

# THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE AND PROFITABILITY ON FIRM VALUE (Survey on Pharmaceutical Industry Companies Listed on the IDX)

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## Abstract

*This study intends to examine how the influence of a disclosure of corporate social responsibility and profitability as a factor to increase firm value. The independent variable in this study is the disclosure of corporate social responsibility and profitability and the dependent variable is company value. This quantitative approach is the method used in this study with a sample population of companies in the pharmaceutical industry listed on the IDX in the period 2018-2020. Multiple linear regression analysis was used as data analysis with a significance level of 5% using IBM SPSS Statistics 26 as the data statistical analysis program. The results obtained in the study stated that there was an effect of corporate social responsibility disclosure on firm value and stated that there was no effect of profitability on firm value. Corporate social responsibility is an important part that involves the environment as a factor in increasing the value of the company. To increase profitability, the company must pay attention to the number of sales obtained. Companies can take advantage of the optimal use of assets so that an effective asset turnover can be obtained.*

**Keywords:** *Corporate Social Responsibility Disclosure, Profitability, Firm Value*

### **Introduction**

Firm value is one indicator that can describe the growth conditions and management performance in a company. Investors view that the value of the company has an important role as a successful company performance that aims to achieve the prosperity of stakeholders. Good relations between the company and the shareholders can be done by carrying out the activities desired by the shareholders. This is able to create a harmonious relationship so that it can have a positive impact on the company

Part of company activities that pay attention to social and environmental aspects of the community, one of which is Corporate Social Responsibility. The World Business Council for Sustainable Development (WBCSD) provides a statement regarding Corporate Social Responsibility as "the ongoing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large" Corporate Social Responsibility is an important part that needs to be implemented by the company because its activities will relate to the community and the government as stakeholders. In its implementation, CSR programs must be implemented effectively, efficiently, on target and sustainably and must be carried out professionally involving all relevant stakeholders. Furthermore, [1, 2] stated that companies to develop their financial performance require the implementation of social responsibility so as to attract investors' attention.

Profitability is also one of the financial factors that can be used as an indicator in assessing the company. To generate profits and value for shareholders, companies can demonstrate profitability as the company's capability in using its assets [3]. The net result of company performance such as policies and decisions set by the company is profitability and is related to a level of management effectiveness of a company in carrying out business processes and company operations in each period. The level of company profitability can be said to be high when it has lower operating expenses compared to larger profits.

Many studies related to CSR disclosure, profitability and firm value have been carried out, the results of research by [4-8]. shows a positive and significant influence on the disclosure of Corporate Social Responsibility Disclosure on firm value. however, in research conducted by [9-12] shows that there is no significant effect on firm value on the disclosure of Corporate Social Responsibility and profitability.

Media Market Bisnis reported that Phapros Tbk in 2020 experienced a very significant decrease in profit, namely sales revenue decreased by 17% and net profit decreased by 43% compared to the previous year. However, Phapros Tbk experienced a significant increase in stock movements in 2020, the stock price was in a stagnant position at Rp1,360 and strengthened by 10.16% and in the same year Phapros Tbk won the PROPER award in the green category given by the Ministry of Finance. Environmental and forestry. This is contrary to the company's financial performance which previously experienced a very drastic decline. the value of the company will affect the increase in the volume of stock performance and stock prices and this indicates the influence of other factors that will affect the increase in the value of the company. This phenomenon shows that in addition to focusing on increasing production and operations, the company also focuses on managing company management and also managing activities related to corporate social responsibility.

### **Literature Review**

Signal theory is the basis of accounting theory, in this theory companies have an incentive to convey information in financial statements to external parties of the company. [13-15] state that signal theory shows signs which are the actions of company management in conveying instructions regarding investors' perspectives on

company prospect management. In addition, there is an agency theory which shows that there is a meeting point between management and company owners and there is also a Legitimacy Theory which carries out activities based on the value of justice and shows that the company has a relationship with the community to achieve interest groups and gain legitimacy from the origin group.

A reflection of management performance is a result of company value and is carried out to achieve the target of each activity, namely financing activities, investment activities, and operational activities. The measuring tool used by investors to determine performance is the value of the company and will relate to investments that have been or will be made and also its prospects in the future [5] increase in a stock price will be related to the value of the company [9, 16], which means that with an increase in the value of the company, the value of the company's shares will also be higher.

Corporate Social Responsibility is a company's voluntary action that aims to increase attention to problems that occur both in the environment and socially in its business activities and as a means of corporate communication with its stakeholders [17]. CSR disclosures made to companies are guided by the Global Reporting Initiative. The Global Reporting Initiative is a standard of disclosure or social responsibility reporting that is used for the measurement of sustainable corporate performance and as an important reporting benefit for corporate stakeholders. In the long term, CSR disclosure is very helpful for companies in improving their reputation and can achieve sustainable company development [15, 18].

Profitability is a company's capacity to generate profits and manage sales, equity and assets in a certain period. Profitability is related to each other with the effectiveness of the management of a company in carrying out its operations or activities during a certain period which is reflected in the ability of a company to generate profits. Profitability can also determine the company's success in managing its resources and can be seen from the profits obtained from business processes in the form of sales and investment. The high level of profitability means that the company has lower operating expenses and the profit generated is also greater and vice versa if the level of profitability is low, the decline in the value of the company was also caused by the impact of operating expenses and increasing profits. In carrying out social responsibility, management has the freedom to expand financial resources, so that it becomes a fundamental factor of the meaning of profitability [1, 14].

### **Methods**

The object of this research is the disclosure of corporate social responsibility (CSR), profitability and firm value. Meanwhile, manufacturing companies listed on the Indonesia Stock Exchange are the research subjects. Population is a group of individuals who have one or more characteristics [9, 10]. The population in this study is the annual report of companies listed on the Indonesia Stock Exchange based on the pharmaceutical sub-sector index for 3 (three) years, from 2018 to 2020. The following is presented in Table 1 a list of companies included in the pharmaceutical sub-sector index in 2018 – 2020. This study uses the saturated sampling method, where all members of the population are sampled.

Table 1

**Companies Sample Pharmaceutical sub-sector for the period 2018 – 2020.**

| No. | Company Code | Company Name                            |
|-----|--------------|---|
| 1.  | DVLA         | Darya Varia Laboratoria Tbk             |
| 2.  | INAF         | Indofarma (Persero) Tbk                 |
| 3.  | KAEF         | Kimia Farma (Persero) Tbk               |
| 4.  | KLBF         | Kalbe Farma Tbk                         |
| 5.  | MERK         | Merck Indonesia Tbk                     |
| 6.  | PEHA         | Phapros Tbk                             |
| 7.  | PYFA         | Pyridam Farma Tbk                       |
| 8.  | SCPI         | Merck Sharp & Dohme Pharma Tbk          |
| 9.  | SIDO         | Industri Jamu & Farmasi Sido Muncul Tbk |
| 10. | TSPC         | Tempo Scan Pacific Tbk                  |

Source: [www.idx.co.id](http://www.idx.co.id)

The secondary data used is the company's annual report. The data was obtained from the Indonesia Stock Exchange through the official website [www.idx.co.id](http://www.idx.co.id). The data collection method used in this research is documentation technique. That is studying the company data needed in the company's annual report which is the research sample such as information on corporate social responsibility disclosure, and other necessary data. While non-financial information to identify data analysis procedures for the content of the disclosure of corporate social responsibility. In this study, the framework used to measure CSR disclosure uses the Global Reporting Initiative (GRI) index version 4 (91 items). The following is presented in Table 2 operational definitions and measurement scales.

Table 2

**Operational Definition and Measurement Scale**

| Operational Definition  | Indicator  | Scale |
|---|--|-------|
| <b>Firm Value (Y)</b>   |  |       |
| Firm value is an investor's perception of the level of success of managers in managing entrusted company resources and is often associated with stock prices. | <p>Tobin's Q Ratio</p> $Q = \frac{MVS + MVD}{RVA}$ <p>MVS = Market value of all outstanding stock.<br/>                     MVD = Market value of all debt.<br/>                     RVA = Replacement value of all production capacity.</p> | Ratio |
| <b>Corporate Social Responsibility Disclosure (CSR) (X1)</b>  |  |       |
| CSR disclosure is information related to corporate social responsibility activities   | <p>CSDI = <math>\frac{\sum X_{ij}}{n}</math></p> <p>CSDI = CSR Disclosure<br/>                     Index X<sub>ij</sub> = Total company disclosure<br/>                     n = Total item checklist disclosure</p>                          | Ratio |

|   |   |       |
|---|---|-------|
| Profitability (X2)<br>Profitability is the company's ability to generate profits. | ROA = Earnings After Tax<br>Total A set | Ratio |
|---|---|-------|

**Result and Discussion**

The discussion in this data analysis provides results including descriptive analysis, linear regression and interpretation of hypothesis testing. The following steps will be taken in testing the hypothesis:

**Descriptive Statistical Analysis**

Descriptive statistical analysis in this test includes two independent variables, namely the disclosure of corporate social responsibility and profitability and the dependent variable, namely firm value. Descriptive statistical analysis for each variable can be seen below.

*Table 3*

**Descriptive Statistics Analysis**

|                    | N  | Min   | Max   | Mean   | Std. Deviation |
|--------------------|----|-------|-------|--------|----------------|
| CSR Disclosure     | 30 | ,16   | ,45   | ,2900  | ,08769         |
| Profitability      | 30 | -2,27 | 24,26 | 8,2061 | 6,48502        |
| Firm Value         | 30 | ,90   | 74,20 | 9,8320 | 20,1639        |
| Valid N (listwise) | 30 |       |       |        |                |

Table 3 shows that the number tested was 30 samples, where the sample was taken from the annual report of manufacturing companies in the pharmaceutical industry listed on IDX 2018-2020.

Normality test results show that the results are normally distributed. In the regression model, the independent variable is not correlated with other independent variables. This shows the fulfillment of the multicollinearity test. In addition, the autocorrelation test gives the result that the regression model does not have autocorrelation. The last test, namely the heteroscedasticity test, concluded that the test results did not experience heteroscedasticity.

**Correlation Test (R) and Coefficient of Determination (R2)**

Analysis of correlation and coefficient of determination obtained correlation coefficient value (R) of 0.241, the figure ranges from 0.2 to 0.3999, meaning that there is a low relationship between CSR disclosure and profitability to firm value. While the value of R2 is 0.58 or 58%.

**Multiple Linear Regression Analysis**

This test is used to see whether there is an influence between the dependent and independent variables

*Table 4*

**Multiple Regression Analysis Results**

| Model          | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|----------------|-----------------------------|------------|---------------------------|-------|------|
|                | B                           | Std. Error | Beta                      |       |      |
| (Constant)     | -,022                       | ,186       |                           | -,116 | ,908 |
| CSR Disclosure | ,142                        | ,046       | ,508                      | 3,073 | ,005 |
| Profitability  | ,000435                     | ,001       | -,113                     | -,682 | ,501 |

Multiple Regression Test gives the result of constant value  $\alpha = -0,022$ ,  $\beta_1 = 0.142$  and  $\beta_2 = 0.000435$ . The regression model equation as follows

$$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + e$$

$$ROA = -0.022 + 0.142 FCF + 0.000435 NPM + e$$

The regression equation gives the result that there is a negative value in the constant value. But the negative constant does not matter as long as X1 and X2 are not equal to 0. The value of the constant is -0.022, this indicates that if all independent variables, CSR and profitability are 0, then the dependent variable (firm value) will decrease by 0.022. Negative constants generally occur if there is a large enough range between the variables X and Y

**Partial Significance Test (T-Test)**

This hypothesis was tested with a significance level of 5% with degrees of freedom  $df = 28$  ( $n - k; 30 - 2$ ), so that the table value was 2.04841..

*Table 5*

**T-Test Results**

| Model          | Unstandardized Coefficients |            | Standardized Coefficients | t     | Sig. |
|----------------|-----------------------------|------------|---------------------------|-------|------|
|                | B                           | Std. Error | Beta                      |       |      |
| (Constant)     | -,022                       | ,186       |                           | -,116 | ,908 |
| CSR Disclosure | ,142                        | ,046       | ,508                      | 3,073 | ,005 |
| Profitability  | ,000435                     | ,001       | -,113                     | -,682 | ,501 |

From the data in table 5, hypothesis testing gives the following results:

*Table 6*

**Summary of Hypothesis Testing Results**

| Test   | Hypothesis   | Results                            |
|--------|--|------------------------------------|
| T-Test | H1: Corporate Social Responsibility Disclosure has a significant effect on firm value.<br>H2: Profitability has not significant effect on firm value | Significant<br><br>Not Significant |



### **Corporate Social Responsibility Disclosure**

Pharmaceutical enterprise listed on IDX upon 2018 - 2020 obtained an average CSR disclosure of 0.29 which means that the average CSR disclosure was quite high within last period. The minimum value of CSR disclosure of 0.16 obtained by Pyridam Farma Tbk in 2018 is because corporate social responsibility activities tend to be low in the environmental, social sub-categories and disclosure is quite strong in the economic sub-categories. The maximum value of 0.45 obtained by the Sido Muncul Herbal & Pharmaceutical Industry Tbk in 2020 was due to the high level of social responsibility activities carried out through disclosure, particularly in the economic, environmental, and social sub categories.

### **Profitability**

Pharmaceutical industry listed on IDX in the period 2018-2020 obtained an average profitability result that is proxied using Return On Assets of 8.21, which means that the average level of company profitability tends to be low in the last period. The minimum profitability value of -2.27 was obtained by Indofarma Tbk in 2018 because the net cash obtained by the company through operating activities in 2018 decreased drastically by 147.82%. This was due to a decrease in cash receipts from consumers and an increase in long-term liabilities by 7.52% due to high long-term bank loans and the company's obligation to post-employment benefits. The maximum value of 24.26 obtained by the Sido Muncul Herbal & Pharmaceutical Industry Tbk in 2020 occurred because the company was able to obtain growth in net sales which increased by 8.7%. This growth was supported by a strong increase in demand for the herbal & supplement segment, thereby increasing the presentation of cash receipts by 67%.

### **Firm Value**

Value of pharmaceutical industry listed on IDX in the period 2018-2020 obtained an average value of 9.83, which means company value during the period experienced a very low average value. The minimum company value of 0.90 obtained by Pyridam Farma Tbk in 2018 occurred due to a decrease in gross profit margin to 60.33% due to an increase in cost of goods sold. The maximum company value of 74.20 was obtained by Merck Sharp Dohme Pharma Tbk in 2019 due to the high stock price and being one of the five issuers with the highest share prices traded on IDX. The high stock price of the company is due to sufficient liquidity to be used as a long-term investment.

### **Effect of Corporate Social Responsibility Disclosure on Firm Value**

The results of the study indicate that CSR disclosure affects firm value. Previous research that supports this statement is research by [7, 8, 14]. Thus the value of the company is influenced by the quality of CSR disclosure in the company and becomes one of the non-financial factors. [19] stated that the economic prosperity of sustainable companies can be achieved if the elements of corporate social responsibility towards the community and become the company's personal interests, although at a low level.

### **Effect of Profitability on Firm Value**

The results show that profitability has no significant effect on firm value. The results of this study line with [5, 11, 17]. If profitability increases, investors interested in investing, so that the high interest can increase stock prices and will increase firm value

### Conclusion

The discussion above, the suggestions that can be given for further researchers, improve to be carried out are companies in the pharmaceutical sub-sector and other sectors, namely the need upgrade CSR disclosure applied to companies as a form of environmental responsibility that is very influential and will be related to non-financial element that affect firm value. The value of the company's company is very important to be considered by investors as a view of the company's performance.

To increase profitability, companies must pay attention to the number of sales obtained. Companies can take advantage of the optimal use of assets so that an effective asset turnover can be obtained in influencing sales. Should, other factor that affect the increase in sales, need to be considered by the company.

Furthermore, the research samples can use other types of industrial sectors and use a longer research period. Further research is suggested to add other variables besides CSR disclosure and Profitability that affect firm value.

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