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Quality - Access to Success **Scopus coverage years:from 2009 to Present** **Publisher:SRAC - Societatea Romana Pentru Asigurarea Calitatii** **ISSN:1582-2559**
Corporate Social Responsibility as a Strategic Instrument to Reduce Investor Sentiment **Alwan Sri KUSTONO** **https://doi.org/10.47750/QAS/22.185.03**
https://admin.calitatea.ro/assets/Documents/Archive/PDF/20211202_01010656-7d83-4f13-81f4-ccb0f1cda575.pdf
https://www.scopus.com/sourceid/17700156709

VOLUME 22, ISSUE185, DECEMBER, 2021

Corporate Social Responsibility as a Strategic Instrument to Reduce Investor Sentiment

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Received: 25.07.2021 **Accepted: 17.10.2021** **Published: 03.12.2021** **DOI: 10.47750/QAS/22.185.03**

Abstract

Firm performance can be a signal for investors to determine firm value. This study examines whether earnings management and disclosure of corporate social responsibility are hedges to protect firm value when performance declines. The hedging mechanism is used as a new analytical approach. Exogenous variables tested are financial performance, financial risk, and dividend policy on firm value. The population was manufacturing companies listed on the Indonesia Stock Exchange in 2014 – 2019. Five hundred and sixteen-year observations were tested to confirm the hedging hypothesis. The analysis method uses path analysis with a variance-based structural equation model. The statistical findings support to acceptance of the three hypotheses. Earnings management and disclosure of corporate social responsibility are tools that successfully cover the decline in firm performance. Earnings management or CSR is a hedging instrument for management when the company performance declines. When performance reduces, its existence eliminates the effect of decreasing firm value. Contrary to predictions, neither variable could offset the increasing pressure on financial risk and dividend policy. Corporate social responsibility disclosure is more effective as a hedging mechanism than earnings management because it directly affects firm value. The results contribute to recognizing the possibility that social responsibility is a matter of signal and opportunistic action. Management seeks to protect the company from declining company performance and other antecedents.

Keywords: *firm value, opportunistic motive, firm performance, financial risk, dividend policy.*

1. Introduction

Firm value is shareholder value which reflects the market reaction to the company. The higher the firm value, the more investors are interested in investing in the company. Before investors invest in a company, they will seek information through the capital market to assess a company. Investors need accurate, relevant, complete, and timely information to make investment decisions in a company.

The increase in firm value is marked by a company's stock price (Antonio et al., 2019). As a step in optimizing firm value, shareholders hand over the management to professionals in their fields. The company's principal gives the authority to management to manage the company to increase the firm value, which will improve the owner's welfare. As the company manager, management knows more about the information than the principal. This information asymmetry creates an information imbalance between management and company owners. The information imbalance that occurs provides an opportunity for management to take opportunistic actions.

Firm performance can signal investors to determine the firm value (Mahmood et al., 2019). The company's performance can be a signal for investors to assess the value (Mahmood et al., 2019). The information in the financial statements describes information relating to the condition of the company's financial development. Investors hope to invest in companies that can provide prosperity in the future. Potential wealth of investors to buy and invest in the company. The company has high selling power so that its share price increases. Economically, the value of the company increases.

The agency theory perspective can explain earnings management and corporate social responsibilities (CSR) disclosure as determinants that affect firm value. The principal and agent relationship has several problems related to information asymmetry. As management, agents have more internal information. It gives management the possibility to act opportunistically or prioritize the welfare of the principal. Principals use market mechanisms to provide management performance appraisals. Rewards are presented with a positive assessment and punishment with a decrease in market value.

The role of the market is crucial. A positive market valuation gives management an advantage because it shows trust. A positive market value must be maintained. Management protects the company from negative market assessments in several ways to provide good news and positive information. Earnings management techniques in various forms are a means of displaying the image of a company that has potential for future profitability. CSR disclosure fulfills economic and social obligations and is expected to be good news for investors (Salehi et al., 2019; Spinos, 2013).

Another technique is earnings management. In assessing the company's performance, shareholders are more focused on earnings information. Profit reflects the company's performance managed opportunistically and effectively. Effectively means increasing information, while opportunists can increase earnings according to the expected benefits and benefit certain aspects (Kustono, 2021). Therefore, management is encouraged to show the company's achievements or advantages in generating profits. Management has an opportunistically motive to manipulate financial statements if there is no rigorous supervision. In taking opportunistic actions, management chooses specific accounting policies to adjust to increasing or decreasing company profits. Management processes information in financial statements by hiding or delaying its disclosure. Yields are often engineered to beautify financial statements (Sohail, 2019).

Several cases in Indonesian public companies show allegations of earnings management practices (Saksessia & Firmansyah, 2020). The practices are carried out by postponing all debt payments and accelerating revenue recognition. Management uses an earnings management strategy of increasing income by recording income that is still in receivables or changing the period of income and expenses. The profit generated comes from recording receivables as income to beautify the financial statements.

From an efficient perspective, management conveys private information to reduce asymmetry information between agents and principals, so they are expected to have an equal understanding. Efficient earnings management is expected that financial statements can convey potential profitability. CSR disclosure is expected to help communicate economic, environmental, social, and governance performance and change management efforts more effectively (Moratis, 2018).

The company's financial performance and financial risk are fundamental factors that become the basis for investors' consideration in assessing firm performance. The relationship between the company's fundamental factors and CSR has been postulated to reflect that social reactions require managerial strategies. The lower the company's fundamental level, the management needs to respond by providing good news to stakeholders.

Research on CSR and earnings management generally base on stakeholder, legitimacy, positive accounting, or signaling theory. The stakeholder and legitimacy view the CSR disclosure as fulfilling obligations to stakeholders to gain legitimacy (Bhattacharyya, 2015). Agency theory and positive accounting theory see that principals must monitor management performance. The company avoids political costs and debt covenants by performing earnings management (Miras-Rodríguez et al., 2018). Signaling theory explains why companies have the urge to provide information that complements financial statements to external parties. The company wants to provide information because there is information asymmetry between the company and outsiders (Mahmood et al., 2019). Management knows more details about the company and its prospects than investors and creditors. Management needs to provide clues to investors about how management views the company's prospects. This signal is in the form of information about what management has done to realize the owner's wishes. This information is crucial because it influences the investment decisions of investors.

This research provides novelty by generating a new proposition that management seeks to hedge against declining firm performance and other antecedents. Such hedging is carried out through activities under its control, such as disclosing corporate social responsibilities with issuing sustainability reports and earnings management. Testing with this perspective initiates new theoretical alternatives.

Based on the background, the formulation of the research problem is as follows: first, whether CSR disclosure is a hedge for companies to guarantee firm value from a decline in financial performance, increased risk due to increased financial risk, and the negative impact of earnings management. Second, whether earnings management is a hedge for companies to guarantee firm value from declining financial performance and increased risk due to increased financial risk in manufacturing companies in Indonesia.

2. Literature Review

Business growth cannot be separated from the development of the country. The more companies that will grow have a positive impact on society. Companies also damage the environment. Environmental damage is one of the actual impacts of establishing a company that does not pay attention to environmental norms. Ecological damage due to the company's production process includes increased greenhouse gas emissions and increased waste in liquid, concrete, and gas. The environmental damage exemplified is a small part of the various negative impacts of establishing a company if it does not pay attention to environmental norms (Miras-Rodríguez et al., 2018).

Legitimacy theory explains the organization's social contract with the community. If the community believes the company violet the social contract, a company's survival will be threatened (Lucchini & Moisello, 2019). The legitimacy theory is based on the social contract between the company and the community around the company that engages in activities and uses economic resources. Legitimacy theory is also defined as something that companies want and seek from society. The legitimacy theory explains that companies must disclose their social responsibilities to gain legitimacy from the surrounding community. Legitimacy can prevent undesirable things. Besides, that legitimacy can also increase the firm value. In the legitimacy theory, it is explained that the organization burdens investors' rights and focuses on the rights of the public (Ramadhani & Agustina, 2019).

2.1 Earnings Management and CSR Disclosure

The company is an entity with a lot of information related to the company's prospects in the future. Meanwhile, investors have little information about the company, so they tend to give low prices to protect themselves. To anticipate this, the company will increase firm value by providing signals to investors to minimize information asymmetry.

Earnings management and CSR disclosure are corporate hedges carried out by management (Yip et al., 2011). Management performs earnings management when the company's growth trend decreases. Earnings management actions are taken to avoid the principal's attention to the decline by conveying the company's economic prospects. The expectations conveyed to investors are expected to reduce the negative effect on the firm value.

Managers attempt to accurately convey the effect of current economic events on the income statement to the parties involved in the contract: shareholders, creditors, and the managers themselves. Earnings management techniques are used to provide private information about the company's profitability. If confidential information contains high-value relevance, the contract will prioritize efficient earnings information (Amal et al., 2019).

From a different perspective, earnings management is seen as a negative activity because it is an opportunistic act to increase the wealth of managers and not for the aggregate prosperity of the parties involved in the contract (Kustono & Effendi, 2016). The practice provides an essential tool for managers to mislead investors' knowledge. If the private information is not value-relevant, the contract will prioritize opportunistic earnings management.

When earnings management actions are considered negative, sustainable disclosure is expected to divert investors to the excellent news of broader disclosure. Disclosure of sustainability can cover the negative impact of declining investor confidence. Investors give a positive assessment of broader disclosure. They see the company doing a lot of social activities so that the possibility of litigation is lower.

One of the efforts that can be done to reduce the negative impact of company activities is to use corporate social responsibility (CSR). CSR is carried out by an organization to always pay attention to the environment, both the operational environment (Chaudhry et al., 2020). Implementing a CSR policy is an ongoing process to create an ecosystem that benefits all parties following the triple bottom line principle: economic sustainability, social sustainability, and the environment (Dyllick & Muff, 2016).

Based on the existing CSR shift, the company's concern is not only limited to the environment. Social problems that will involve interests or relationships are no less important. The concept of CSR is expected to be able to overcome the negative impacts caused by the company. The idea is a necessary condition for environmental conditions and good quality.

Investor confidence is one of the most influential aspects of the stock market. Investors will respond to a good disclosure by providing a better stock price and lower it if they deliver bad news (Mahmood et al., 2019). CSR provides the company's contribution to sustainable economic development, positively improving the quality of life for both the business and its development.

CSR can be a strategy for companies to meet business goals to generate long-term profits (Chaudhry et al., 2020). The company displays a responsible profile, integrates social demand in business operations, and supports social and ethical. CSR will become a strategic and competitive asset for corporations during a business climate that demands ethical and responsible business practices. Companies with good environmental performance will be responded positively to investors by increasing stock price fluctuations from period to period (Kustono et al., 2021).

Companies can achieve financial stability and performance if they carry out social activities. As the level of corporate risk increases, the scope of sustainability disclosure also increases to shift the principal's attention from the impact of changing risks to regional attention on appropriate corporate sustainability disclosures. Sustainability disclosure is good news about the company's performance to principals, reducing the negative impact of other bad news. If the disclosure of sustainability is low, it will have an impact on decreasing firm value.

Reporting social and economic activities can reduce the principal's doubts about the fulfillment of their wealth. Management seeks to provide clues to investors regarding the prospect of firm value (Worokinasih & Zaini, 2020). Investors can use it as a consideration whether they want to invest in the company or not. If the CSR disclosure is responded to positively, it will undoubtedly encourage firm value. Thus, the better the information published by the company, the stock price will rise.

2.2 Hypothesis Development

CSR disclosure can be used to divert issues related to declining firm performance and other bad news. The report encourages investors' attention to the activities associated to environmental responsibility. CSR disclosure is a hedge that mediates the relationship between firm performance and value. The relationship between declining performance and CSR disclosure is negative. The lower the company's performance, management needs to provide good news to reduce pressure from the principal. CSR disclosure is good news that diminishes the negative assessment of investors so that firm value becomes positive (Amir & Chaudhry, 2019). The lower the level of performance, the company needs performance levers. Companies with bad news tend to bring up other information as good news to decrease firm value. Complete annual report information is expected to have a positive impact on the company. If the disclosure of good news is not carried out, the market will translate it as bad news so that the effect on the company's valuation is low (Yang et al., 2017).

Some things considered bad news are decreased financial performance, increased financial risk, and opportunistic earnings management. Companies that experience negative growth or increase in accruals due to earnings management anticipate the negative impact by issuing more comprehensive CSR disclosure. Low growth is faced with the risk of future earnings fluctuations. Investors will give low value to the company.

Earnings management can be seen positively and negatively depending on the motivation that drives management to carry out this practice. This motivation can be seen as the manager's opportunistic motivation and efficiency motivation. The market response is negative if the practice is triggered by the opportunistic nature of managers who prioritize their interests.

Firm value is the value given by the market for the company's performance. Stock prices above book value indicate market appreciation, and stock prices below book value indicate market depreciation. Earnings management is an attempt to reduce perceived risk. This risk is related to bankruptcy, borrowing costs, and prospects of generating future profits. This risk affects the market's perception of the firm's value.

High profitability can provide added firm value, which is reflected in its share price. Profitability is positively related to firm value. The higher the profitability, the higher the firm value, and the lower the profitability, the lower the firm value. The better the company pays returns to shareholders, the higher the firm value. It reflects the company's ability to generate high profits for shareholders and increase its earnings per share. Investors are interested in companies that provide added value (Salehi et al., 2019). Maximizing shareholder wealth can be achieved by maximizing all shareholder profits' present value or present value, increasing if the share price increases.

Dividend policy aims to maximize prosperity for shareholders. The high dividend paid affects the stock price. If the company does not distribute dividends, the market will negatively signal to the company's prospects. An increase in dividends signals a favorable change in manager expectations, and a decrease in dividends indicates a pessimistic view of the company's prospects in the future.

Leverage needs to be managed because the high debt used can change the company's market valuation. Companies with a lot of debt are considered distress because it will impact decreasing profits (Valipour & Moradbeygi, 2011).

Large debt poses a risk for investors to give a negative signal to the decline in firm value. The greater the age of the lever, the greater the risk of the investment. High financial risk can indicate that the company is not solvable, which will decrease firm value. Assets obtained from debt increase investment risk if the company cannot pay off its obligations on time.

Hypothesis 1 An increase in financial performance encourages investors to give more value to the company.

Hypothesis 2 A increase in financial risk will encourage investors to punish by giving lower firm value.

Hypothesis 3 Companies that have a negative dividend policy will cause investors to rate the company lower.

From the perspective of signaling theory, earnings management is a signal for investors. Managers have information about the company's prospects. Management is motivated to provide information to outsiders to correct the share price to its actual value. Earnings management practices affect the firm value, reflected in its share price (Harmadji et al., 2018).

As a signal, earnings management provides information to investors to predict future earnings based on the current year's earnings. In other words, earnings reported in time series have persistence. Earnings management practices make earnings an effective predictor of the company's future performance. In this condition, earnings management is a good action taken by management. Even though earnings management is not disclosed directly, the impact will be good news, such as continuous reporting. Earnings management is a good choice of action if the action has the effect of signaling the company's prospects to users of financial statements helpful in making decisions.

Earnings management is a management effort to satisfy shareholders by reducing the company's risk. Investors and creditors consider this kind of company to have low bankruptcy risk because it provides a more certain guarantee of future profits.

Management may make efforts to manipulate investors' adverse reactions by taking earnings management actions. Companies with declining performance perform earnings management so that investors do not overestimate the negative impact. Earnings management helps explain to investors, creditors, or other interested parties their ability to pay debts and potential future profitability. Earnings management as an instrument to reduce monitoring costs for investors so that companies with low performance emphasize some negative information (Bressan et al., 2017; Duru & Alexandros Tsitinidis, 2013; Shu & Thomas, 2019; Sincerre et al., 2016)

Hypothesis 4 When financial performance declines, the company performs earnings management to suppress the negative impact of declining financial performance.

Hypothesis 5 When financial risk increases, the company performs earnings management to reduce the negative impact of the increased financial risk.

Hypothesis 6 When the company's policy is negative, the company performs earnings management to suppress the policy's negative impact.

Management reports CSR disclosure hoping that the report can be good news for investors as principals. In conditions where the company's performance declines and affects business continuity, management will cover poor performance by utilizing flexibility in CSR delivery to principals. CSR is a cover for bad news about the company's overall performance. If investors believe CSR is a signal associated with positive information, it can increase firm value (Daria et al., 2013; Tarek, 2019).

Hypothesis 7 When financial performance declines, companies expand the CSR disclosure to distract investors from the negative impact of declining financial performance on expanding the disclosure.

Hypothesis 8 When financial risk increases, companies will expand the CSR disclosure to distract investors from the negative impact of increased financial risk on expanding the disclosure.

Hypothesis 9 When the dividend policy is negative, the company will expand the CSR disclosure to distract investors from the negative impact of the dividend policy on expanding the disclosure.

Hypothesis 10 When earnings management increases, companies expand the CSR disclosure to divert investors' attention from the impact of earnings management into direct attention to the company's CSR disclosure.

3. Methodology

Research design is a series of plans that become a reference in carrying out research. This study is an empirical study that examines whether earnings management and CSR disclosure are hedging for managing to avoid the negative impact of declining firm performance.

3.1 Population and Sample

The data used is secondary data in the form of annual financial statements issued by manufacturing companies listed on the Indonesia Stock Exchange (IDX) for 2014– 2019. The following coverage criteria are: the company (1) did not take corporate actions such as acquisitions or mergers during the observation period. Suppose the company makes acquisitions and mergers during the observation period. In that case, it will result in the variables that are not comparable to the previous period, (2) have complete data regarding data related to research variables, (3) present financial statements in rupiah monetary units, (4) have discretionary accruals and, (5) issue CSR disclosure.

The sample selection technique used is probability sampling from a specific population. The sample was selected based on the suitability between the characteristics of the sample and the sample selection criteria determined to meet the analysis objectives of this study. The criteria for choosing the sample are manufacturing industry companies not delisted on the IDX from 2014 to 2019.

3.2 Operational Definition of Variables

The operational definition is an explanation of the variables used. The measurement scale concerns the measuring tools used in the study.

Financial performance. Financial performance is the company's ability to generate profits. In research, financial performance is proxied by Return on Asset (ROA). The formula measures this variable:

$$ROA = \frac{Net\ Income}{Asset} \quad (1)$$

This variable is expressed using a ratio scale and unit of measure in a percentage (%).

Financial risk (X2). Financial risk is the extent to which the company's capital is financed with debt. It is proxied by Debt Equity Ratio (DER). The formula measures this variable:

$$DER = \frac{Debt}{Equity} (2)$$

The level of financial risk indicates the size of the risk borne by investors. It will encourage management to do earnings management to avoid a high level of investor risk. This variable is expressed using a ratio scale and unit of measure in a percentage (%).

Earnings management attempts to change, hide, and manipulate the numbers in the financial statements and play with companies' accounting procedures to gain profits. Earnings management can be measured using discretionary accruals with Modified Jones Model, which is calculated by dividing the total accruals with non-discretionary accruals.

$$TACit = EBXTit - OCFit \quad (3)$$

$$\frac{TACit}{TAit-1} = \beta 1\left(\frac{1}{TAit-1}\right) + \beta 2\left(\frac{\Delta REVit-\Delta RECit}{TAit-1}\right) + +\beta 3\left(\frac{PPEit}{TAit-1}\right) + \in \quad (4)$$

From the regression equation above, NDAC can be calculated by re-entering the following coefficients:

$$NDACit = \beta 1\left(\frac{1}{TAit-1}\right) + \beta 2\left(\frac{\Delta REVit-\Delta RECit}{TAit-1}\right) + \beta 3\left(\frac{PPEit}{TAit-1}\right) \quad (5)$$

$$DACit = \frac{TACit}{TAit-1} - NDACit \quad (6)$$

With :

TACit = Total Accruals of a company i in period t

EBXTit = Earnings Before Extraordinary Item i in period t

OCFit = Operating Cash Flow of company i in period t

TAi,t-1 = Total assets of company i in period t

REVit = Revenue of company i in period t RECit = Receivable of a company i in period t

PPEit = Fixed asset value (gross) of a company i in period t

CSR Disclosure. Continuous disclosure is an activity to report all company activities related to environmental activities and social activities as measured by the social responsibility disclosure index indicator. Index of CSR measurement refers to using content analysis in measuring the variety of disclosure. The scores of each item are summed to obtain an overall score for each company. The CSR index calculation formula is as follows:

$$CSRi = \frac{\sum Xit}{ni} (7)$$

CSRi : Corporate Social Responsibility Disclosure Index of companies i

ni : Number of items for company i

Xit : Total score each company, 1 = if item i is disclosed; 0 = if item i is not disclosed

Firm value is often linked to stock prices. The higher the stock price, the higher the firm value, that maximizing firm value means also maximizing the prosperity of shareholders, which is the company's goal. Firm value can be measured by the value of the share price in the market, based on the formation of the company's share price, reflecting the public's assessment of the company's financial performance at a specific time. Firm value can be measured by the ratio of market value to book value.

$PBV\ ratio = market\ price\ per\ share\ /\ book\ value\ per\ share$ (8)

3.3 Data Analysis Method

Descriptive statistics aim to test and explain the characteristics of the observed sample. The results of descriptive statistics can be in the form of a table containing at least the names of the observed variables, the mean, standard deviation, maximum and minimum, followed by an explanation in the form of a narrative explaining the interpretation.

The hypothesis testing is tested using the path analysis technique with the variance-based structural equation model approach. Inference processing and testing using Smart PLS software ver 3.2.9. SmartPLS allows researchers to estimate complex models with multiple constructs, indicator variables, and structural paths. The path analysis is drawn in the following equations.

$FVit = \alpha + \beta 1FINPERit + B2FINRISKit + B3DPOLit + e$ (9)

$EMit = \alpha + \beta 4FINPERit + B5FINRISKit + B6DPOLit + e$ (10)

$FVit = \alpha + \beta 7EMit + \beta 8FINPERit + \beta 9FINRISKit + \beta 10DPOLit + e$ (11)

$CSRit = \alpha + \beta 11FINPERit + \beta 12FINRISKit + \beta 13DPOLit + e$ (12)

$FVit = \alpha + \beta 14CSRit + \beta 15\ FINPERit + \beta 16FINRISKit + \beta 17DPOLit + e$ (13)

$FVit = \alpha + \beta 18CSRit + \beta 19\ EMit + \beta 20FINPERit + \beta 21FINRISKit + \beta 22DPOLit + e$ (14)

With,
FINRISK is financial risk,
FINPER is financial performance,
DPOL is dividend policy,
EM is earnings management,
CSR is corporate social responsibility,
FV is firm value

Equation eight (9) is used to tests hypothesis 1 whether there is a direct relationship between exogenous and endogenous. Equations 11, 13, and 14 are used to test the hedging function of CSR and EM variables. The framework test hypotheses show in figure 1.

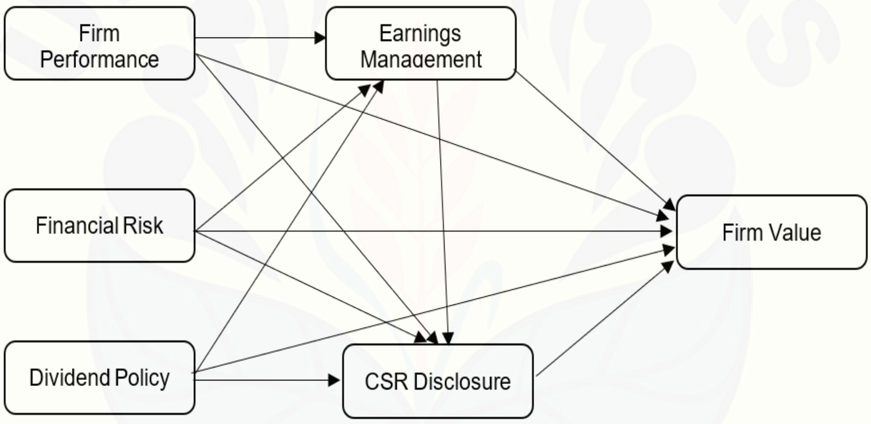

Figure 1: Framework of study

The PLS test consists of the inner model, outer model, and weight relation. The inner model specifies the relationship between the latent variables. The outer model identifies the relationship between the latent variable and its manifest and the weight relation when the latent variable can be estimated.

The PLS consists of three models: the inner model, which specifies the relationship between the latent variables. The outer model specifies the relationship between the latent variable and its manifest and the weight relation when the latent variable can be estimated. The stages of PLS analysis are as follows:

a. Analysis of outer model. The outer model analysis is carried out to ensure that the measurement is valid and reliable. This model is obtained by running the bootstrapping algorithm on Smartpls 3.2.9.
b. Reliability indicator. The reliability indicator aims to assess whether the variable measurement items are reliable or not. It is done by evaluating the results of the external loading of each measurement item. A loading value above 0.7 indicates that the construct can explain more than 50% of the variance of the measurement items.
c. Internal consistency. Internal consistency used as reliability measures how capable the measurement item can measure the construct. The tool used to assess this is composite reliability. Item is considered to have good reliability of the Cronbach's alpha value is above 0.7.
d. Convergent validity. Convergent validity shows that the measurement items of a construct are correlated. It can be assessed by looking at the extracted average variance value. An ave value of 0.5 or more indicates that the construct can explain 50% or more of the item variance.
e. Discriminant validity. Discriminant validity aims to determine whether the measurement item is a good construct measure. It can be seen in the cross-loading value. A good cross-loading value is more than 0.7.
f. Analysis of inner model. The inner model analysis is used to test the relationship between constructs that have been hypothesized previously.
g. Path coefficients are used to see significance and strength relationships and to test hypotheses. Path coefficient values range from -1 up to +1. The closer to +1, the stronger the relationship between the two constructs. A relationship that is closer to -1 indicates that the relationship is negative.
h. Hypothesis testing. In testing the hypothesis use Bootstrapping, it can be seen from the t-statistic value.

Testing the hypothesis using statistical values, for alpha 5%, the t-statistic value used is 1.96 t-table.

4. Result and Discussion

The population in this study is the companies engaged in the manufacturing sector listed on the Indonesia Stock Exchange. The purposive sampling technique is used to specific criteria so that the samples obtained later follow the research objectives and criteria to solve research problems. The population is limited to companies which (1) listed in the manufacturing sector in the IDX for the 2014-2019 period, (2) submit annual reports in a row during the 2014-2019 period, (3) have profits during the 2014-2019 period, and (4) present the annual report in rupiah. Table 1 shows selecting samples that the entire manufacturing company is 181 companies divided into basic & chemical industry (79 firms), various industries (50 firms), and consumer goods industry (52 firms).

Descriptions	Number of Companies
The manufacturing companies in 2019	181
Newly listed companies in the period 2014-2019	(40)
Manufacturing companies 2014-2019	141
Companies that have not declared dividends	(55)
Companies that have announced dividend announcements	86
Number of firm-year observations	516

Table 1: Selecting Samples

Source: processed secondary data, 2021

Companies that were declaring dividends are 86 samples. The number of research samples is 516 firm years. All data relating to the exogenous and endogenous variables are sourced from the annual report on the Indonesia Stock Exchange.

4.1 Descriptive Statistical

Descriptive statistics serve to describe the data from research. Based on descriptive statistics, it will know each variable's average, maximum, and minimum values. Table 2 explains descriptive statistics.

	Min	Max	Mean	Std. Deviation
Firm Performance	0.02	0.58	0.15	0.10
Dividend Policy	0.07	2.00	0.50	0.03
Firm Value	0.37	2.83	1.34	0.09
Earnings Management	0.08	5.48	0.00	0.97
Financial Risk	0.08	4.95	0.95	0.82

Table 2: Descriptive Statistics

Source: processed secondary data, 2021

Table 2 shows each variable is well distributed. The standard deviation is not close to the mean, and the mean coincides with the mean. The data shows that there is no significant difference. Each variable is also fulfilled. The results of descriptive statistics show that the quality of the data is quite good.

Hypothesis testing is done with one multiple regression equation and three path analysis equations. The first model to test hypotheses 1, 2, and 3 uses eight multiple regression equations. The second model for testing hypotheses 4, 5, and 6 uses the path equation 10. The third model uses the path equation 12. Equation 13 is used to strengthen the discussion about the impact of earnings management practices and CSR disclosures that are carried out simultaneously. Table 3 shows the results of the path analysis test.

	Model 1		Model 2		Model 3	
	Original Sample	P Values	Original Sample	P Values	Original Sample	P Values
FINRISK → FV	-0.178	0.000**	-0.165	0.000**	-0.243	0.002**
DPO → FV	0.094	0.429	0.120	0.339	-0.110	0.209
FINPER → FV	0.214	0.018**	0.179	0.072	0.117	0.114
FINPER → EM			0.136	0.079		
EM → FV			0.258	0.233		
DPO → EM			-0.098	0.238		
FINRISK → EM			-0.053	0.416		
FINRISK →CSR					0.103	0.291
CSR → FV					0.627	0.000**
FINPER → CSR					0.156	0.108
DPO → CSR					0.327	0.003**
FINRISK is financial risk, FINPER is financial performance, DPO is dividend policy, EM is earnings management, CSR is corporate social responsibility, FV is firm value, *p <0.05, **p <0.01						

Table 3: Test Results of Hedging Hypothesis Equations

Source: processed secondary data, 2021

In model 1, the test is carried out with multiple regression. The results showed that firm performance directly affected firm value (0.214, p = 0.018) and financial risk (-0.178, p = 0.00). DPO does not affect firm value because it has p = 0.429. Improved performance has a positive impact on firm value. Contrary to this phenomenon, financial risk has a negative impact on firm value. The higher the risk of the company's financial condition, investors negatively value the company. The dividend policy shows the findings difference. The dividend policy announced by management has no impact on changes in the firm value in the market.

Model 2 is done by entering the earnings management variable into the equation model. The test uses path analysis and the results show a change in the influence of each variable. Changes in firm value are only affected by financial risk (-0.165; p = 0.00), while firm performance has no effect (p = 0.072) and DPO (p = 0.339). In contrast to testing model 1, this model shows that when companies practice earnings management, changes in firm performance have no significant effect on firm value.

Model 3 is done to describe the conditions when companies present CSR disclosures. The results show the same results as the second model. The influence of corporate risk is still significant to changes in firm value (-0.243; p = 0.002). The existence of CSR is not able to cover the negative influence of financial risk. However, CSR can distract investors so that negative changes in firm performance do not impact the company. Another finding was the effect of dividend policy on the extent of CSR disclosure (0.327; p = 0.003) and the effect of CSR on firm value (0.627; p = 0.000).

Additional testing was carried out to see the indirect effect of exogenous variables on endogenous variables. The results of statistical tests in table 4 show that dividend policy indirectly affects firm value. The indirect effect of dividend policy on firm value is 0.179 with a p-value of 0.018 <0.05

	Original Sample	St. Dev	T-Statistics	P-Values
FINRISK → FV	0.053	0.060	0.882	0.378
DPO → FV	0.179	0.075	2.380	0.018**
FINPER → FV	0.116	0.071	1.632	0.103

Table 4: Total Indirect Effects
*p <0.05, **p <0.01

Source: processed secondary data, 2021

4.2 Discussion

Path analysis using SmartPls version 3.2.9 tested the ten research hypotheses. The results resume presented in Table 3. The test results in model 1 show that two variables are proven to affect firm value directly. Firm performance variables have a positive influence on firm value. Investors address the increase in performance by providing an increase in the firm value and vice versa. Hypothesis 1, which stated that increasing financial performance encourages investors to give more weight to the company, is proven in the research sample.

The same applies to corporate risk. An increase in corporate risk will have a negative impact on firm value. Hypothesis 2, which stated that increased financial risk encourages negative investor reactions to the company, is accepted.

In contrast to this, hypothesis 3 is not supported by the results of inference testing. The company's dividend policy has no impact on investor reactions, so it does not affect its value. Hypothesis 3 stated that companies with a negative dividend policy would cause investors to give the company's lower value rejected. It is because the dividend policy is a consequence of the performance of other companies, so it depends on different aspects. Meanwhile, financial ratios and financial performance have a direct impact. This result also rejects hypotheses 6 and 9. Corporate social responsibility and earnings management are not hedge variables in the relationship between dividend policy and firm value.

Tests on model 3 show the relationship between firm value and exogenous variables when the firm practices earnings management. Earnings management covers the effect of the company's financial performance on firm value. Although the relationship between the two is not significant, earnings management practices can prevent investors from paying attention to changes in firm performance. Hypothesis 4 stated when financial performance declines, the company performs earnings management to suppress the negative impact of the decline in financial performance is accepted.

Earnings management fails to cover the impact of financial risk. Investors responded to the increased risk of the company. Earnings management practice is not a hedging tool for companies that have high financial risk. Hypothesis 5 stated that when financial risk increases, companies perform earnings management to reduce the increased financial risk's negative impact is rejected. There is no role in closing exogenous variable changes.

A high increase in firm value is a long-term goal that the company should achieve, reflected in the stock market price because investors' assessment of the company can be observed through stock price movements. Companies must position their business as part of the existing social and political system. If the company is more responsive to the demands of society, then business activities are more acceptable to the community. The implementation of CSR fosters a sense of social acceptance of the company's presence. Companies can have an economic advantage in the form of increasing the firm value. Disclosure of CSR is essential for companies because CSR is a form of responsibility to improve the company's image.

Hypothesis 7 predicted the role of CSR to cover the negative impact of firm performance. Testing of model 5 shows that CSR can cover the effects of changes in firm performance. Hypothesis 7 is accepted. Increasing the extent of CSR eliminates the influence of firm performance on investor assessment. The existence of CSR diverts investors' attention from declining performance to the disclosure of broader social and environmental aspects. CSR provides confidence about the earnings power of the company in the future.

It is different from corporate risk. The expansion of CSR is not able to shift the attention of investors. The increase in financial risk gives anxiety about the company's ability to go concerned that more comprehensive CSR disclosures cannot replace. The changes do not affect the firm value. Like earnings management, CSR failed to show a significant role as a hedge variable in increasing the company's financial risk. Hypothesis 8 is rejected. The expansion of CSR cannot prevent the company from investors' negative views due to the increased risk. The hypothesis that CSR is a distraction to reduce financial risk and dividend policy is rejected.

Model 6 examines the simultaneous existence of the company's earnings management and CSR practices. The results are no different from individual existence. Both practices failed to be a hedging variable for changes in financial risk but succeeded in firm performance.

CSR shows better effectiveness than earnings management. Its existence has succeeded in covering the company's performance and directly influencing the influence of the company's financial risk. In contrast, earnings management does not affect firm value. It relates to the timing and type of disclosure.

Earnings management is closely related to the level of profit achievement or business performance of an organization. Managers perform earnings management by using artificial variables by selecting permitted accounting methods or using real variables, namely by manipulating income and costs and abnormal company activities. Many earnings management actions are legal and do not violate the established accounting standards. Management uses the income statement as a measure of the efficiency and effectiveness of resource allocation.

Managers use their policy choices in financial reporting and prepare transactions to present financial statements about the company's economic performance or influence contractual results that depend on accounting numbers reported following manager preferences. Earnings management is done by controlling accrual transactions. Accrual transactions affect revenues and expenses but do not appear on cash flows. Management can also change accounting policies and determine the desired net income, but management's desire to do this is not as strong as accrual items.

Earnings management actions will be directly related to financial statement accounts and have an impact on reported earnings. Investors' decisions are based on the company's profit values attached to the company's financial performance that has gone through a managerial decision selection process. It makes earnings management ineffective and has an impact on investors' reactions. Hypothesis 10 stated that CSR covering negative impact earnings management to firm value is rejected.

Corporate risk contains a few possible accruals that are difficult to reduce risk. Possible earnings management actions are real ones, and they are not captured in the formula proposed. Investors can still observe financial risks freely according to the company's face. It makes earnings management only subordinate to reducing its negative impact (Piosik & Genge, 2020).

Corporate social responsibility is a company's response activity to negatively impact operational activities, including economic, social, and environmental responsibilities. Investors no longer only pay attention to the single bottom line but also three other important aspects. The concept of CSR disclosure reporting from an economic perspective and a social and environmental perspective makes investors have to sort out information. Additional CSR information outside the financial statements is good news for investors. The wider the CSR actions, investors can make assumptions about the future profitability of the business. It makes CSR more effective than earnings management because it has a direct influence on firm value.

The existence of CSR is an intermediary for investors to provide positive value for the company. It is consistent with previous research that stated that corporate social responsibility could mediate the effect of dividend policy on firm value because investors in Indonesia have considered corporate social responsibility reports to make investment decisions (Riska et al., 2017). Companies with a favorable dividend policy have responsibilities to external parties, encouraging companies to carry out extensive social activities to improve their image.

The results show that earnings management or CSR are hedging instruments for management when the company's performance declines, which is indicated by a decrease in profits. Investors' attention can be diverted effectively using CSR. It also proves that CSR is good news that responds positively by increasing the firm value. The study failed to show the role of the two variables when the company experienced an increase in financial risk, as indicated by the rise in the debt to equity ratio. Debt is the dominant information for investors because it relates to the distribution of wealth between investors and creditors. The high debt poses a threat to the company's survival, such as default, bankruptcy, or liquidation.

5. Conclusion and Suggestion

5.1 Conclusion

The research aims to test the hedging hypothesis that management performs earnings management and presentation of sustainable reports as an opportunistic effort to protect the interests of firm value because of events that have a negative effect on investors' assessments. There are ten hypotheses tested with the following results. Firm performance and financial risk affect the firm value. Investors address the increase in performance by providing an increase in the firm value and vice versa. An increase in corporate risk will have a negative impact on firm value. Earnings management covers the effect of the company's financial performance on firm value. Although the relationship between the two is not significant, earnings management practices can prevent investors from paying attention to changes in firm performance. The existence of CSR diverts investors' attention from declining performance to the disclosure of broader social and environmental aspects. CSR provides confidence about the earnings power of the company in the future. Earnings management can act as a suppressor of the negative influence of firm value caused by a decrease in firm performance. CSR disclosure can perform to cover the effect of declining financial performance on firm value. This study failed to show support for the other hypotheses. Path analysis does not show the role of earnings management and CSR disclosure on the effect of changes in financial risk on firm value. The dividend policy is a consequence of the performance of other companies, so it depends on other aspects. Corporate social responsibility and earnings management are not hedge variables in the relationship between dividend policy and firm value. Overall, CSR disclosure is more effective than earnings management because it directly affects firm value.

5.2 Limitations and Suggestion

The study has limitations that can be corrected in future research. The use of the modified Jones formula to determine earnings management actions is based on the use of accruals so that the effect of management actions is not captured. A single time frame creates an error effect caused by a different time for each phenomenon. Future research needs to consider doing it on the same time frame on each variable so that the results are free from the effect of the time error.

Conflict of Interest

The author declares that there is no conflict of interest for this publication.

Acknowledgment

The author extends their appreciation to the Rector of University Jember for supporting this study: the Keris Grant Research Program [2582/UN25.3.1/LT/2021].

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Submission date: 01-Dec-2021 05:25PM (UTC+0700)
Submission ID: 1717297387
File name: The_purpose_of_this_study.edited.edited.edited.edited.docx (60.11K)
Word count: 6217
Character count: 34661

CORPORATE SOCIAL ACTIVITIES AS A MODERATOR OF FIRM VALUE

The study aims to determine the effect of good governance mechanisms and financial performance on firm value with social activities as a moderating variable. This study uses moderate regression analysis. The research sample consisted of 294 firm-year observations of companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange for the 2014-2019 period. The research sample was selected by purposive sampling technique with predetermined criteria. This study shows that managerial ownership affects firm value when social activities are not included in the model. Investors consider it a shaper of firm value. When the social activity factor is considered, the role of managerial ownership on firm value is not affected. In many situations, institutional ownership does not affect firm value. The results \indicate that the greater the institutional ownership does not necessarily affect the increase in firm value. Likewise, social activity does not show a role as a moderating variable on the relationship between variables of institutional ownership. Financial performance affects the firm value on the condition of social activities included in the model or not. The interaction between the two variables also shows a significant effect. Social activities moderate the relationship between financial performance and firm value by strengthening the effect on firm value. In bad news situation, interaction between financial performance and social activities also shows its role in bad news situations.

Keywords: managerial ownership, institutional ownership, financial performance, firm value, social activities

Background

Management strives to always improve the welfare of shareholders by keeping the company value high. Firm value is significant and can affect investors' perception by looking at the company's performance, which is reflected in the firm value. High firm value tends to attract investors to invest in the company. It is because they will believe that the company will be able to meet the welfare of shareholders. The firm value needs to be considered by investors in giving consideration to deciding whether he will invest in a company and ensuring that the firm value will reflect the profits he will receive.

Companies need to do several things to be able to maximize the firm value. Two factors affect firm value, namely financial factors and non-financial factors. Financial factors include financial performance, company size, dividend policy, leverage, capital structure, company growth, etc. Non-financial factors such as social activities or what is often referred to as corporate social responsibility (CSR).

Financial performance (PRO) determines the ability to earn earning at an acceptable level in financial factors. Financial performance greatly influences the decision of investors to choose to invest their capital in a company. These investors prefer to invest their money in companies with better financial performance, hoping that their returns are also high. If the company can generate high profits, investors will also get high returns, increasing the firm value.

The mechanism of good corporate governance (GCG) can provide confidence that the company is well managed. The implementation of GCG increases the confidence of stakeholders and the trust of the market. GCG can increase the firm value through asset and capital management carried out properly by the company's management.

GCG is closely related to several parties who play an essential role in improving the company's performance. Managerial ownership (MWON) has a positive influence on firm value. The higher the proportion, the management strives for greater the shareholders' return.

In addition to MOWN, institutional ownership (INST) also has a role in good governance. INST monitors to prevent bad corporate governance practices that harm shareholders. The higher the institutional ownership, the tighter the supervision carried out on the opportunistic behavior of management.

The decision usefulness perspective explains that companies disclose information about social and environmental activities because shareholders and creditors use it in making investment decisions. In general, investors believe that companies can grow and develop sustainably through the interaction between the business and its environment as a whole.

Social responsibility is a form of responsibility that the company should carry out for the positive and negative impacts arising from its operational activities and may affect the internal and external community within the company. Companies must disclose social responsibility to stakeholders and the market also gives a positive response to the disclosure of social activities. Social activities show a commitment to minimizing or eliminating negative effects and maximizing long-term positive impacts on society. Disclosure of social activity is expected to influence investors' decisions to make investment decisions.

GCG mechanisms, financial performance, and social activities are interrelated with each other. When the company has carried out its social responsibility, the management is assumed to implement good governance. Therefore, both GCG and social activities are essential for the company in its operational activities.

Research that examines the role of social activities as a firm value guard has not been widely carried out. CSR research in Indonesia generally discusses CSR as a company obligation and provides benefits for increasing firm value. The social activity serves as a moderating variable to see whether it will strengthen or weaken the relationship between the GCG mechanism and financial performance to firm value.

Previous research examined the widespread use of CSR. It is actually ambiguous because CSR disclosure is a conveyer of information about the company's social activities. This study focuses on the effect of firm value on the company's social activities in one reporting period, and this summary of information is proxied by the reported CSR index.

This study examines social activities' role as a moderating variable in the company experiencing a decline in financial performance. The moderator function means that environmental activities are weakened when the company has bad news and become reinforced when the company has good news. Based on the background described above, the researcher draws several formulations of the problem, namely: do managerial ownership, institutional ownership, financial performance affect firm value, and whether the social activity is a moderator of the relationship between these variables?

Theoretical basis

Stewardship theory assumes that humans are trustworthy, take responsibility for every action, and have integrity and honesty with others. In terms of company management, this theory holds that management is a party who can be trusted to act as best as possible for the public interest in general and shareholders in particular. The stewardship perspective illustrates that managers are more motivated to achieve the main goals in achieving organizational interests rather than personal interests, so they focus on leadership in attaining common goals without hindering the interests of each party. The company has control empowering managers to maximize company profits and achieve good governance.

Managers maximize their performance to achieve company goals. The company's management will implement good governance so that the company's goals can be achieved and create added value for the company to encourage financial performance, which will also add value to the company.

Firm value (FV) is an assessment of the performance of a company given by the market. This value reflects the market's desire and belief in the company's intrinsic value. When the stock price is above book value, it indicates a market appreciation. Conversely, when the stock price is below book value, it suggests a market depreciation. If the market gives more value to a company, this shows that the market considers the company to have good prospects.

Investors need the firm value as a consideration in investing. Investors can use the company's stock price in the market to assess a company's financial performance and reflect the firm value. If the company has a high share price, it indicates that the company has a high value.

Good governance is a mechanism for companies to produce long-term and sustainable economic value for stakeholders and shareholders to achieve good corporate governance. Institutional and managerial ownership are some of the good governance mechanisms that affect the firm value.

Institutional ownership is the proportion of shareholders owned by institutional owners who have an essential role in overseeing the attitude of managers in the company. This institutional share ownership can monitor the company's management team effectively and minimize a conflict of interest between the company's management and shareholders. If the level of institutional ownership is high, it allows for greater oversight. It will affect the attitude of management, which will avoid behavior that can harm the principal.

Managerial ownership is share ownership owned by the management. A high level of managerial ownership can improve management performance for both personal and shareholder interests. The greater the ownership, they will be more motivated to increase the firm value.

Financial performance shows the company's ability to manage the capital invested in overall assets to benefit investors. It is in line with the reason investors invest in companies, namely to get a return. The higher the company's ability to earn profits, investors obtain the more significant return. High financial performance reflects good company prospects, so there will be a positive response.

Social activities are a commitment of the company's business to contribute to sustainable economic development. Social activities need to be carried out as a corporate concern for the environment and the surrounding community. This activity is based on the triple bottom line concept. Companies must prioritize the interests of stakeholders rather than only shareholders. The stakeholder interests in question are the sustainability of Profit, People, and the Planet. This triple bottom line is an essential key for the company to grow sustainably.

Social activities are expected to protect the company from situations that reduce the firm value. When the company has good news, social activities are expected to strengthen the situation. And conversely, when a company has bad news, social activities are expected to weaken its influence on the firm value.

2.1. Hypothesis Development

Good governance describes the management's ability to manage assets and capital well so that it attracts investors. Large company profits can attract investors to invest in the company to increase stock prices and firm value.

A large number of managerial ownership can reduce agency costs because it aligns with the interests of management and shareholders. The ownership can minimize the conflict of interest between the agent and the principal. It attracts investors to invest in increasing the firm value. Managerial ownership has a significant positive effect on firm value. The higher the number of shares owned by the company's management, the higher the firm value. Based on this description, the proposed hypothesis is as follows:

H1: An increase in the percentage of managerial ownership leads to a positive change in firm value.

Institutional investors have more significant resources than other shareholders, so that institutional ownership is considered capable of implementing an excellent supervisory mechanism. The increasing number of institutional investors puts pressure on companies to implement good corporate governance.

Institutional ownership can prevent opportunistic behavior of managers that may harm investors. Supervision carried out by external parties to the company is getting tighter, so agency costs decrease. Institutional investors can become an effective monitoring mechanism to realize good corporate governance by company management. When the company has implemented good corporate governance, it will achieve good performance. As a result, the firm value will also increase. Based on this description, the proposed hypothesis is as follows:

H2: An increase in the percentage of institutional ownership leads to a positive change in firm value.

Good and bad financial performance affects the firm value. Financial performance measures the effectiveness of overall management, which is indicated by the size of the level of profits obtained concerning sales and investment. High financial performance will create a positive signal for investors and have an essential role in maintaining the company's long-term sustainability. The better the financial performance ratio, the better the ability to describe the company's high profitability. The better the growth of the company's financial performance, the better the company's prospects in the future. Financial performance has the effect of increasing demand for shares, which increases the firm value.

H3: An increase in financial performance leads to a positive change in firm value.

Social activities carried out by the company are a form of responsibility and concern for the environment. Good social activities. The wider the company's social activities, the firm value also increases. Disclosure of social activities in the annual report will strengthen the image of a company and become a consideration for investors to pay attention to social activities. Companies are not only pursuing financial gain but also care about the community and the surrounding environment. Activities carried out by the company can strengthen public trust in the company's products. Investors get a positive response when the company can balance and pay attention to economic, social and environmental interests, as reflected in the stock price. The firm value is increasing continuously. Based on this description, the proposed hypothesis is as follows:

H3: Disclosure of social activities has a positive effect on firm value.

The pressure of the corporate environment requires companies to implement strategies to maximize the firm value. Corporate strategies such as social activities can be carried out to provide a good corporate image to external parties. The company's social activities further strengthen the existence of good governance. The presence of institutional and management ownership interacting with social activities provides a positive assessment of potential investors.

The higher the quality of the social activities carried out ensures the survival of the company. In addition to financial performance, social activities are expected to be an added value that will increase confidence that the company continues to grow and be sustainable. Consumers appreciate companies that disclose more than companies that do not disclose social activities. The interaction of good governance, positive financial performance, and sustainable social activities provide a good image that increases firm value.

H4: The interaction between managerial ownership and corporate social activities affects firm value.

H5: The interaction between institutional ownership and corporate social activities affects firm value.

H6: The interaction between financial performance and corporate social activities affects firm value.

3. RESEARCH METHOD

This type of research is explanatory research. The population used in this study is the basic and chemical industrial sector companies listed on the Indonesia Stock Exchange in 2014-2019. The sample companies were selected based on the following criteria:

1. Basic and chemical industrial sector companies listed on the Indonesia Stock Exchange consistently do not change the form of business entity or sector during the 2014-2019 period.
2. Companies that disclose social activities or in annual reports and in sustainability reports.
3. Companies that consistently use the rupiah currency.

Variable Operational Definition

The firm value. Firm value is proxied using Tobin's Q to determine the firm value and is very suitable for showing market estimates.

Managerial ownership. Managerial ownership is the total share ownership by management of the company's total share capital being managed.

Institutional Ownership. Institutional ownership is the number of share ownership owned by the institution compared to the total outstanding shares.

Financial performance. Financial performance is proxied by the ratio of return on assets (ROA). ROA is the ratio of net income after tax or often called profit for the year, with the company's total assets.

Social activity. The social activity variable is measured by the Corporate Social Responsibility Index (CSRI) proxy by looking at the performance indicators based on the Global Reporting Initiatives (GRI). The approach to calculating CSR disclosure uses a checklist data approach by looking at corporate social responsibility disclosure in four categories: society, employment, products and consumers, and the environment.

Control Variable

The control variables in this test are leverage (LEV) and liquidity (CR). LEV is proxied by the debt to equity ratio. This ratio shows the financial risk owned by creditors and investors if the company goes bankrupt. CR is proxied by the current ratio, which is current assets divided by current liabilities. The current ratio measures the company's ability to pay off short-term debt. This ratio shows how management maximizes current assets to ensure payment of short-term debt. A low current ratio indicates the risk of default. However, a high ratio indicates inefficient use of assets.

Hypothesis test.

Hypothesis testing uses moderate regression analysis (MRA). MRA is a multiple linear regression that has an interaction between variables. Social activity variables as moderating variables are variables that strengthen or weaken the relationship between the independent variable and the dependent variable. The hypothesis was tested using the regression equation with the following formula:

$$Y = \beta_0 + \beta_1 MOWN + \beta_2 INST + \beta_3 ROA + \beta_4 LEV + \beta_5 CR + e \quad (1)$$

$$Y = \beta_0 + \beta_1 MOWN + \beta_2 INST + \beta_3 ROA + \beta_4 CSR + \beta_5 CSR^* MOWN + \beta_6 CSR^* INST + \beta_7 CSR^* ROA + \beta_8 LEV + \beta_9 CR + e \quad (2)$$

Equations (1) and (2) were tested under conditions

1. Overall sample company data;

2. Data on samples of companies that have good news (fixed/increasing ROA);
3. Data on samples of companies that have bad news (declining ROA).

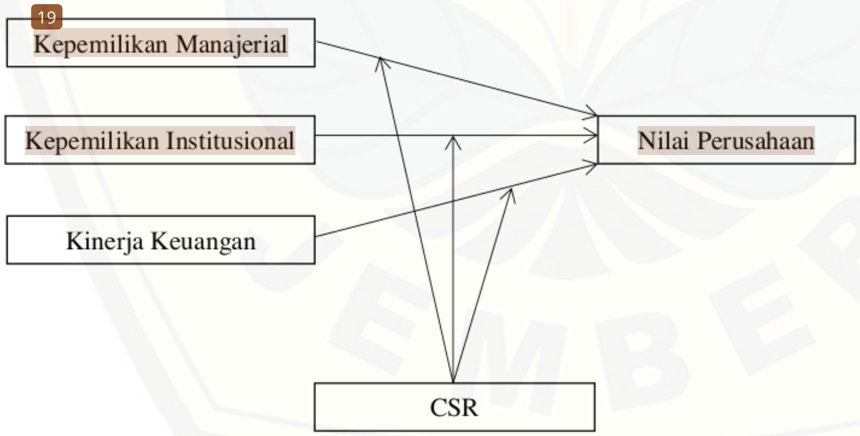
in matrix form, the equation formed is as follows:

Tabel 1. equation matrix

	Without CSR	With CSR
Overall sample data	1.1	1.2
The sample has good news	2.1	2.2
The sample has bad news	3.1	3.2

There are six situations formed in the equation. Conditions 1.1 and 1.2 use all data. The purpose of this test is to determine the variables that affect firm value in the aggregate. In equation 1.2, it is done by entering social activity variables to see changes in MOWN, PRO, and INST coefficients. Conditions 2.1 and 2.2 use company data with good news, while 3.1 and 3.2 use company data when it has bad news. The purpose of this test is to provide a comprehensive understanding of the role of each variable while at the same time ascertaining whether the social activity is the moderator of the relationship between MOWN, PRO, and INST to FV.

Information:
Y = Firm value
0 = Constant
β_1- β_7 = Regression coefficient
MOWN = Managerial ownership
INST = Institutional ownership
PRO = Financial performance
CSR = Social Activities
LEV = Leverage
CR = Current ratio
e = error



4. RESULTS AND DISCUSSION

The research object is the basic and chemical industrial sector companies listed on the Indonesia Stock Exchange in 2014-2019. Year restrictions until 2019 to avoid the impact of Covid19. Sector restrictions to maintain differences in behavior in the disclosure of environmental activities. Basic and chemical industrial sector companies are manufacturing companies engaged in producing cement, ceramics, porcelain, glass, metal, and the like, chemicals, plastics and packaging, animal feed, wood, and their processing, and pulp and paper. The sample was determined using the purposive method based on specific criteria. Research sampling is described in Table 4.1 as follows:

Table 2. Samples selection

Sample criteria	Number of companies
Basic and chemical industrial sector companies operating continuously from 2014 to 2019	57
Delisting	(6)
Changed sectors	(2)
Total sample	49
Total firm-year observation	294

Sumber: Processed data, 2021

Descriptive statistics

Descriptive statistics describe the data for each variable during 2014-2019. The data is seen from the minimum value, maximum value, mean and standard deviation of each variable shown in Table 3 as follows:

Table 1 Descriptive Statistics

	Minimum	Maximum	Mean	Std. Deviation
MOWN	0.00	37.32	9.92	12.52
INST	0.05	88.31	49.28	26.04
CSR	0.25	0.77	0.46	0.12
PRO	-17.32	12.80	3.32	4.43
FV	0.20	100.69	2.89	13.22
Valid N (listwise)				

Descriptive statistics illustrate that the MOWN variable has a mean of 9.92 and a standard deviation of 12.52. The standard deviation value is greater than the mean, which means that there is a considerable variation in the data in the sample. The INST variable has a mean of 49.28 and a standard deviation of 26.03. The standard deviation has a value smaller than the mean, which means that the variation in the data in the sample under study is minor. CSR variable has a mean of 0.46 and a standard deviation of 0.12. The standard deviation has a value smaller than the mean. The variation of the research sample data is relatively small. The PRO variable has a mean of 3.32 and a standard deviation of 4.43. The value of the standard deviation is greater than the mean. It means that the variation in the data in the sample studied is quite considerable. The FV variable has a mean of 2.89 and a standard deviation of 13.21. The standard deviation value is greater than the mean, which means that there is a considerable variation in the data in the sample.

Hypothesis test

Classical assumption testing is done to test the quality of the data. As a result, the processed data has met all the required assumptions. Hypothesis testing uses moderate regression analysis because there is a moderating variable, namely CSR.

The first test is equation model I (1.1). The data used is the entire sample company data. The results show that the adjusted R square value is 0.25 with an F value (5.00; 0.00). In the first stage, the variables tested are MOWN, PRO, and INST to FV with liquidity and leverage control variables. The test results show that MOWN and PRO affect firm value. At the same time, the INST variable does not show any effect on firm value. Variable control has a negative impact on firm value.

The second stage of testing (1,2) is to include the CSR variable in the equation model. The adjusted R-value showed an increase to 0.41, and the F value was 7.05 at a significance of 0.00. Testing the moderating effect shows that the interaction between the CSR and independent variables changes the relationship with firm value. The MOWN variable was not significant (0.33; 0.75) and INST was also not significant (-0.85; 0.399). Variable interaction shows that only the interaction between CSR and PRO (CSR*PRO) affects (2.025; 0.047). CSR and MOWN (CSR*MOWN) variables have no effect on firm value (0.692; 0.492). Similarly, CSR and INST (CSR*INST) interaction showed no significant effect (0.909;0.367).

The effect of the control variable as predicted. The control variables LEV (-0.01) and CR(-0.40) negatively affect the 0.05 level. Leverage has a negative effect on firm value because an increase in leverage increases the company's default risk. Liquidity has a negative effect on firm value. The market views that companies with high liquidity are inefficient in managing their current assets, thus giving a more pessimistic assessment

Tabel 4. Test results with the whole sample

	Unstandardized Coefficients B	t	Sig.	Unstandardized Coefficients B	T	Sig.
(Constant)	30.14	2.58	0.01	23.65	0.77	0.45
MOWN	0.19	2.21	0.03*	0.08	0.33	0.75
CR	-0.40	-3.44	0.00**	-0.45	-3.80	0.00**
PRO	1.42	4.36	0.00**	3.47	3.14	0.00**
LEV	-0.01	-2.75	0.01**	-0.01	-2.14	0.04*
INST	-0.11	-0.68	0.50	-0.43	-0.85	0.40
CSR				0.00	0.01	0.99
CSR*MOWN				0.00	0.69	0.49
CSR*PRO				0.00	2.03	0.05*
CSR*INST				0.01	0.91	0.37
R square	0.25			0.41		
F	5.94			7.05		
Sig	0.00			0.00		

Based on the test results in Table 2, the significance value of the managerial ownership variable is 0.083, with a significance of p = 0.746. These results indicate that the ownership management mechanism does not affect firm value. The first hypothesis (H1) is rejected.

Table 2 shows that the beta coefficient of the institutional ownership variable is -0.43 with p = 0.399. These results indicate that INST does not affect firm value. Thus, the second hypothesis (H2) is rejected.

PRO is a variable that affects firm value (3.47; 0.00). It proves that changes in firm value are influenced by company financial performance. The third hypothesis (H3) is accepted.

The test results in Table 2 prove that Corporate Social Responsibility does not affect firm value (0.00; 0.99). Hypothesis (H4) is rejected.

Table 2 shows the role of CSR as a moderating variable on firm value comprehensively. From its interaction with the three independent variables, CSR only offers its role as a moderating variable with financial performance. CSR*PRO affects firm value (2.025;0.05). CSR*MOWN and CSR*INST show no effect on firm value. The impact of the existence of CSR is to weaken the influence of MOWN and INST and strengthen the influence of PRO individually. Hypothesis 5 and 7 were rejected, while hypothesis 6 was accepted.

Discussion

The test results show that the GCG mechanism, namely managerial ownership, influences firm value when the model does not include social activities. In conditions when the CSR variable is ignored, investors consider it as a form of firm value. A positive coefficient means that the higher managerial ownership convinces investors to provide a better firm value. A high proportion of managerial ownership encourages management to tend to act more efficiently. It shifts agency conflict into stewardship alignment. Management attaches importance to common interests to achieve company goals. It was responded to positively by investors. Investors assume that the company's management can act honestly, responsibly, and prosper the shareholders. It increases interest in investing and adds value to the company.

Institutional ownership does not affect firm value. This study indicates that the more significant the proportion of share ownership does not necessarily affect the increase in firm value in the company. The market sees that institutional ownership is not a supervisory mechanism that ensures management effectively carries out the company's operational activities. The existence of institutional investors does not have an impact on changes in the firm value. Investors do not give different values between companies that have different degrees of institutional ownership. Institutional ownership is seen as unable to prevent information asymmetry between agents and principals

Financial performance affects the value of the company. Financial performance as proxied by return on assets shows the company's ability to earn profits from net sales. This shows the effectiveness of management in carrying out its operational activities to minimize the company's burden. Investors are more interested in investing in companies that are efficient and can generate profits.

The higher the financial performance can enable the company to return on equity. Increased financial performance is a positive signal to investors and creditors that the company is doing well. When the demand for shares is high, investors value the stock high so that the firm value is high.

The results of indicate that the size of the disclosure of social activities carried out directly does not affect changes in firm value. It is because many companies still do not disclose their social responsibility in detail in their annual reports. Most companies still have not disclosed their corporate social responsibility following the performance indicators based on the Global Reporting Initiatives (GRI) at the beginning of the research period. It can be seen in the results of descriptive statistics obtained by the average disclosure of social activities of 46% of the total items of disclosure of social actions according to the GRI index. Financial performance is still a consideration in buying shares compared to the company's image through social responsibility.

Lack of information disclosure of social responsibility causes information asymmetry. It directly causes the role of corporate social responsibility to the firm value is still not visible directly.

Social activities are not responded to adequately. In theory, when a company has a high environmental performance value, its management can manage its operations well. Investors will respond positively to this and are interested in investing in the company. The lack of information on social activities causes the market to not respond, so the impact on the value of the company is also not visible.

In testing the interaction of hypotheses 5, 6, and 7 indicate several situations. Social activity cannot act as a moderating variable in the relationship between managerial and institutional ownership of firm value.

When the factor of social activity is considered, the role of managerial ownership on the firm value becomes unaffected. Investors also consider other conditions more integratively. It shows that the role of social activity variables weakens the relationship between managerial ownership and firm value.

This study shows that environmental performance fails to be a moderating variable between institutional ownership and firm value. The higher the environmental performance, the smaller the impact on the relationship between institutional ownership and firm value. Social activities cannot strengthen the role of institutional ownership in the formation of firm value. Whether the condition considers social activities, the institutional ownership variable does not affect the firm value.

The existence of social activities moderates the effect of financial performance on firm value. When social activities are not considered in the model, financial performance has a coefficient of 1.42 and strengthens to 3.47 when social activities are included in the model. The interaction between the two variables also shows a significant effect.

Additional Testing

Ensuring a moderating effect, the interaction of social activities was tested on the conditions of good news or bad news which were separated based on changes in ROA. The situation is good news when the change is positive (2.2) and vice versa, bad news when ROA decreases (3.2). The comparison of the two situations is intended to understand the role of CSR more comprehensively.

The test is carried out only on financial performance because the interaction test in the first stage shows that only the CSR*PRO interaction is the moderator. From 294 firm-year observations, 121 samples experienced a decrease in ROA compared to the previous year.

Table 5. Test results of good news sample

	Unstandardized Coefficients B	T	Sig.	**Unstandardized Coefficients B**	**T**	**Sig.**
(Constant)	23.32	1.02	0.31	62.62	1.13	0.27
MOWN	0.18	0.93	0.36	-0.08	-0.90	0.38
CR	-0.20	-0.97	0.34	-0.41	-0.79	0.44
PRO	0.87	1.50	0.15	-0.15	-0.60	0.56
LEV	-0.00	-0.11	0.91	2.81	1.59	0.12
INST	-0.26	-0.99	0.33	0.01	0.73	0.47
CSR				-0.97	-1.19	0.25
CSR*MOWN				0.00	1.33	0.19
CSR*PRO				0.00	1.20	0.24
CSR*INST				-0.00	-1.38	0.18
F	0.92			1.47		
Sig.	0.48			0.21		
Adjusted R Square	-0.01			0.11		

Testing is carried out with the same steps. Testing with models 2.1 and 2.2 shows that the overall variable does not show sufficient significance to affect changes in firm value. Investors use other considerations in assessing the company. The same thing happens when conditions consider social activity. All variables do not offer any impact on firm value. In this condition, social activities do not show a role as a moderating variable. Both market and stakeholders do not consider that social activities are an important element that distinguishes the firm value.

Testing the interaction of CSR and the independent variable shows that no interaction variable affects firm value in the good news (fixed/increasing ROA). Both CSR*MOWN (0.00;0.19), CSR*PRO (0.00;0.24), and CSR*INST (-0.00;0.18) showed significance above 0.05.

Table 6. Test results of bad news sample

	Unstandardized Coefficients B	**T**	**Sig.**	**Unstandardized Coefficients B**	**t**	**Sig.**
(Constant)	Unstandardized Coefficients B	t	Sig.	82.79	2.12	0.04
MOWN	45.13	3.21	0.00	-0.29	-0.91	0.37
CR	0.17	1.95	0.05*	-0.70	-4.81	0.00**
PRO	0.58	3.99	0.00**	2.22	1.69	0.10
LEV	1.38	4.52	0.00**	-0.01	-3.27	0.00**
INST	-0.01	-3.30	0.00**	-0.05	-0.07	0.95
CSR			0.25	-0.07	-1.11	0.27
CSR*MOWN			0.19	0.00	1.74	0.09
CSR*PRO			0.18	-0.00	-0.75	0.46
CSR*INST			0.24	0.00	0.21	0.83
F	7.05			5.33		
Sig.	0.00			0.00		
Adjusted R Square	0.41			4.70		

The result is different when the test is carried out when ROA decreases. The independent variable financial performance showed an influence on firm value (0.58; 0.00). Similarly, the control variables CR and LEV. CR shows a negative effect (-0.17; 0.00) and LEV also shows a negative effect (-1.38.; 0.00) on firm value. As well as INST, it has a negative effect on firm value (-0.01; 0.00). Investors consider managerial ownership, institutional ownership and financial performance when the company's condition is experiencing a decline in ROA.

Managerial ownership has a positive impact on firm value. The existence of ownership gives investor' confidence in the prospect so that the displayed value is higher than the low managerial ownership, as well as the financial performance variable. Investors assign higher values to better companies. Not so with institutional ownership. Institutional ownership has no effect on both conditions.

When social activities considered, variable financial performance showed an influence on firm value (0.22; 0.10). As well as INST, it has no effect on firm value (-0.05; 0.95). Similarly, MOWN does not affect with value of coefficient is -0.29 and p = 0.37. The control variables, CR shows a negative effect (-0.70; 0.00) and LEV also shows a negative effect (-0.01.; 0.00) on firm value.

The effect moderating of CSR on MOWN, INST and PRO variables is seen in companies that experience a decrease in ROA. CSR*MOWN (0.00;0.09), CSR*PRO (0.00;0.46), and CSR*INST (0.00;0.83) did not show a significant effect on firm value. Similarly, the MOWN, and INST variables have no effect. Only control variables CR (-0.45; 0.00), and LEV (-0.01; 0.02) that affect changes in firm value.

Interactions that occur with CSR have weakened the role of MOWN, PRO, and INST as considerations in providing firm value. In the condition of bad news, the influence of the three variables is covered by the disclosure of social activities. Overall independent variables do not affect firm value. Likewise with interactions with social activities. In the condition of companies that perform well, investors do not use considerations of governance and financial performance to assess the company.

However, the existence of social activities can moderate and protect the firm value from declining performance. It proves the importance of the company's awareness to pay attention and care for the surrounding environment in its operational activities. Companies need to pay attention to the interests of all parties involved and affected by the activities carried out by the company, namely in terms of profit sustainability, community sustainability, and environmental sustainability.

When a company experiences a decline in financial performance, social activities will protect the firm value from the impact of the drop. Such protection causes the effect of decreasing financial performance not to be too significant. Influence decreased from 3.47 to 1.47 with the interaction of social activities. Interaction between financial performance and social activities also shows its role in bad news situations. Social activities eliminate the influence of declining managerial ownership and financial performance on the firm value given by market participants.

Disclosure of performance information at the beginning of the observation period is the cause of the weak moderating effect of the relationship between the two variables. The absence of direct influence of social activity indicates this conclusion. The extent of disclosure does not have a sufficient impact on changing the firm value. The interaction between institutional ownership variables and social activities, which do not have a significant effect, makes social activities not a moderator in the relationship between social activities and firm value.

The lack of concern for the surrounding environment and applying the triple bottom line that is not optimal creates a reasonably large agency cost. Environmental performance cannot moderate the relationship of corporate social responsibility disclosure to firm value. It is in line with Puspaningrum (2017) research, which states that social activities as a moderating variable cannot moderate the effect of social activities on firm value. Similar results were also obtained by Arianti & Putra (2018) in their research, stating that environmental performance as a moderating variable cannot moderate the relationship of social activities to firm value.

Management must pay attention to the usefulness of the existence of social activities to maintain the firm value. In a situation of declining financial performance, social activities can weaken the negative influence and at the same time strengthen the positive effect of the independent variables.

Companies can make social care efforts by taking environmentally friendly actions, such as reprocessing factory waste and reducing the use of complementary tools for company operations that have a negative impact on the environment and surrounding communities. It is an effort to meet the stakeholder's demands regarding social and environmental issues and presented in a different report from its financial statements.

The sustainability report discloses and measures the company's non-financial social activities as one of the company's responsibilities towards the stakeholder's demands. This report provides information in the form of the environmental, social, and community performance that can reflect the overall business performance and help the company continue to grow. Stakeholder understanding of information on social activities can improve the company's image and shareholder trust, making it easier for companies to establish business partnerships. Companies have more value for investors because they have fulfilled their business responsibilities and reduced social litigation.

Conclusion

The results show that when companies disclose reports on social activities, managerial and institutional ownership does not influence firm value. The influence of financial performance affects firm value. The disclosure of social activity reports strengthens this influence. Activity reports are moderating variables that strengthen the relationship between managerial ownership and firm value. However, it weakens managerial ownership. Disclosure of reports on social activities weakens the relationship between managerial ownership and firm value.

Based on the analysis that has been done in this study, it can be concluded that managerial ownership and institutional ownership have no negative effect on firm value. Financial performance is a consistent variable forming the value of the company. Social activities cannot independently influence changes in the value of the company, but when combined with financial performance, social activities strengthen the existing influence.

There are several limitations in this study, including an element of subjectivity in assessing the CSR index because not all companies report CSR disclosures in the sustainability reporting compiled based on GRI. GRI was introduced in 2016 and came into effect on July 1, 2018. For the 2014-2018 period, the company still uses the old reporting standards. This default adjustment can mask the actual situation. The assessment of the condition of the bad news and the good news is only as a trigger for decreasing or increasing, but not measuring the level of decrease or increase. Future research needs to test using the difference in financial performance.

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