

The Effect of Corporate Social Responsibility Disclosure and Capital Structure on Firm Value

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ABSTRACT

The primary objective of this empirical investigation is to assess the impact of corporate social responsibility (CSR) and capital structure on the firm value of companies operating in the basic material sector and listed on the Indonesia Stock Exchange during the period of 2018–2021. The study employs descriptive statistics and multiple linear regression analysis as the analytical tools. The purposive sampling method applied in this research resulted in 200 samples. This study finds that CSR and capital structure can increase firm value.

Keywords : *Corporate social responsibility; Debt-to-equity ratio; Tobin's Q.*

ABSTRAK

Studi empiris ini bertujuan untuk mengetahui pengaruh Corporate Social Responsibility (CSR) dan struktur modal terhadap nilai perusahaan-perusahaan yang termasuk dalam sektor bahan baku yang terdaftar di Bursa Efek Indonesia tahun 2018-2021 dengan menggunakan statistik deskriptif dan regresi linier berganda. Metode purposive sampling yang diterapkan dalam penelitian ini menghasilkan 200 sampel. Penelitian ini menemukan bahwa CSR dan struktur modal dapat meningkatkan nilai perusahaan.

Kata kunci : *Corporate social responsibility; Debt-to-equity ratio; Tobin's Q.*

INTRODUCTION

Companies, being a significant contributor to a nation's economy, must establish both immediate and enduring objectives. The primary objective of the organization in the near future is to optimize the use of its current resources with the aim of achieving the highest possible level of profitability. The primary objective of a corporation, both in the short and long term, is to enhance the financial well-being of its shareholders via the provision of various incentives. In order to enhance the financial well-being of shareholders, it is important to achieve a favorable level of performance. The financial success of the firm is disclosed in its annual financial statements, which are released by the company on a yearly basis. The measurement of company performance is through firm value. According to Yanti & Darmayanti (2019), firm value is the amount prospective purchasers are willing to pay if the company is sold. The concept of firm value has significant importance for investors as it functions as a metric for assessing the total market valuation. The basic objective of a firm is to enhance shareholder prosperity by maximizing its value. The elevated business valuation is indicative of the augmentation of investor earnings. A compromise between investor supply and demand determines the valuation of shares on the capital market. Consequently, the share price serves as a representative measure of a firm's worth, thus establishing a fair price.

The examination of firm values may be a compelling subject of inquiry due to its capacity to reflect the real performance of a company, thus influencing the perceptions of investors. Consequently, business owners are motivated to demonstrate favorable performance in order to attract possible investors. One notable phenomenon seen in the aftermath of the COVID-19 pandemic is the notable surge in stock prices during the era of national economic recovery. This recovery phase follows a significant decline in stock prices experienced in the year 2020. The Composite Stock Price Index (IHSG) finally broke a 4-year record, after having soared to penetrate the 6,700 level in November 2021. Based on the data obtained from the Indonesia Stock Exchange (IDX), IHSG opened up 0.17% to a level of 6,694.58, at the same time exceeding the highest level in history which was last achieved on February 19, 2018 at 6,689. According to news from CNBC Indonesia, the Composite

Stock Price Index (IHSG) in the first quarter of 2022 was also able to record very good performance. On the last trading day of March 2022, IHSG closed up 0.26% to a level of 7,071 and recorded an all time high, which means that since the beginning of the year, IHSG has jumped up to 7.44%.

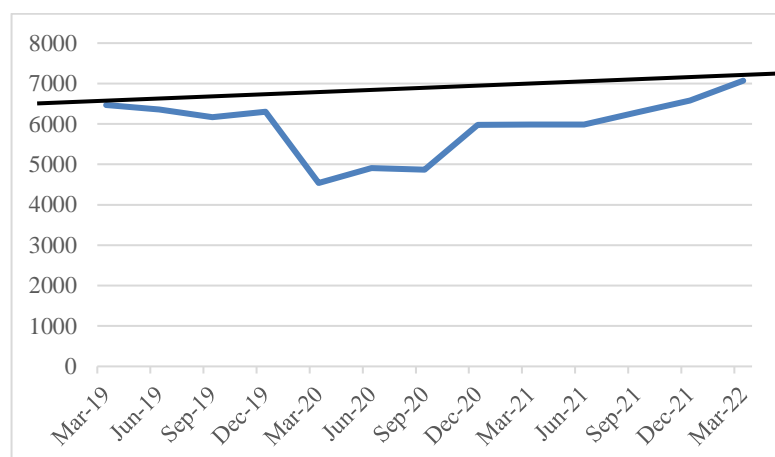


Figure 1 Indonesian IHSG in 2019 – 2022

(Sources: IDX Statistic, Processed Data)

From the data above it can be seen that company's performance has increased from the first quarter of 2019 to the first quarter of 2022, where the first quarter is the time when the previous year's report was published which becomes all new information. Even though it experienced a decline in 2020, its performance can increase in 2022 beyond the performance in 2018 and 2019 before the pandemic occurred. The performance of this company can be identified through its stock price. In the first quarter of 2019, IHSG was at 6,469 while in the first quarter of 2022 it increased to 7,011. The increase in company performance during the recovery period is the impact of the previous year's performance and contributed by various company sectors that have positive potential.

Basic materials sector company is one of the potential sectors that has a positive potential because the performance is in line with the increase in production. Basic Materials Sector up to double digits during this period. PT OBM Drillchem Tbk. (OBMD) led the way with an increase of 89.80% followed by PT Toba Pulp Lestari Tbk. (INRU) which increased 68.46%. Two Sinarmas Group paper shares, PT Indah Kiat Pulp & Paper Tbk. (INKP) and PT Tjiwi Kimia Tbk Paper Factory (TKIM) also experienced an increase of 16.96% and 12.54%, respectively. In addition, according to a news release from the Indonesian Ministry of Industry in October 2022, investment in this sector has increased by up to 54% or IDR 365 trillion. The company's performance that was successfully obtained was due to several supporting factors, both internal and external.

One of the factors is from solid cooperation with stakeholders to controlling the pandemic in the previous year and running the national economic recovery program. As a result, public and investor confidence has strengthened in encouraging national economic activity. Companies must change their business strategy to support national economic recovery, one of which is through corporate social responsibility activity. Companies can gain support from the community by disclosing CSR. This support has made the company's reputation better. A good reputation will increase sales and market share volume thereby increasing company profits.

Another factor in the phenomenon of rising stock prices during the pandemic recovery is also thought to be capital structure. The composition of capital structure can facilitate a company to increase its performance indicators, such as gaining high profits (Nickel, 1997). The effectiveness of financing choices may be assessed by examining the ideal capital structure. The concept of optimal capital structure refers to the state in which a corporation may strategically choose the appropriate combination of debt and equity to minimize the cost of capital and maximize the overall value of the organization (Tumangkeng, 2018). The use of optimal capital structure proportions can increase the value of Earning Per Share (EPS). EPS describes the return of investors on their investment. High

EPS encourages investors to buy these shares which causes stock prices to increase so that firm value increases.

Literature Review

Stakeholder Theory

The stakeholder hypothesis, as proposed by Freeman (1984), elucidates the interconnectedness between persons or groups who are impacted by a company's operations or possess the ability to influence these operations. The corporation is not just a self-serving entity but rather has an obligation to deliver advantages to its stakeholders, including shareholders, creditors, customers, suppliers, the government, the community, analysts, and other relevant parties.

Legitimacy Theory

The concept of legitimacy theory was first introduced by Dowling and Pfeffer (1975), with a primary emphasis on examining the dynamic relationship between organizations and the broader societal context. This theoretical framework posits that societal factors have a significant role in the long-term growth and evolution of corporations. Organizations have the option to use external assurance as a means to enhance public trust in the reliability of sustainability reports and maintain the validity of their operations. (Perego & Kolk, 2012).

Trade Off Theory

The Trade Off Theory was first proposed by Modigliani and Miller in a scholarly essay titled "Corporate Income Taxes on the Cost of Capital: A Correction," published in the American Economic Review in June 1963 (Vol. 53, No. 3). This theory elucidates the optimal composition of debt and equity inside a corporation, ensuring a harmonious alignment between incurred expenditures and generated revenues. The fundamental principle behind the trade-off theory in capital structure is to achieve equilibrium between the advantages and drawbacks associated with the use of debt. If the advantages outweigh the drawbacks, then the allowance for extra debt remains. If the magnitude of sacrifice resulting from the use of debt is heightened, the allowance for more debt is precluded.

Hypothesis

The Relationship of CSR Disclosure on Firm Value

Corporations currently prioritize not only profit maximization but also environmental and social considerations (i.e., the triple bottom line). According to stakeholder theory and legitimacy theory, companies must pay attention to stakeholders' evaluation and also to communities to provide for what they want. The practice of publicly sharing information on a company's Corporate Social Responsibility (CSR) initiatives is undertaken as a means to cultivate a favorable perception of the organization's commitment towards addressing environmental and social issues. The business hopes to acquire legitimacy from stakeholders and the community by doing so. Consequently, many businesses engage in CSR efforts for their sustainability. CSR plays a crucial role in enhancing the firm value. It will attract investors, thereby increasing the value of the company. According to the study conducted by Rahmantari et al. (2019), it was determined that the implementation of Corporate Social Responsibility (CSR) initiatives has a beneficial effect on the overall value of a company. Based on the given description, the following hypothesis was formulated:

H1: CSR disclosure has a positive impact on firm value

The Relationship Between Capital Structure and Firm Value

Capital structure is believed to be one of the crucial issues for companies since it has a direct impact on their financial condition, which in turn affects their value. The use of optimum capital structure components can boost Earnings Per Share (EPS) value. A high earnings per share (EPS) serves as a motivating factor for investors to acquire these shares, resulting in a rise in stock price and therefore enhancing the overall worth of the organization. Based on the trade-off theory, it is posited that a business may achieve an optimum debt composition that enhances the overall value of the firm. This is mostly attributed to the presence of tax deductibility or tax shields associated with the company's debt. According to the study conducted by Syamsudin et al. (2020), it was determined that

there exists a positive correlation between capital structure and business value. Based on the given description, the following hypothesis was formulated:

H2: Capital structure has a positive impact on firm value.

RESEARCH METHOD

The research methodology used in this study is descriptive research, specifically using quantitative data sourced from the website (www.idx.co.id). The data mostly consists of financial statements, annual reports, and sustainability reports. Descriptive research attempts to describe a symptom, occurrence, or incident that is now occurring, with the researcher attempting to picture the events and situations that are the focus of attention in order to describe them as they truly are. Quantitative data refers to numerical information that is shown in audited financial accounts. This study uses financial report data and sustainability reports for the year 2018-2021. In addition, the company's annual report contains CSR data disclosed by the company. The participants for this study were chosen via the use of a purposive sampling technique. The selection of the study sample is based on certain criteria:

Table 1 Purposive Sampling Result

No	Description	Value
1.	The following is a chronological listing of Basic Materials sector firms in Indonesia that are listed on the Indonesia Stock Exchange (IDX) for the period spanning from 2018 to 2021.	93
2.	Companies in the basic materials industry refrain from disclosing their annual financial reports and financial statements on the Indonesia Stock Exchange (IDX) over the period spanning from 2018 to 2021. Instead, these entities choose to immediately post their sustainability reports on their own websites.	(31)
3.	Basic materials sector companies do not disclose CSR in its sustainability reports in a row for 2018-2021.	(12)
	Number of basic materials sector companies that meet the criteria	50
	Observation data from basic materials sector companies in four consecutive periods (2018-2021) (companies x 4 years)	200

The data was obtained from secondary sources, including the Indonesia Stock Exchange's official website (idx.co.id) and the Indonesia Capital Market Directory (ICMD). Their components are contained in the companies' annual reports and financial statement.

ANALYSIS AND DISCUSSION

Multiple Linear Regression Analysis

The following analysis showcases the results of a multiple linear regression model that examines the relationship between corporate social responsibility (CSR) disclosure and capital structure in relation to business value.

Table 2 Multiple Linear Regression Analysis

Variable	Coefficient	Std. Error	T value	Sig. Value
Constant	-0.569	0.091	-6.267	0.000
CSR	2.268	0.311	7.286	0.000
DER	0.029	0.014	2.032	0.043
R	0.466			
R ²	0.217			

Significance at the level of 5% or 0.05

Sources : Processed Data

The following presentation illustrates the results of the multiple linear regression analysis conducted to examine the relationship between corporate social responsibility (CSR), capital structure, and business value:

$$Y = -0.569 + 2.268 \text{ CSR} + 0.029 \text{ DER}$$

From these equations can be explained in the description as follows:

- a. The constant value of -0.569 indicates if all the independent variables which include CSR (X1) and DER (X2) are 0 percent or no changes, then firm value is -0.569.
- b. The coefficient value of CSR (X1) is 2.268 indicating that each increase in the CSR value by 1 unit will increase the firm value by 2.268.
- c. The coefficient value of DER (X2) is 0.029 indicating that each increase in the DER value by 1 unit will increase the firm value by 0.029.

Coefficient of Determination Test (R² Test)

According to the R² test result shown in Table 2, the coefficient of determination, denoted as R Square, is determined to be 0.217. The number was derived by squaring the coefficient of correlation, denoted as "R," resulting in a product of 0.466 multiplied by 0.466, yielding a value of 0.217. The coefficient of determination, often referred to as R Squared, has a value of 0.217, which is equivalent to 21.7%. This finding suggests that there is a 21.7% impact of corporate social responsibility (CSR) and capital structure on business value. The remaining 78.3% of the total may be attributed to factors that were not included into the model.

T Test

The t table in this test shows that the α value of 5% with $df = 200 - 2 - 1 = 197$ is 1.97208. Based on Table 2, the results of this test are following:

- a. The p-value for the coefficient of CSR (X1) is 0.000. Based on the obtained significance value of 0.000, which falls below the conventional threshold of 0.05, it may be inferred that the initial hypothesis is supported. This implies that there exists a discernible impact of Corporate Social Responsibility (CSR) (X1) on the valuation of firms (Y). The t value for CSR, as determined using the t table, is 7.286. Based on the comparison between the computed t value of 7.131 and the critical t value of 1.97208 from the t table, it may be inferred that the first hypothesis is supported.
- b. The statistical significance of the capital structure (X2) represented by the debt-to-equity ratio (DER) is determined to be 0.043. Given that the significance value of 0.043 is below the conventional threshold of 0.05, it may be inferred that the second hypothesis is supported, indicating a significant relationship between capital structure (X2) and company value (Y). Based on the t-table, the computed t-value for the capital structure is determined to be 2.032. Based on the comparison between the calculated t value of 2.032 and the critical t value of 1.97208 obtained from the t table, it may be inferred that the second hypothesis is accepted.

Interpretation of The Results

Data interpretation is referred to the process of the occurrence data that is analyzed and viewed from the side that can give a meaning to the data, where the data allows to draw meaning from relevant and useful conclusions. The following findings provide the outcomes of data interpretation derived from the aforementioned study:

Effect of CSR on Firm Value

The findings from the hypothesis testing indicate a significant positive relationship between corporate social responsibility disclosure and business value. The statistical computations provide positive and statistically significant findings, providing evidence in support of this claim. The observed significance level of 0.000 is found to be statistically significant, since it is less than the predetermined threshold of 0.05. According to the t test conducted using the t table, the computed t value for the variable CSR is 7.286. The estimated t-test value of 7.131 exceeds the critical t-value of 1.97208 from the t-table, indicating a positive and statistically significant result. Consequently, the first hypothesis, positing that corporate social responsibility (CSR) disclosure has a favorable influence on company value, is deemed valid.

Both the legitimacy theory and the stakeholder theory provide explanations for the motivations behind managers or firms in submitting sustainability reports. Stakeholder theory is driven by the imperative of being accountable to stakeholders, while legitimacy theory is driven by the objective of acquiring societal approval or acceptability. Efforts to cultivate and nurture relationships with stakeholders and protect the interests of all involved parties may be effectively executed via the implementation of corporate social responsibility (CSR) initiatives, which can then be documented and disseminated in a comprehensive sustainability report. The report provides comprehensive and clear information on the company's stance and operations in relation to economic, environmental, and social dimensions. The dissemination of a sustainability report enables stakeholders to directly evaluate the firm's performance, therefore influencing their choices on engagement with the company. In addition, the company feels that its existence and activities will receive recognition from the community or environment where the company operates or can be said to be legitimized. The existence of this recognition creates a reciprocal relationship between the community, stakeholders, and other parties with the company that will benefit all parties. From the perspective of the firm, engaging in corporate social responsibility (CSR) initiatives may enhance its corporate value by attracting potential investors. Additionally, the corporation can get advantages from CSR operations by contributing to societal welfare.

Effect of Capital Structure on Firm Value

The statistical computations provide positive and statistically significant findings, providing evidence to support this claim. The observed significance level of 0.043 is found to be statistically significant, since it falls below the commonly accepted threshold of 0.05. Based on the t-test analysis using the t-distribution table, it is evident that the computed t-value for the capital structure variable is 2.032. The t statistic of 2.032 exceeds the critical threshold of 1.97208 from the t table, indicating a favorable result. Consequently, the acceptance of the second hypothesis, which posits that capital structure has a positive impact on business value, is warranted.

According to the trade-off hypothesis, a firm's capital structure is determined by weighing the benefits of tax advantages against the costs associated with debt obligations that arise from its use. There exists a positive relationship between the size of a corporation's asset structure and its capital structure, wherein an increase in the former leads to a corresponding increase in the latter. This implies that as the corporation's asset base expands, it becomes capable of using a greater number of fixed assets as collateral for obtaining loans. On the contrary, a corporation with a weaker asset structure has a diminished ability to provide assurance for its long-term debt.

The use of increased levels of debt has the potential to enhance the overall worth of an organization, since investors see such a strategic decision as indicative of favorable future business prospects. The implementation of an optimal capital structure has the potential to enhance company value. This is primarily due to the fact that enterprises with debt obligations are required to allocate resources towards loan interest payments. Consequently, this reduces taxable income for shareholders, so contributing to an increase in firm value.

CONCLUSIONS

1. Corporate Social Responsibility (CSR) can increase firm value because it is the company's responsibility to the society and the environment, from which higher firm value can be expected. By disclosing CSR, companies can gain support from the community and stakeholders. This assistance has improved the company's image. An improved reputation will boost sales and market share volume, resulting in higher profits for the business. Furthermore, by disclosing CSR, businesses and consumers can create positive relationships. This positive connection improves investors' perceptions of the business, increasing investor interest in the company's stock. More interested investors will increase firm value.
2. The incorporation of an optimal capital structure has the potential to enhance the overall worth of an organization. Companies that own outstanding debts are obligated to make payments towards the interest on such loans, so resulting in a reduction of their taxable revenue. Therefore, an increase in debt can provide benefits for the company by increasing firm value. The use of optimal capital structure proportions can increase the value of Earning Per Share (EPS). High EPS

encourages investors to buy these shares which causes stock prices to move up so that firm value increases.

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