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Moderate of financial flexibility and research and development investment: corporate social responsibility disclosure on firm value

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Abstract

This study aims to examine and explain the effect of Corporate Social Responsibility Disclosure on firm value and the role of financial flexibility and Research and Development Investment in moderating the effect of Corporate Social Responsibility Disclosure on firm value. This study uses a quantitative approach, namely numerical analysis with an associative design because it examines the relationship between more than two variables. The population of this study are basic and chemical industry sector companies listed on the Indonesia Stock Exchange (IDX) during the 2018-2023 period. The method of determining the sample using purposive sampling, so that 198 total observations were obtained. The data collection method uses observation with secondary data sources from the official website of the Indonesia Stock Exchange and from sustainability reporting publications through the site www.globalreporting.org. The analysis technique used is Partial Least Square (PLS) based on Structural Equation Modeling (SEM). The results of the analysis prove that CSR Disclosure has a positive effect on firm value, financial flexibility is able to moderate by strengthening the effect of CSR Disclosure on firm value, and Research And Development Investment is able to moderate by strengthening the effect of CSR Disclosure on firm value.

Keywords: Firm Value; Corporate Social Responsibility Disclosure; Financial Flexibility; Research and Development Investment

1. Introduction

Corporate Social Responsibility Disclosure is one of the strategies that can encourage companies to achieve higher corporate value. Through CSR, companies commit to conducting operational activities by taking into account their impact on society, the environment, and other stakeholders. Effective CSR programs create a positive impact on society, which can also indirectly improve the company's image and create long-term value (Khanchel et al., 2023). CSR can also help companies build better relationships with various parties including customers, employees, suppliers, government, and society. The importance of CSR as a strategy to achieve higher corporate value shows that business sustainability is not only about seeking financial returns, but also about responsibility for the environment and society (Tarek, 2019). Companies can build a foundation for sustainable growth and increase positive impact on their surroundings through CSR practices by integrating social and environmental values into the core of the business. As a result, the implementation of CSR can fulfill the demands of ethics and social responsibility as well as a strategy that contributes to the achievement of corporate value (Murashima, 2020).

The basic and chemical industry sector is one type of industry that is quite sensitive to environmental and social issues. This sector consists of 9 sub-sectors, namely cement, ceramics, porcelain and glass, metals and the like, chemicals, plastics and packaging, animal feed, wood and its processing, and pulp and paper (Indonesia Stock Exchange, 2023). Production and operational activities carried out by each company in this sector involve the use of chemicals that have

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the potential to harm the environment and human health. Environmental issues in the basic and chemical industry sector are related to hazardous waste management, excessive use of natural resources, and impacts on biodiversity. In addition, social issues are also a major concern in this sector in matters that include occupational health and safety, workers' rights, and positive contributions to local communities (Danisch, 2021). Therefore, companies in the basic and chemical industry sector have a great responsibility to ensure the sustainability of their operations and positive impact on society. Based on Law No. 40 of 2007 on Limited Liability Companies (UU PT) and Government Regulation No. 47 of 2012 on Social and Environmental Responsibility of Limited Liability Companies (PP 47/2012), companies that carry out business activities in the field of and/or related to natural resources are obliged to carry out social and environmental responsibility. If this obligation is not carried out, the company will be subject to sanctions in accordance with the provisions of laws and regulations (Hersugondo et al., 2019). However, in its application, companies in the basic and chemical industry sector listed on the Indonesia Stock Exchange (IDX) have not consistently disclosed CSR.

The low number of companies in the basic and chemical industry sector that disclose indicators in CSR indicates the challenges faced in implementing sustainable reports. Low CSR disclosure can have an impact on firm value because a strong image in terms of corporate social responsibility has become increasingly important to stakeholders, including consumers, investors, and society at large (Murashima, 2020). Companies that do not actively engage in sustainable practices and do not transparently disclose CSR initiatives tend to be considered irresponsible, ethical, or committed to environmental and social issues (Benjamin & Biswas, 2022).

The conceptual framework in Guo et al.'s research (2020) uses the theory of market-based value by considering internal organizational capacity factors, namely financial flexibility and Research and Development Investment in the effect of CSR on firm value. Theory of market-based value is a framework that develops a general concept in economics or finance as determining the value of an asset or entity based on market forces (Hayoun, 2019) This concept is used to explain that the company's internal capacity factors need to be considered to fully utilize market assets. According to Guo et al.'s (2020) research model, these internal capacities include financial flexibility and Research and Development Investment as factors that can strengthen or weaken the effect between CSR implementation and firm value.

Financial flexibility can give companies the ability to respond to changing market conditions or stakeholder needs more adaptively, while Research And Development Investment can create long-term value and increase the competitiveness of the company (Guo et al., 2020). Based on the concepts in the theory of market-based value, this study examines the direct impact of CSR implementation on firm value and also how internal capacity factors, namely financial flexibility and Research And Development Investment, can moderate this relationship.

Financial flexibility is the ability of a company to adjust and manage its financial position effectively in the face of changing economic conditions or unexpected financial situations. Financial flexibility can be owned by companies that include various aspects, namely capital structure, liquidity, and customizable financial policies (Rajput et al., 2019). Financial flexibility shows the company's ability to respond to changes in the economic and business environment without experiencing significant financial difficulties. Companies with high financial flexibility can more easily adjust their capital structure or take other actions needed to respond to changes in market or financial conditions (El-Ansary & Hamza, 2022). Financial flexibility also allows companies to access financial resources quickly, which can help companies overcome sudden liquidity challenges and maintain smooth operations. Therefore, companies with good financial flexibility tend to be better able to optimize the use of financial resources and are adaptive to market changes, so this can increase firm value (Dwivedi et al., 2021).

Research And Development Investment is an investment made by companies in research and development activities that involve the allocation of financial resources, labor, and time to explore and develop new innovations in terms of products, processes, and services. Sustainability in Research and Development Investment creates the basis for sustainable growth and adaptability of the company amidst rapid changes in the global business environment. Therefore, companies that are able to manage Research And Development Investment wisely can gain a competitive advantage in the industry (Rahman & Howlader, 2022). Research And Development Investment can lead to innovation in products or services as well as operational efficiency, thereby increasing the competitiveness of the company in the market. Innovative products or services obtained from Research and Development Investment can create competitive advantages and increase market share, thereby increasing firm value (Kong et al., 2023). In addition, Research and Development Investment can help companies maintain or achieve technological excellence and enhance the company's reputation as an innovator in the industry. Therefore, the management and implementation strategy of Research and Development Investment is important in determining how these investments will affect firm value (Ural et al., 2019).

2. Literature and Hypothesis

The theory of market-based value refers to the view that sustainability and corporate social responsibility can create economic value for companies and stakeholders through market recognition (Chung et al., 2018). This concept explains that financial markets can distinguish and place more value on companies that effectively implement sustainability or CSR practices. If the company is able to provide evidence that in its business activities it still pays attention to social responsibility and sustainability, then investors tend to be more willing to give a higher valuation to the company's shares (Hayoun, 2019). Research conducted by Woodroof et al., (2019), Tarek (2019), Thompson et al., (2022), Banerjee et al., (2022) and Jitmaneroj (2023) prove that CSR has a positive effect on firm value. The indication of the results of a number of previous studies is that companies that implement CSR effectively tend to have a better reputation in the eyes of the public and consumers, investors, and other stakeholders, so that this further has a positive impact on firm value.

H1: Corporate Social Responsibility Disclosure has a positive effect on firm value

The theory of market-based value explains how the value of a company is reflected in its share price in the financial markets. This theory assumes that a company's value is accurately reflected in its stock price, and changes in company value can be observed through changes in stock prices (Yibo et al., 2024). In the theory of market-based value, financial flexibility allows companies to better manage the costs and benefits of CSR initiatives, thereby maximizing their positive impact on financial performance and firm value. Research conducted by Naseem et al. (2019) and Guo et al. (2020) proved that financial flexibility is able to moderate by strengthening the effect of CSR on firm value. These results indicate that financial flexibility can strengthen the effect of CSR on firm value by mitigating financial risk and building investor confidence. Companies with good financial flexibility are better able to manage the short-term financial impact of CSR initiatives, which in turn reduces uncertainty and improves market sentiment and firm value.

H2: Financial flexibility can moderate by strengthening the effect of Corporate Social Responsibility Disclosure on firm value.

Theory of market-based value is an approach in economics and finance that emphasizes that the value of a company can be shown from its stock price in the financial market. This theory assumes that stock prices reflect all available information about the future value of the company such as profit expectations, growth, innovation, risk, and other factors that affect the value of the company (Yibo et al., 2024). In the theory of market-based value, the integration of CSR-focused Research And Development Investment can have a positive impact on the company's stock price, in line with the increase in long-term value resulting from innovation and sustainable growth. Research conducted by Murashima (2020) and Guo et al., (2020) proves that Research And Development Investment is able to moderate by strengthening the effect of CSR on firm value. These results indicate that research and development investment contributes to innovation and competitive advantage, and also has a role in strengthening the positive impact of CSR on firm value. Research and Development Investment directed at CSR aspects, namely the development of environmentally friendly products or efforts to improve social welfare, can create synergies between innovation and social responsibility. The implications of Fu et al.'s (2020) research suggest that Research And Development Investment can be a strong factor in enhancing a company's reputation for innovation and technological excellence. Companies that combine CSR with innovative efforts are more likely to create positive perceptions of stakeholders, which in turn can increase company value. Likewise, Kong et al.'s research (2023) explains that the combination of CSR and innovation through Research and Development Investment can create a long-term competitive advantage to increase company value.

H3: Research and Development Investment can moderate by strengthening the effect of Corporate Social Responsibility Disclosure on firm value.

3. Methods

The population used in this study were 144 basic and chemical industry sector companies listed on the Indonesia Stock Exchange (IDX) during the 2018-2023 period in a row. The sampling technique used in this study was purposive sampling. The criteria used to determine the number of samples, namely companies in the basic and chemical industry sector that are continuously listed, publish complete financial reports, and disclose CSR with reference to the Global Reporting Initiative (GRI) standards during the observation period, namely from 2018 to 2023 on the Indonesia Stock Exchange (IDX). This study observes data sourced from the financial statements of basic and chemical industry sector companies listed on the Indonesia Stock Exchange in the observation period 2018-2023 as well as disclosure of GRI

(Global Reporting Initiative) standards. The data is obtained from the official website of the Indonesia Stock Exchange, namely www.idx.co.id and www.globalreporting.org.

This study has a model with a limited number of samples, so that in data analysis using SmartPLS software with the bootstrapping method or random multiplication, therefore the normality assumption will not be a problem and does not require a minimum number of samples.

4. Result and Discussion

4.1. Structural Model Evaluation (Inner Model)

Inner model testing is done by looking at the R-square value which is a goodness of fit model test. The R-square of the PLS model can be evaluated by looking at the R-square predictive relevance for the variable model. R-square measures how well the observed value is generated by the model and also the parameter estimate. Assessing the structural model with structural PLS can be measured by the R-square value for each endogenous latent variable as a predictive power and structural model, which serves to determine how much the X variable and the moderation interaction between X * Z contribute to Y. The R-square value is used to determine how much the percentage of the effect of exogenous variables on endogenous variables. The range of R-Square values is 0 to 1, which if the R-Square value is close to zero then the effect of exogenous variables on endogenous variables is weaker, otherwise if it is close to one then the effect of exogenous variables on endogenous variables is stronger. The R value is shown in Table 1.

Table 1 R-Square Value

Construct	R-Square
Firm Value (Y)	0,823

Secondary Data, 2024

Tabel 1 menunjukkan nilai R-Square = 0,823 yang berarti bahwa sebesar 82,3% variasi nilai perusahaan pada sektor industri dasar dan kimia yang terdaftar di Bursa Efek Indonesia (BEI) periode 2018-2023 dipengaruhi oleh Corporate Social Responsibility Disclosure, fleksibilitas keuangan, Research And Development Investment, interaksi antara CSR Disclosure dengan fleksibilitas keuangan, serta interaksi antara CSR Disclosure dengan Research And Development Investment, sedangkan sisanya sebesar 17,7% dipengaruhi oleh variabel lain di luar model.

4.2. Uji Hipotesis

Pengujian hipotesis dilakukan dengan metode Partial Least Square (PLS) menggunakan metode bootstrap. Metode bootstrapping bertujuan untuk melihat nilai signifikansi antar variabel. Hipotesis dapat diterima apabila nilai uji bootstrapping berada di antara $\pm 1,96$. Apabila nilai t-statistic < 1,96 atau = 1,96, maka hipotesis akan ditolak. Adapun hasil uji hipotesis dapat dilihat pada Tabel 2.

Table 2 Hypothesis

Construct Model	Original Sample	Sample Mean	Standard Deviation	T Statistics (O/STDEV)	P Values
CSR Disclosure (X) → Firm Value (Y)	1.172	1.176	0.065	17.944	0.000
X*Z1 → Firm Value (Y)	0.426	0.438	0.115	3.722	0.000
X*Z2 → Firm Value (Y)	0.166	0.163	0.060	2.777	0.006

Secondary Data, 2024

4.3. Corporate Social Responsibility Disclosure on Firm Value

The effect of Corporate Social Responsibility Disclosure (X) on firm value (Y) obtained a t-statistic value of 17.944 which is greater than 1.96 ($17.944 > 1.96$) with a positive coefficient value of 1.172. These results indicate that there is a significant effect with a positive relationship direction. The test results indicate that H1 is accepted, so that Corporate Social Responsibility Disclosure has a positive effect on firm value.

4.4. Financial Flexibility Moderate Corporate Social Responsibility Disclosure on Firm Value

The interaction effect between CSR Disclosure and financial flexibility ($x*z_1$) on firm value (Y) obtained a t-statistic value of 3.722 which is greater than 1.96 ($3.722 > 1.96$), with a positive coefficient value of 0.426. These results indicate that there is a significant effect with a positive relationship direction. The test results indicate that H2 is accepted, so that financial flexibility can moderate by strengthening the effect of Corporate Social Responsibility Disclosure on firm value.

4.5. Research and Development Investment Moderate Corporate Social Responsibility Disclosure on Firm Value

The interaction effect between CSR Disclosure with Research and Development Investment ($X*Z_2$) on firm value (Y) obtained a t-statistic value of 2.777 which is greater than 1.96 ($2.777 > 1.96$) with a positive coefficient value of 0.166. These results indicate that there is a significant effect with a positive relationship direction. The test results indicate that H3 is accepted, so that Research and Development Investment can moderate by strengthening the effect of Corporate Social Responsibility Disclosure on firm value.

5. Conclusion

Corporate Social Responsibility Disclosure has a positive effect on the firm company in the basic and chemical industry sectors listed on the IDX for the 2018-2023 period. These results indicate that the higher the CSR disclosure made, the higher the company value will be, and vice versa. Financial flexibility can moderate by strengthening the effect of Corporate Social Responsibility Disclosure on the firm value in the basic and chemical industry sectors listed on the IDX for the 2018-2023 period. These results indicate that the higher the financial flexibility a company has, the stronger the effect of Corporate Social Responsibility Disclosure on the firm value and vice versa. Research and Development Investment can moderate by strengthening the effect of Corporate Social Responsibility Disclosure on the firm value in the basic and chemical industry sectors listed on the IDX for the 2018-2023 period. These results indicate that the higher the Research and Development Investment made by a company, the stronger the effect of Corporate Social Responsibility Disclosure on the firm value.

5.1. Managerial Implication

There is a positive effect of Corporate Social Responsibility Disclosure on company value, so the implication is that basic and chemical industry sector companies listed on the IDX can improve their reputation in the eyes of the public, investors, and other stakeholders through CSR disclosure both because it strengthens the company's image and increases investor confidence. Basic and chemical industry sector companies that are active in conducting Corporate Social Responsibility Disclosure tend to have a higher market value because investors tend to be more interested in investing in companies that are socially and environmentally responsible. Therefore, basic and chemical industry sector companies can pay attention to the importance of conducting Corporate Social Responsibility Disclosure in aspects or integral parts of the business and not only view CSR as a social obligation, but also as part of a strategy that can create long-term value for the company. Financial flexibility can moderate by strengthening the effect of Corporate Social Responsibility Disclosure on company value, so the implication is that basic and chemical industry sector companies listed on the IDX that have high financial flexibility and conduct good Corporate Social Responsibility Disclosure tend to have a higher company value. Good financial flexibility can help companies manage the risks associated with CSR programs. Therefore, companies in the basic and chemical industry sectors should ensure a sufficient level of financial flexibility to support the CSR programs carried out. This includes ensuring sufficient cash reserves and a balanced capital structure to face various risks and financial needs. Research and Development Investment can moderate by strengthening the effect of Corporate Social Responsibility Disclosure on company value, so that Hypothesis 3 is accepted. This result means that the higher the CSR disclosure carried out, reinforced by high Research and Development Investment, the greater the company's value will be. Strong Research and Development Investment can increase the company's ability to innovate in products, production processes, and services. This can provide a competitive advantage for companies in competitive industries such as the basic and chemical industries. Strengthening the effect of CSR disclosure on company value through Research and Development Investment allows companies to improve their image and reputation in the eyes of the public and other stakeholders, so that it can help increase the company's value in the long term. Therefore, companies in the basic and chemical industry sectors should integrate the principles of Corporate Social Responsibility in R&D activities to help create products that are more environmentally friendly and have a positive impact on society.

Compliance with ethical standards

Disclosure of conflict of interest

No conflict of interest to be disclosed.

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