Assessing Companies Through CSR and Profitability in Manufacturing Sector Companies in Indonesia

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Abstract

The purpose of this study is to examine the impact of Corporate Social Responsibility (CSR) on company value, with profitability as a moderating variable, for manufacturing sector firms listed on the Indonesia Stock Exchange during the period 2015-2019. This study employs quantitative methodologies, such as testing numerical data and statistical tests. The population of this study consists of all Indonesia Stock Exchange-listed manufacturing firms (IDX). This study uses a strategy of purposive sampling based on specific criteria to acquire representative data from 26 companies. Through the website www.idx.co.id, secondary company data in the form of financial reports and annual reports of manufacturing businesses listed on the Indonesia Stock Exchange are collected. The results of previous study indicate that CSR has a positive and considerable impact on the value of a company. Profitability has a favorable and substantial effect on the value of a company. Profitability can moderate the correlation between CSR and enterprise value. This demonstrates that the degree of company earnings can improve the link between corporate social responsibility and firm value.

Keywords: *Company Value, CSR, Profitability, Manufacturing.*

A. INTRODUCTION

The manufacturing industry sector in Indonesia contributed 20% to the national Gross Domestic Product (GDP) in 2019. Reporting from the page kemeperin.go.id (2019), the contribution of the Indonesian manufacturing sector to the country ranks fifth after China (29.3%), South Korea (27.6%), Japan (21%) and Germany (20.7%). In 2018, the manufacturing sector contributed to state tax revenues of 30% of total revenues. This shows that the manufacturing sector has an important role in Indonesia's economic development.

The manufacturing industry sector which is vital for the country needs to be balanced with good performance. This encourages the manufacturing sector to expand its business both in the form of increasing industrial capacity and opening investment through the stock market (Syamni, 2018). The manufacturing sector is classified into basic and chemical industries, various industries, and consumer goods industries. Seeing the large number of listed companies, this proves that the manufacturing sector is very open to investors, thereby contributing to improving the investment climate in Indonesia (Azam et al., 2019; Cho et al., 2019).

Although the contribution of the manufacturing sector is highly expected for state revenues, this sector cannot be separated from the problems that occur. The movement of the manufacturing sector index performance did not go well in 2019. It can be seen in Figure I, the index movement at the end of 2019 tended to be lower than at the end of 2018. The decline in the performance of this sector was due to weak demand for domestically produced goods and a decline in exports (Zielinski , 2021). Reported from the page kontan.com (2019), when compared to 2018, export receipts reached 15.8 billion USD, while in 2019 it only reached 14.9 billion USD. Meanwhile, the decline in the performance of the manufacturing sector was caused by several issuers that have a large weight in the index. These issuers include cigarette, cosmetic and household goods companies, as well as automotive companies.

The weakening index performance of issuers in the manufacturing sector was caused by many factors, both internally and externally. According to Macheasy et al. (2020) and Mahdiraji et al. (2020) internal factors are conditions that are directly related to the company's performance, while external factors are conditions caused from outside the company. Quoted from the investor.id (2019) page, the Financial Services Authority (OJK) stated that internal factors that influenced the decline in stock prices included company fundamentals, corporate corporate actions and projected company performance in the future. Meanwhile, external factors that affect stock prices include macroeconomic fundamentals, the value of the rupiah exchange rate against foreign currencies, panic selling and market manipulation factors (Tarigan et al., 2019; Purbawangsa et al., 2019).

B. LITERATURE REVIEW

1. The Value of the Company

According to Matuszak & Rozanska (2019), company value is a state that a firm has attained, which is reflected in the market price of its shares. Fitri and Munandar (2018) define company value as its market value because company value can maximize shareholder wealth if the share price of the company rises.

According to Hapsoro and Sulistyarini (2019), the increasing share price reflects the company's value; the higher the share price, the greater the company's value. Lesari & Solkhah (2019) The investor's view of a company's worth, which is frequently correlated with stock prices. Explaining that one of the factors investors evaluate when deciding where to invest is the worth of the company in which they will invest.

2. Corporate Social Responsibility (CSR)

Until now CSR does not have a single definition, but empirically CSR has been applied by companies in various forms of activities that are based on volunteerism. According to Chen et al. (2018), Corporate Social Responsibility arose as a result of community pressure on company behavior, which typically focuses on maximizing profits, benefiting shareholders, and ignoring social responsibilities like environmental destruction, exploitation of natural resources, etc.

According to Escamilla et al. (2019), Corporate Social Responsibility (CSR) is something firms do to have greater ethical, social, economic, and environmental duties to society. The World Business Council for Sustainable Development (2011) defines CSR as an ongoing commitment by businesses to behave ethically, contribute to economic development, and improve the quality of life for employees, their families, the local community, and society.

3. Profitability

According to Regan et al. (2018), the profitability of a business is the net consequence of a variety of policies and decisions. The combined effects of a company's liquidity, asset management, and operating debt are reflected in profitability ratios, which provide insight into a company's operating efficiency. Profitability is a company's ability to earn profits, which will serve as the basis for the payment of dividends (Ronald & Semuel, 2022). Profitability, according to Wardhani et al. (2019), is the ability of an organization or business to generate profits or profits estimated from sales, total assets, and own capital.

C. METHOD

This research is an explanatory research that aims to prove the hypothesis. This study uses quantitative methods, namely testing data in the form of numbers and statistical tests. This research was conducted from June to December 2021. Using the website www.idx.co.id, the study was conducted on manufacturing companies listed on the Indonesia Stock Exchange (IDX). The population of this study consists of all Indonesia Stock Exchange-listed manufacturing firms (IDX). The analytical tool used in this research is Smart-PLS.

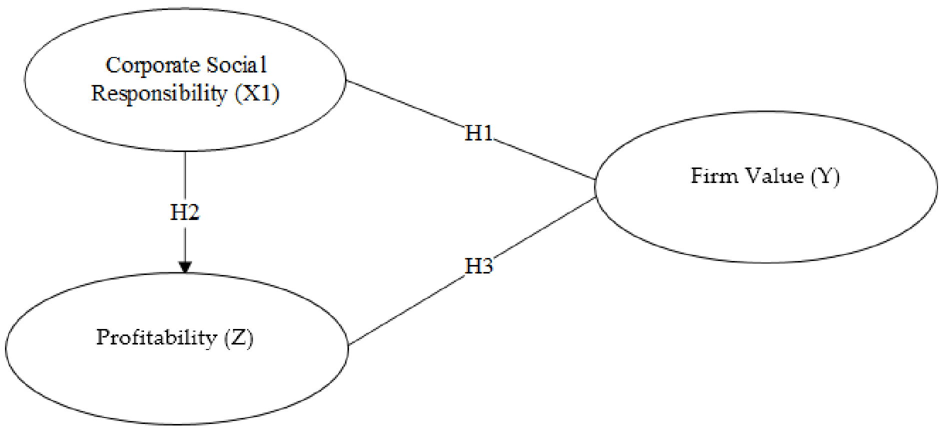

Figure 1. Research Model

D. RESULT AND DISCUSSION

Unidimensionality needs to be done when an indicator of a construct has an acceptable fit or a single factor, in this study CSR is only formed by one indicator, namely CSDI. In more detail, the PLS test shows the loading factor value as follows:

Tabel 1. Factor Loading

Indicator	Factor Loading
CSR	
CSDI	1.000
Profitability	
ROE	0.660
NPM	0.837
Firm Value	
PER	0.610
MVtBV	0.999

Source: Data Proceed

This can be evaluated through a measurement model using the validity of confirmatory factor analysis (CFA). Ghozali (2013) explains that the indicator of the variable is called valid if the Loading Factor value is > 0.05. Based on table 1, it can be seen that all indicators are valid in forming variable constructs.

A multicollinearity test was run to determine whether or not independent variables in the regression model are correlated. Multicollinearity indicates that some or all of the variables that describe the regression model have a perfect linear connection. The test findings are detailed in table 2 as follows:

Table 2. Multicollinearity Test

Variable	Nilai VIF
CSR	1.00
Profitability	1.47
Firm Value	1.02

Source: data proceed

If the variance inflation factor (VIF) is less than 10,00, this indicates that the regression model does not contain multicollinearity. According to table 2, all variables have VIF values less than 10, indicating that there is no multicollinearity between variables.

The significance test is a statistical test and the sample distribution of a null hypothesis statistic. statistics are in the critical region. And vice versa if the statistical test is said to be insignificant. The test results in this study are presented in the following table:

Table 3. Significance Test

Variable	Mean	Standar Deviation	T-Statistic	P Value
CSR → Firm Value	0.073	0.028	2.773	0.006
CSR → Profitability (pro>NP)	0.968	0.022	43.851	0.000
CSR → Profitability → Firm Value (MOE)	0.210	0.061	3.717	0.000

Source: data proceed

The findings of the descriptive analysis and significance test are presented in Table 3. The average value of the correlation between CSR and business value is 0.073. CSR and company value each have a mean value of 0.96, while the mediation of CSR on firm value via profitability has a mean value of 0.210. A variable is considered significant if its t-statistic is greater than 1.96 and its P-Value is less than 0.05. According to the findings of the significant test, all relationship factors exert a positive and significant influence.

The coefficient of determination, often known as R-Square, describes the extent to which the dependent variables can be described by the independent variables. If the value of the coefficient of determination is near to 1, it can be stated that the independent variable explains the dependent variable more effectively. In table 4, the R-Square and R-Square Adjusted values are shown as follows:

Table 4. Coefficient of Determination

	R Square	**R Square Adjusted**
Firm Value	0.885	0.884

Source: Data Proceed

Based on the results of the coefficient of determination, it can be seen that 88.5% of firm value is influenced by CSR and profitability variables, while the other 21.5% is influenced by other variables.

The existence of a company in the community can have both positive and negative impacts. The positive impact can be seen from the improving economy and surrounding development. When the company develops, negative impacts such as social inequality and environmental damage can occur due to the company's activities (Wardfhani et al., 2019). This arises because the company's awareness of the surrounding environment is still lacking. In response to these conditions, in the business world various phenomena have emerged related to the management of the business world itself, especially with regard to the responsibilities that must be carried out by a company (Simanjuntak et al., 2020). One of the discourses that emerged was the birth of the term Corporate Social Responsibility (CSR). According to Ekaningsih et al. (2019), CSR principles refer to 3 aspects, namely economic, social and environmental. These three aspects are known as the "Triple Bottom Line" which is used as a reference in the activities of a company.

CSR disclosure is a publication made by the company related to the social responsibility programs that have been implemented by the company. The publication media for CSR disclosure is called a sustainability report (Karundeng & Dananjaya, 2020). In Indonesia, there are still few companies that publish sustainability reports because local companies attach corporate social responsibility activities to their annual reports. The annual report offers information on the company's corporate social responsibility programs and its financial performance. Potential investors consider the company's financial performance or profitability when determining stock investment. Maintaining and enhancing financial performance is required for a company to keep its shares on the market and in demand among investors (Jihadi et al., 2021). The greater the degree of profit made, the greater the company's ability to pay dividends and the higher the stock price (Wijaya et al., 2020).

Disclosure of social responsibility, also known as corporate social reporting, is the process of communicating the social and environmental repercussions of a company's economic actions on specific groups and society as a whole (Goedeke & Fogliasso, 2020). CSR can be understood as delivering a variety of data required for optimal and effective operating. Madra & Paliszkiewicz (2020) noted, "There are mandated CSR disclosures, namely the sharing of information connected to social responsibility that is required by particular rules or norms for organizations." In contrast, voluntary CSR disclosure is the revelation of information that is not bound by applicable regulations or standards.

Profitability is the capacity of a corporation to make profits in order to improve shareholder value. The profitability ratio describes a company's ability to earn profits over a specified time period. According to Wahyudi (2018), the profitability of a business can be determined by a variety of metrics, including sales volume, total assets, and own capital. Profitability is used to measure the success of the company's growth and performance, and it is tied to the end outcomes of the many company policies and actions executed during the present period. Profitability is a measure of management's success in operating a business.

Today's corporate world is confronted with two contradicting circumstances. On the one hand, businesspeople must seek to achieve high profits, which must be supported by a reduction in expenses. On the other hand, businesses must take responsibility for the environment, particularly in the areas where they operate. People are becoming more confident in expressing their demands to the administration nowadays. Not only are the community's demands on the government increasing, but also on businesses. If these requests are honored, the corporation would incur enormous costs, which will inevitably lower its profitability (Binh, 2022).

Community members are concerned about the environmental impact of the company. The public's understanding of the company's impact on its social and environmental conditions is growing, thus it is beginning to exert pressure on businesses to declare their social responsibility, given that businesses use resources as a driving force for their activities. The corporation will definitely be able to contribute positively to the economy, but this does not imply that it will disregard its social surroundings. Numerous corporations that have contributed to economic and scientific advancement have been condemned for ignoring social issues. Companies begin to neglect the concerns of stakeholders, presuming they do not contribute directly to the firm, as a result of today's intensifying competition. This is because shareholders are viewed as directly contributing to the company, specifically through capital involvement.

Corporate Social Responsibility (CSR) is a discourse that is currently emerging in the corporate world. Many companies in the world, both at home and abroad, claim that they have carried out social responsibility well. Corporate Social Responsibility (CSR) must be considered more seriously along with advances in information technology and market openness that is currently happening. Many cases occur where companies do not able to make a direct positive contribution to the community and tend to make a negative contribution to the impact of the company's operations (Mashuri & Ermaya, 2020).

The role of CSR can improve the financial performance of a company where investors tend to invest in companies that have carried out CSR activities because companies that have provided information on social, environmental and financial aspects at the same time will of course use these aspects into the company's strategy and operations, so that the factor -Factors that bring profits to the company can be used as input for decision making by investors. Therefore, companies can use CSR as one of their competitive advantages.

E. CONCLUSION

Based on research that has been conducted on manufacturing companies listed on the BEI, the conclusions of the study can be stated as follows: 1) CSR has a positive and significant effect on firm value. This shows that companies that are highly committed in disclosing CSR will be increasingly appreciated by the community, so that the value of the company will be higher; 2) Profitability has a positive and significant effect on firm value. This shows that if the financial performance is good, the company's profit will increase, this can certainly increase the value of the company and further prosper the company's shareholders; and 3) Profitability can moderate the relationship of CSR to firm value. This proves that the level of corporate profits is able to strengthen the relationship of CSR to firm value. CSR will increase the value of the company when the company's profitability increases.

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