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# The Effects of Corporate Social Responsibility Disclosure, Profitability, Institutional Ownership and Leverage on Firm Value

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***Abstract:*** **The company always strives to maintain its business excellence in increasing the value of the company. The purpose of this study is to obtain empirical evidence about The Effects Corporate Social Responsibility Disclosure, Profitability, Institutional Ownership, and Leverage on Corporate Value. This research was conducted at the Indonesia Stock Exchange in manufacturing companies in various industrial sectors in the period of 2016-2018. This research was conducted by downloading data through the official website of the IDX, namely www.idx.co.id. The type of data used in this study is quantitative data. The sample selection method in this study uses a nonprobability sampling method with a purposive sampling technique. The sample in this study were 14 companies with a total of 38 observations. Data collection is carried out through literature study and documentation. Based on the analysis with multiple linear regression techniques, the results of the analysis are obtained that profitability, institutional ownership and leverage affect the value of the company while corporate social responsibility disclosure does not affect the value of the company.**

***Keywords:*** **Corporate Social Responsibility Disclosure, Profitability, Institutional Ownership, Leverage, Firm Value.**

## I. INTRODUCTION

Economic activity in a company is the ultimate goal of achieving an economic activity carried out by economic agents. When viewed from the perspective of economic principles, companies as entities have short-term goals and long-term goals. In the short term the company aims to obtain maximum profit by using existing resources, while in the long run the main objective of the company is to maximize economic activity to increase the value of the company.

The company in its development will always try to maintain its business excellence in increasing the value of the company. Companies that have high company value will foster a sense of trust from the parties associated with the company and from the wider community. The company can attract investors to invest their capital if the company has good corporate value. There are several factors that affect company value, namely Corporate Social Responsibility Disclosure (CSRD), Profitability, Institutional Ownership, and Leverage.

CSR is a form of company understanding of the importance of corporate responsibility in minimizing the negative effects arising from all policies and operational activities of the company. The concept of CSR is used as an important indicator to assess the company's ability to maintain the existence and sustainable business growth. The more forms of accountability that companies take on their environment, the company's image will increase. Investors are more interested in companies that have a good image and the profitability of the company will also increase. If the company runs smoothly, the value of the company's shares will increase both in the community because of the better image of the company, the higher customer loyalty so that in the long run the company's sales will improve (Retno and Priantinah, 2012).

Profitability is the company's ability to earn profits (Saidi, 2004). Profitability is the level of net profit that can be achieved by the company when running its operations (Soliha and Taswan, 2002). Profitability is considered as one of the information issued by the company that can be used as a signal for investors so that investors are interested and willing to invest their capital in the company. When the market reaction responds positively to the signals issued by the company it will be able to increase the value of the company. One external factor that affects stock returns is the interest rate. Rising interest rates will reduce the present value of dividend income in the future, so that it will have an impact on the decline in share prices on the capital market. Investors prefer other forms of investment, for example by depositing their money in banks (Suriyani and Sudiartha, 2018).

Institutional ownership has an important meaning in monitoring management because the existence of institutional ownership will encourage increased optimal oversight (Tarjo, 2008). High levels of institutional ownership lead to greater oversight efforts to obstruct managers' opportunistic behavior. According to Mursalim (2007), institutional ownership can be used as an effort to reduce agency problems by improving the monitoring process.

Company value can be influenced by leverage generated by the company (Astriani, 2014). Leverage ratios measure the level of solvency of a company. Leverage is used to measure how much the company's assets are financed by short-term debt and long-term debt, in this case to improve company operations.

The company's operational activities greatly affect the surrounding community. The legitimacy theory explains that a company has a contract with the community to carry out its activities based on the values of justice, and how the company responds to various interest groups to legitimize the company's actions. Therefore the company is increasingly aware that the company's survival also depends on the company's relationship with the community and the environment in which the company carries out its activities (Sayekti and Wondaboi, 2007). So from the description above explains that the theory of legitimacy is one of the theories that underlies CSRD. Corporate social responsibility disclosure is done to get positive value and legitimacy from the community. CSR disclosure can provide benefits for companies, such as: can improve the company's image and attractiveness of the company in the eyes of investors. The more investors who invest their capital in the company, the value of the company will continue to increase. In the research of Harjoto and Jo (2011) found that corporate social responsibility disclosure has a positive effect on firm value. Rustiarini's research (2010) found that CSRD influences firm value. Whereas Romana's (2017) research shows that CSR has no effect on firm value. Based on the description, the hypothesis can be formulated as follows:

$H_1$: Corporate Social Responsibility Disclosure affects the value of manufacturing companies in various industry sectors listed on the Indonesia Stock Exchange in 2016-2018.

Profitability shows the level of net profit that can be achieved by the company when running its operations. The shareholders always want the benefits of the investment they invest in the company, the profits are derived from profits after interest and taxes. Investors see the picture of a company by looking at financial ratios as an investment evaluation tool. Signal theory encourages companies to provide information to external parties about company finances. This is done to avoid asymmetric information. Information related to profitability is a signal that is able to influence market reaction in the form of a request to buy shares of a company. The results of research that support the presumption that profitability influences company value are proven by Wulandari (2013), Wahyuningsih and Maduretno (2016), and Irma and Wirajaya (2014) which show that profitability has a positive effect on firm value. Based on the description, the hypothesis can be formulated as follows:

$H_2$: Profitability affects the value of manufacturing companies in various industrial sectors listed on the Indonesia Stock Exchange in 2016-2018.

Ownership represents a source of power that can be used to support or vice versa the existence of management. The ownership by institutional investors such as insurance companies, banks, investment companies and ownership by other institutions, will encourage increased optimal oversight of management performance. Agency theory has the assumption that each individual is solely motivated by self-interest, causing a conflict of interest between the principal and agent (Jensen and Meckling, 1976). Conflicts between managers and shareholders or often referred to as agency problems can be minimized by a supervisory mechanism that can align these interests so that agency costs arise. There are several alternatives to reduce agency cost, including institutional ownership and management ownership (Haruman, 2008). The management contributes by having a proportion of shares in the company because agents and principals have the same goal so that management can fully pay attention and focus on the company's goals, namely increasing the value of the company. Based on research by Sukirni (2012) and Haruman (2008), the results show that institutional ownership has a positive and significant effect on firm value. While Wahyudi's (2006) research shows that institutional ownership has no effect on firm value. Based on the description, the hypothesis can be formulated as follows:

$H_3$: Institutional Ownership affects the value of manufacturing companies in various industry sectors listed on the Indonesia Stock Exchange in 2016-2018.

Leverage according to signal theory states that the higher the level of the company's debt, then it will allow the company to be able to pay off the debt from the company profits. With the low debt of the company, the profits derived by the company also become high, because in paying debts not too heavy. It shows that the company's finances are good, then investors will trust the company. With so many investors who are interested in investing in companies. Research conducted by Sofiamira (2017) found that leverage has a significant negative effect on firm value. Based on the description, the hypothesis can be formulated as follows:

$H_4$: Leverage affects the value of manufacturing companies in various industrial sectors listed on the Indonesia Stock Exchange in 2016-2018.

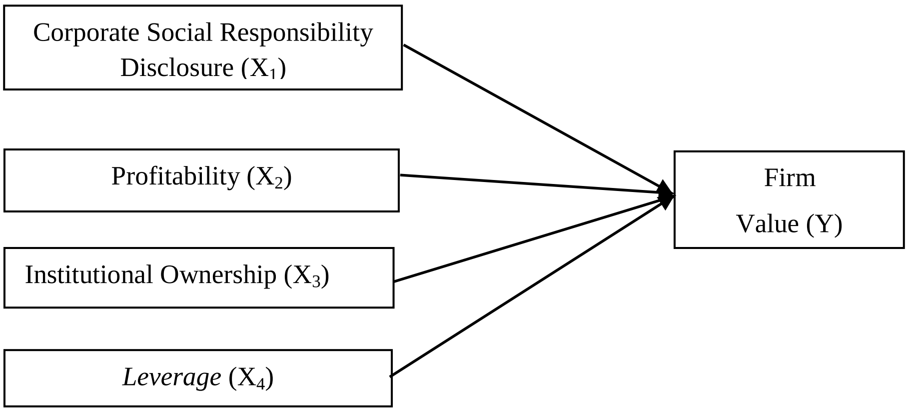


**Figure 1: Conceptual Framework**

## II. RESEARCH METHODS

The method used in this research is an associative quantitative type of causality approach. This study discusses the influence of corporate social responsibility disclosure, profitability, institutional ownership, and leverage on firm value. The collection method is the library research data and documentation. In this study, the data used are secondary data in the form of annual financial reports obtained through the official website of the IDX, namely www.idx.co.id. The analysis technique used is multiple linear regression. The dependent variable in this study is firm value while corporate social responsibility disclosure, profitability, institutional ownership, and leverage are independent variables. The data in this study were analyzed using multiple linear regression analysis techniques with the Statistical Package for Social Science (SPSS) program.

## III. RESULT AND DISCUSSION

Descriptive statistics provide information about the characteristics of the research variables, namely the number of samples, the maximum value, the minimum value, the average value, and the standard deviation. The results of descriptive statistics can be seen in table 2 as follows:

**Table 2: Descriptive Statistics Test Results**

| | N | Minimum | Maximum | Mean | Std. Deviation |
|---|---|---|---|---|---|
| Corporate Social Responsibility Disclosure | 38 | 0.0549 | 0.4176 | 0.192887 | 0.1023227 |
| Profitability | 38 | -0.0391 | 0.2262 | 0.046916 | 0.0597277 |
| Institutional Ownership | 38 | 0.2940 | 0.9015 | 0.639116 | 0.1887915 |
| Leverage | 38 | 0.2536 | 2.9672 | 1.060832 | 0.7834216 |
| Firm Value | 38 | 0.4599 | 3.1105 | 1.146726 | 0.5873998 |
| Valid N (listwise) | 38 | | | | |

Source: Research Data, 2020

After doing descriptive statistics, normality test is performed. The normality test results show that the Asymp value. Sig (2-tailed) of 0.843 is greater than 0.05. This shows the data used in this study has a normal distribution. Multicollinity test results indicate that corporate social responsibility disclosure, profitability, institutional ownership, and leverage shows tolerance> 0.10 and VIF value <10. Therefore, it can be concluded that the independent variables in this study are free from multicollinearity or there is no correlation between variables free. Heteroscedasticity test results showed that the significance value of the variable corporate social responsibility disclosure, profitability, institutional ownership and leverage on absolute residual variables were above 0.05, so it can be concluded that the data used in this study did not have heteroscedasticity problems. The autocorrelation test results showed that the resulting dw value was 0.871. Therefore the number n = 38 and k = 4, obtained dL = 1.2614 and du = 1.7223, the dw < dL criteria can be formulated that is 0.871 <1.2614. This shows that the data used in this study shows a positive autocorrelation.

**Table 3: Analysis of Multiple Linear Regression**

| **Model** | **Unstandardized Coefficients** | | **Standardized Coefficients** | **T** | **Sig.** |
|---|---|---|---|---|---|
| | **B** | **Std. Error** | **Beta** | | |
| Corporate Social Responsibility Disclosure ($X_1$) | -0.545 | 0.521 | -0.095 | -1.046 | 0.303 |
| Profitability ($X_2$) | 9.247 | 0.989 | 0.940 | 9.347 | 0.000 |
| Institutional Ownership ($X_3$) | -1.083 | 0.311 | -0.348 | -3.479 | 0.001 |
| Leverage ($X_4$) | 0.227 | 0.080 | 0.303 | 2.857 | 0.007 |
| Adjusted $R^2$ | 0.701 | | | | |
| $F_{count}$ | 22.709 | | | | |
| Sig. F | 0.000[a] | | | | |

Source: Research Data, 2020

Based on table 3, the regression coefficient value of corporate social responsibility disclosure is -0.545, indicating that if the value of corporate social responsibility disclosure increases by 1 unit, then the value of the company value will not increase or negative value of -0.545 units assuming other variables are constant. The profitability regression coefficient value is 9,247, indicating that if the profitability value increases 1 percent, then the value of the company value will increase by 9,247 percent, assuming the other variables are constant. The regression value of institutional ownership coefficient is -1.083, indicating that if the value of institutional ownership increases by 1 percent, the value of the firm's value will not increase or be negative by -1.083 percent, assuming the other variables are constant. The value of the leverage regression coefficient is 0.227, indicating that if the value of leverage increases by 1 percent, the value of the firm's value (Y) will increase by 0.227 percent, assuming the other variables are constant.

The adjusted R square value in this study was 0.701. This means that 70.1 percent of the variation in company value in manufacturing companies in various industry sectors listed on the Indonesia Stock Exchange in 2016-2018 can be significantly influenced by the variables of corporate social responsibility disclosure, profitability, institutional ownership and leverage. While the remaining 29.9 percent is influenced by other variables outside the regression model used. The results of the model feasibility test show that the calculated F value of 22,709 with a significance value of p-value (Sig. F) of 0,000 is smaller than the value of $\alpha = 0.05$. This shows that the equation model in this study is feasible to use.

The significance value of the t test for corporate social responsibility disclosure variable is p-value of 0.303 with a regression coefficient value of -0.545 then this shows that the corporate social responsibility disclosure has a negative effect and has no influence on corporate value. Based on this, the first hypothesis in this study ($H_1$) was rejected. The results of this study indicate that the size of the corporate social responsibility disclosure does not affect the value of the company, because most public companies only focus on financial factors, companies are less focused on non-financial factors such as social responsibility. This can be seen from the low value of corporate social responsibility disclosures. Therefore, investors and stakeholders feel ignored by the company, resulting in a decrease in the level of stakeholder confidence in the company and have implications for the decline in the value of the company. These results support research from Romana (2017) and Fauziah et al. (2016), which states that corporate social responsibility disclosure does not affect firm value.

The significance value of the t test for profitability variable is the p-value of 0,000, which is smaller than 0.05 with a regression coefficient of 9.247, this indicates that profitability has a significant positive effect on firm value. Based on this, the second hypothesis ($H_2$) in this study is accepted, namely profitability influences firm value. Signal theory explains how companies issue signals in the form of information that can explain the situation of the company better than other companies. Profitability or Return on Assets (ROA) is the best ratio in predicting profit growth. A high ROA value is a positive signal for investors that the company is in a favorable condition. The results of this study are supported by research conducted by Wulandari (2013), Wahyuningsih and Maduretno (2016), Irma and Wirajaya (2014) which shows that profitability has a positive effect on firm value.

The significance value of the t test for institutional ownership variable is p-value of 0.001 which is smaller than 0.05 with a regression coefficient of -1.083 which means that this indicates that institutional ownership has a significant negative effect on firm value. Based on this, the third hypothesis ($H_3$) in this study is accepted, namely institutional ownership influences company value. The results of this study are in accordance with agency theory (Jensen and Meckling, 1976), which states that institutional ownership can reduce agency costs because with the ownership of shares by institutional investors in the company will encourage more optimal monitoring of management performance so can increase company value. The results of this study are in line with research by Haruman (2008) and Haryono (2014) which concludes that institutional ownership influences firm value.

The significance value of the t test for leverage variable is the p-value of 0.007 which is smaller than 0.05 with a regression coefficient of 0.227 then this indicates that leverage has a significant positive effect on firm value. Based on this, the third hypothesis ($H_4$) in this study accepted that leverage affects the value of the company. A high degree of leverage can increase the value of the company because the company can use debt to meet the company's operational activities which will be expected to produce maximum profit or value. The results of this study are in accordance with the signal theory which states that the higher the level of the company's debt, it will enable the company to be able to pay the debt from the benefits it gets. This shows that the company's finances are good and investors will trust the company. Investors will also assess that the company's prospects are good in the future. The results of this study are in line with research from Sofiamira (2017) who found that leverage affects firm value.

## IV. CONCLUSION

Based on the analysis and discussion, it can be concluded that the corporate social responsibility disclosure does not affect the value of the company, this means that changes in corporate social responsibility disclosure made by the company does not cause the value of the company to change significantly. Profitability has a positive and significant effect on the value of the company, this means that the higher the profitability ratio owned by the company causes the value of the company to increase or better. Institutional ownership has a negative and significant effect on firm value, this means that the greater institutional ownership owned by the company causes the value of the company to increase. Leverage has a positive and significant effect on firm value, this means that the higher the leverage ratio owned by the company causes the value of the company to increase.

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