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THE EFFECT OF CAPITAL STRUCTURE ON FIRM VALUE WITH CORPORATE SOCIAL RESPONSIBILITY AS A MODERATING VARIABLES

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Capital structure, firm value, corporate social responsibility

Abstract

This study aims to determine the effect of capital structure on firm value, with corporate social responsibility as a moderating variable. The population of this study is made up of manufacturing companies listed on the Indonesia Stock Exchange (IDX) in 2018–2021. The type of data used is secondary data taken from www.idx.co.id. Company value is proxied by Tobins' Q.The results of this study indicate that capital structure has a positive effect on firm value, and corporate social responsibility cannot moderate the positive effect of capital structure on firm value.

INTRODUCTION

Increasing the value of the company is very important for company management in order to set company goals, one of which is to improve and advance the welfare of shareholders. The increasingly fierce competition has prompted management to focus on increasing the value of the company because the value of the company does not only reflect the current performance of the company but also provides an overview of the prospects for the value of the company in the future. High company value can invite investors to invest in the company (Ruwanti & Rambe, 2017). Firm value is the price that occurs when buyers and sellers of a share interact, motivated by expectations of company profits that reflect company performance (Wardani, 2020).

In Indonesia, the phenomenon that is happening is the Telkom Indonesia Company (TLKM), which has revenues of IDR 72.0 trillion in the first half of 2022. PT Telkom Indonesia (Persero) Tbk (Telkom) closed the first half of 2022 with positive results by posting EBITDA (earnings before interest, taxes, depreciation, and amortization) and net profit of IDR 39.4 trillion and IDR 13.3 trillion, respectively. Net profit was set and managed to book consolidated revenue of IDR 72.0 trillion, up 3.6% year-on-year, up 4.5%, and 6.9% year-on-year, respectively. The composition of Telkom's revenue changes dynamically along with the company's transformation, in which the revenue contribution from digital business continues to increase, so that the company will continue to grow in a sustainable manner according to future business developments. The increase in revenue contribution shows that Telkom Indonesia's corporate value is high, so it will be attractive to investors (Kontan.co.id, 2022).

Firm value can be influenced by several factors, namely capital structure and corporate social responsibility. The capital structure," according to Brigham (2011), is a comparison of long-term funding in the form of a ratio of debt to company capital. The use of debt increases the value of the company, but only up to a certain point. After that, the use of debt actually reduces the value of the company. The use of debt can affect the company's performance; the higher the burden, the greater the risk taken by the company, and vice versa. This will affect the level of investor confidence and company value (Damayanti & Darmayanti, 2022) . Companies that can increase their debt are expected to be good prospects in the future. An indication of an increase in capital structure occurs when a company carries out operational activities using funding from debt that

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is larger than equity. When a company is free to carry out operational activities and is able to take advantage of debt, it will increase positive perceptions from investors, which will ultimately increase company value (Mudjijah et al., 2019). This research is supported by that conducted by Slamet et al. (2019) and Damayanti & Darmayanti (2019), which state that capital structure has a positive effect on company value. In contrast to previous research conducted by Widyantari and Yadnya (2017), which stated that capital structure has a significant negative effect on firm value by indicating a level of corporate debt that exceeds reasonable limits, This requires companies to pay large amounts of interest to creditors and will reduce investors' interest in investing so that the company's value will decrease (Widyantari & Yadnya, 2017).

The role of corporate social responsibility as a moderating variable that can strengthen the positive influence of capital structure on firm value This is because corporate social responsibility is very influential in assessing the development of companies related to the capital used by companies in a transparent manner to investors and also assures the wider community if the company has operated in accordance with applicable societal norms. So, a high capital structure with extensive CSR disclosure can increase the level of investor confidence so that it has an impact on increasing company value (Wardani & ., 2020). This research is supported by previous research conducted by Wardani et al. (2017), which states that increased corporate social responsibility activity strengthens the effect of capital structure on firm value. In contrast to research conducted by Mukti and Winarso (2020), which says that a company's obligation to run a socially and environmentally responsible business occurs because of provisions in accordance with Law Number 40 of 2007 Article 74 paragraph (1) concerning the Limited Liability Company Law, Even though the company experienced losses, the company continued to carry out CSR activities, and investors did not decide to invest based on the CSR that had been carried out (Mukti & Winarso, 2020).

Based on these arguments, researchers try to add novelty by adding the moderating effect of corporate social responsibility on company value. The purpose of this study is to examine whether there is an effect of capital structure on firm value by moderating corporate social responsibility.

Literature and Theory Bases

Signall Theory

According to Brigham and Houston (2015), signal theory is a theory that provides an illustration of a signal or hint of an action taken by company management in providing instructions for investors regarding how management shows the company's prospects. According to Jama'an (2015), signal theory is related to how a company actually gives signals to users of financial statements, one of which is investors. This signal can be in the form of providing information related to what has been done by the company so that the wishes of the company owner are realized.Signal theory reflects the capital structure variable's effect on firm value. Judging from the financial statements of the liabilities section, which show high external funds, it gives a positive signal that the company can improve its good condition. If a company has a high capital structure originating from external funds for operational activities, it is said to be able to pay debts and increase capacity. Investor perception believes that companies that have high debt are seen as confident about the company's prospects in the future, so that it will increase the value of the company (Ayu et al., 2017).

Legitimacy Theory

Legitimacy theory is an accounting study theory that develops social and environmental responsibility disclosure theory. The company's survival also depends on its relationship with the community and the environment in which it operates. Companies and communities are very sustainable in carrying out their activities based on the values of justice and in accordance with

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the boundaries and norms of society.This theory explains that the disclosure of corporate social responsibility is only to change the perception of the wider community by obtaining profit support, maintaining the company's reputation, and hiding the company's bad image. CSR actions as a company's legitimacy in the community can still be maintained. This is because CSR actions are able to display the company's social image so as to provide a sense of confidence for stakeholders (Tambalean et al., 2018).

Firm Value

The company value is equated with the stock price as the basis for investors' assessments of the company; the higher the company value, the greater the company's stock price (Partha & Noviari, 2016). The high value of the company will make parties who use company information, such as investors, believe in the company's current performance and its prospects in the future.Firm value is often used as a consideration for investors in making investment decisions. Companies that have high corporate value will have good prospects for company growth so that they can attract investors to invest and vice versa (Wardani, 2021).

Capital Structure

Capital structure is assessed as a manager's decision regarding the composition of funding used by the company. Funding sources consist of two categories: internal funding and external funding. An optimal capital structure is coveted by almost all companies because it maximizes the value of the firm and minimizes the cost of capital (Ayem & Nugroho, 2016).

Corporate Social Responsibility

According to Said (2018), corporate social responsibility is a business carried out by a company that aims to improve its good image in the public eye by carrying out charitable programs both internal and external. CSR actions as a company's legitimacy in the community can still be maintained. This is because CSR actions are able to display the company's social image so as to provide a sense of confidence for stakeholders (Tambalean et al., 2018).

Hypothesis Development

Effect of Capital Structure on Firm Value

Capital structure is defined as a decision regarding the selection of funds for company managers. The company's funding sources are divided into two categories: internal funds and external funds. Comparison of company capital consisting of debt and the company's own capital (Sondakh & Morasa, 2019). Looking at the financial statements that show high external funding, this gives a positive signal that the company can improve its welfare. Companies will increasingly take advantage of opportunities to operate when they are able to take advantage of debt. When a company uses debt, it will be considered capable of increasing its debt payments. Investor opinion will be more positive, which can increase company value (Andawasatya, 2016).

This is in accordance with the trade-off theory, which explains that the use of debt in a company's capital structure can improve company performance, but an increase in the use of debt can cause a decrease in company performance if the use of debt exceeds its optimum point. Using debt means the company will pay a certain amount of interest. Interest is tax deductible because it reduces the company's tax liability, thereby increasing the value of cash flows after tax (Haryono et al., 2017).

H1: Capital structure has a positive effect on firm value

Corporate Social Responsibility Can Moderate the Positive Effect of Capital Structure on Company Value

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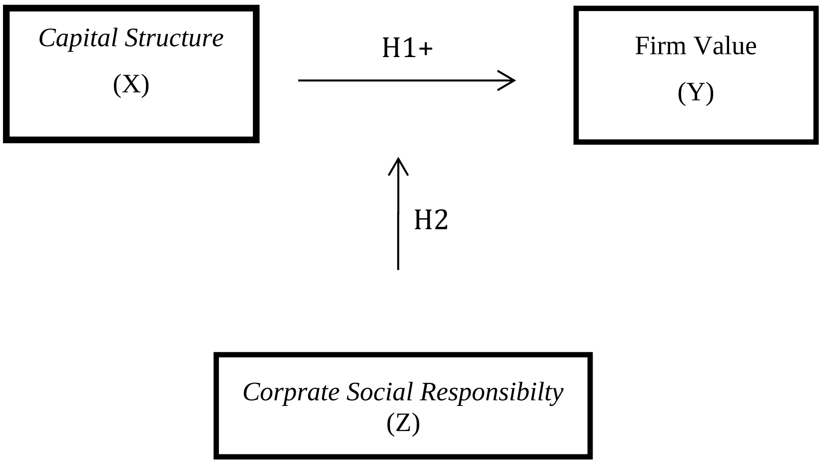
According to Dhani & Utama (2017), capital structure" is the proportion of funding with company debt. Optimal capital structure can have an impact on the soundness of the company's finances so as to increase the company's stock price. Optimal capital structure can have an impact on the soundness of the company's finances so as to increase the company's stock price. Through large sources of funds originating from external parties, the owner must monitor the performance of company managers to prevent them from committing fraud. This can be overcome by the existence of corporate social responsibility.

In accordance with the legitimacy theory, which explains that in addition to preventing fraud in the company and getting profits, companies are also required to pay attention to investors and ensure that the company's environment operates according to applicable values so that the company can run well (Lanis & Richardson, 2016).

H2: Corporate social responsibility can moderate the positive influence of the capital structure on firm value.

Research Framework



Picture 1 Hyphothesis framework

METHOD

The nature of the research used is a form of quantitative research. This study uses secondary data so that the research is in the form of numbers, and in processing this research data, SPSS 25 is used. The sample used in this study is a manufacturing company listed on the Indonesia Stock Exchange (IDX) for 2018–2021.

Definisi Operasional

Firm Value

Firm value is the stock price as the basis for an investor's assessment of the company. Companies that have high corporate value will have good prospects for company growth so that they can attract investors to invest and vice versa (Wardani, 2021). Firm value is often used as a consideration for investors in making investment decisions. The company must be able to achieve

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maximum profits so that the owners or shareholders can prosper and the company's value can increase. Firm value is measured using the Tobin's Q formula.

$$Q = \frac{MVE + D}{BVE + D}$$

Capital Structure

Capital structure is assessed as a manager's decision regarding the composition of funding used by the company. Funding sources consist of two categories: internal funding and external funding. An optimal capital structure is coveted by almost all companies because it maximizes the value of the firm and minimizes the cost of capital (Ayem & Nugroho, 2016). The capital structure is one way to achieve company goals by increasing company value. Capital structure can be measured using the ratio of total debt to equity, which is called the DER (debt to equity ratio), with the formula:

$$DER = \frac{total\ amount\ of\ debt}{total\ capital} \times 100\%$$

Corporate Social Responsibility

According to Said (2018), corporate social responsibility is a business carried out by a company that aims to improve its good image in the public eye by carrying out charitable programs both internal and external. CSR actions as a company's legitimacy in the community can still be maintained. This is because CSR actions are able to display the company's social image so as to provide a sense of confidence for stakeholders (Tambalean et al., 2018). CSR is measured using the GRI-4 reporting guidelines. GRI 4 consists of 91 disclosure items. CSR can be measured by the following formula:

$$\frac{\sum Xij}{n}$$

RESULTS

Descriptive Statistical Analysis

Table 1
Descriptive Statistical Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
DER_X	130	0,13	4,72	1,5358	1,11461
Tobins`Q_Y	130	0,07	1,91	0,6044	0,42461
CSR_Z	130	0,05	0,57	0,2514	0,10069
Valid N (listwise)	130				

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Table 1 shows the results of the descriptive statistical test, which states that the company's value has an average value of 0.6044 and a standard deviation of 0.42461. The minimum value of 0.07 is owned by PT Industri Jamu & Pharmacy Sido Muncul Tbk. The maximum value of 1.91 is owned by PT Unilever Indonesia Tbk. Meanwhile, the capital structure variable has an average value of 1.5358 and a standard deviation of 1.11461. The minimum value of 0.13 is owned by PT Supreme Camble Manufacturing and Commerce Tbk, and the maximum value is owned by PT Indal Alumunium Industry Tbk. And the corporate social responsibility variable has an average value of 0.2514 and a standard deviation of 0.10069, so that value is smaller than the average, which means that the corporate social responsibility variable has a large distribution variance.

Hypothesis Testing Analysis

The classic assumption test consists of a normality test, a multicollinearity test, a heteroscedasticity test, and an autocorrelation test. After testing the classical assumptions, it is known that there are problems with the normality test. Therefore, all data will be transformed into natural logarithms (LN) with the intention that the data passes the classical assumption test, and it is said that this research is feasible for further tests, namely the multiple linear regression test.

Hypothesis Testing Analysis

Table 2
Hypothesis Testing Analysis

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	St. Kesalahan	Beta		
1	(Constant)	-0,850	0,065		-12,983	0,000
	LN_X1	0,423	0,083	0,411	5,101	0,000

a. Dependent Variable: LN_Y

Table 2 shows the results of testing multiple linear regression analysis with data that has been transformed to the natural logarithm (LN). The test results show a significant value of 0.000 0.05 with a t value of 5.101, which explains that the capital structure has a positive effect on LN Y and is acceptable.

When a company uses debt, it will be considered to have the ability to increase its debt repayments. Investor opinion will be more positive, so that it can increase company value (Andawasatya et al., 2017). This is in accordance with the trade-off theory, which explains that the use of debt in a company's capital structure can improve company performance, but an increase in the use of debt can cause a decrease in company performance if the use of debt exceeds its optimum point. Using debt means the company will pay a certain amount of interest. Interest is tax deductible because it reduces the company's tax liability, thereby increasing the value of cash flows after tax (Haryono et al., 2017).

Moderation Variable Analysis

Table 3
Absolute Difference Analysis

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	St. Kesalahan	Beta		
1	(Constant)	0,604	0,064		9,402	0,000
	Zscore: DER_X	0,039	0,043	0,091	0,911	0,364
	Zscore: CSR_Z	0,101	0,041	0,237	2,424	0,017
	MODERASI1	0,000	0,065	0,000	0,005	0,996

a. Dependent Variable: Tobins`Q_Y

Table 3 shows the absolute difference analysis test, which aims to test the moderating variable by proving the relationship between the dependent variable and the moderating variable. The table above shows a significance value of 0.996> 0.05 with a t value of 0.005, meaning that the corporate social responsibility variable cannot moderate the effect of capital structure on firm value. So the hypothesis that social responsibility can moderate the positive effect of capital structure on firm value is unacceptable.

Article 74, paragraph 1, of the Limited Liability Company Law (UUPT) Number 40 of 2007 regulates the implementation of corporate social responsibility, which reads "Companies that carry out their business activities in the field of funds or related to natural resources are obliged to carry out social and environmental responsibility". This happens because the implementation of CSR has been enforced, and the company is obliged to implement it regardless of whether it is profitable or losing money. Investors do not think that the implementation of CSR will increase the value of the company. Investors decide to invest without looking at the company's CSR implementation (Yusmaniarti et al., 2023). If the company's debt level exceeds the limit, the company's value will decrease because there are many interest expenses that must be paid by the company to creditors, which will reduce investor interest in investing and reduce the company's value (Yusmaniarti et al., 2023).

DISCUSSION

When a company uses debt, it will be considered to have the ability to increase debt repayments. Investor opinion will be more positive, so that it can increase company value (Andawasatya et al., 2017).This is in accordance with the trade-off theory, which explains that the use of debt in a company's capital structure can improve company performance, but increased use of debt can cause a decrease in company performance if the use of debt exceeds its optimum point. Using debt means the company will pay a certain amount of interest. Interest is tax deductible because it reduces the company's tax liability, thereby increasing the value of cash flows after tax (Haryono et al., 2017).

The corporate social responsibility variable cannot moderate the positive effect of capital structure on firm value. Investors do not think that the implementation of CSR will increase the value of the company. Investors decide to invest without looking at the company's CSR implementation (Yusmaniarti et al., 2023).This is in line with the trade-off theory, which explains that an increase in debt will be considered an increase in firm value if it is less than the optimal point, and vice versa, an increase in debt will be a reduction in firm value if the capital structure exceeds the optimal limit. If the company's debt level exceeds the limit, the company's value will decrease because there are many interest expenses that must be paid by the company to creditors, which will reduce investor interest in investing and reduce the company's value

CONCLUSION

The results of the study revealed that the capital structure proved to have a positive effect on firm value. However, corporate social responsibility cannot moderate the positive effect of capital structure on firm value. The implication is that for companies, this research can be used as a reflection for company management in order to be able to evaluate, improve, and enhance future performance by continuously issuing financial reports in a timely manner, so that it will attract more investors to invest in the company. In addition, the company's management is expected to always provide important and relevant information about the company, in particular the financial statements, which must be objective, relevant, and verifiable so that investors can make the right investment decisions. In addition, investors and potential investors should pay more attention to the factors that affect the value of a company, one of which is conducting a fundamental analysis of the company's financial statements before making an investment.

This research is also limited to only examining manufacturing companies, so the results obtained cannot be generalized to other forms of companies in other fields in Indonesia. Before conducting research, it is advisable to conduct an assessment with several researchers. The assessment is carried out on the company's CSR disclosure indicators as well as in selecting other variables for testing the independent variable of firm value by using a different year or adding years of observation that can show the actual condition of the company. Taking the type of industry in other fields can also be done to get a comparison between different types of industries from this research.

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