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THE EFFECT OF CORPORATE SOCIAL RESPONSIBILITY AND TAX AVOIDANCE ON FIRM VALUE MODERATED BY PROFITABILITY

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ABSTRACT

This investigation's goal is to investigate and determine the impact of corporate social responsibility (CSR) and tax avoidance on firm value, which is tempered by profitability. This study employs a purposive sampling strategy based on empirical investigations on banking firms from 2018 to 2020, with a total sample of 84 banking organizations. The data in this study was analyzed using the Econometric Views (EViews) version 12 programs and Moderated Regression Analysis (MRA). The findings of this study show that corporate social responsibility (CSR) has a considerable positive effect on business value, but profitability cannot increase this effect. Tax evasion has no effect on firm value, but profitability can strengthen the effect of tax avoidance on firm value.

Keywords: *Corporate Social Responsibility, Tax Avoidance, Firm Value, Profitability*

1. INTRODUCTION

To strengthen its development and operational operations, the corporation need a considerable sum of money. A company's purpose is to produce a lot of money in order to attract investors, which increases the company's worth. The corporation raises funds through credit loans and stock offerings on the stock exchange. By growing shareholders through the sale of shares in the capital market, the firm's capital will increase, and the intended value of the company will rise in line with the company's strategy of raising the value of the company by multiplying shareholders and flourishing.

A substantial amount of rise in stock price was necessary to improve the company's worth. Shareholders take stock prices into account while making capital market investments. A company's performance might lead to a rise in its value, attracting investors. The goal of investing for shareholders is to achieve a good return on their money. As a result, in order to suit the needs of shareholders, the corporation must be able to earn substantial profits.

The success of a company can be indicated through the profits generated by the company. The more profit a firm makes, the more valuable it is. The level of sales determines the company's profit which can be one of the factors of the success of the firm in the future. Aside from the company's increased revenues, public trust in the company's quality is undoubtedly a component in the company's expanding worth. The public's faith in the firm will have a positive influence on the company's worth. The welfare received from the company will provide the trust and interest of the public and shareholders able in order to boost the company's worth.

Public trust in the company is not only reflected in the quality and price given to its goods and or services, but as well as the company's reputation in the public eye. Therefore, the environment becomes an indicator in determining the value of the company. The amount of environmental damage and social inequality that is often caused by the company either directly or indirectly, making the company plunge directly in minimizing the situation by providing support both financially and morally for the phenomena that occur in the environment. The company has a role to take responsibility as a form of environmental welfare. With the participation of this company will provide a good reputation in the eyes of *stakeholders* and *shareholders.*

The value of the company is determined by the shareholders' view of the company's performance, including business income on sales, the company's ability to pay debts seen from the turnover of its business debt, risk control, and the level of profit generated by the company. The increase in corporate profits will have an impact on the increase in the tax burden borne by the company. Therefore, the company is required to be able to do *tax planning* as a form in optimizing its profits. The firm maximizes its earnings by lowering the tax burden it charges in a variety of ways, but in this situation, the corporation must pay attention to the tax regulations that apply in terms of tax avoidance.

Our Contribution

The following is how the challenges in this research are formulated based on this explanation: a) does corporate *social responsibility* (CSR) of companies affect *firm value* in banking companies listed on IDX (2018-2020)? b) does *tax avoidance* affect *firm value* in banking companies listed on the IDX (2018-2020)? c) Is profitability able to moderate the influence of *Corporate Social Responsibility* (CSR) on firm *value* in banking companies listed on the IDX (2018-2020)? d) is profitability able to moderate the effect of *tax avoidance* on *firm value* in banking companies listed on the IDX (2018-2020)?

Based on the background of the problems that have been explained, there are still differences in previous studies, problems arising from the value of a company, and differences in the results that vary from previous research on variables tested against *the company's value* (firm value). As a result, the goal of this study was to review and re-examine the influence of corporate social responsibility (CSR) and tax evasion as independent variables on business value as dependent variables, with profitability serving as a moderation variable.

2. THEORETICAL REVIEW AND HYPOTHESIS DEVELOPMENT

Theoretical Review

Signalling Theory

Investors' consideration in investing in a company is a signal to indicate future prospects. Signal theory provides information openly about its financial statements to external parties, in which there is information asymmetry between the company and external parties. Information asymmetry in this case is the difference in the acquisition of information about the financial statements and the company's prospects in the future which is more known to internal parties than external parties. Therefore, to reduce the impact of this information asymmetry, the company provides conservative financial statement information to shareholders as a signal that shareholders can use in providing views on the company's future prospects. Shareholders will of course choose companies with financial performance that can maintain optimal company value. It can be concluded that signal theory can have an influence on companies in optimizing their profits indirectly which can affect shareholder decisions in investing.

Firm Value

The company's worth may be examined from the opportunities the company chooses to develop, which opportunities are taken from its ability to attract capital. Capital is used by companies to run, maintain and improve their business. When the company can attract large capital, the value of the company in the eyes of investors also increases. Good company management is able to take advantage of the company's strengths and improve its weaknesses.

Corporate Social Responsibility

Managers need to pay attention to social issues and go directly to their environment by looking at the potential costs and benefits for the company. Corporate social responsibility (CSR) is a form of company activity in showing quality in terms of its responsibility to social, economic and environmental values. Disclosure of corporate social responsibility (CSR) is not only to attract customers, but also to attract shareholders to invest. The view of shareholders of the company not only on its ability to earn large profits, but also on the moral responsibility it carries out. With the existence of corporate social responsibility (CSR), the shareholders will gain a positive view of the company in giving responsibility to the environment, therefore the company is considered to have good goals in the future. The view of shareholders on the company's competence is what makes them want to invest.

Tax Avoidance

The tax charged by the company is calculated based on earnings before tax, so that the tax becomes a cost that can reduce income after tax. Earnings earned by the firm have an impact on the tax burden, thus as profits rise, so does the amount of tax that must be paid by the company. Therefore, companies often do tax management with tax avoidance. Tax avoidance or often called tax avoidance is an action taken to reduce the tax burden in certain circumstances. When a company carries out tax avoidance, it is expected to be able to carry out proper tax management to comply with applicable law.

Profitability

Complete information is of course needed by shareholders and is proportional to income and components in financial statements to measure company profitability. Profitability shows the company's ability to earn profits that can provide shareholder views on the company's financial performance. To get a measurement of the company's profitability, a profitability ratio is needed. Profitability ratios can assess the success of the company. The importance of financial statements in companies in addition to providing previous company financial information, but also being able to predict future finances.

Hypothesis Development

The company's many social actions aimed at enhancing the welfare of stakeholders, shareholders, the community, and customers. This is what the corporation wants in order to boost the firm's worth because it serves both its own interests and the environment. CSR has a beneficial impact on business value, according to previous studies.

H1: Corporate social responsibility (CSR) has a positive effect on firm value.

Of course, appropriate management will not breach the applicable legislation if this tax avoidance activity is carried out. This boosts investors' interest in firms to invest in since the tax expenses are not too high, allowing the company's earnings to stay ideal. With tax avoidance efforts that are not carried out unlawfully by the firm, investors' perceptions of the company will improve. Tax evasion has a beneficial influence on corporate value, according.
H2: Tax avoidance has a positive effect on firm value.

Companies with a high degree of profitability, in general, are more likely to disclose CSR information because of their capacity to maximize profits. As a result, a high degree of profitability increases the company's incentives to engage in CSR, which can boost the company's worth. According to profitability may enhance CSR's influence on a company's value.
H3: Profitability strengthens the influence of corporate social responsibility (CSR) on firm value.

With effective management, tax avoidance as a means of enhancing corporate profitability undoubtedly gets the attention of investors. As a result, it may be argued that tax evasion tactics to maximize earnings can be bolstered by a high level of profit, hence increasing the company's worth. According, profitability has the power to amplify the impact of tax evasion on corporate value.
H4: Profitability strengthens the effect of tax avoidance on firm value.

Based on the hypotheses that have been described, the framework can be developed as follow:

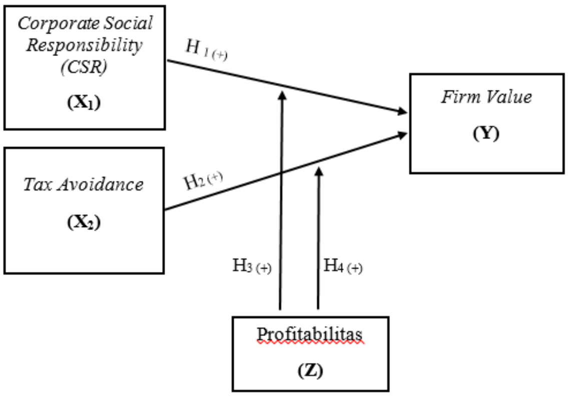

Figure 1. Research Model
Source: Processed by the Author, 2021

3. METHODOLOGY

Between 2018 and 2020, the study's population was based on financial statement data from banking firms listed on the Indonesia Stock Exchange (IDX) and on the company's official website. The purposive sampling approach was used to pick this study sample, and it was modified to the features of the sample that were taken into account using criteria that were in line with the research aims and problems: (1) Banking sector companies listed on the

Indonesia Stock Exchange (IDX) during the 2018 period -2020; (2) The company conducts an IPO after 2018; (3) The company publishes financial reports and annual reports for the period 2018-2020; (4) The company did not suffer losses during 2018-2020; (5) Companies that carry out corporate social responsibility (CSR). Based on the sample selection, there are 28 samples that meet the criteria with a total sample of 84 banking sector companies listed on the Indonesia Stock Exchange (IDX) until 2020. The following table presents the operational and measurement variables as follows:

Table 1. Variable Operationalization Summary

No.	Variabel	Ukuran	Skala	Sumber
1	*Firm Value*	$Tobin's\ Q = \frac{MV\ of\ Equities + BV\ of\ Liabilities}{Total\ Assets}$	Rasio	Wirawan dkk., 2020
2	CSR	$CSRDIj = \frac{\sum Xij}{nj}$	Rasio	Wulandari dkk., 2016
3	*Tax Avoidance*	$ETR = \frac{Tax\ expense}{Earning\ Before\ Tax}$	Rasio	Kusumawardhani dkk., 2019
4	Profitabilitas	$ROA = \frac{Net\ Income\ After\ Tax}{Total\ Assets}$	Rasio	Brigham & Houston, 2019

Source: Data Processed by EViews Version 12

Data processing was carried out by descriptive statistical tests using the Econometric Views (EViews) application program version 12. The Indonesia Stock Exchange provided secondary data for this study. After the descriptive test was done, the panel data regression analysis was carried out, panel data selection test, simultaneous test (F test), partial test (t test), and coefficient of determination test (Adjusted R^2).

This study uses the Moderated Regression Analysis (MRA) equation, so that the presentation of the equation model is as follows:

$$Y = \alpha + \beta_1 CSRD + \beta_2 ETR + \beta_3 ROA + \beta_4 CSRD*ROA + \beta_5 ETR*ROA + \varepsilon \text{ .... } 1$$

Description:
α : Constant value
$\beta_1 - \beta_5$: Regression coefficient
Y : Firm value (Tobin's Q)
CSRD : Corporate Social Responsibility Disclosure
ETR : Effective Tax Rate
ROA : Return on Assets
ε : Error term

4. TEST RESULTS, CONCLUSION AND LIMITATION

Test Results

According to the data processing results, the following table can be presented:

Table 2. MRA Analysis Results

Dependent Variable: Y_FV
Method: Panel Least Squares
Date: 11/01/21 Time: 16:07
Sample: 2018 2020
Periods included: 3
Cross-sections included: 28
Total panel (balanced) observations: 84

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.554600	0.209388	2.648670	0.0107
X1_CSR	0.806489	0.369672	2.181635	0.0338
X2_TA	0.003077	0.118215	0.026030	0.9793
Z_ROA	2.444695	12.07820	0.202406	0.8404
MOD1	-15.36950	20.22378	-0.759972	0.4508
MOD2	43.00738	19.64832	2.188858	0.0332

Effects Specification

Cross-section fixed (dummy variables)

R-squared	0.827336	Mean dependent var	1.060428
Adjusted R-squared	0.718998	S.D. dependent var	0.195304
S.E. of regression	0.103530	Akaike info criterion	-1.411187
Sum squared resid	0.546642	Schwarz criterion	-0.456223
Log likelihood	92.26984	Hannan-Quinn criter	-1.027299
F-statistic	7.636610	Durbin-Watson stat	3.190144
Prob(F-statistic)	0.000000		

Source: Data Processed by EViews Version 12

The following is the formula for the multiple linear regression equation analysis in this study:

$$Y = 0.554600 + 0.806489\ CSRD + 0.003077\ ETR + 2.444695\ ROA - 15.36950\ CSRD*ROA + 43.00738\ ETR*ROA + \varepsilon \quad .... 2$$

Based on the t-test findings, the probability value for Corporate Social Responsibility (CSR) is 0.0338, which is less than 0.05. As a result, it is possible to conclude that corporate social responsibility (CSR) has an impact on the value of a company. The regression test on CSR yielded a score of 0.806489, indicating that there is a positive link between business value and CSR. These findings support prior study, which found that corporate social responsibility (CSR) increases a company's worth. According to the findings of this study, if the value of CSR is high, the company's worth will rise. From the results of the t test, the probability value of tax avoidance is 0.9793, so the value is greater than 0.05.

As a result, it is possible to conclude that tax evasion has no impact on corporate value. The findings of this study contradict those of previous research which states that tax avoidance has a positive effect on firm value. However, the study's findings that tax avoidance had no influence on business value might be due to the fact that the corporation avoids taxes legitimately in order to reduce tax payments, therefore the company pays more attention to and follows the regulations set by the government so that increasing company value is carried out in a more efficient way. safer. Tax regulations that are getting stricter every year make companies prefer roads that tend to be safe and increase company value in a way that is both in front of shareholders and consumers.

According to the t-test results, the probability value of the impact of corporate social responsibility on business value moderated by profitability is 0.4508, which is larger than 0.05. As a consequence, profitability appears to have little bearing on the influence of corporate social responsibility on company value. This is in contrast to research conducted by, which indicated that profitability may improve CSR and business value. Several profit drivers are unable to offset the negative impact of CSR on corporate value. Companies that are profitable do not guarantee that they would engage in CSR initiatives that will increase their value. On the other hand, companies with low profitability tend to disclose their CSR widely in order to attract shareholders because the company's image is needed as a form of action to cover the low profitability it has achieved.

The probability value for the effect of tax evasion on company value modulated by profitability is 0.0332, which is less than 0.05, based on the results of the t test. The findings of the moderating regression test between the effect of tax avoidance on firm value are 43.00738. This indicates that the influence of tax avoidance on firm value is being strengthened. As a result, it may be stated that profitability can amplify the impact of tax evasion on corporate value. This is in line with previous research conducted by [10] in which in his research profitability was able to strengthen tax avoidance actions in influencing firm value. So it can be concluded that tax avoidance measures to optimize profits can be strengthened by a high level of profit, so as to increase the value of the company.

Conclusion

In the significance test, the best panel data model was obtained, namely the Fixed Effect Model (FEM). If corporate social responsibility (CSR) may have a beneficial impact on company value, the test findings for each independent and dependent variable, as well as their moderators, will be acquired. This backs up the idea that corporate social responsibility (CSR) increases the value of a company. Tax evasion has no impact on a company's worth. The results of this experiment do not support the study hypothesis that tax evasion boosts business value. Profitability has little influence over whether CSR has a positive or negative impact on a company's value. The outcomes of this study refute the notion that profitability may enhance CSR's influence on corporate value. Profitability, on the other hand, may enhance the effect of tax evasion on business value, which is supported by the findings of this study.

Limitation

The following are the study's shortcomings, as determined by the research: (a) This study's population is limited to banking sector companies that have been listed on the Indonesia Stock Exchange for at least three years during the 2018-2020 period; (b) the variables used in this study are divided into three categories: independent variables, dependent variables, and moderating variables. In this study, firm value is the dependent variable, with corporate social responsibility and tax evasion acting as independent factors and profitability acting as a moderating variable; (c) each variable can be calculated using various formulas and methods, but in this study, GRI G4 was used to calculate corporate social responsibility and ETR to calculate tax avoidance, Tobin's Q was used to calculate firm value, and ROA was used to calculate profitability value.

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