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The role of profitability on firm value using corporate social responsibility as a moderation variable

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ABSTRACT

The aim of this research is to examine the effect of profitability on company value with disclosure of corporate social responsibility as a moderating variable in manufacturing companies in the consumer goods industry sector listed on the Indonesia Stock Exchange. The population of this research is manufacturing companies in the consumer goods industry sector listed on the IDX for 2020 - 2022. The sample in this study was 36 manufacturing companies in the consumer goods industry sector which were determined based on the purposive sampling method. The data analysis used to test the hypothesis is MRA (Moderated Regression Analysis). Based on the research results, it shows that profitability has a positive effect on company value. Meanwhile, Corporate Social Responsibility is able to moderate the relationship between Profitability and Company Value in a negative direction. This means that the profitability variable with disclosure of Corporate Social Responsibility as moderation weakens profitability on company value. Future research can develop research by using other variables or adding other variables that are more relevant to company value, such as company size and dividend policy.

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1. INTRODUCTION

In carrying out its business, every company aims to gain profit or gain (Maulidyah and Fitria, 2018). One of the company's objectives in its founding is to maximize wealth for shareholders or stakeholders and through increasing company value. With increasingly growing economic growth, companies on the Indonesian Stock Exchange are also experiencing growth, one of which is the consumer goods company sector. Even though the economic situation is declining, consumers can be said to always need consumer goods.

High company value will have an impact on the high share price itself, company owners will like high company value because it will increase the prosperity of shareholders (Badarudin and Wuryani, 2018). One factor that can influence company value is profitability. According to Wulandari and Efendi (2022), profitability is a company's ability to generate profits in an effort to increase shareholder value. Profitability is a factor that is considered important because it ensures the long-term survival of the company and as an indicator in measuring the financial performance of a company so that it can be used as a reference for assessing the company. Many studies have previously been conducted regarding profitability on company value, including research conducted by Prena and Muliyawan (2020), Wahyuni, et al (2018), which stated that ROA has a positive influence on company value. According to Wulandari and Efendi (2022), Badarudin and Wuryani (2018) ROA has a negative effect on company value. According to Utami and Welas (2018), Oktrima (2017), ROA has no effect on company value.

Based on the description above, there are differences from the results of previous research with the same variable, namely profitability on company value. So the author wants to test the effect of profitability on company value by adding Corporate Social Responsibility (CSR) as a moderating variable. Moderating variables are variables that can influence (strengthen or weaken) the direct relationship between the independent variable and the dependent variable (Sugiyono, 2017:39). Corporate Social Responsibility (CSR) was chosen as a moderating variable because CSR disclosure in the annual report is expected to add value to investor confidence and also reduce social disruption due to environmental pollution. So that the company gets support from the local community. Research conducted by Prena and Muliyawan (2020) found that CSR disclosure can moderate ROA on company value.

If a company does not carry out CSR, the company's image will look less good, because it is considered not paying attention to the surrounding environment, as a result of this it will make people's trust in the company decrease, and share prices will fall so that the value of the company will also decrease, so that investors will hesitate to invest in the company. Therefore, CSR disclosure as a moderating variable is expected to improve the company's image so that it is better in the eyes of the public, so that consumers will be increasingly interested in buying company products which will increase company profits. By increasing profits, the value of the company will also increase, so that potential investors will not hesitate to invest in the company. If CSR disclosure is not used as a moderating variable in the relationship between profitability and company value, investors will think twice before investing.

Previous research showing the influence of CSR on the relationship between ROA and company value is Prena and Muliyawan (2020) who stated that CSR disclosure can moderate ROA on company value. Meanwhile, according to Maulidyah and Fitria (2018), CSR disclosure is able to moderate the influence of financial performance on company value in a negative direction. This means that the financial performance variable (ROA) with disclosure of corporate social responsibility as a moderating variable weakens financial performance on company value.

Signalling theory firstly discovered by Spence (1973), explains the encouragement of companies to provide information about financial reports to internal and external parties. This signal can be in the form of information and promotions that illustrate that the company is better than other companies. Disclosure of corporate social responsibility is information that is no less important in increasing the company's reputation and value. One way to reduce information asymmetry is for companies to disclose the information they have, both financial and non-financial information. This information can be in the form of profitability or CSR carried out by the company to increase company value. Information published as an announcement will provide signals for investors in making investment decisions. If the announcement contains positive value, it is hoped that market players will react when the announcement is received by market players (Jogiyanto, 2000).

Stakeholders are all parties, both external and internal, who have a relationship that either influences or is even influenced, which in turn is either direct or indirect. (Astuti, et al 2019) explains that stakeholder theory is a theory of organizational management and business ethics that considers morals and values in the management of an organization. According to stakeholder theory, a company is an entity that carries out its operations not only for the benefit of the company itself but must also provide benefits to its stakeholders. According to Prena and Muliyawan (2020), the higher the quality of CSR, the more it can guarantee the survival of the company, which impacts investors' confidence in investing their capital in the company. Involvement in CSR activities can be a strategic step for companies, not only as risk management, but also as an effort to build relationships that are beneficial for company growth.

Profitability has an important role in the financial aspects that influence the assessment of company value (Suryandari and Susandya, 2023). Increasing profitability reflects the company's increasing ability to generate profits. Investors will perceive high profitability as good news because it reflects the good performance of the company. The higher the share price, the higher the company value (Lingga and Wirakusuma, 2019). Investors will be more motivated to invest capital in the company in the future. The higher the earning power of the company's assets, the more efficient the asset turnover, which results in higher company profit margins, and ultimately can provide benefits in increasing company value (Prena and Muliyawan, 2020). Research results from Prena and Muliyawan (2020), Mumtazah and Purwanto (2020), Wahyuni, et al (2018), Nafisah (2018), Sari and Priantinah (2018) state that ROA has a positive influence on company value. Thus, the hypothesis is as follows:

H1 : Profitability has a positive effect on company value.

The role of CSR has a significant influence in increasing company value. The use of Corporate Social Responsibility as a moderating variable is able to strengthen the assumption that the market will give positive appreciation which is reflected in the increase in the company's share price so that the value of the company will also increase. If the Corporate Social Responsibility program is developed optimally, this will have an impact on increasing the company's brand value and reputation in the eyes of investors. The presence of high levels of CSR disclosure will result in increased company value because investors are interested in investing in companies with high levels of social responsibility disclosure (Muliani, et al. 2019). Consumers tend to choose products where a portion of sales profits are allocated for social and environmental purposes, such as scholarships, building community facilities, environmental conservation programs and so on. The research results of Widhyastuti, et al (2022), Putra and Sunarto (2021), Prena and Muliyawan (2020), Pradita and Suryono (2019), Cendrawati and Fuadati (2018) state that CSR disclosure can moderate ROA on company value. Thus, the hypothesis is as follows:

H2: Disclosure of Corporate Social Responsibility is able to moderate the influence of profitability on company value

2. RESEARCH METHOD

The location of this research was carried out at manufacturing companies in the consumer goods industrial sector listed on the Indonesia Stock Exchange (BEI) for the period 2020 - 2022. The population in this study was 43 manufacturing companies in the consumer goods industrial sector with a sample of 36 companies. The sampling method used in the research was purposive sampling. The data analysis technique used in this research is the Moderated Regression Analysis model.

Table 1. Sampling Criterias

No	Criteria	Amount
1	Manufacturing companies in the consumer goods industry sector listed on the IDX consecutively during the 2020 – 2022 period	43
2	Manufacturing companies in the consumer goods industry sector that did not publish consecutive annual reports during the 2020 - 2022 period	(6)
3	Manufacturing companies in the consumer goods industry sector that did not disclose CSR reports consecutively during the 2020 – 2022 period	(1)

Source: data processed (2024)

Profitability is the company's ability to earn profits in relation to sales, total assets and own capital (Sari, 2020). The profitability variable in this research uses the turnover ratio of assets or (ROA). ROA according to Anggitasari, (2009) is a form of profitability ratio which is intended to measure the company's ability to optimize the overall funds invested in company operations with the aim of generating maximum profits. According to Prena and Muliyawan (2020) ROA can be formulated as follows:

$$\text{Return On Assets} = \frac{\text{Net Profit After Tax}}{\text{Total Asset}} \text{x } 100\% \qquad (1)$$

Company value, namely investors' views of a company, is reflected through its share price. The higher the share price indicates an increase in the company's value in investors' perception. In this research, company value is measured using Tobin's Q which was developed by James Tobin (1967). If q > 1, it means that additional investment in the company will make sense because the profits generated will exceed the cost of the company's assets. If the value of q < 1, the company is better off selling its assets, because investment in assets is not attractive and can be detrimental to shareholders (Weston and Copeland, 2008: 245). The calculation of Tobin's Q according to Putra and Sunarto (2021) is formulated as follows :

$$\text{Tobins's Q} = \frac{\text{MVE+Debt}}{\text{TA}} \qquad (2)$$

Information :
Tobin's Q = The Value of The Company
MVE = Market Value of Equity or market value of outstanding shares
Debt = Total Company Debt
TA = Total Asset

Corporate Social Responsibility is the disclosure of information related to corporate social responsibility activities. The standard used to express CSR is GRI G-4. In the GRI G-4 standard, performance indicators are divided into 3 main components, namely economic, environmental and social. The index calculation is carried out using the CSRI calculation formula as follows:

$$\text{CSRIj} = \frac{\Sigma \text{X ij}}{\text{n j}} \qquad (3)$$

Information :
CSRIj : Disclosure of the company's Corporate Social Responsibility Index j
n j : Number of items for company j, nj = 91 (Maximum score)
X ij : Total number of CSR disclosures by company, 1 = if item is disclosed; 0 = if item is not disclosed

This research uses multiple linear regression analysis techniques which are shown by the following equation:

$$FV = \alpha + \beta_1 PF + \beta_2 CSR + \beta_3 PF{*}CSR + e \qquad (4)$$

3. RESULTS AND DISCUSSIONS

The statistical analysis used in this research is the average, standard deviation, maximum and minimum values of the research variables using the SPSS for Windows program as a tool to test the data. The results of descriptive statistical tests are presented in Table 2 below:

Table 2 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
FV	108	.0250	14.4147	2.017530	2.3083364
PF	108	-.5990	.3832	.057927	.1291825
CSR	108	.0879	.3626	.229446	.0499127
Valid N (listwise)	108				

Source: data processed (2024)

The hypothesis was tested using moderated regression analysis to analyze the independent variable against the dependent variable using the SPSS program. A summary of the results of the moderation regression test is shown in Table 3 as follows:

Table 3 Moderated Regression Analysis (MRA)

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.306	.203		6.435	.001
	PF	25.088	5.851	1.404	4.288	.001
	CSR	.706	.170	.325	4.158	.001
	PF*CSR	-72.322	24.171	-.981	-2.992	.003

a. Dependent Variable: FV

Source : Data processed (2024)

Based on the results of the Moderated Regression Analysis Test presented in Table 3, a regression equation can be created, namely:

$$FV = 1{,}306 + 25{,}088\ PF + 0{,}706\ CSR - 72{,}322\ PF*CSR \quad (5)$$

Table 4. F Test Results

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	210.505	3	70.168	20.291	.001[b]
	Residual	359.636	104	3.458		
	Total	570.141	107			

a. Dependent Variable: FV

b. Predictors: (Constant), PF*CSR, CSR, PF

Source : Data processed (2024)

Based on the analysis results in Table 4 above, it can be seen that the significant value of F is 0.001 < 0.05, so it can be concluded that Profitability and CSR simultaneously influence Company Value.

Table 5. Coefficient of Determination (Adj. R^2)

Model Summary[b]			
Model	R	R Square	Adjusted R Square
1	.608[a]	.369	.351

Source : Data processed (2024)

The analysis results in Table 5 above show that the Adjusted R Square value is 0.351, which means that 35.1% of the Company Value variable can be explained by the Profitability and CSR variables, while 64.9% is explained by other factors outside the model.

Profitability on Firm Value

The results of data analysis show that the profitability variable has a positive effect on the value of companies in the consumer goods industry sector. The profitability achieved by a company can be interpreted by investors as a good prospect for the company in the future. Investors will flock to buy shares in the company, so that the share price will increase and the value of the company will increase. The higher the earning power of the company's assets, the more efficient the asset turnover, which results in higher company profit margins, and ultimately can provide benefits in increasing the company's value. The higher the share price indicates the higher the company value. The results of this research are supported by research conducted by Prena and Muliyawan (2020), Wahyuni, et al (2018) which states that profitability as proxied by ROA has a positive effect on company value.

Corporate Social Responsibility disclosure in moderating the relationship between Profitability and Company Value

The results of data analysis show that the CSR variable is able to moderate the effect of profitability on company value in a negative direction in the consumer goods industry sector. This shows that the Profitability variable (ROA) with disclosure of corporate social responsibility as a moderating variable weakens profitability on company value. The research results show that investors do not like the implementation of corporate social responsibility carried out by companies because implementing corporate social responsibility requires large costs so that it can reduce company profits. Information on company profits is decreasing, causing investors to not be interested in investing their funds in a company, so that share prices tend to decrease and have an impact on decreasing company value. CSR reporting will still be carried out in a state of loss or profit because companies disclose CSR only to implement the provisions. just legislation so that companies are not subject to sanctions by the government. The results of this research are supported by research conducted by Maulidyah and Fitria (2018) which states that CSR disclosure is able to moderate the influence of ROA on Company Value in a negative direction.

4. CONCLUSION

Based on the results of the analysis and research that has been carried out, it can be concluded that the research results show that profitability has a positive effect on company value. And disclosure of corporate social responsibility is able to moderate the relationship between profitability and company value in a negative direction. In this study, the Adjusted R Square result was 0.351, which means that company value can be influenced by profitability variables with CSR as a moderating variable at 35.1% and the remaining 64.9% is possibly influenced by other variables. So, it is hoped that future researchers will be able to add variables such as good corporate governance (GCG), investment decisions, company size, dividend policy and relevant variables that influence company value. Companies in the consumer goods industry sector are required to pay more attention to several variables such as profitability and CSR which can influence company value. The company value will later become a benchmark for investors to invest in the company. Hopefully the results of this research can help company management in taking appropriate actions to increase company value.

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