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THE EFFECT OF PROFITABILITY MODERATION ON CORPORATE SOCIAL RESPONSIBILITY AND FIRM VALUE: EVIDENCE FROM INDONESIA

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Abstract

Previous studies have shown that the relationship between corporate social responsibily (CSR) and firm value (FV) is still inconsistent. Therefore, the objective of this research is to test the impact of corporate social responsibility towards firm value and the profitability as moderation variable. Profitability is used since it is certainly inseparable from funding sources derived from the company's activity. Sample of this research is companies listed in Indonesia Stock Exchange (IDX) that publish sustainability report of 2010 – 2016 periods with 27 companies and 170 observations. Linear regression is used in analyzing hypotheses. The result of the test shows that CSReconomy takes effect on the firm value while CSRsocial and CSRenvironment have no effect towards firm value. The further test shows that profitability is proven to moderating the relationship of CSReconomy and CSRsocial towards firm value. In Indonesia, the company's sustainability report is voluntarily disclosed. Thus, this research recommends Sustainability Report to be mandatory discloded in Indonesia Stock Exchange (IDX).

Kata Kunci:

Corporate Social Responsibility;
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Abstrak

Penelitian-penelitian sebelumnya yang menguji hubungan antara *corporate social responsibility* (CSR) dan nilai perusahaan masih menunjukkan hasil yang tidak konsisten. Penelitian ini selanjutnya menggunakan profitabilitas sebagai variabel moderasi. Aktifitas tanggung jawab sosial perusahaan tidak dapat dipisahkan dari aktifitas utama perusahaan, yaitu menghasilkan laba yang maksimal bagi pemegang saham. Penelitian ini bertujuan untuk menguji pengaruh *corporate social responsibility* (CSR) terhadap nilai perusahaan dengan profitabilitas sebagai variabel moderasi. Penelitian ini menggunakan perusahaan publik yang terdaftar di Bursa Efek Indonesia yang mempublikasikan Laporan Keberlanjutan secara konsisten dari tahun 2010 - 2016. Data penelitian yang digunakan berasal dari 27 perusahaan dan 170 observasi terpilih. Pengujian hipotesis dilakukan dengan metode regresi linear berganda. Hasil pengujian menunjukkan bahwa *CSReconomy* berpengaruh terhadap nilai perusahaan, sementara CSR*social* dan CSR*environment* tidak berpegaruh terhadap nilai perusahaan, dan profitabilitas memoderasi pengaruh CSR *economy* and CSR*social* terhadap nilai perusahaan. Penelitian ini merekomendasikan regulator untuk mewajibkan perusahaan yang terdaftar di Bursa Efek Indonesia (IDX) mempublikasikan Laporan Keberlanjutan perusahaan secara periodik.

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INTRODUCTION

Corporate social responsibility (CSR) is activities conducted by the firm and is expected to increase the value of the firm in the nearest future. Those activities must inline with the company's objectives. The company is not merely a servant of the interests of the company's primary stakeholders, but it has responsibility to all stakeholders, and must maintain the harmony of values with the communities where the company runs. Firm value (FV) describes conditions and prospects of the firm. It represents the price of a company that possible to be paid by an investor at reasonable price. Firm value can be measured by many ways. One of those common methods to be used in measuring the value of the firm is price to book value ratio. The higher the value of a firm the higher the possibility the firm will be invested by potential investors. The correlation between CSR and FV can be analyzed from the legitimacy theory. The emergence of legitimacy theory can strengthen the statement that the company has responsibilities to their shareholders as well as the surrounding community, ie: the government, local communities, workers, environment, and natural resources used by the company. It is expected that by gaining the trust of the surrounding community, it will ensure the survival of the company so as to increase investor confidence and increase the FV. This study attempts to examine the influence of CSR on the FV and test the moderating role of profitability, considering that in carrying out CSR activities, companies need funding which is certainly inseparable from funding sources derived from the company's profitability. The key role of reputation in CSR relationships and FV is further emphasized by the role of stakeholders who are indirectly affected. Organizational action is a source of information for external stakeholders in their decision to allocate resources to the organization. CSR is the company's efforts to improve the company's reputation.

Corporate sustainability reporting practices are explained by the theory of legitimacy (Lu and Cortese, 2015). Titl (1994) on Haniffa and Cooke (2005) state that companies are increasingly aware that a good relationship between the company and the community in the operational area is needed to maintain the company's sustainability. Lindblom (1994) states that if there is an inconsistency between the firm value system and the community value system, then the company loses legitimacy which in turn threatens the survival of the company (Haniffa & Cooke, 2005). In an international context, the term of corporate social responsibility (CSR) has been popular since the 1970s. Elkington packed CSR into three focuses: 3P (profit, planet, and people). The business concern for community welfare and environmental preservation is important for companies in addition to pursuing economic benefits to becoming a good company (Elkington, 1997). The legitimacy of companies is needed to obtain an operating license in conditions that are not presumed as predators of the the natural and social environment. When the companies behaved accordingly to the rules and values recognized by the shareholders and stakeholders, the legitimacy is achieved and maintained, they can use resources for their business purposes.

The previous research has proven an empirical evidences that corporate social responsibility (CSR) improves financial performance (FP) and firm values (FV) of companies in Japan, Nigeria, and Bangladesh (Chiang *et al.*, 2015; Usman dan Amran, 2015; Ding *et al.*, 2016). Research was conducted by Dunn and Sainty (2009) with a sample of 104 companies in Canada. The results showed an increase in social performance increases firm value as ROE proxies. Study by Jo and Harjoto (2011) examines the US companies in the 1993-2004 study period. The results have shown that the involvement of corporate social responsibility (CSR) had a positive effect on firm value measured by Tobin's Q. Research in China by Chen and Wang (2011) in the 2007-2008 period found that corporate social responsibility activities increased firm value in the current year and years after. The study uses ROA and ROS as a proxy for firm value. Research based on stakeholder theory by determining 9 types of stakeholders (shareholders, operators, employees, creditors, suppliers, distributors, customers, government, and community).

In contrast to the discussion above, some researchers found the results of corporate social responsibility (CSR) had no effect and even had a negative effect on firm value (Aras *et al.*, 2010; Crisostomo *et al.*, 2011; Becchetti *et al.*, 2012). Study in China has shown that corporate social responsibility decreases the firm value (Liu dan Zhang, 2016). Research by Crisostomo *et al.* (2011) in Brazil with a sample of 78 companies consisting of 37 percent of non-financial companies. The observation period of 2001 to 2006 with a total of 296 observations, found the current corporate social responsibility period and the previous period decrease the current period's firm value. But after being seen per indicator of corporate social responsibility for activities related to external social activities at this time and the previous period does not affect the current firm value. While activities related to employees and the environment have a negative effect. Furthermore, Aras *et al.* (2010) found no relationship between corporate social responsibility and firm value measured by profitability. The study used a sample of 100 companies on the Istanbul Stock Exchange (ISE) in Turkey with a study period from 2005 to 2007. Research conducted in Indonesia's companies that participated in a proper program from the Ministry of Environment has shown that the company's environmental performance improved the financial performance of ROE and ROA (Titisari & Alviana, 2012).

Corporate transparency that often occur through voluntary disclosure related to CSR activities will reduce information asymmetry between insiders and outsiders, thus inhibiting managerial transactions and increasing FV. Thus, the value of the company will increase when effective external monitoring of CSR is involved. With CSR activities, it will provide long-term sustainability of the company. Furthermore, stock prices increase, which is a reflection of increasing company value. The implementation of CSR cannot be separated from the profitability of the company as a source of funds.

The hypothesis built in this study is as follows: H1 : The better the $CSR_{economicy}$, the higher the FV. H2 : The better the CSR_{social}, the higher the FV. H3 : The better the $CSR_{environment}$, the higher the FV. H4 : Profitability moderates the effect of $CSR_{economy}$ towards FV. H5 : Profitability moderates the effect of $CSR_{economy}$ towards FV. H6 : Profitability moderates the effect of $CSR_{environment}$ towards FV.

RESERCH METHOD

FV describes the condition of the company. The firm value n this study was proxied by Price Earning Ratio (PER). CSR is the fulfillment of the company's obligations to all stakeholders for long-term sustainability. CSR in this study, proxied by CSR Index (CSRI) based on the GRI index published in the company's Sustainability Report. CSR in this study is analyzed in its entirety, which are economic, social, and environmental. Profitability is the result of the company's operations and in this research it is conducted with Net Profit Margin (NPM).

The study population was determined by the criteria: (1) issuing the sustainability report (2) that does not experience negative earnings in the study period. Observations were carried out for the period 2010 to 2016. Based on the above criteria, it was obtained 27 (twenty seven) companies that met the population criteria and all of them were used as research samples, with a total observation of 170. Analysis method uses multiple linear regression.

The hypothesis that was developed in this study was tested with a regression analysis tool. The influence of CSR on the FV, tested in 2 stages. The first test without moderating variables and the second test included profitability as a moderating variable.

RESULT AND DISCUSSION

Table 1 shows the results of descriptive statistics on the average corporate social responsibility (CSR) index as a whole are above 0.5. This shows an increase in awareness of corporate CSR activities, in which the previous research was under 0.5 (Sayekti & Wondabio, 2007; Titisari *et al.*, 2010). The increase in the CSR index indicates that the company is increasingly paying attention to CSR activities. It means that the company has similar focus on the achievement of their profit, maintaining good relationship with people inside and outside the entity, and put high concern on the sustainability of the environment where the company running the business. Maximizing the firm value (FV) is the main goal of the company. Therefore, it will be interesting to examine the parameters that really affect it.

The results of testing classic assumptions give the results that the regression model in this study is significant and representative.

Table 1.
Descriptive Statistic

	N	Range	Min.	Max.	Mean	Std. Dev.
CSRec	170	0,89	0,11	1,00	0,6799	0.27849
CSRsoc	170	0,97	0,03	1,00	0,5169	0.34179
CSRenv	170	0,92	0,08	1,00	0,5404	0,30717
PER	170	98,46	-34,55	63,91	15,3109	13,49993
NPM	170	170,91	-133,24	37,67	13,1229	16,67102

Source : Processed data, 2022

Tabel 2
Regression Analysis Results

$$PER = a + b_1.CSR_{ec.} + b_2.CSR_{soc.} + b_3.CSR_{env.} + e \quad (1)$$

$$PER = a + b_1.CSR_{ec.} + b_2.CSR_{soc.} + b_3.CSR_{env.} + b_4.NPM + b_5.CSR_{ec}.NPM + b_6.CSR_{soc}.NPM + b_7.CSR_{env}.NPM + e \quad (2)$$

	(1)		(2)	
	koef	(p-value)	koef	(p-value)
Constant	8,628		-2,212	
$CSR_{ec.}$	14,092	0,075	4,051	0,000
$CSR_{soc.}$	-6,054	0,298	-3,610	0,000
$CSR_{env.}$	0,427	0,953	1,077	0,283
NPM			6,591	0,000
CSR_{ec}.NPM			-4,319	0,000
CSR_{soc}.NPM			4,355	0,000
CSR_{env}. NPM			-1,566	0,119
F	2,164	0,094	7,790	0,000
R		19,4		50,2
R^2		3,8		25,2
Adj R^2		0,02		0,22

Source : Processed Data, 2022

Based on the results of regression analysis in Table 2; model 1 provides evidence that only CSR economy has an effect on FV. This result is not consistent with the previous research conducted by Titisari *et al.* (2010). The research provides empirical evidence that CSRsocial influences the value of a company. Regression test results show that model 1 has an adjusted R^2 of 0, 02, while model 2 has a better adjusted R^2 of 0.22. These results provide empirical evidence that NPM strengthens the influence of CSR on FV. This is in accordance with predictions stated previously.

The average CSR index based on its parameters, $CSR_{economy}$ and $CSR_{environment}$ are higher than CSR_{social}. In some explanations of these results, that companies increasingly CSR activities must be considered more to improve the company's image and maintain its existence. Companies pay more attention to $CSR_{environment}$ activities than CSR_{social}.

This study was unsuccessful in proving the hypothesis which states that *CSR_{sosial} and $CSR_{environment}$* influence the FV and support of the $CSR_{economy}$ influence the FV. These results indicate that corporate spending on CSR activities has resulted in damaging shareholder value. Investors are less concerned about the company's social and environmental activities in deciding to invest. Investors have more concern on the increase of the value their investment, both short term and long term. It is common in developing countries that the concern on environmental issues is still lower than investors in developed countries. The concern on social activities of a company is mainly not a concern of investors in developing countries.

Furthermore, this study succeeded in showing the role of profitability moderating the influence of $CSR_{economy}$ and CSR_{social} on the FV. These results indicate investors pay attention to the company's operational results which are reflected in profitability when assessing $CSR_{economy}$ and CSR_{social} activities. $CSR_{environment}$ activities are not a concern for investors. The negative relationship to CSR_{sosial} activities on the FV. Investors focus more on $CSR_{economy}$ run by the company.

CONCLUSION

The test results show that $CSR_{economy}$ has an effect on the FV while CSR_{social} and $CSR_{environmeny}$ has no impact on the FV. Further testing shows that profitability is proven to moderate the influence of $CSR_{economy}$ and CSR_{social} on the FV. This study provides evidence that investor assessments of companies do not only focus on financial performance, but also non-financial factors. Companies must pay attention to non-financial performance such as CSR which plays an important role in increasing FV.

The company in its operations to gain legitimacy in the community should carry out social and environmental activities to maintain the sustainability of the company. But apparently this research provides empirical evidence that only $CSR_{economy}$ activity affect FV. Whereas after the profitability moderating the $CSR_{economy}$ variable exists, it negatively affects the FV. It is interesting to study further how the CSR activities of companies should increase the FV.

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