder. Hence, the existence of a company is highly influenced by the support given by its stakeholder (Ghozali and Chariri, 2007). This research also explore *axcess value* in the aspect of the firm value of companies which conducted the social responsibility diversification.

Social responsibility diversification (SRD) means a concept of company strategy in conducting investment with economy and social orientation which is able to bring maximum firm value for the stakeholder. Investment with economy and social investment is an investment strategy that optimizes the corporate resources employment, asset, to get profit which is able to maximize the firm value based on the stakeholder's interests. The effectiveness of this social responsibility diversification should be supported by *good corporate governance* (GCG).

Corporate governance is implemented to create add value for all the pertinent parties and also to achieve the final goal of the company which is the corporate operational continuity by balancing the financial performance, social wealth, regeneration, and life environment preservation. All of those can be achieved through the harmony between company and its environment (Gudono, 2009). According to Indriani (2013), to achieve the harmony, several things should be done by an organization, first, the management should govern the configuration of various subsystem within organization to create more efficient activities. Second, control system mechanism can be varied based on the variation of the environment faced.

II. LITERATURE REVIEW

Investment is considered as an important role for the company's future. In their study, Denis and Denis (1995) stated that diversification is the development of a new business which is different from the existing one and involves a number of investment diversification. Once a company decides to diversify its operation from one or several industries, it means that the diversification strategy has been implemented in a corporate (Michael A. Hitt, 2009). Lyandres and Zhdanov (2013) elaborated that diversification is an evolution of business growth. Rumelt (1982) and Lantza and Sahutb (2005) explained that diversification is a corporate level strategy. Conversely, Tecee, *et al.* (1997) and Barney (2001) argued that diversification can be used as a continues source of competitive excellence. Lee, Hooy et al. (2012) and Chakrabarti, Singh et al (2007) suggested diversification as the source of value creation. Rumelt (1982) outlined the high correlation between corporate diversification and company performance, includes Strategic Management and Financial Management.

Montgomerry (1994) elaborated three different perspective motives in conducting diversification, i.e. from the market viewpoint, resources, and Agency Theory. Agency Theory bases upon agency issues which normally occur due to the emergence of asymmetrical information between manager and the stakeholder, information which is only known by one party (Lamont, 2005). In the relatively big corporate company, the separation between the ownership and the management control brings difficulties to the stakeholder to observe how far the management performance is able to optimize the resource usage (Lins, 1999). Asymmetry occurs in the diversification strategy during the investment decision is mainly based from the theory of Jansen (1983), Myers (1976), and Stewart (1984) which pointed out the consequences of the asymmetrical information occurs which causes the cancellation of some investment projects which actually have positive Value at present. Asymmetrical information can also be started during the *overinvestment* condition with *free cash flow* theory, where during this condition, interests and incentives from the stakeholder vs the manager's interest towards the acquired free cash flow, it is potentially for projects without positive NPV can be done due to the cash flow is higher than the investment opportunity.

The ability in maximizing the use of company asset fully depends on resources condition of the company. Penrose (2009) viewed a company as a group of productive resources. Company is seen as more than just an administration unit, yet also a collection of productive resources which keep growing through time based on the administrative decisions. The success of a company in running its more complex activities and in facing the tighter competition to achieve its goals is completely determined by various resources factor, both external and internal (Church and McMahan, 1996; Zeffane, 1996).

Further, Penrose (2009) defined resources as "physical things" bought, rented, or produced by the company for self-use and human resources work in the company. Those things are heterogeneity, not homogeneous, from the productive services which potentially gives a unique character for the company. The idea that a company achieves a unique character based on their heterogeneous is the basis of *Resource Based View* (RBV). This concept is related to interaction between material, human resources, and social environment towards company's performance. It is likely to the relation of human resource-performance which is a significant issue in the strategic management. Resource Based View (RBV) Investment Concept (Teece, 1997; Barney, 1991). Penrose (2009) defines a company as a combination of resources set. This theory explains that company's growth is limited by the existing opportunity as a function of a productive resources set of the company and its environment. Dennis and Dennis (1995) used RBV approach to obtain competitive profit, that internal resources is more important for the company than the external factor to be able to achieve and maintain competitive excellence. Prahalad and Bettis (1986) indicated the emergence of a big company is the consequence of its success in establishing company's capability.

A research on diversification strategy of Berger and Ofekb (1995) which used indexs harfindahl to calculate the total selling concentration in each segment as the proportion of the total selling. Berger (1995) concluded that diversification strategy would be able to reduce the firm value due to the company samples with different scales have lower operational profit for they only have *single line* business capability.

This social responsibility diversification research is based on the previous study done by Chhaochharia and Grinstein (2007) who concluded that corporate governance with its all rules gives significantly positive impact to the firm value.

A well implementation of corporate governance is expected to be able to create firm value. A decision on utilizing Investment Opportunity Set (IOS) through social responsibility diversification strategy is a kind of diversification strategy by observing productive resources and social environmental resources owned by the company to acquire profit (*profitability motive*). The activity is reflected in the company's financial performance. According to Reneboog, *et al.* (2007), to make this corporate social responsibility as a performance standard, then, **First**, the company's performance should be measurable, started with exact company goal formulation in order to improve the firm value and corporate social responsibility in the long period of time. **Second**, maximizing the long term firm value which always in line with the corporate social responsibility.

The diversification theory according to Barton and Gordon (1998) and Simon, *et al.* (1998) indicated that today's companies should conduct diversification when they have resources, capability, and core competence with multiple uses, here include corporate care and social responsibility. The measuring rod of the social responsibility diversification concept in this research employs Reneboog, *et al.* (2007) theory, which attempts to maximize the long term firm value with at same time also maximizing the corporate social responsibility activity.

Various researches on corporate governance have been conducted that create various definitions. The meaning of corporate governance is actually closely related to the issue of who controls the company and why it happens (Bambang Riyanto, L.S., (2003). Turnbull in Mai (2010) defines corporate governance as a governance system held by considering all factors that affect the institutional process, include those which deal with regulatory function (Akhmad Syakhroza, 2003). Meanwhile, Forum for Corporate Governance in Indonesia (FGCI, 2001) elaborates corporate governance as: "a set of rules which determines the relation among stakeholders, management, creditors, government, employees, and also with the other internal and external important parties in relation with their rights and obligations, in other words, a system which directs and controls the company. The goal of *corporate governance* is to create add value for the interest holders."

The corporate social responsibility activity is closely related to the Good Corporate Governance. Both have equally strong and influential position in the business world. Social responsibility is oriented in stakeholder which is in line with one of four main GCG principles, i.e. responsibility. This principle is defined as corporate responsibility to obey the applied rules and law and also to fulfill the social needs.

Responsibility outlines the existence of clear system in governing corporate responsibility mechanism for stakeholders and other interest parties. It aims to realize the targeted goals of GCG, i.e. accommodating pertinent parties with company like society, government, business association and others. This principle tends to represent stakeholder driven concept. A bigger-sized company with well implemented Good Corporate Governance is expected to be able to improve its firm value.

Smith and Watts (1992), showed a strong empirical result for scale (size) measurement towards firm value. A big company with a better access to the market tends to have higher firm value, thus, the company size and the firm value have positive relation. Measurement for Size (scale) of a company can be made the proxy with the capitalization value of its stock in the capital market. Stocks with small and big capitalization values have sensitivity differences towards risk factor, an important factor to give pricing asset (Louis K. C. Chan & Josef Lakonishok (2002). Besides, the smaller companies tend to be more open with risk creations and changes in risk premium. Meanwhile, returns of companies with similar size variation tend to respond the risk factor with slightly the same way that leads to the simultaneous movement of their return. Differences on the structural characteristics have caused differences on the company sizes where each company based on its different size reacts differently towards economy information. Smaller companies tend to produce smaller profit (Fama & French (1995). In this research, total selling is used as the company measurement instrument by regarding a relatively more stable selling value. When the value from the total of assets, selling, and capitals is high, then natural logarithm of those values is applied.

2.1. Good Corporate Governance (GCG) and Firm Value

Good Corporate Governance (GCG) has been known widely in the society. Generally, GCG is a good structure and system to manage a company with the goal of improving the stakeholders' value and also accommodate all the interest parties with the company (stakeholders) like government and circumstance where the company stands.

Dharmapala and Khanna (2008) conducted a study to test the impact of corporate governance towards firm value by employing a series of corporate governance recondition in India. This research presented a strong impact, which is a positive and significant impact with the amount of above 10% than the corporate governance recondition towards the firm value measured with *Tobin'q*. this research from Dharmapala and Khanna are in line with the previous studies from Black, Kim, Jang, and Park (2005) and Back, Jang, and Kim (2006) in Korea. Lastly, Dharmapala and Khanna have also given special contribution towards *empirical evolution* done by Black and Khanna (2007) in reconditioning corporate governance in India. A research which also assessed the relation between corporate governance and firm value has also been done by Yermack (1996), Gompers, Ishii, and Metrick (2003), Cremers and Nair (2005), and Bebchuk, *et al*., (2004). Those studies showed evidences that particular governance structures are closely related to the better performance and the higher firm value.

Based on the agency theory and good corporate governance concept, then hypothesis 1 and 2 for this research respectively are *Good Corporate Governance* positively influences Firm Value and the Ownership Structure positively influences Social Responsibility Diversification.

2.2. Social Responsibility Diversification (SRD) and Firm Value

According to Baptista, Karaöz et al. (2010), some companies have started the diversification since they were established and chose their diversification. Meanwhile, most researches on company's diversification focus on diversification strategy of big companies and performances (Vasudevan and Ramanujam, 1989; Montgomery, 1994; and Palich Kardinal dan Miller, 2000). Various studies showed that diversification is the most favorite strategy among small companies (Bru, 2007; Kim and Kogut, 1996; Sandvig, 2000; Giarratana,, 2004; and Auerswald, 2008).

The form of company's social responsibility is one of the company's responsibilities to the society and environment. In a narrow sense, it can be interpreted as the company's Philanthropy form. The company social responsibility should not be considered as a wasteful activity in the short-term for the company has to spend lots of fund to support this activity. The real form of this social responsibility can strategically increase the firm value in the future.

The alternative type of this social company responsibility can be done by the company that determines by regarding whether the impact of this activity is only for the short-term or can increase the firm value due to the supports from society and other stakeholders. Performance contract in the form of target performance will give motivation to the management in increasing firm value. The firm value is created by investment through social responsibility diversification (SRD). The variable is used as an intervening variable in the causal relationship between Investment Opportunity Set (IOS) which is proxied by R and D activity with the firm value is proxied by tobins q. Based on the statement above, the third hypothesis in this research is that social responsibility diversification (SRD) mediates Investment Opportunity Set with firm value.

2.3. Investment Opportunity Set (IOS) and Firm Value

The Company with big opportunity of investment indicates that it has a bright future prospect so that it will have positive impact for firm value. This case is based on Modigliani and Miller (1961) that the firm value is determined more by the ability to get profit and high opportunity of investment.

Myers (1977) described that today's company market value is the combination of today's asset added with the growth opportunity in the future. Myers stated that the greater proportion of firm value that is shown with the big opportunity investment, then the equity value of the company will be bigger (Linn and Park, 2005; Kaetner and Liu, 1998). The above explanation leads to the fourth hypothesis in this research: Investment Opportunity Set (IOS) has the positive impact to firm value.

2.4. Investment Opportunity Set (IOS) and Social Responsibility Diversification

Kallapur, Trombley *et al.* (2001) research found that IOS of a company influences how the company is evaluated by the manager, owner, investor, and creditor. How the company is evaluated has a commitment to social responsibility if it applies diversification strategy that is based on social responsibility (SRD) in doing the investment. Meanwhile Langberg (2008) explained that IOS value depends on management's spending in the future and today. Beside agree with SRD, choices of investment are also expected to give higher *return* than the capital to bring profit. From those several explanations above, it can be interpreted that IOS has two meanings; First, IOS is an investment decision by the company to give positive growth, so that IOS is considered as growth prospect. Second, IOS is a company's capability to decide the type of investment to be carried out. A company which is unable to choose the appropriate investment will have higher expenditure from the missing opportunity value. Thus, it can be concluded that IOS is the relation between today's expenditure and the future value/reversion/prospect as a result of investment decision to get the value from manager, owner, investor, and creditor. From those explanations above, then the fifth hypothesis for this research is: Investment Opportunity Set (IOS) has the positive influence toward social responsibility diversification (SRD).

2.5. Firm *Size* and Social Responsibility Diversification (SRD)

The result of Li and Jongdae (2006) research suggested that company size has a positive relation with firm value. Bigger companies tend to have low encouragement in conducting profit management than the small ones. It is due to their stakeholders and external parties tend to be more critical. The big companies have bigger investor basis, hence, they receive stronger pressure to make credible financial report. Amar *et al.* (2003) showed that small, medium, and big companies are significantly different for each case in achieving their profitability level. Profitability drops when company's sale turns high. The research from Wahidahwati (2002) proved that the low size of a company will increase company's probability by using the profitability for social responsibility basic investment and vice versa. However, if manager actions are in line with stakeholders' wishes, there will be no agency problems. If manager's interest is in accordance with stakeholder, the manager will distribute the entire free cash flow to the shareholders. Manager tends to reduce the money in their hands and they will be more careful in allocating the fund. The manager will allocate the fund more to improve the stakeholders' prosperity. Then, from the statements above, it can be concluded that the sixth hypothesis in this research is: the company size has the positive impact to the social responsibility diversification (SRD).

2.6. Social Responsibility Diversification (SRD) and Firm Value

Social Responsibility Diversification is a company's capability in carrying the diversification when it has the power, sources, capability, and competence in social responsibility area. Aisjah (2008) said that company diversification can be done in two ways. First is through transferring the core competence of social responsibility that is able to increase the value for the owner, investor, and creditor. Second is through the more efficient and structured allocation within the internal market. Thus, the manager has to be precisely calculate the benefit for company and also the cost dispensed from the efficient source during the decision making. Zhi and Tong (2009) explained that company's owner tends to likely create debt in certain level to increase the firm value. From those statements, the seventh hypothesis in this research is Social Responsibility Diversification (SRD) has a positive impact to firm value.

IV. RESEARCH METHODS

Type of Research

This research is an observation research based on data collection method because the data is only able to be observed. The data was collected from financial report in Indonesian Stock Exchange. Second, this research is exfacto research because the data were acquired from go public company without any manipulation made.

Population and Sample

The getting better business climate has also boosted the development of the Indonesia capital market. The annual report of *Indonesia Stock Exchange* (IDX) confirmed that the number of issuers listed in IDX for the year of 2005 financial report was 339 issuers, raised to 343 issuers in 2006, 393 in 2007, 397 in 2008, 402 in 2009, in 2010 upto 428 issuers.

According to ICMD *(Indonesian Capital Market Directory)*, which is observed since 2005 to 2012,, the number of companies with manufacture category was reported 146 companies for the year of 2005, 142 companies in 2006, 151 in 2007, 192 in 2008, 192 in 2009, and 194 companies in 2010. In this research, 178 companies' financial reports were used as the sample.

Research Method

This research employed *path analysis* to explore and analyze the effects of the exogenous variables towards endogenous variables. *Path analysis* was formulated by Sewall Wright (1934, in Bachrudin and Tobing, 2003) which aims to the direct and indirect effects of a series of variables, as the cause variable, towards another series of variables, the effect variable.

Several requirements that must be completed during the data processing procedure using path analysis are: 1) the relation between variables should be linier and additive; 2) all the residue variable should not be correlated; 3) the relation pattern between variables should be recursive, i.e. one way cause and effect relation, not reciprocal; and 4) the level of all variables measurement should be at least interval.

Hair, *et al.* (1998) outlined 4 steps to be completed in using this path analysis; 1) developing model, that should be based on the theory; 2) developing path diagram to show causality relation; 3) converging the path diagram into a series of structural equation and measurement model specification; and 4) selecting input matrix and estimation technique for the developed model. Next, the regression equation can be made into 2

SRD = β1 GCG + β2 IOS + β3 Size + ε1

Tobinsq = β1 GCG + β2 SKD + β3 Size + ε2

Variable

Variable types of this study consist of exogenous variables: GCG, Firm Size, *Investment Opportunity Set* (IOS). Endogenous Variables: Social Responsibility Diversification and Firm Value.

Table 1
Variable Operational Definition

Variables	*Indicators*	Measurement
Firm Value measurement of the amount of company's total assets	Tobins'q ROI	$\frac{(Current\ Price\ x\ Total\ Share)+(Total\ Liabilities)}{Total\ Assets}$
Social Responsibility Diversification (SRD) the company's strategy in establishing new business unit which follows the corporate social responsibility interest	CSR fund availability	$SRD=\sum\frac{S_i}{S1_{St}}\times\frac{CSR\ Fund}{S_i}$ where S_{1st} denotes the sales of the largest segment in firm
GCG a system built to control and direct the company's operational	*Institutional Ownership*	The percentage of stock owned by the institution from the total stocks circulate
***Investment Opportunity Set* (IOS)** an output of the future investment choices to get benefit from the company's growth prospect.	*Research and development expense to book value of total assets*	$R\&D=\left(\frac{R\&D\ Expenditures}{Assets}\right)$
Firm Size measurement of the amount of company's total assets	*Total Sales*	*Natural Logarithm of Total Asset*

Testing Output

The testing output of the path model fitness in this research indicated the following information:

Table 1
Goodness of fit for Path Testing

Goodness of Fit Index	*Cut-off Value*	*Result*	*Model Evaluation*
Chi – Square	14.067	8,547	Fit
Probability	≥ 0.05	0,287	Fit
CFI	≥ 0.90	0,996	Fit
CMIN/DF	< 3	1,221	Fit
NFI	≥ 0.90	0,980	Fit
GFI	≥ 0.90	0,984	Fit
AGFI	≥ 0.90	0,035	Fit
RMSEA	≤ 0.08	0.033	Fit

Source: Processed primary data, 2016

The results showed that all the goodness of fit index for the model formulated was fit. It can be seen from the model result column where the scores meet the requirements as in *cut off value* column. The significance level (probability) of 0.287 indicated that zero hypothesis which showed the absence of difference between sample covarians matrix and population covarians matrix as estimated was failed or rejected.

The acceptance of zero hypothesis indicated that the model was accepted as also been confirmed with the other goodness of fit indexes such as CFI (0,996), CMIN/DF (1,221), NFI (0,980), GFI (0,984), AGFI (0,035), and RMSEA (0.033) which gave fairly strong confirmation for the model acceptance.

HYPOTHESIS TESTING

Based on the calculation through path analysis which covers structure variables of Good Corporate Governance (GCG), Social Responsibility Diversification (SRD), IOS, Size, Firm Value (Tobinsq), the next stage would be testing hypothesis proposed. The hypothesis testing result can be seen based on the sum of its *critical ratio* (c.r), probability, and *standardized regression weight* as in Table 2. The critical ratio above 2.56%will result in significant estimation value at the level (á) of 1%, while critical value bigger than 1.96 is significant at 5%.

Path Analysis

Path analysis studies the relation of various variable path alternatives from Ownership Structure, IOS, and Size towards Firm Value. This analysis aims to find which path is the most influential towards the final end of this research. The path alternatives means here consist of 3. The following calculation is based on the *standardized regression weight*:

Table 2
Testing result of Social Responsibility Diversification (SRD) Implementation in Creating Firm Value: In the Corporate Governance Structure Review An Empirical Study on Public Sector Companies in Indonesi

			Estimate	*S.E.*	*C.R.*	*P*
SRD	←	GCG	.140	.063	7.162	***
SRD	←	IOS	.176	.091	11.930	***
SRD	←	Size	.037	.072	8.513	.008
Tobinsq	←	IOS	.067	.040	13.672	.006
Tobinsq	←	GCG	.244	.378	9.646	.007
Tobinsq	←	Size	.221	.031	0.037	.970
Tobinsq	←	SRD	.537	.031	17.579	***

Summary of Hypothesis Testing Result

To facilitate in giving conclusion for this research output, a summary of all hypothesis testing results is presented on the following table:

Table 3
Summary of Hypothesis Testing Result

Hyphotesis	*Prediction Mark*	*Regression Coefficient*	*Note*
H1 : Ownership structure positively influences Firm Value (Tobinsq)	+	0,230	Accepted
H2 : Ownership structure positively influences SRD	+	0,452	Accepted
H3 : Social Responsibility Diversification (SRD) positively influences Firm Value (Tobinsq)	+	0,834	Accepted
H4: IOS influences Firm Value (Tobinsq)	+	0,821	Accepted
H5 : IOS influences SRD	+	0,744	Accepted
H6 :*Size* positively influences SRD	+	0,021	Rejected
H7: SRD positively influences Firm Value (Tobinsq)	+	0,868	Accepted

GCG Structure → SRD → Firm Value = (0,452)(0,834) = 0.376968

IOS → SRD → Firm Value = (0,744)(0,868) = 0.645792

Size → SRD → Firm Value = (0,021)(0,868) = 0.018228

The above calculation on path alternatives, IOS path number → SRD → Firm Value is the path with the biggest and the most influential one compared to the other two.

DISCUSSION AND CONCLUSION

This research aims to test the effect of the social responsibility diversification (SRD) implementation as an attempt to create firm value which then will fill the gap between IOS and Firm Value. This research also suggests one single solution by developing a synthesis output of IOS variable with diversification strategy and corporate social responsibility (CSR) concept with the test result for the first assessment, Ownership Structure positively influences Firm Value, has received empirical support. This research indicated that the stronger the Good Corporate Governance (GCG) structure, the firm value will be improved. It can be shown from the amount loading value at 0.832.

The role of Good Corporate Governance (GCG) has been widely known in the society. Generally, GCG is a good structure and system to manage a company which aims to improve the stakeholder value and also accommodate all pertinent parties with the company (stakeholders) such as government and circumstance where the company stands.

This research is in line with the research outputs found by Balasubramanian, Black et al. (2010), Marco (2005), Becht and Röell (2005), Guizani and Kouki (2011), Bebchuk Lucian (2001), and Lina, Abed et al. (2012). Those studies found significant evidences that certain governance structures were closely related to a better performance and higher firm value.

The second test was used to assess the hypothesis which predicts the positive influence of Ownership Structure towards Social Responsibility Diversification (SRD). The result showed that this prediction received empirical support with loading amount at 0.797.

Ownership Structure is the highest internal control mechanism which is responsible to monitor the top management actions, which purposes to acquire a series of legitimation from stakeholders by revealing social responsibility. The bigger number of board commissioner, the easier to control the manager and the more effective in the monitoring. Ownership Structure is the best position to conduct monitoring function to realize a company with good corporate governance. Chhaochharia and Grinstein (2007) stated that one factor influences the success of the company goal is the ownership structure. This research is in line with Garvey (2010), Harris and Raviv (1998), Ernst (2001), and Galina (1997).

The next hypothesis tested was the one which stated that Social Responsibility Diversification (SRD) positively influences Firm Value (Tobinsq) which received empirical support at 0.875 loading value.

Many studies have been conducted and indicated that diversification is a favorite strategy among small companies. However, most researches on company diversification focused on diversification strategy in big companies and performances. In this study, diversification strategy is on the basis of social responsibility.

This corporate social responsibility pattern is a kind of corporate responsibility to the society and environment. This corporate social responsibility cannot only be seen from the short term area, a wasteful activity for company has to spend lots of fund to support. Strategically, the real form of this corporate social responsibility activity can improve the firm value in the future. This research is in line with Baptista, Karaöz *et al.* (2010).

The fourth test was done to assess the prediction that IOS positively influences firm value. The test received empirical support with 70% loading.

A company with high investing opportunity indicates to have bright future prospect that will bring positive influence for the firm value. This result is in line with Modigliani dan Miller (1961),Myers (1977) dan Linn dan Park, (2005) Kaestner dan Liu (1998) researches.

The fifth test to assess the hypothesis that IOS positively influences SRD. Loading at 0.823 indicated that this prediction received empirical support. Similarly to Kallapur, Trombley, *et al.* (2001) research which elaborated the influence of company's IOS towards the judgments from the manager, owner, investor, and creditor (Langberg, 2008; Chow, Fung *et al.,* 2011; and Paavo, 2010).

The sixth test to assess the positive influence of Size towards Social Responsibility Diversification (SRD) which showed absence of empirical support. The evidence showed that the company size, based on the company members' data listed on IDX during the observation period, did not indicate any influence towards social diversification strategy (SRD). It turned out to be not only companies with high reputation conducted the SRD, but also those considered as relatively small sized companies. It can be concluded that Size did not affect the SRD strategy.

The seventh and final test for this study was carried for the hypothesis that claimed SRD positively influences firm value. Empirical evidence showed support with 0.887 loading. From the content, diversification with social responsibility basis (SRD) is the company's ability in conducting diversification when it has power, resources, capability, and competence in the social responsibility area. Therefore, the company should carry it as an attempt to improve its firm value before the stakeholders. This result is in line with several researches which relate diversification with firm value such as Yuliani, Zain *et al.* (2012), Otero-Serrano (2011), Muzyrya (2010), Jandik and Makhija (2005), Patrick (2012).

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