CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE AND INDONESIAN FIRM VALUE: THE MODERATING EFFECT OF PROFITABILITY AND FIRM'S SIZE

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ABSTRACT

In comparison with the growth of Corporate Social Responsibility (CSR) practices in Indonesia, the studies on the impact of CSR disclosure on firm value has provided more steadily and the findings are deficient. This study empirically examines the nexus between corporate social responsibility disclosure and firm value and also investigates the mediating role of profitability and firm size. This research adopted Moderated Regression Analysis (MRA) to estimate the relationship between the variables involved in this study. The research involved 49 mining sector firms in Indonesia between 2019 and 2020 that were listed on the Indonesia Stock Exchange (IDX). The findings reveal that corporate social responsibility disclosure has a significant effect on firm value in the mining sector in Indonesia. This study also confirms that profitability and firm size can moderate the effect of corporate social responsibility disclosure on firm value. Practical and theoretical suggestions also are provided.

Keywords: Corporate Social Responsibility disclosure, profitability, firm size, firm value; moderated regression analysis

DOI: http://dx.doi.org/10.15549/jeecar.v9i4.940

INTRODUCTION

In recent years, firm management has been promotion corporate social responsibility (CSR) disclosure as a means to enhance the firm's value. CSR disclosure is seen as a way for management to indicate to its stakeholders and potential investors how its focus on socio-economic matters in its operations adds value to the firm (Chen et al., 2018). CSR disclosure also increases firm transparency, escalates its image, and provides investors a broader range of information that can improve decision-making among investors (Garas & ElMassah, 2018)

Shifts in social values and norms in a community can cause it to question the legitimacy of the companies operating in it, and as a result, companies, in their efforts to achieve sustainability, need to adapt (Kucharska & Kowalczyk, 2019; Gaol & Harjanto, 2019). A way to diminish pressures that arise from this legitimacy gap can be CSR disclosure. Moreover, protests that may arise within the community over what the firm is doing will have an effect on the presence and stability of the firm's operations (Chen et al., 2018). CSR disclosure therefore is beneficial for companies to minimize the legitimacy gap by increasing compatibility between company operations and community expectations (Fahad & Rahman, 2020).

The effect of CSR disclosure on firm value has been receiving increased research interest, however the results of these studies has been inconsistent. For example, a study by Nguyen et al. (2015) showed that CSR disclosure positively influences firms' value in Vietnam, and Harun et al. (2020) noted a robust link between CSR disclosure and firm value in Malaysia's banking sector. Furthermore, Naseem et al. (2017) uncovered causality between CSR disclosure and company performance in China. With respect to Indonesia, Laili et. al (2019) and Kamaliah (2020) found that CSR disclosure positively influences the value of Indonesian manufacturing sectors. In contrast, different results were shown by Crisostomo et al. (2011), who found that CSR disclosure had a significant adverse effect on firms' value in Brazil. Additionally, some works, for example, those by Tjia and Setiawati (2012) and Kushariani et al. (2019), also mentioned that CSR disclosure has no significant effect on firm value in Indonesia.

The aim of this study is to fill the knowledge gap on the effect of CSR disclosure on firm value by investigating the nexus between CSR disclosure and firm value, focusing on Indonesia's mining sector. The focus on mining adds to the existing studies on the banking and manufacturing sectors (Tjia & Setiawati, 2012; Harun et al., 2020; Kamaliah, 2020). Focusing on Indonesia's mining industry is appropriate beause, generally speaking, the mining industry in developing countries, has been concerned with utilizing natural resources to produce benefits for the community while at the same time making a profit (Frederiksen, 2019). In addition, the mining sector often is one of the pillars of a country's economic development and growth (Cao et al., 2020; Ghocero & Bopen, 2020). Operating a mining business requires enormous amounts of capital (Pimentel et al., 2016), the sourcing of which causes mining firms to be a major player in a country's capital market. As a result, what happens to the value of a mining firm will be of interest to that capital market, and therefore a study of how CSR disclosure in mining firms affects their value is important.

This study therefore is providing some important contributes. First, it contributes to the literature on the nexus between CSR disclosure and firm value for Indonesian mining industries by revisiting this causality. Second, because Indonesia has abundant natural resources that are attractive to mining companies (Spiegel et al., 2018; Antono et al., 2019), understanding the effect CSR disclosure has on firm value will be useful to those companies. Third, data from the Indonesian Capital Market Directory (ICMD, 2021) shows that the average price to book value (PBV) of Indonesian companies in the mining sector (sub-sector Coal Mining, Crude Petroleum, and Natural Gas Production, Metal and Mineral Mining, Land/Stone Quarrying) is greater than 1.0, however there has been a decline in PBV from 2018 to 2020, indicating a decline in the quality and fundamental performance of those companies (ICMD, 2021). This study also is essential, as the Indonesian government is concerned with dealing with environmental issues and enlarging company CSR programs. Furthermore, the research uses moderated regression analysis (MRA) to investigate profitability and firm size as moderating variables for the effect of CSR disclosure on firm value of Indonesian firms that is missing in prior research.

The paper is outlined as follows. Section 1(above) deals with the study's research background and purpose, followed by a comprehensive literature review in Section 2. Detail on the methodology and analysis used is in Section 3. Section 4 contains the findings and discussion, and a conclusion, limitations and suggestions for further research are in Section 5.

LITERATURE REVIEW

Corporate Social Responsibility Disclosure and Firms Value

Stakeholder theory says that a company is not an entity that only operates for its own sake but must provide benefits to its stakeholders (Lange & Bundy, 2018). A company's reputation will be good and receive a positive impression from stakeholders when it shows its responsibility in the form of corporate social responsibility (CSR) (Lu et al., 2019). CSR consists of activity carried out by the company to counter any negative impacts arising from its operational activities and include economic, social, and environmental responsibilities (Seok et al., 2019; Banarova et al., 2021). Engaging in CSR requires companies to balance the business benefits obtained from its operations against all the costs (economic, social and environmental) incurred in achieving them (Abbas, 2020).

CSR disclosure is a method adopted by companies to communicate their CSR activities to the public and interested parties in their annual reports parties (Chen et al., 2018). CSR disclosure by companies in annual reports is expected to meet the information needs of stakeholders and the public so that firms will achieve their goals (Kamaliah, 2020). The CSR disclosure standards in Indonesia refer to the standards applied by the Global Reporting Initiative (GRI). The underlying reason is that GRI is concerned more about utilizing sustainability reporting. Concerning Indonesia, the GRI-G4 standard has been widely used by companies in Indonesia.

Through the involvement of CSR, it is expected that a firm will obtain social legitimacy and enhance its financial strength in the long run (Kamaliah, 2020). This implies that firms which incorporate CSR will acquire a more positive response from the market. For this reason, it is often believed that CSR can drive a firm's financial performance (Okafor et al., 2021). The fundamental rationale is that in making decisions, firms need to appraise several social and environmental issues when they are concerned with maximizing long-run financial achievement that further enhances the firms' value. A prior study by study by Nguyen et al. (2015) showed that CSR disclosure positively influences firms' value in Vietnam. Concerning Malaysia, the findings of Harun et al. (2020) noted a robust link between CSR disclosure and the value of the banking sector. Indeed, Naseem et al. (2017) revealed the causality between CSR disclosure and company performance in China. Thus, the hypothesis is provided as below.

H1 CSR disclosure (X) positively influences firms' value (Z)

The Moderating Role of Profitability

Another theory that underlies Corporate Social Responsibility (CSR) is the theory of legitimacy. Legitimacy and stakeholder theory are theoretical perspectives within the framework of political economy (Miles, 2019). According to Carvalho et al. (2019), the impact of the greater society can influence the allocation of financial and other economic resources. Firms are more likely to engage in environmental-based performance and disclosure of environmental information to justify or legitimize firms' involvements in the perspectives of the public. Wu et al. (2021) suggested that the implementation of CSR is a policy formulation targeted for various types of companies and is used to create different business strategies for certain types of companies. The CSR program is carried out for the business development process and to increase the company's competitiveness.

Wang (2014) revealed that the company's attitude towards CSR depends on the suitability of CSR with profits. Firms will usually be positive if CSR practices contribute to increased profits. However, the firm will have a negative attitude towards CSR if it does not provide benefits. Ekatah et al. (2011) revealed that the performance of socially responsible companies can be associated with profitability. The higher firms' profitability will promote a better profit achieved by the firms that lead into the company's position in the use of assets (Alshiqi & Sahiti, 2021). That is, the higher the profit of a company, the wider the company in disclosing its social responsibility in the annual report. Godfrey et al. (2009) remarked that there is a robust link between CSR disclosure and profitability. Van de Ven and Graafland (2006) stated that CSR disclosure positively influences financial achievement in the long term. Therefore, the hypothesis is provided as below.

H2 Profitability (Y_1) moderates the effect of CSR disclosure on firm value (Z)

The Moderating Role of Firm Size

Firm size describes the size of the industry. Large-sized industries receive the spotlight from various parties, which causes companies to spend more on CSR disclosures. Bernaciak et al. (2021) revealed that the level of CSR implementation in large-scale industries provides positive image benefit to stakeholders, while small and medium enterprises consider CSR involvement as a sunk cost that does not bring more advantages. Large firms will disclose more information instead of small-scale business due to the politics that are confronted by large-scale firms. Additionally, larger-scale firms may have shareholders who pay attention to the social considerations made by the firms in the annual report, as it is a medium for disseminating information about corporate social responsibility and the firm's environment (Krajnakova et al., 2018). The results of studies conducted by Ashfaq and Rui (2019); Salehi and Rui (2019); Fahad and Nidheesh (2018) revealed that CSR disclosure is significantly related to firm size. Thus, the hypothesis is proposed as follows.

H3 Firm size (Y_2) moderates the effect of CSR disclosure on firm value (Z)

METHODOLOGY

This research has adopted an explanatory approach that aims to identify the effect of CSR disclosure on firm value by using profitability and firm size as moderating variables. The scope of this study is Indonesian manufacturing companies in the mining sector, which consists of the sub-sectors of Coal Mining, Crude Petroleum & Natural Gas Production, Metal and Mineral Mining, Land / Stone Quarrying totaling 49 companies during 2019-2020. All included companies are recorded in the Indonesian Stock Exchange (IDX). The independent variable in this research is the CSR disclosure, action or concept that are provided by the firms' responsibility towards the social or environmental issues in which the company is positioned. In this research, CSR disclosure is determined by the Corporate Social Responsibility Index (CSRI), which will be estimated by differentiating the number of disclosures made by the company with the required total of disclosures. This paper refers to BAPEPAM regulation No.VIII.G.2 regarding annual reports and the suitability of indicators to be implemented in Indonesia, covering 78 disclosure items that are appropriate in Indonesia (Hackston & Milne, 1996; Nurleni & Bandang, 2018). Each CSRI item that is disclosed will be given a value of 1, and 0 for non-disclosed indicators. The calculation of the CSR disclosure area index is formulated as follows.

$$\text{Mining Sector of CSRI}_t = \frac{\text{Number of disclosed items}}{78}$$

The dependent variable in this study is a firm's value, which is the market ratio adopted to estimate the performance of the stock market price toward its book value. Brigham and Ehrhardt (2016) stated that PBV is a market ratio involved in calculating the performance of the stock market price toward its book value. PBV (price book value) is formulated as follows.

$$\text{PBV} = \frac{\text{Stock price per share}}{\text{Book value per share}}$$

Moderating variables in this research are profitability (M1) and firm size (M2). The profitability of a company shows the ratio between profit and assets or capital that generates the profit. In other words, profitability is the firm's ability to create profits. Profitability is formulated as follows.

$$\text{ROA} = \frac{\text{Profit before tax}}{\text{Total assets}}$$

Firm size is the size of the company. Firm size is proxied by the total assets owned by the company. Measurement of firm size variable refers to Hackston and Milne (1996). This study followed several calculations, including descriptive statistics, was tested by MRA (moderated regression analysis). MRA is a form of regression designed hierarchically to determine the connectivity between two variables that are influenced by a third or moderating variable (Chen, 2011). In detail, the statistical equations used by MRA are provided as follows.

Model 1. CSR impacts firms' value

Firm value = + 1 CSR

Model 2. CSR has an effect on firm value moderated by profitability

Firm value = + 1 CSR + 2 Profitability + 3 CSR * Profitability

Model 3. CSR an effect on firm value moderated by Size

Firm value = + 1 CSR + 4 Size + 5 CSR * Size

Hypothesis testing is performed by considering the level of significance of the results of the t-test. When the significance level of the t-test is less than 0.05, the independent variable has a statistically significant probability of the dependent variable. The hypothesis testing model based on the MRA adopted in this study follows classical assumptions to produce the correct parameter values, including multicollinearity, heteroscedasticity, autocorrelation, and normality.

RESULTS

The statistical calculation for descriptive analysis is presented in Table 1. Table 1 explains that CSR disclosure is measured by dividing the total amount disclosed by the maximum amount of disclosure. Having an average value of CSR disclosure with 98 observation data studied is 0.517 or 51.7%, indicating that the mining sector companies jn the sub-sector Coal Mining, Crude Petroleum & Natural Gas Production, Metal and Mineral Mining, Land/Stone Quarrying disclose about 52 CSR disclosure items based on the guidelines from GRI which are reported in the annual report.

Table 1: Descriptive statistics.

Variable	Observations	Mean	Standard Deviation	Minimum	Maximum
CSR	98	0.517	0.392	0.037	1.432
Profitability	98	3.064	0.120	0.349	5.700
Size	98	22.912	6.131	2.292	29.322
Firm value	98	9.556	2.316	3.963	15.479

Profitability, as determined by return on assets, has an average of 3.064., which indicates that the firm's ability to involve all of its assets to obtain profit after tax is high. Kostini and Marliasari (2017) revealed that a high return on assets reflects the company's success in generating profits from its own capital. The increase in return on assets will also boost the selling value of the company, which has an impact on stock prices. In this study, the size of the company as proxied by total assets has a mean of 22.912, which shows that the selected companies have large total assets and are reaching the maturity stage in which the firms' cash flow are positive and should have good prospects over a relatively long period of time. It also indicates that the firm is relatively more stable to acquire profits instead of firm with smaller assets.

The findings show that the average PBV of the sample companies is 9.556. This implies that the high value of the company causes the investor's assessment of the company concerned to be higher, thus making investors interested in investing in the company. When the market price of a stock increases, the capital gain (actual return) of the stock will also increase. Sasongko (2019) remarked that a high PBV reflects the level of welfare of shareholders and is the primary concern of firms. The results of the classical assumption test are presented in Table 2.

Table 2: The classical assumption tests

Variable	*Varians Inflation Factor* value	*Spearman' rho* value	Durbin Watson value	*Asymp.* Sig. (2-tailed) value
CSR	7.304	-0.203	1.929	0.521
Profitability	1.630	-0.057		0.312
Firm Size	3.063	0.351		0.544
Firm value	-	0.356		0.842

It can be seen from Table 2 that the model in this study does not contain symptoms of multicollinearity because the score of the Variance Inflation Factor (VIF) is below the criterion limit for the presence of a multicollinearity problem, which is 10. The results of Spearman's rho correlation analysis indicate the between confounding variance (unstandardized residual), with none of the independent variables showing a value above 0.7. The results of testing the classical assumption of autocorrelation conclude that the regression model formed does not contain autocorrelation, and the sample data taken have followed the normal distribution because of the Asymp. value. Sig. (2-tailed) > 0.05. In addition, the results of testing the effect of CSR disclosure on firm value and the role of profitability and firm size in moderating the link of CSR disclosure and firm value are presented in Table 3.

Table 3: Moderate Regression Analysis (MRA).

Firm value	Coefficient Standard	Error	t-Value	p-Value
CSR	0.105	0.266	2.322	0.022**
Profitability	0.113	0.874	2.493	0.014**
Size	0.340	0.032	3.960	0.000*
CSR* Profitability	0.560	0.040	6.478	0.000*
CSR* Size	0.094	0.012	2.067	0.042**
R Value : 0.906 R-squared : 0.821 F-Value : 84.466 p-Value : 0.000				

Note(s): *, ** significance at 1% and 5%.

The model was used to determine whether moderate regression analysis was feasible or not using the F-test. Based on the statistical analysis, the F-value of 84.466 with a probability value (p-value) of 0.000 was lower than the statistical significance level at = 5 %; these results, therefore indicate that the model used in this study is a good fit. From the coefficient of determination test, it can be seen that the R-value in this study is 0.906, meaning that CSR disclosure, profitability, and firm size have a robust relationship with firm value. The value of R-Square, which shows the value 0.821 or 82.1%, indicates that CSR disclosure, profitability, and firm size influence firm value by 82.1%, while the remaining 17.9% is performed by other variables not covered in the research model. The magnitude of the probability value (p-value) of the influence of CSR on firm value is 0.022. The impact of profitability on firm value is 0.014, and firm size on firm value is 0.000. These results show that CSR, profitability, and firm size significantly influence firm value.

The profitability test moderates the relationship between CSR disclosure and firm value, resulting in a probability value (p-value) of 0.000, which is smaller than the statistical significance level at = 5%. This result indicates that profitability can moderate the relationship between CSR disclosure and firm value. The magnitude of the probability value (p-value) of company size moderates the relationship of CSR disclosure with a firm value of 0.042, which is smaller than the statistical significance level at = 5%, indicating that firm size can moderate the relationship between CSR disclosure and firm value.

DISCUSSION

The CSR Disclosure and Firm Value

The issue in the mining sector is controversial because these companies usually solely carry out CSR actions to improve their image and reputation, but the reality is that they are the ones that damage the environment the most. Therefore, CSR disclosure can be provided to enhance the company's image. In doing so, the Indonesian regulation of Law No. 40 of 2007 and Law No. 25 of 2007 noted that CSR is no longer voluntary by firms for being responsible for the firm's engagements but is mandatory. The statistical calculation proves that the CSR disclosure can promote firms' value. This implies that CSR disclosure is highly associated with the firm's image in the perspectives of investors and the public. The firm carries out maximum accountability so that the company's image will improve. The number of social disclosure items that are provided when accompanied by a better quality of disclosure will enhance the firms' value.

The findings of this research has implications for stakeholder theory, which states that firms should not focus on their interests but need to include the interests of stakeholders. Therefore, the presence of a firm is robustly reinforced by the company's stakeholders (Duthler & Dhanesh, 2018). Deegan (2004) added that all stakeholders have the right to acquire information about firms' involvement, which can drive decision-making. The results of this study also have implications for legitimacy theory. According to Haniffa and Cooke (2005), the firm commits with society to perform its operations following the values of equality, and how the firm acknowledges several interest groups to legitimize the firm's activities. Wei et al. (2017) revealed two matters for organizational legitimacy and CSR. First, the aptitude to enhance profit maximization leads to a clearer image of the firm's motivation to enhance its social responsibility. Second, organizational legitimacy can link with cultural dimensions that configure different organizational compulsions in various contexts.

The findings of this study strengthen the studies conducted by Servaes and Tamayo (2013); Astuti et al. (2018); Laili et al. (2019); Amato and Falivena (2019); Seok et al. (2019); Kamaliah (2020); Hendratama and Huang (2021) which concluded that CSR disclosure promotes better firm value, indicating that the more social disclosure items and the better the quality of the disclosure, the greater the firms' value.

Profitability moderates the effect of CSR disclosure on firms' value

The greater level of CSR disclosure will promote the firms' value because the company is considered to be setting aside funds to disclose its social responsibility more broadly. Firms with a high level of profitability are more likely to increase CSR to attract investors and focus on either the short-run impact (profit) or the long-run goal (Wei et al., 2017). A prior study by Wang (2014) explained that the firms' profitability is a primary consideration that enables management to disclose the firms' responsibility to shareholders more flexibly. In doing so, the greater level of a firm's profitability will lead to better disclosure of social information. This means that the company in carrying out its operations harms the environment. Under these conditions, the company must provide a portion of the profits earned for the corporate social responsibility program, which aims to overcome the negative impacts caused by the firm's operations.

The findings of the research also have implications for stakeholder theory, which states that companies have a responsibility to stakeholders to meet the information needed to maintain their support. Also, firms' management considers CSR disclosure essential for enhancing the firm value. The higher the level of profitability leads to more comprehensive information reported by management because it wants to convince investors. Deegan (2004) remarked that in stakeholder theory, relationships with stakeholders outside the company are based on functional relationships based on partnerships. In addition to accumulating wealth, the firms seek to eradicate welfare with stakeholders outside the company.

These results strengthen the study put forward by Fatma et al. (2015), which mentioned that companies must provide some of the profits for CSR programs that aim to overcome the negative impacts caused by the company's operations. Wang (2014) revealed that the company's attitude towards CSR depends on the suitability of CSR with profits, while Godfrey et al. (2009) concluded that there is a robust nexus between CSR and profitability. Ali et al. (2017) stated that CSR disclosure positively influences financial results in the long run. Ekatah et al. (2011) revealed that the performance of socially responsible companies can be associated with profitability. This indicates that greater firm expenses for CSR will promote a higher profit accomplished. The greater the profit of a company, the wider the range of disclosures on its corporate social responsibility that appear in its annual report.

Firm Size Moderates the Effect of CSR disclosure on Firms Value

Firm size is an indicator that is widely adopted to propose firms' social disclosures, which are proxied in the annual reports. Overall, large-scale companies will disclose more information instead of small-scale firms. The fundamental rationale here is that large firms also confront more political risk than small businesses. In this matter, Lee et al. (2017) suggested that greater social disclosure will reduce political costs for companies. In addition, larger firms tend to have a higher public demand for information compared to small-scale business.

Large firms will tend to disclose company performance not limited to financial statements but will also disclose social information to avoid the costs incurred if the firm does not carry out its social responsibility activities. Large companies will also CSR disclosure information more broadly so that the firms' image will be better and later affect the increase in company value. Bernaciak et al. (2021) revealed that the level of CSR implementation in large companies provides positive image benefits to stakeholders, while small and medium enterprises consider CSR involvement as a sunk cost that do not create more advantages. The finding of this research has implications for stakeholder theory, i.e., that the larger the size of an industry, the more stakeholders are involved.

Therefore, the company is obliged to maintain good relations with stakeholders, and the way to do this is by disclosing CSR. The results of this study also have implications for legitimacy theory. Legitimacy theory is the reason for the relationship between company size and disclosure. Large firms tend to carry out activities that impact the community and have a greater risk of environmental damage. This is why large industries are encouraged to use legitimacy by disclosing complex social activity information rather than small industries. The larger the size of the firms, the greater the obligation to carry out CSR. Therefore, the company is expected to disclose social programs as well as possibly promote a positive image and gain social legitimacy from stakeholders. This supports some preliminary studies by Al-Gamrh and Al-Dhamari (2016); Salehi and Rui (2019); Fahad and Nidheesh (2018) that CSR disclosure is significantly influenced by firm size. Lastly, a company can take a requisite activity to provide public awareness of the CSR involvement of the firm to reach a benefit in the future.

CONCLUSION AND RECOMMENDATION

The insufficient studies investigating moderating the nexus between CSR disclosure and firm value deserve more research attention. The role of profitability and firm size for the link between CSR disclosure and firm value is also overlooked among scholars. To fill the gap in the literature, this research has aimed to present empirical evidence of the relationship of CSR disclosure to firm value if moderated by profitability and firm size in Indonesia. The first finding proves that CSR can promote Indonesian firms' value. The second finding from the analysis proves that profitability moderates the effect of CSR disclosure on firm value. This finding also confirms the role of firms' size in moderating the nexus between CSR disclosure on firms value. The findings of this research provide benefits for the management of companies that have high profitability and large company scale; namely, that in CSR disclosure it is necessary to harmonize the substance of the distribution of social welfare and environmental preservation and not just treat it as a function of public relations, corporate image or reputation, and company interests to boost value. These findings also can indirectly provide an overview to the government on the disclosure of social responsibility that has been carried out by firms so that the government can consider a CSR reporting standard that is in accordance with conditions in Indonesia. As other studies, this study has limitations in the geographical settings that solely concern some Indonesian companies in the field of mining. This study did not sub-sector mining industries as control variable. Notwithstanding these limitations, the study suggests elaborating another variable that may increase public and investor perception about companies and capture this issue from different regional settings. Furthermore, future researchers can consider involving a sub-sector of industries as the control variable.

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