
The Effect of CSR Disclosure on Firm Value with Profitability and Leverage as Moderators

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Abstract: This study determines the effect of the corporate social responsibility (CSR) disclosure on firm value. The population of this study is composed of mining companies listed on the Indonesian Stock Exchange from 2016 to 2018. The study used a purposive sampling technique and obtained a sample of 66 companies. Applying moderated regression analysis, the results indicate a positive effect of CSR disclosure on firm value. Furthermore, profitability strengthens this effect on firm value, whereas leverage weakens it. CSR disclosure and its interaction with leverage reveal an influence on firm value. The lower the level of the leverage ratio of a company, the higher the CSR disclosure conducted by it, which subsequently increases firm value. This study contributes to business professionals by confirming that firm value will rise with increased CSR disclosure in financial reports.

Keywords: corporate social responsibility disclosure, firm value, leverage, profitability.

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INTRODUCTION

Maximizing firm value is very important for the company, because maximizing firm value means maximizing the prosperity of shareholders which is the main goal of the company (Daromes et al., 2020). The power of supply and demand drives the fluctuation of stock prices, which is a natural phenomenon (Machmuddah et al., 2020). An intriguing occurrence linked to the question of the rise and fall of firm value itself is associated with the fluctuation of stock prices in the capital market (Ronald et al., 2019). Over the years, the number of companies engaging in CSR disclosures, both voluntary and mandatory, has increased considerably (Wang et al., 2018; Orazalin, 2019). One of the factors that influence the firm value is the disclosure of corporate social responsibility, because the disclosure of the implementation of corporate social responsibility is important for users of financial statements to analyze the extent to which corporate social responsibility and concern is in running the business (Butt et al., 2020; Wirawan et al., 2020). There are many benefits obtained by the company by implementing corporate social responsibility, among others, the company is increasingly interested in investors, which causes the company's value to increase (Ronald et al., 2019).



Companies that have implemented corporate social responsibility will generally disclose the implementation of such corporate social responsibility (Kaymak & Bektas, 2017). Disclosure of corporate social responsibility is carried out through social reporting disclosures in financial reports (Hermawan & Gunardi, 2019). Corporate social responsibility is a form of corporate activity in achieving its current and long-term goals (Abbas, 2020). This is in line with the concept put forward by Elkington (1997), namely the triple bottom line. This concept states that in order for a company to maintain its survival, the company must pay attention to the 3Ps, namely Profit, Planet, and People. The Triple Bottom Line encourages companies to also pursue profit, companies must also pay attention to the fulfillment of the welfare of the community (people) and contribute actively to preserving the environment (planet). It is hoped that the disclosure of corporate social responsibility can positively influence investor behavior to pay more attention to social aspects (Mukhtaruddin et al., 2019).

Several studies related to the disclosure of corporate social responsibility on firm value, in these studies found diversity of results. As done by Deswanto & Siregar (2018), the results show that environmental disclosures had no effect on firm value. On the other hand, research conducted by Mukhtaruddin et al. (2019) provides results that corporate social responsibility has a negative effect on firm value. Ronald et al. (2019) provides results that corporate social responsibility has a positive effect on firm value. Kamaliah (2020) stated that corporate governance does not have any effect on CSR disclosure, profitability of company has an effect on CSR disclosure, CSR disclosure has an effect on firm value. In addition, CSR disclosure does not mediate the effect of on firm value. These results showed that corporate governance can have an effect on firm value directly, and there is no role of CSR disclosure in mediating the effect of corporate governance on firm value, and profitability of company has an effect on firm value through CSR disclosure. Nguyen et al. (2020) shows that CSR expenditure has a positive and strong correlation with debt maturity.

Based on the inconsistency of the results of previous research on the effect of disclosure of corporate social responsibility on firm value and the importance of knowing the factors that influence firm value, the research was conducted again by adding moderating variables to this study, namely profitability and leverage. The effect of disclosure of corporate social responsibility on firm value moderated by profitability and leverage is based on the legitimacy and stakeholder theory, because the legitimacy theory states that organizations continually try to ensure that they carry out activities in accordance with the boundaries and norms of the society in which they are located. Legitimacy will increase the company's reputation which in turn will affect the company's value. The company must maintain relationships with its stakeholders, especially stakeholders who have power over the availability of resources used for operational activities such as labor, markets for products and others (Martínez et al., 2016).

Profitability is one of the factors that can affect the disclosure of corporate social responsibility (Ali et al., 2017), high profitability is expected to increase firm value. Profitability shows the level of net profit that can be achieved by the company in carrying out its operations. The greater the profits obtained by the company, the greater the company's ability to carry out corporate social responsibility which affects the trust of stakeholders in the company which will increase firm value. In previous studies, there were inconsistencies in the results of research, namely research conducted by Machmuddah et al. (2020) gave the results that profitability as a moderating variable strengthens the effect of corporate social responsibility on firm value. Another study mentioned that if financial performance decreases while CSR increases (Chen et al., 2018), it creates conflict where companies do not want to invest in CSR activities due to financial performance decline. It can also be caused by CSR investments that require significant expenditure can cause short-term economic losses.

Leverage reflects how much the company depends on creditors in financing the company's assets which will affect the level of investor confidence in investing its shares. A company with a high level of leverage means

that it will rely heavily on external borrowing to finance its assets, while companies with a lower level of leverage show that the company is less dependent on external borrowing because they finance more of their assets with their own capital (Wahjudi, 2020). In previous research, there were inconsistencies in the results of research, namely research conducted by Cormier et al. (2011) showed that leverage as a moderating variable has a negative effect on disclosure of corporate social responsibility on financial performance, while the research conducted by Oware & Mallikarjunappa (2019) provides the results that financial leverage as a moderating variable cannot affect corporate social responsibility on financial performance.

The effect of corporate social responsibility disclosure on firm value is based on agency theory, because based on agency theory, companies that disclose social responsibility information, in this case, are corporate environmental disclosures, aim to build a positive image of the company and get attention from the public (Liu & Zhang, 2017). When providing information on social responsibility, the company provides costs, so that the reported profit in the current year is lower. When companies face low supervisory and contract costs and high political visibility, they tend to disclose social responsibility information. Then as a form of responsibility, the manager as an agent will try to fulfill all the wishes of the principal by disclosing corporate environmental as an act of corporate social responsibility. Research and development or maybe marketing expenses may have future benefits and hence recorded as an asset. On the other hand, the accountant may also try to manipulate the reported earnings using an accounting decision. By transforming expenses into assets, the cost will be lesser and the asset will be bigger, this is part of earning management (EM) (Brahmana et al., 2018). Firms whose CEO acts as the chairman of the board are likely to be a subject to enforcement actions by influential stakeholders for allegedly engaging in earnings manipulations (El Diri et al., 2020). Environmental disclosure about the firm's performance will help stakeholders get a better sense of how companies can effectively contribute to a more just and sustainable world (Baalouch et al., 2019). Agency conflict exists when managers opportunistically manipulate EM in their own favor; hence, corporate environmental disclosure (CED), which is a means to secure their jobs, can also be used to distract shareholders' attention from monitoring EM activities (Sun et al., 2010). The implementation of corporate social responsibility practices will convince investors that the company will be able to guarantee the survival of the company in the future which will also increase the company's value.

The effect of disclosing corporate social responsibility on firm value with profitability as moderating is based on the legacy theory, because based on the legacy theory it is explained that companies must carry out and disclose corporate social responsibility activities as much as possible so that company activities can be accepted by the community. This disclosure is used to legitimize the company's activities in the eyes of the community, because the disclosure of corporate social responsibility shows the level of compliance of a company (Branco & Rodrigues, 2008). Companies will disclose corporate social information to both reduce risk and reassure investors (Sahut et al., 2019). El Haddad et al. (2021) stated the empirical evidence that CSR is a powerful factor in managerial decision-making in the Middle East with the national cultures of Oman and Lebanon exerting partially differing effects on CSR decision-making. Karmani & Boussaada (2021) stated the effect of CSR on Firm Performance (FP) is simultaneously positive and significant for the economic, social and overall score based on an equal-weighted performance of four CSR pillars. According to Javed et al. (2020), companies that disclose corporate social responsibility activities properly can improve their reputation and can reduce costs for claims or protests that will occur, so that firm financial performance can increase. The higher the level of profitability achieved by the company, the stronger the relationship between social disclosure and firm value. Therefore, the higher the level of profitability of a company, the greater the disclosure of social information by the company. According to Alsayegh et al. (2020), corporate responsibility is realized through economic, environmental and social performance. The better the company's performance in improving the

economic, social and environmental structure, the more the company's value will increase as a result of investors investing their shares in the company.

Stakeholder theory proposes that objectives of a corporation can be only achieved by protecting and balancing the interests of different groups of stakeholders (García-Sánchez & García-Sánchez, 2020). The similar objectives of CSR and stakeholder theory, such as value creation and effective stakeholder management, have allowed the two to coexist and to incorporate each other yet thrive independently (Freeman & Dmytriiev, 2017). Bidari & Djajadikerta (2020) stated that the extent of CSR disclosures made by Nepalese banks in their annual reports is mostly descriptive, with charity and donation being the most disclosed items. The main findings from the correlation and regression analyses show that there are positive and significant relationships between both bank size and profitability and the extent of CSR disclosures in the Nepalese banks, while bank age is a partial determinant.

The effect of disclosing corporate social responsibility on firm value with leverage as moderating is based on the theory of stakeholders, because based on stakeholder theory it is explained that this theory is related to the concept of corporate social responsibility, where corporate responsibility is not only limited to maximizing profits and the interests of shareholders, but also must pay attention to the community, customers and suppliers as part of the company's operations. Cormier et al. (2011) states that leverage is a measure of how much a company is financed by debt. The survival of the company is also determined by how much the company uses debt to support its company, if the debt used is too large it can endanger the survival of the company in the future and the risk of company bankruptcy will be even higher because the company is trapped in a debt level that is too high so that it is difficult for the company to release the burden of the debt. Purbawangsa et al. (2019) stated that in Indonesia, corporate governance and corporate profitability have a significant and positive effect on CSR disclosure. In India, corporate governance and corporate profitability have a significant and positive effect on CSR disclosure. In China, corporate governance and corporate profitability have a significant and positive effect on CSR disclosure.

The purpose of this study is to obtain empirical evidence regarding the effect of disclosure of corporate social responsibility on firm value, to obtain empirical evidence regarding the ability of profitability to moderate the effect of disclosure of corporate social responsibility on firm value and to obtain empirical evidence regarding the ability of leverage to moderate the effect of disclosure of corporate social responsibility on firm value.

METHODS

The location of this research was carried out at mining companies listed on the Indonesia Stock Exchange 2016-2018 by downloading financial report data from the official website of the Indonesia Stock Exchange, namely www.idx.co.id. Because it is related to the phenomenon that occurred on the Indonesia Stock Exchange, the mining sector index fell by 2.04%. The decline in this sector was followed by the decline in several leading stocks such as shares of PT Bukit Asam Tbk. has fallen by 5.34% to the level of Rp4,090 per share, PT Medco Energi Internasional Tbk. fell 5.71% to the level of Rp660 per share, PT Bumi Resources Tbk. fell by 7.95% to the level Rp139 per share and PT Dunia Makmur Tbk. fell by 6.30% to the level of Rp595 per share.

The population in this study were mining companies listed on the Indonesia Stock Exchange for the period 2016-2018 in the study period, amounting to 49 companies covering the coal sub-sector, the oil and gas sub-sector, the metals sub-sector and the rock sub-sector. The sample in this study is to use purposive sampling technique, namely the method of selecting samples based on certain criteria in accordance with the research

objectives, where the sample is used if it meets the criteria. The reason for using purposive sampling is because a study requires special criteria so that the sample taken later in accordance with the research objectives can solve research problems and can provide a more representative value.

The data collection method is done by using documentation from mining companies on the Indonesia Stock Exchange. Documentation is done by collecting secondary data in the form of financial reports obtained from the official website of the Indonesia Stock Exchange. The data collection method for measuring the disclosure of corporate social responsibility uses 91 indicators obtained from GRI-G4. Financial reports issued after 31 December 2015 must be prepared in accordance with the GRI-G4 guidelines. GRI recommends that organizations reporting for the first time use the GRI-G4 guidelines. GRI-G4 provides a globally relevant framework to support a standardized approach to reporting that promotes the level of transparency and consistency needed to make the information conveyed useful and trustworthy by markets and society.

Moderated Regression Analysis (MRA) test is carried out to find out how the dependent variable/criteria can be predicted through the independent variable/predictor individually. The impact of using regression analysis can be used to decide whether the increase and decrease of the dependent variable can be done by increasing or decreasing the state of the independent variable, or to increasing the state of the dependent variable by reducing the independent variable and vice versa.

RESULTS AND DISCUSSION

Testing data in this study using moderation regression analysis techniques. The calculation of the moderation regression coefficient was carried out by means of regression analysis using SPSS 18.0 for Windows software, the results shown are shown in Table 1.

Based on the results of moderation regression analysis as presented in Table 1, the structural equation is as follows:

$$Y = 0.254 + 0.265 \beta_1 X_1 + 0.281 \beta_2 M_1 + 0.107 \beta_3 M_2 + 0.259 \beta_4 X_1 \beta_2 M_1 - 0.326 \beta_5 X_1 \beta_3 M_2 \dots (1)$$

The equation 1 can be illustrated that if the disclosure of corporate social responsibility with ROA and DER is 0, the firm value is 0.254. If the disclosure of corporate social responsibility has increased by one unit, the firm value has increased by 0.265 with an ROA of 0 and if the disclosure of corporate social responsibility has increased by one unit, the firm value has increased by 0.281 with a DER of 0. If there is an interaction between disclosure of corporate social responsibility and ROA, the firm value will increase by 0.259. There is an interaction between disclosure of corporate social responsibility and DER, then the firm value will decrease to -0.326.

Researchers use the adjusted R^2 value when evaluating which is the best regression model, because unlike R^2 , the adjusted R^2 value can increase or decrease if one independent variable is added to the model. The test results give results in which the adjusted R^2 (the adjusted coefficient of determination) in Table 1 is 0.471. This means that the variation in the value of mining companies listed on the Indonesia Stock Exchange in 2016-2018 can be significantly influenced by the variable disclosure of corporate social responsibility, profitability (ROA), leverage (DER), interaction variable $X.M_1$ and interaction variable $X.M_2$ of 47.1% while the remaining 52.9% is explained by other factors.

The model reliability test or model feasibility test or more popularly known as the F test is the initial stage of identifying the regression model that is estimated to be feasible or not. Feasible (reliable) here means that

the estimated model is suitable to be used to explain the effect of the independent variables on the dependent variable. sig. the ANOVA table shows the probability or significance value in the ANOVA calculation. The values listed are used for the analysis model serviceability test (where a number of variables X affects variable Y) provided that a good probability number to be used as a regression model must be < 0.05 . This value can be seen in the sig. column. If the significance < 0.05 , the analysis model is considered feasible. If the significance value > 0.05 , then the analysis model is considered not feasible.

Table 1 Results of Moderation Regression Analysis

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	0.254	0.108		2.354	0.022
	CSRDI	0.265	0.110	0.272	2.408	0.019
	ROA	0.281	0.139	0.220	2.018	0.048
	DER	0.107	0.112	0.099	0.961	0.341
	CSRDI.ROA	0.259	0.122	0.225	2.125	0.038
	CSRDI.DER	-0.326	0.121	-0.298	-2.684	0.009
R Square	0.512					
Adjusted R Square	0.471					
F	12.592					
Sig.	0.000					

Table 2 F Test

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	40.271	5	8.054	12.592	0.000 ^a
Residual	38.376	60	0.640		
Total	78.647	65			

The results of the F test show that the significance value of the p value is 0.000 which is smaller than $\alpha = 0.05$, this means that the model used in this study is feasible. This result means that all independent variables, namely disclosure of corporate social responsibility, profitability (ROA), leverage (DER), interaction variable X.M1 and interaction variable X.M2 are able to predict or explain the phenomenon of the value of mining companies listed on the Indonesia Stock Exchange at 2016-2018. This means that the model can be used for further analysis or in other words the model can be used to project because the results of the goodness of fit are good with a significance value of p value (0.000).

The test criteria for explaining the interpretation of the effect between each variable is that if the significance value is < 0.05 then H_0 is rejected and H_1 is accepted. Conversely, if the significance value > 0.05 then H_0 is accepted and H_1 is rejected. The moderating variables can be classified into 4 types. Each moderation classification can be identified as the following example, if X is a predictor variable, Y is the dependent variable and M is a moderating variable, the regression equation can be formed as follows:

$$Y = \beta_1 X_1 + \beta_2 M_1 + \beta_3 M_2 + \beta_1 X_1 \beta_2 M_1 + \beta_1 X_1 \beta_3 M_2 + e \dots (2)$$

The hypothesis states that the disclosure of corporate social responsibility has a positive effect on firm value. Based on the results of the analysis, the regression coefficient X_1 is 0.265 with a significance level of 0.019 which is smaller than the significant level of 0.05. So, it can be concluded that the disclosure of corporate social

responsibility has a positive effect on firm value. This result means that the greater the percentage of corporate social responsibility disclosure of a company is able to increase the value of mining companies listed on the Indonesia Stock Exchange. Based on this, the first hypothesis is accepted.

The results of this study use agency theory, because based on agency theory, companies that disclose social responsibility information, in this case are corporate environmental disclosures, aim to build a positive image of the company and get attention from the public (Liu & Zhang, 2017). When providing information on social responsibility, the company provides costs, so that the reported profit in the current year is lower. When companies face low supervisory and contract costs and high political visibility, they tend to disclose social responsibility information. Then, as a form of responsibility, the manager as an agent will try to fulfill all the wishes of the principal by conducting corporate environmental disclosure as an act of corporate social responsibility.

The results of this study are consistent with research Chung et al. (2018) which show that disclosure of corporate social responsibility has an effect on firm value. Disclosure of corporate social responsibility is the company's commitment to be responsible for operational impacts in the social, economic, environmental and social dimensions on organizational performance. Corporate social responsibility is disclosed in a report called sustainability reporting. Sustainability reporting includes reporting on economic, environmental, and social influences on organizational performance.

The hypothesis states that profitability strengthens the effect of disclosure of corporate social responsibility on firm value. Based on the results of the analysis, the regression coefficient $X.M1$ is 0.259 with a significance level of 0.038, which is smaller than the significant level of 0.05. So, it can be concluded that profitability strengthens the effect of disclosure of corporate social responsibility on firm value. This result means that the profitability of a company strengthens the effect of disclosure of corporate social responsibility on the value of mining companies listed on the Indonesia Stock Exchange. Based on this, the second hypothesis is accepted.

The results of this study using the legitimacy theory explain that companies must carry out and disclose corporate social responsibility activities as much as possible so that company activities can be accepted by the community. This disclosure is used to legitimize the company's activities in the eyes of the community, because the disclosure of corporate social responsibility shows the level of compliance of a company (Branco & Rodrigues, 2008).

The results of this study are consistent with research Machmuddah et al. (2020) which show that profitability strengthens the effect of disclosure of corporate social responsibility on firm value. The relationship between company profitability and disclosure of social responsibility has become a postulate to reflect the view that social reactions require a managerial style, so that the higher the level of company profitability, the greater the disclosure of social information.

The hypothesis states that leverage weakens the effect of disclosure of corporate social responsibility on firm value. Based on the analysis results, the regression coefficient $X.M2$ is -0.326 with a significance level of 0.009 which is smaller than 0.05. So, it can be concluded that leverage weakens the effect of disclosure of corporate social responsibility on firm value. This result means that the leverage of a company weakens the effect of disclosure of corporate social responsibility on the value of mining companies listed on the Indonesia Stock Exchange. Based on this, the third hypothesis is rejected.

The results of this study use the theory of stakeholders, because based on stakeholder theory it is explained that this theory is related to the concept of corporate social responsibility, where corporate responsibility is not only limited to maximizing profit and shareholder interests, but also must pay attention to society, customers and suppliers as part of the company operations (Mayer, 2021). Stakeholder theory

proposes that objectives of a corporation can be only achieved by protecting and balancing the interests of different groups of stakeholders (García-Sánchez & García-Sánchez, 2020). The similar objectives of CSR and stakeholder theory, such as value creation and effective stakeholder management, have allowed the two to coexist and to incorporate each other yet thrive independently (Freeman & Dmytriiev, 2017).

The results of this study are consistent with research Cormier et al. (2011) which show that leverage weakens the effect of disclosing corporate social responsibility on firm value. The leverage ratio is to measure how much the company is financed with debt, so that the company should balance how much debt is worth taking and from which sources can be used to pay off the debt. Companies with high leverage ratios have an obligation to make wider disclosures than companies with low leverage ratios.

CONCLUSION

Based on the results of research conducted, the disclosure of corporate social responsibility and the interaction between profitability has an effect on firm value. This means that the rise and fall of firm value can be influenced by profitability. The higher the level of profitability achieved by the company, the stronger the relationship between social disclosure and firm value. Therefore, the higher the level of profitability of a company, the greater the disclosure of social information by the company. The disclosure of corporate social responsibility and the interaction between leverage has an effect on firm value. This means that the increase and decrease in firm value can be affected by leverage. The lower the level of the leverage ratio of a company, the higher the disclosure of corporate social responsibility that will be carried out by the company and this will affect the increase in firm value, such as companies in the manufacturing sector because in this sector the company manages a lot of natural resources to produce goods, resulting in waste a lot.

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