

THE EFFECT OF PROFITABILITY MEDIATION ON INCREASING COMPANY VALUE THROUGH CORPORATE SOCIAL RESPONSIBILITY

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Abstract: This research is motivated by the importance of corporate value as an indicator of prosperity for shareholders. This study aims to identify and analyze the effect of mediating profitability on increasing firm value through corporate social responsibility. The population of this study are all manufacturing companies listed on the IDX for 2019-2021. Using the purposive sampling technique, a sample of 15 companies was obtained. The measurement of the profitability variable uses an indicator from Hartono (2018), namely Return on Equity (ROE). The measurement of corporate social responsibility variables uses seven indicators from Sembiring (2005), namely environment, energy, occupational health and safety, workforce, products, community involvement, and the general public. The measurement of firm value variables uses indicators from Weston and Copeland (2008), namely the Price Earning Ratio (PER). The collected data were then analyzed using descriptive statistics, inferential statistics, and regression analysis. The results of this study indicate that 1) Corporate Social Responsibility has a positive and significant effect on firm value, and 2) Profitability is able to mediate the effect of Corporate Social Responsibility on firm value. The results of this research indicate that if the company wants to increase the value of the company, the company must increase Corporate Social Responsibility and be strengthened by Profitability.

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

1. Introduction

Firm value is an investor's perception of the level of success of a company which can also be called the stock price. A high stock price means that the company value is also high and increases market confidence (Indriyani, 2017). In addition, the value of the company can also be understood as the stock price. The higher the stock price, the higher the rate of return to investors and that means the higher the value of the company related to the goals of the company itself, namely to maximize the prosperity of shareholders (Sambora, MN, Handayani, SR, & Rahayu, 2014). The value of the company is very important because it has various impacts on the company, shareholders and society in general. Firm value affects the company's stock price and provides important information for investors and shareholders. Companies with high scores have more alternatives to access funds through capital markets or loans. Companies with high value have stronger competitiveness in winning contracts and expanding markets. Corporate values play an important role in ensuring company success and growth, facilitating access to funds, and ensuring positive impact on society and the environment (Manoppo, H., & Arie, 2016; Ogolmagai, 2013).

The problems faced by companies are related to corporate values such as inaccurate valuations, this can lead to wrong business decisions and be detrimental to the company and shareholders. In addition, the lack of transparency in determining the value of the company can lead to uninformative and detrimental decisions for shareholders and investors. Corporate value can also be achieved through financial manipulation and unethical business practices, which can harm shareholders and investors. And the main problem is that the company's value is still low in the eyes of investors and shareholders (Nugroho, 2012; Hardiningsih, 2009).

One of the factors that is thought to influence company value is Corporate Social Responsibility (CSR). CSR can be interpreted as a business commitment to contribute to sustainable economic development, through collaboration with employees and their representatives, their families, the local community and the general public to improve the quality of life in ways that are beneficial both for the business itself and for development (Rachman, NM, Efendi, A., & Wicaksana, 2011). In addition, CSR can also be explained as an ongoing commitment from the business community, to behave ethically and contribute to economic development, while improving the quality of life of employees and their families, as well as the local community and society at large. In interactions with stakeholders (stakeholders) based on the principles of volunteerism and partnership (Nurlela, 2019).

CSR is very important for business development and shows that companies do not only think about financial benefits, but also have social and environmental roles that must be accepted (Marnelly, 2012). In addition, CSR can build a positive reputation because through CSR programs, companies can build a positive reputation and strengthen good relations with the community and other stakeholders. CSR can also improve business performance because CSR programs that are integrated with business can help companies improve business performance and reduce business risk (Titisari, 2008; Imani, 2019).

In addition to CSR, another factor that can strengthen company value is profitability. Profitability can be defined as a ratio to assess a company's ability to make a profit. This ratio also provides a measure of the effectiveness of a company's management. This is shown by the profits generated from sales and investment income (Martha, et al, 2018). Profitability can also be interpreted as a company's ability to generate profits and can provide levels of sales, assets, and share capital (Muharramah, R., & Hakim, 2021).

A manufacturing company is a company engaged in the production of industrial goods through the process of making or transforming raw materials into finished products. Examples of manufacturing companies are car factories, electronics factories, and household appliance manufacturers (Siregar, R., & Widyawati, 2016). The development of manufacturing companies in Indonesia still faces several challenges such as limited resources, infrastructure problems, and constraints in terms of rules and regulations (Astuti, TP, & Aryani, 2016).

Research on the effect of mediating profitability in increasing firm value through corporate social responsibility has been extensively studied by previous researchers (Agustine, 2014; Kusumadilaga, R., & Mutmainah, 2010; Nurlela, 2008; Nahda, K., & Harjito, 2011; Dzikir, AN, Syahnur, S., & Tenriwaru, 2020; Putri, ZB, & Budiyanto, 2018; Murnita, PEM, & Putra, 2018), the majority of whom explain that corporate social responsibility affects company value.

Based on the background and previous studies, the authors are interested in studying the effect of mediating profitability in increasing firm value through corporate social responsibility. This research study aims to identify and analyze the effect of mediating profitability in increasing firm value through corporate social responsibility. The findings of this study are expected to be able to provide understanding and insight for readers about the effect of mediation on profitability in increasing corporate value through corporate social responsibility.

2. Research Method

This research method is an explanatory survey with a quantitative approach. The population in this study are all manufacturing companies listed on the IDX in 2019-2021. The sample in this study were 15 companies using a purposive sampling technique. The criteria used in selecting the sample are (1) Manufacturing companies listed on the IDX during the 2019-2021 period, (2) Manufacturing companies that present annual reports during the study period, namely 2019-2021, and (3) Manufacturing companies that have good data completely related to the variables used in the study.

The type of data used in this research is secondary data. The measurement of the profitability variable uses an indicator from Hartono (2018), namely Return on Equity (ROE). The measurement of corporate social responsibility variables uses seven indicators from Sembiring (2005), namely environment, energy, occupational health and safety, workforce, products, community involvement, and the general public. The measurement of firm value variables uses indicators from Weston and Copeland (2008), namely the Price Earning Ratio (PER). The collected data were then analyzed using descriptive statistics, inferential statistics, and regression analysis. Hypothesis testing was carried out using multiple regression Moderate Regression Analysis (MRA), with a research model as shown in Figure 1.

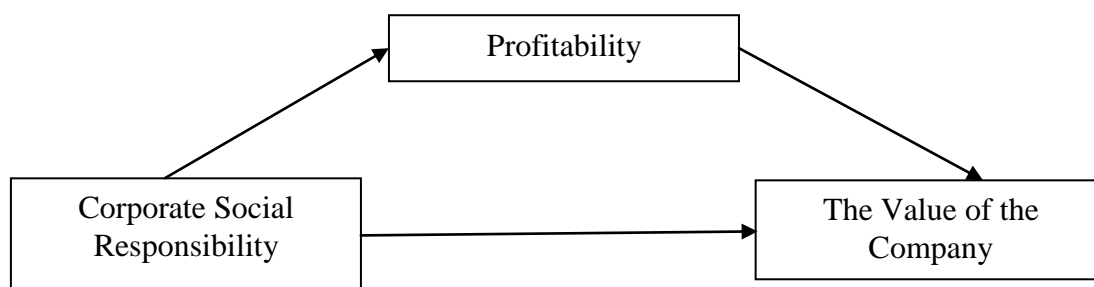


Figure 1.
Research Model

3. Results and Discussion

3.1. Results

Hypothesis Testing Results

Table 1.
Hypothesis Testing Results

| Multiple Linear Regression Equations $Y = 1.182 + 0.210X_1 + 497.531X_2 + 10.824X_1X_2 + \epsilon$ | | | | | |
|--|---------|----------------|--------|--------|-------|
| Variable Name | B | Standard Error | Tcount | Ttable | Sig |
| Constant (a) | 1,280 | 0.500 | 2.500 | 2.021 | 0.000 |
| Corporate Social Responsibility (X1) | 0.210 | 0.011 | 3.900 | 2.021 | 0.000 |
| Profitability (M) | 497.531 | 91.900 | 4.400 | 2.021 | 0.000 |
| Interaction between X1M | 10.800 | 1.600 | 4.600 | 2.021 | 0.000 |
| Regression Coefficient (R) = 0.850 Coefficient of Determination (R ²) = 0.750 Adjusted (R ²) = 0.670 Fcount = 16.300 Ftable = 3.200 F Sig = 0.000 | | | | | |
| a. Predictors: (Constant): Corporate Social Responsibility, Profitability, and X1M Interaction b. Dependent Variable: The Value of the Company | | | | | |

Source: Data Processing Results, 2022

Based on the results of statistical calculations using the SPSS program as shown in the table above, the multiple regression equation is obtained as follows:

From the results of the regression it can be seen the results of the study as follows:

- a. The correlation coefficient (R) = 0.850 which indicates that the degree of relationship (correlation) between the independent variables and the dependent variable is 85%. This means that the company value has a very strong relationship with Corporate Social Responsibility (X1), Profitability (M) and the interaction between X1M because the correlation coefficient value is greater than 0.5.
- b. The coefficient of determination (R^2) = 0.750. This means that 75% of changes in the dependent variable of firm value can be explained by changes that occur in Corporate Social Responsibility (X1), Profitability (M), and interactions between X1M. While the remaining 25% is explained by other variable factors that are not included in this research model. This shows that the variables Corporate Social Responsibility (X1) and Profitability (M) simultaneously have a very strong influence on firm value in manufacturing companies listed on the IDX.

3.2. Discussion

a. The Effect of Corporate Social Responsibility on Company Value

The first hypothesis put forward in this research is Corporate Social Responsibility has a positive and significant effect on company value. The results of testing the hypothesis above show that Corporate Social Responsibility has a positive and significant effect on company value. The findings of this study reveal that if the company wants to increase the value of the company, then the company must increase the company's profitability. This is because the company has attention to the social aspects that exist in society. With the existence of CSR from the company, it becomes a positive concern from the community and investors which can further increase the value of the company. CSR on corporate value depends on the company's implementation and commitment to CSR. If done well, CSR can help companies increase company value. Good CSR can build a company's positive reputation and image, which can enhance brand image and attract consumers and investors (Endiana, 2019). In addition, effective CSR can help companies increase efficiency and productivity, reduce costs, and strengthen relationships with stakeholders. Furthermore, CSR can strengthen relationships with stakeholders such as employees, consumers, government, and society, which can positively affect corporate value. CSR can also help companies add additional value to the company by strengthening the knowledge base and increasing company capabilities (Amanah, 2018).

b. The Effect of Profitability Mediation on the Effect of Corporate Social Responsibility on Company Value

The second hypothesis proposed in this study is Profitability is able to mediate the Effect of Corporate Social Responsibility on Firm Value. The results of testing the hypothesis above show that Profitability is able to mediate the Effect of Corporate Social Responsibility on Firm Value. The findings of this study explain that if the company wants to increase the value of the company, the company must increase Corporate Social Responsibility and be strengthened by Profitability. Profitability can affect the effect of CSR on firm value, although the level of effectiveness depends on the condition of the company and the market situation. The combination of good CSR and profitability can help companies increase the overall value of the company. Profitability is an important financial indicator for companies, and the link between profitability and finance can affect the effect of CSR on company value (Siregar, NY, & Safitri, 2019). If the company's profitability is low, the company will probably focus more on their main

business and spend less on CSR. This can affect the effect of CSR on firm value. Strong profitability can affect investors' and consumers' perceptions of the company and, therefore, influence the effect of CSR on firm value. Strong profitability can provide the ability for companies to finance CSR initiatives and strengthen their influence on company value (Tarima, 2016). The results of this study are in line with the results of previous studies (Agustine, 2014; Kusumadilaga, R., & Mutmainah, 2010; Nurlela, 2008; Nahda, K., & Harjito, 2011; Dzikir, AN, Syahnur, S., & Tenriwaru, 2020; Putri, ZB, & Budiyanto, 2018; Murnita, PEM, & Putra, 2018), the majority of whom explain that corporate social responsibility affects company value.

4. Conclusion

Based on the results of data processing and discussion of the mediating effect of profitability in increasing firm value through corporate social responsibility that has been described by the authors above, the authors can draw the following conclusions: 1) Corporate Social Responsibility has a positive and significant effect on firm value, and 2) Profitability is able to mediate the effect of Corporate Social Responsibility on Company Value. Based on the discussion and conclusions about the effect of mediating profitability in increasing firm value through corporate social responsibility that has been described by the authors above, the authors recommend the following: 1) For companies, it is better to increase firm value by means of costs, increased income, and debt management by good, 2) For the government, the government should be able to set clear standards and regulations to ensure that companies carry out responsible business practices and encourage companies to actively participate in CSR programs and initiatives through fiscal and non-fiscal incentives, and 3) For researchers furthermore, it is best to conduct research by adding other variables that are thought to have an effect on firm value such as company size, capital structure, financial risk and others.

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