The effect of social responsibility and managerial ability on firm value-mediated profitability

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ABSTRACT

The mining industry in Indonesia has a high enough capitalization value to attract investment. The more investors that invest, the higher the stock price and the value of the firm, yet the mining sector's share price has changed throughout time. The mining industry in Indonesia must likewise be mindful and worried about the environment. Previous research has not explored the correlation between profitability and firm value, which contributes as a mediator. This resulted in a clear gap in the literature. This study contributes to filling a gap in the literature. The mining sector businesses listed on the Indonesia Stock Exchange (IDX) from 2018 to 2020 were chosen as the population, with a total sample of 11 companies selected using the purposive selection approach. The data analysis process has been carried out using SPSS version 28 software. The study's findings revealed that corporate social responsibility and corporate management skills had little influence on business value. Furthermore, the findings of this research show that profitability, as a moderating variable in this study, is a complete mediator of social responsibility and managerial ability to firm value. The presence of profitability mediation in this research yields substantial findings, serving as a warning to investors.

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Introduction

Firm has the main purpose in carrying out its business which is to maximize the wealth of shareholders (Salvatore, 2015). Measurement of shareholder prosperity uses firm value as a tool to see and measure the level of prosperity of shareholders. Firm value is very important for the sustainability of company. If firm value owned by company is high, then it will increase the welfare of shareholders. (Brigham & Huston, 2006) Measurement of firm value can be seen from the price of shares in capital market. Stock price is a very important factor in the consideration of investors to invest their funds because stock price shows the performance of the issuer, stock price movement is in line with the movement of the issuer of the (Vo et al., 2021; Yan Hendrick S., 2016) company with a high firm value, the company as a whole is highly valued by the market. However, decrease in the value of company will decrease investor confidence in the company so that it will threaten the survival of company. Therefore, efforts are needed to increase the value of company.

Concept of triple bottom line has become the basis for measuring value of successful company in developing its business which is not only focused on the profits wants to achieve but is starting to care about the environment and social (Elkington, 2013). Concept reflects that financial condition alone does not sufficiently guarantee firm value to grow sustainably but there are other factors such as non-financial factors that can influence firm value, including corporate social responsibility (Heryanto & Juliarto, 2017; Hu et al., 2021; Rosdwiandi et al., 2016). Implementation of corporate social responsibility reflects the company's commitment to stakeholders' interests and it is a form of moral responsibility from company. Companies that are able to create profits and responsible to their shareholders, must also be responsible to all parties directly related to stakeholders, community, and environment (Liu & Zhang,
2017; McWilliams & Siegel, 2000). CSR disclosure can give rise to the assumption that company is responsible for social and environmental, so that company will also get recognition from surrounding environment and image of company in the community will be good (Milne & Hackston, 1996).

Company expects that the implementation of CSR or corporate social responsibility will gain social legitimacy and maximize the financial size for a long period of time. Legitimacy of theory states that a company continuously tries to convince the public that its activities are accepted by external parties, by ensuring that its business activities are in accordance with limits and norms that are in community. By fulfilling social contracts, sustainability of business company will be more guaranteed because operations company are in accordance with expectations of community. Thus, the existence of company will also be responded positively by community. However, if company fails to fulfill the social contract, it will be able to pose a threat to the company (Deegan, 2006)

CSR (Corporate Social Responsibility) is defined as the commitment of company or organization to keep act ethically, operate legally and contribute to economic improvement, along with improving the quality of life of employees and their families as well as improving the quality of life of local communities and wider community(Pratiwi et al., 2020; Xu et al., 2020). CSR measurement in this study used CSRI calculations based on Global Reporting Initiatives (GRI) standard.CSR provides a deeper understanding of business company for investors. Signaling theory states that company divides information about its performance into good signals (good news) and bad signals (bad news)(Spence, 1973). Firm that does CSR send a good signal that they are engaging in environmental strategies proactively. This information is a positive signal delivered to shareholders(Chapagain, 2021; Hao & He, 2022). Firm in running its business wheel is also influenced by managerial abilities (Gong et al., 2021; La’bi et al., 2018; Pamungkas & Setiawardani, 2016).

Good managers are able to be the best utilization of company resources in challenging environments with the help of their professional knowledge, skills and experience in achieving sustainable growth(Inam Bhutta et al., 2021; Pamungkas & Setiawardani, 2016; Park & Byun, 2021). Managers in the company are emblematic of successful and failure of a company that is in line with the expected goals. Managers as company leaders who run businesses are required to be able to make the right decisions so that they ultimately make the maximum contribution to the performance and firm value(Demerjian et al., 2013). Managerial ability is positively related to innovation activities as an important form of corporate risk taking so that managerial ability plays an important role in the performance and firm value (W. Chen & CW, 2015; Yung & Chen, 2018)

Manager ability in a company is concept used to address agency issues. With a good manager ability to provide confidence that management will not commit irregularities in investment funds by investors. In addition, it assures investors that they will receive a return on their investment(Deegan, 2006). A manager with better abilities will make more accurate predictions than a manager with poor abilities. Managers with better abilities will be able to define problems and determine how best to solve them (Wu et al., 2020). When managers publish information to the market, interested parties will divide the information into signals . If the market considers the information published by manager to be a good signal, then the market will give a positive reaction to company which can be in the form of an increase in the share price company and also firm value. Otherwise, if the information published by manager is considered to be a bad signal, then investors will react negatively so as to reduce the stock price and firm value.

In addition, firm value is closely related to company ability to generate profits(Kasmir, 2015). The ability to generate profit is indicated by profitability ratio. Profitability is an indicator to measure overall effectiveness of company management and show the prospects company. A high level of profitability means that sustainability of the business is ensured(Raningsih & Artini, 2018a). High Profitability can also increase firm value (Darmawan et al., 2020; Nurrohmah, 2020; Pratiwi et al., 2020). High profitability is captured by investors as a positive signal from the company that will increase investor confidence so that firm value increases(Endri & Fathony, 2020; Ngoc Hung et al., 2018) (Piliang & Fathony, 2020)(Ngoc Hung et al., 2018). As far as the researcher, no one has explored the relationship of profitability toward firm values that act as mediating role so that this research is different from other studies and interested to explore. This creates a literature gap that can be identified. This study contributes to filling the gap in the literature. Therefore, in this study profitability is used as a mediation to mediate managerial ability towards firm value. Therefore, it is necessary to manage the company effectively and efficiently to achieve high financial performance so that with the high value of a company, it will attract investors to invest in the company.

Literature Review

Conceptual and Theoretical Background

Theory Legitimacy

Theory legitimacy reveals that the way that companies can maintain their business continuity (Going Concern) by giving something that is desired by public and getting something obtained from the public(O’Donovan, 2002). In theory of legitimacy, it is also stated that a company continuously tries to convince the public that its activities are accepted by external parties, by ensuring that its business activities are in accordance with the limits and norms that are in community (Deegan, 2006). With regard to theory of legitimacy, the company needs to pay attention in the impact of company presence for existence of surrounding such as existence of corporate social responsibility. Corporate social responsibility existance makes the company socially recognized and appreciated by
community so that it will have a good image and an impact on the company image both in community and investors (Kong et al., 2020; Maury, 2022)

Theoretical Agency

Agency theory is corporate behavior from various contractual perspectives between various parties. Agency theory describes managers as agents and shareholders as principals(Linder et al., 2013). This theory argues that firm value cannot be maximized if appropriate incentives or adequate monitoring are not effective enough for corporate managers in maximizing their own profits. Manager signed contract that identifies the activities that must be involved in both investment and specifies manner in which the profit is allocated between manager and investor.

Signaling Theory

Signaling theory in the context of companies in capital market is that companies have good performance are different from companies that have bad performance. Signaling theory states that good-quality companies give positive signals to information users, so that information users can distinguish good-quality businesses from bad-quality ones(Spencer, 1973). Signal will react to by the market as either a good signal or a bad signal. Market reaction is indicated by the changing volume of stock trading. If the information is captured by investor as a positive signal, they will be interested in making a share purchase as it considers that the company has good prospects in the future (Cecilia et al., 2015)

Social Responsibility and Firm Values

Corporate social responsibility is one of non-financial aspects that become important to publish the implementation at this time. This is because investor considerations are not only fixed on financial statements, but investors need other information as consideration, one of which is information on the implementation of corporate social responsibility(Gherghina et al., 2015). Firm that have good environmental performance and social responsibility will be responded positively by investors through increasing stock prices so that firm value increases (Choi et al., 2010; Hao & He, 2022; Liu & Zhang, 2017; Qi et al., 2021) (Gupta & Krishnamurti, 2021) (W. J. Lee & Choi, 2021), (Rijba et al., 2020).

Managerial Ability and Firm Values

Managerial ability is an ability to move people and move facilities in (Pamungkas & Setiawardani, 2016)organization Increasing the firm value is the main goal of a company, this shows that manager as the party authorized by shareholders has responsibility to maximize firm value. Qualified managers are considered have better ability to operate the company, so this will cause firm value to increase(Fernando et al., 2020; Gong et al., 2021; La’bi et al., 2018; Yung & Nguyen, 2020). This shows that with managerial skills in managing companies will be able to increase the value of a company.

Corporate Social Responsibility and Profitability

Firm as a business role has the main objective of achieving profit so all activities are focused on achieving the highest profit and in the form of efforts to increase stock prices. Stakeholders also play a role in the survival and development of company so that it needs to provide benefits and social responsibility for environment because operating company process certainly has an impact on society(Azhar & Wijayanto, 2018). CSR disclosure on profitability can indicate that if it carries out social responsibility for the surrounding environment then in the long term it will bring a positive impact reflected in company profits and improved financial performance(Amin & Lastanti, 2020; Chapagain, 2021; Y.-C. Chen et al., 2018)

Managerial Ability and Profitability

Manager ability to manage the company well will be considered more capable and wiser in managing their business. Manager ability to responsive all operative performance in the company, so that with these managerial skills they can get good profitability.(La’bi et al., 2018; Ng & Daromes, 2016; Putrianti & Suhartono, 2018). Managers with a good role and ability in managing company, all activities in company will run more effectively and efficiently so that it will run well the entire set of activities, it will increase the optimization of company and it will experience an increase sales that has an impact on company’s profitability (Andreou et al., 2013; W. Chen & CW, 2015; C. C. Lee et al., 2018).

Profitability and Firm Value

Profitability is the firm ability to generate profits from its operational activities(Kasmir, 2015). Profitability is benchmark of management performance in managing the company. Companies that have high profitability show that it can manage assets effectively and efficiently in generating profit every period(Ararat et al., 2017). A good company is characterized by good company financial performance and able to prosper all company stakeholders. The higher profit earned by company, it will be considered able to perform well so that firm value can increase(Ararat et al., 2017; Endri & Fathony, 2020; C. C. Lee et al., 2018; Lestari et al., 2020; Nurrohmah, 2020; Raningsih & Artini, 2018b; Subramaniam & Wasiuzzaman, 2019). This means that better level of firm profitability will also increase firm value.
Corporate Social Responsibility Through Profitability to Firm Values

Disclosure of CSR information in annual report is one way for companies to build, maintain, and legitimize company contribution in economic and political terms. Thus, the higher value of this ratio, the better situation of a company stated to be (Shim et al., 2018). Firm that have good financial performance will have more resources to invest in social performance (Tsoutsoura, 2004; Chapagain, 2021; Gong et al., 2021; Pratiwi et al., 2020; Xu et al., 2020). This shows that CSR, companies through profitability will be able to increase firm value. Thus, it can be concluded that the higher disclosure of CSR through profitability will have an influence on firm value.

Managerial Ability Through Profitability to Firm Values

Managerial ability in carrying out its duties will have an impact on company performance which is characterized by increased company profitability (C. C. Lee et al., 2018). Profitability is company ability to generate profit. High profitability value indicates the effectiveness and efficiency of company performance (Setiyorini & Kartika, 2018; Zuhroh, 2019). It will give investors confidence in company performance which will attract them to invest their capital in the company. Qualified managers are considered have better ability to operate company, so this will cause firm value to increase (Andreou et al., 2013; W. Chen & CW, 2015). Thus, it can be concluded that the higher disclosure of CSR through profitability will have an influence on firm value.

Conceptual Framework and Hypothesis Formation

This research investigates four main constructs consisting of two independent variables (social responsibility and managerial ability) and one dependent variable (Nilai perusahaan). In addition, this study also add one mediating variables (profitabilitas). For more details, see Figure 1 below:

![Figure 1: Research Framework and Hypothesis](image)

The hypotheses of this study are:

H1: Corporate social responsibility has a significant effect on firm value
H2: Managerial ability has a significant effect on firm value
H3: Social responsibility has a significant effect on profitability
H4: Managerial ability has a significant effect on profitability
H5: Profitability has a significant effect on firm value
H6: The effect of corporate social responsibility on firm value is mediated by profitability
H7: The effect of managerial ability on firm value is mediated by profitability

Research and Methodology

Participants and Data Collection

The sample of this study is 33 data on mining sector companies, 11 companies with 3 years of observation and listed on the IDX in 2018-2020. The method of data collection was documentation technique. The data collected in this study is an annual report from the mining sector obtained from the official website of the Indonesia Stock Exchange. The sampling technique used in this study was saturated sampling, that is, the entire research population was used as the research sample. Firm value is measured using the Tobin’s-Q value (Chung & Pruitt, 2015), CSR calculations refer to the GRI G4 Index calculation (globalreporting.org, 2021) and Managerial Ability refers to the concept (Demerjian et al., 2013) which captures the efficiency of managers in converting company resources into company income and profitability refers to the calculation of ROA (Kasmir, 2015).

Data Analysis

The method of data analysis uses AMOS.

Measurements

All indicators to measure the four variables were adopted from several previous studies. indicators of social responsibility, managerial ability, profitability, firm value.
Analysis and Findings

Descriptive Statistics

This study used a sample of 33 mining sector company data using four research variables (CSR, Managerial Ability, Profitability and Firm value). The following descriptive analysis results can be seen in table 1 below:

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>CSR</td>
<td>33</td>
<td>16.4835</td>
<td>21.7802</td>
<td>19.7921</td>
<td>1.63749</td>
</tr>
<tr>
<td>MA</td>
<td>33</td>
<td>0.4223</td>
<td>1.1640</td>
<td>0.790185</td>
<td>0.200369</td>
</tr>
<tr>
<td>Profitability</td>
<td>33</td>
<td>0.0042</td>
<td>0.1285</td>
<td>0.064815</td>
<td>0.036251</td>
</tr>
<tr>
<td>Firm Value</td>
<td>33</td>
<td>0.6804</td>
<td>2.1381</td>
<td>1.28129</td>
<td>0.474612</td>
</tr>
</tbody>
</table>

Source: Primary data processed, 2022

Results of descriptive analysis above show that companies with the most corporate social responsibility disclosures are carried out by ADRO with a maximum value of 16.4835 while for companies with least social responsibility disclosures, namely in HRUM companies is 21.7802. Based on these results, it can be concluded that the average company in the mining sector is able to carry out company social responsibility in accordance with the provisions of applicable law, although it has not been optimal since 2018-2020. Managerial ability of company with 11 company samples obtained an average value of 1.16 companies that were able to apply managerial skills well with a standard deviation of 13.49. Maximum value of Managerial Ability variable is 57.14 and minimum value is 10.99. Firm with highest level of managerial ability are carried out by TOBA company while the opposite is PSAB. Based on these results, it can be concluded that mining sector companies in this case show that the ability of managers who manage mining sector is able to properly manage all capabilities in the company so that the activities can run well.

Profitability is reflected by ROA. ROA is a measure of a company effectiveness in generating profits from utilizing assets owned by the company. ROA is calculated by comparison between net income and total assets. Profitability variable has an average of 0.10 with a standard deviation of 0.22. Maximum value of ROA variable is 1.16 and minimum value is 0.42. Firm that had highest profitability level was BSSR in 2018 with the lowest profitability level was SMMT in 2019. Meanwhile, firm value is reflected by Tobins Q Value. The better variable Firm Value has an average of 190.17 with a standard deviation of 0.09. Maximum value of variable Y (Firm Value) is 0.39 and minimum value is 0.00. This shows that company is able to create value for shareholders. Firm value in mining sector is reflected by highest share value, namely in the gem company in 2018, while the lowest is in TOBA company in 2018.

The results of descriptive analysis also show that companies in mining sector since 2018-2020 are doing well in accordance with CSR projections that use GRiG-4. And the average mining sector company has reported corporate social responsibility, while managerial ability of mining sector can also be said to run well in accordance with the ability and capability of managers in managing the company. In addition, the company ability to manage all assets that are projected with ROA shows that it can also manage all company assets to obtain company profits so that with existence of corporate social responsibility and managerial ability of the company and profitability are able to increase firm value which is reflected by the value of shares. Firm value of mining sector from 2018-2020 shows a pattern of fluctuations which can occur due to various factors. However, based on the data and results obtained, it shows that the company still not optimal in increasing its firm value. Here are the descriptive results

Structural Model Analysis

Analysis of Structural Model Structural Model is a model that illustrates causal relationship between latent variables built on substance of theory (Abdillah and Hartono, 2015). Regression analysis used in this study is multiple linear regression in equation 1 and equation 2. Equation 1 is a model made to determine the effect of governance mechanisms, profitability, and media exposure on environmental disclosure conducted by linear regression test. The regression test results show the results of (1) $Z = 0.428 X_1 + 0.447 X_2 + \epsilon_1$ and (2) $Y = 0.101 X_1 + 0.044 X_2 + 0.633 X_3 + \epsilon_2$. Based on several tests that have been carried out, result summary of the analysis can be seen in Figure 2.

Figure 2: Diagram Path; Source: Primary data processed, 2022
Based on figure and explanation on previous exposure, Goodness of Fit model test was performed using the total determination coefficient. The results of $R^2$ calculation indicate that diversity of data that can be explained by model is 61.2% or in other words information contained in 61.2% data can be explained by model. While the remaining 38.8% diversity is explained by other variables (which are not yet in the model). Overall, the model in this study is divided into 5 direct influences, and 2 indirect influences. The following is a summary table of the results of direct influence test and indirect effect test.

**Table 2: Direct Hypothesis Testing Results**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path Coefficient</th>
<th>T Statistics</th>
<th>P-Values</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: CSR $\rightarrow$ Firm Value</td>
<td>0.101</td>
<td>0.561</td>
<td>0.579</td>
<td>Rejected</td>
</tr>
<tr>
<td>H2: MA $\rightarrow$ Firm Value</td>
<td>0.044</td>
<td>0.242</td>
<td>0.810</td>
<td>Rejected</td>
</tr>
<tr>
<td>H3: CSR $\rightarrow$ Profitability</td>
<td>0.428</td>
<td>2.999</td>
<td>0.005</td>
<td>Accepted</td>
</tr>
<tr>
<td>H4: MA $\rightarrow$ Profitability</td>
<td>0.447</td>
<td>3.134</td>
<td>0.004</td>
<td>Accepted</td>
</tr>
<tr>
<td>H5: Profitability $\rightarrow$ Firm Value</td>
<td>0.633</td>
<td>3.138</td>
<td>0.004</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Source: Primary Data Processed, 2022

Table 2 shows the results of direct hypothesis testing. Strangely, the effect of CSR and Managerial Ability on company value was not significant ($\beta = 0.101, t = 0.561, p > 0.579$ and $\beta = 0.044, t = 0.242, p > 0.810$). Furthermore, as previously expected, the effect of CSR on profitability has a significant effect ($\beta = 0.428, t = 2.999, p < 0.05$), Managerial ability on Profitability on company value is also significant ($\beta = 0.447, t = 3.134, p < 0.05$). Furthermore, the effect of Profitability on company value was also significant ($\beta = 0.633, t = 3.138, p < 0.05$).

**Table 3: Indirect hypothesis test results**

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path Coefficient</th>
<th>T Statistics</th>
<th>P-Values</th>
<th>Result</th>
</tr>
</thead>
<tbody>
<tr>
<td>H6: CSR $\rightarrow$ Profitability $\rightarrow$ Firm Value</td>
<td>0.372</td>
<td>0.101</td>
<td>0.043</td>
<td>Accepted</td>
</tr>
<tr>
<td>H7: MA $\rightarrow$ Profitability $\rightarrow$ Firm Value</td>
<td>0.327</td>
<td>0.044</td>
<td>0.038</td>
<td>Accepted</td>
</tr>
</tbody>
</table>

Source: Primary Data Processed, 2022

Table 3 above shows the indirect or mediating role of profitability variable between CSR to company value ($\beta = 0.372, 0.101, p < 0.05$), and MA mediating to company value ($\beta = 0.327, t = 0.044, p < 0.05$). This can be interpreted that profitability becomes full mediation because direct influence between CSR and Managerial Ability is not significant to Firm Values, but with mediation variables in the form of profitability, the influence of these two variables becomes significant.

The results of the study proving the first hypothesis show that social responsibility has a regression coefficient value of 0.101 and a probability value of 0.101 > 0.05 which means that it is not statistically significant. This indicates that disclosure of social responsibility (CSR) information has not been an important consideration for investors. However, corporate social responsibility has a significant effect on profitability Regression results show that CSR has a regression coefficient value of 0.428 and a probability value of 0.005 which is statistically significant. This shows that company average performance in providing information on CSR activities to consumers is so significant to increase sales the company profitability level will also increase.

Besides that, for the company managerial ability. Regression results show that managerial ability has a regression coefficient value of 0.428 and probability value of 0.810 which means that it is not statistically significant. These results indicate that the lack of information contained in financial statements regarding the factors in measuring value of managerial ability. So that the results obtained are not enough to reflect value of good managerial skills. However, it is different from the effect of managerial ability on corporate profitability. Regression results showed that regression test results showed that MA had a regression coefficient value of 0.447 and a probability value of 0.004 which was statistically significant. This is because if managerial skills are higher, then a manager will tend to dare to take risks and choose challenging projects for company.

As for profitability of limited company, firm value shows the same result, which is significant. The regression test results show that profitability has a coefficient value of 0.633 and a probability value of 0.004 which is statistically significant. This result shows that higher ROA value determines that firm value is good in the eyes of investors because it is able to manage the assets owned by company well to earn profit.

The total effect between CSR and Firm Value is 0.372. Therefore, the increase in corporate social responsibility mediated by profitability will be able to increase the value of business. The sobel test results show 0.271. Because the direct influence between CSR on ROA and direct influence between ROA on Firm Values is significant, indirect influence between CSR on Firm Values through ROA is also significant. The mediation effect arising is a full mediation, because the value of CSR disclosure has a direct effect on firm value of...
Indirect effect between Managerial Abilities on Firm Values through ROA obtained from the results of times of direct influence between Managerial Abilities on ROA and direct influence between ROA on Company Values, so that indirect influence is 0.447 x 0.633 = 0.283. Because the direct influence between the direct influence between Managerial Abilities on ROA is not significant and the direct influence between ROA on Company Values is significant, then there is an influence of Managerial Abilities on Company Values through ROA. This is due to investors in the market in Indonesia tend to pay attention to the process of using company resources to generate profits.

**Discussion**

CSR disclosure has no effect on firm value because CSR disclosure information has not been an important consideration for investors. High or low CSR disclosures made by companies, are not important information for investors. Signal from social responsibility (CSR) disclosure is less strong to then respond positively by the investor in making the decision to invest in company, so that share price will not change significantly CSR disclosure for investors will not have a direct impact on investment value and expected return of investment. Investors tend to buy and sell shares regardless of how much the company pays attention to the environment. Investors prefer stocks by looking at market economy, financial factors and emerging news so that generally tend to buy and sell shares on a daily basis. Thus, any amount of information in social responsibility disclosure (CSR) considered not to have a direct effect on shareholders' welfare. The results of this study are in line with research (Nuryana & Bhebhe, 2019) where CSR disclosure has no effect on company value. However, it is not in line with findings of the study. (Choi et al., 2010; Hao & He, 2022; Liu & Zhang, 2017; Qiu et al., 2021)

Managerial Ability to Firm Values has no significant effect on firm value. Due to the lack of information contained in financial statements regarding the factors in measuring managerial ability value. So that the results obtained are not enough to reflect value of good managerial skills. This indicates that the higher Managerial Ability does not result in increase Firm Value. Management as party carrying out company activities needs to safeguard the interests of its stakeholders. Managerial ability has not been able to be a signal to attract investors because investors do not only view it in terms of company management but also in various aspects (Demerjian et al., 2013). Firm expects managers to be better able to understand technology and industry trends, be reliable in predicting product demand, be able to create higher investment, and be able to manage their employees more efficiently so that ultimately it is expected to increase company share price. Results of this study are in accordance with research conducted by (Cheng & Cheung, 2021), but not in accordance (Gong et al., 2021; La’bi et al., 2018)

Results of CSR research on Profitability show that the average company in providing information about CSR activities to consumers is so significant to increase sales that company profitability level will also increase. Information is not only seen from signal context to get return expected by the company. In this study CSR has a positive value on profitability, meaning that increasing disclosure of CSR will cause profitability value to increase. This is because external parties perceive all forms of social accountability disclosure as good (RAHMANTARI, 2021). Firms that carry out social responsibility will gain legitimacy or recognition from the community. This is because the company has carried out its business process in accordance with values in community and surrounding environment. The more information is disclosed, the more positive image will be the company environmentally responsible. This can be interpreted that the higher CSR disclosure index carried out by company, the more it affects the increase in the company profitability in the return on assets for company operating activities or return on assets (ROA) obtained by company. Results of this study are in line with research by (Amin & Lastanti, 2020; Chapagain, 2021.).

Effect of company managerial ability on profitability shows that company managerial ability has a significant effect on profitability. This is because if managerial skills are higher, then a manager will tend to dare to take risks and choose projects that are challenging for company. So that skills they have are high and have a good assessment of business project they choose are able to reduce the uncertainty about the presence or absence of future cash flows for the project, this will affect the profit generated. This is also supported by agency theory which states that managers as party managing the company, have more information about the company than investors. The results of this study are in accordance with resources (Andreou et al., 2013; W. Chen & CW, 2015; C. C. Lee et al., 2018).

The effect of company profitability on company value shows that profitability has a significant effect on company value. The greater ROA, the greater level of profit achieved by company and the better level of profit achieved by company and the better position of company in terms of asset use. Efficiency of fund control by management will increase investors' confidence in the company that funds invested in the company will provide a return that is in line with expectations (Hermiyanty, Wandira Ayu Bertin, 2017). This was responded as a positive signal by investors so as to increase investors' interest in owning company shares. The company's high demand for shares will trigger a rise in stock prices. That way, increasing the value of profitability will also affect increase in firm value. Results of this study are in accordance with research (Endri & Fathony, 2020; Lestari et al., 2020; Nurrohmah, 2020; Raningsih & Artini, 2018).

Results showed that social responsibility affects company value through profitability, meaning that profitability is able to mediate the effect of CSR on firm value. CSR disclosure has not been able to influence the market or investors directly, because it takes time to respond to the company's CSR disclosure (Ardiyanto and Haryanto, 2017). Thus, profitability is needed as an intervening variable to explain the effect of CSR disclosure on firm value. The higher CSR disclosure, the more company will be seen as responsible,
thereby gaining legitimacy from the community. Therefore, the image of company in the eyes of public becomes better which will be able to contribute increasing company profits. This is because consumers prefer products that have a good image and leave products that are reported bad(Sitorus & Mangoting, 2014). This occurs due to the thought that CSR is an investor's trust in the company seen from company management in generating profits so that it is able to increase firm value. Investors consider profitability to be the result of firm value as good news, so there is a response to purchase or sale of shares by investors.

The results of this study show that managerial ability affects company value through profitability, meaning that profitability is able to mediate fully between managerial ability and firm value. Managers provide information through financial statements that they apply conservatism accounting policies that produce higher quality profits because this principle prevents companies from taking actions to exaggerate profits and help users of financial statements by presenting the right earnings and assets. Interested parties will use the information to assess company past, present, and future predictions(I. Lesmana, 2017). In this case it is likely that investors consider that profitability shown by proximity of profit to operating cash flow indicates a real condition of manager's success in managing the company(Andreou et al., 2013; W. Chen & CW, 2015). Investors will believe in external and internal information in making investment decisions. Results of this study found that Bajhwa with mediation of profitability managerial ability was able to increase firm value, this is due to the condition of investor protection environment so that they tend to rely on short-term investment profits by looking at the level of company liquidity compared to taking into account long-term investments. As a result, profit in the long term becomes a consideration in investment decision making. This research shows that investors consider the performance of managers manifested in the real action of company which is the result of firm value, so that there is a response to purchase or sale of shares by investors.

Conclusions

This study aims to sort the literature gap through the process of testing CSR, managerial excellence, profitability to firm value. The results of this study indicate that CSR and managerial abilities directly have no significant effect on firm value. However, it is different from CSR and managerial ability to profitability which has a significant effect on profitability. Besides that, profitability also has a significant effect on firm value. Besides that, the mediation test can be concluded that profitability acts as a full mediation between CSR and Managerial Ability to Firm Values. Investors consider profitability to be the result of firm value as good news, so there is a response to purchase or sale of shares by investors.

The theoretical implications in this study are to support elkington theory and legitimacy theory that plays a role in corporate CSR, which every company needs recognition from the surrounding environment, in addition to agency theory related to role of managers in managing all company assets well, so that the company's activities will run effectively and efficiently so that it is well assessed by investors and good quality company signal theory provides positive signals to users of information that can increase the value of a company. In addition, the results of this study also add to science related to firm value, especially in the field of finance. Practically the results of this study can provide advice to mining sector companies to keep increase firm value considering that it is able to be an attraction for investors to invest.

Although this study sorted the existing literature review, this study still has some limitations. First, research data used has limitations that cannot represent the company's profitability in the aviation sector in Indonesia. This has an impact on generalization of results so that it is expected that next study can use data from all mining companies in Indonesia in the testing process. Second is related to quality use of CSR indexes used only in GRI-G4 which is contained in company financial sustainability report. This is because the concept and social responsibility are still important to compare the disclosure of corporate social responsibility because every company has a different concept and social responsibility in every aspect of the program is run by company. The research that will be dating is expected to conduct deeper testing related to firm value by using projections designed to overcome this limitation.

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References


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