The Impact of Corporate Social Responsibility, Market Equity Value, Information Asymmetry, Market Beta, and Earnings Management on Equity Capital Costs in Property and Real Estate Companies Listed on the Indonesian Stock Exchange in 2019-2021

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Abstract

This study aims to analyze the Influence of Corporate Social Responsibility, Equity Market Value, Information Asymmetry, Market Beta, and Earnings Management on the Cost of Equity Capital in Property and Real Estate Companies listed on the Indonesia Stock Exchange from 2019 to 2021. The type of data used in this study is secondary data sourced from the financial reports of Property and Real Estate Companies from 2019-2021. The sample selection method used in this study is purposive sampling and the data processing method used is the multiple linear regression method, T-Test and F-Test through SPSS 25 software. The results of this study show that Corporate Social Responsibility, Equity Market Value, Information Asymmetry, Market Beta, and Earnings Management simultaneously have a significant effect on the Cost of Equity Capital. Partially, the Equity Market Value has a negative effect on the Cost of Equity Capital. Meanwhile, Corporate Social Responsibility, Information Asymmetry, Market Beta, and Earnings Management partially do not have an effect on the Cost of Equity Capital.

Keywords: *Cost of Equity Capital, Corporate Social Responsibility, Equity Market Value, Information Asymmetry, Market Beta, Earnings Management.*

1. Introduction

The economy in a country always experiences changes in economic growth, both increases and decreases. Entering the globalization era is characterized by increasingly fierce competition. Where the economy experiences rapid growth that has a significant effect on companies in various sectors. One company that faces fierce competition is the property and real estate company. Seeing the potential of the growing population, there are more and more developments in the housing sector, apartments, shopping centers and office buildings, making the company greatly in need of funds, either from creditors or investors, for the sustainability of its business.

The company conducts stock or bond listings that are traded on the stock market in an effort to raise funds. Investors or creditors provide funds to achieve a high rate of return. From the investor's side, the expected return by the fund provider is called the cost of equity capital. Investors use the cost of equity capital to make decisions. The cost of equity capital is influenced by the following factors: Corporate Social Responsibility, Market Value of Equity, Asymmetric Information, Market Beta, and Profit Management.

Corporate Social Responsibility is actions taken by companies as a form of corporate social responsibility related to environmental issues that attract investors. Based on previous research, CSR can affect the cost of capital through four aspects, namely improving company reputation, reducing asymmetric information, increasing the number of institutional investors, and quality of earnings. A high company value will make the market trust the company's performance both now and future prospects. Company value can be calculated through various aspects, one of which is through the Market Value of Equity. Market Value of Equity is the value of capital owned by the company based on the assessment given by market actors.

Asymmetric information is an information imbalance between managers and shareholders or other stakeholders, where managers know more about internal information and future company prospects than these shareholders. Rahmayani's (2018) research explains that market beta has a significant effect on the cost of equity capital. This is because the low risk estimate of a company will result in a low return rate requested by the investor. So, the cost of equity capital. Earnings management is management intervention in the process of compiling external financial reporting so that it can raise or lower accounting profits according to the interests of that management implementation.

2. Literature Review

The Theory of the Influence of Corporate Social Responsibility on the Cost of Equity Capital

Research conducted by Nugroho (2012) found that there is no significant relationship between corporate social responsibility disclosure and the cost of equity capital. This means that the extent of corporate social responsibility disclosure made by a company does not influence the rise or fall of the cost of equity capital determined by investors. CSR disclosure can be measured by comparing the number of CSR components disclosed with the total number of CSR items that should be disclosed, which amounts to 91 items (according to GRI 4 stipulations). Explanation: CSRIi: The index of a company i's environmental and social responsibility disclosure extent $\sum$ Xyi: 1 if item y is disclosed; 0 if item y is not disclosed ni: the number of items for company i, ni $\leq$ 91.

The Theory of the Influence of Market Value of Equity on the Cost of Equity Capital

Research conducted by Mulyati (2018) found that the market value of equity significantly and positively influences the cost of equity capital. The positive influence indicates that the greater the value of a company, the greater the cost of capital that the company must incur. Market Value of Equity = In (Q x P). Explanation: Q = Number of outstanding shares P = Closing stock price.

The Theory of the Influence of Information Asymmetry on the Cost of Equity Capital

Research conducted by Ifone (2012) found that information asymmetry has no effect on the cost of equity capital. This finding aligns with research conducted by Yupriana, Luayyi, and Ratih (2018), which found that information asymmetry does not influence the cost of equity capital. The extent of information asymmetry cannot directly explain its influence on the cost of equity capital.

The Theory of the Influence of Market Beta on the Cost of Equity Capital

Research conducted by Rahmayani (2018) explains that the market beta significantly affects the cost of equity capital. This is because the lower the estimated risk of a company, the lower the return demanded by investors, resulting in a lower cost of equity capital.

The Theory of the Influence of Earnings Management on the Cost of Equity Capital

Research conducted by Ashidqi (2013) shows that earnings management has a positive effect on the cost of equity capital. Earnings management increases the amount of information that a company must disclose and the level of returns that investors demand as compensation for the risks they bear in their investments, thereby increasing the cost of equity capital. Data on working capital accruals can be obtained directly from the operating cash flow report, so investors can directly obtain this data without complicated calculations.

Previous Studies

1. Rochmawati (2005) Dependent Variable: Cost of Equity Capital Independent Variables: Information Asymmetry, Market Beta, and Company Size Findings: Information Asymmetry influences the Cost of Equity Capital, Market Beta and company size do not influence the Cost of Equity Capital.
2. Haniarsa (2013) Dependent Variable: Cost of Equity Capital Independent Variables: Market Value of Equity, Systematic Risk Findings: Market Value of Equity has no influence on the Cost of Equity Capital, Systematic Risk does not influence the Cost of Equity Capital.
3. Rahmayani (2018) Dependent Variable: Cost of Equity Capital Independent Variables: Voluntary Disclosure, Stock Beta, and Company Size Findings: Voluntary Disclosure does not influence the Cost of Equity Capital, Stock Beta significantly influences the Cost of Equity Capital, Company Size does not significantly influence the Cost of Equity Capital.

Conceptual Framework

The conceptual framework explains the interrelation between theories or concepts that support the research and are used as guidelines in formulating the research hypothesis. Here is the conceptual framework for the correlation between the independent variables, namely corporate social responsibility, market equity value, information asymmetry, market beta, and earnings management, with the dependent variable, which is equity capital.
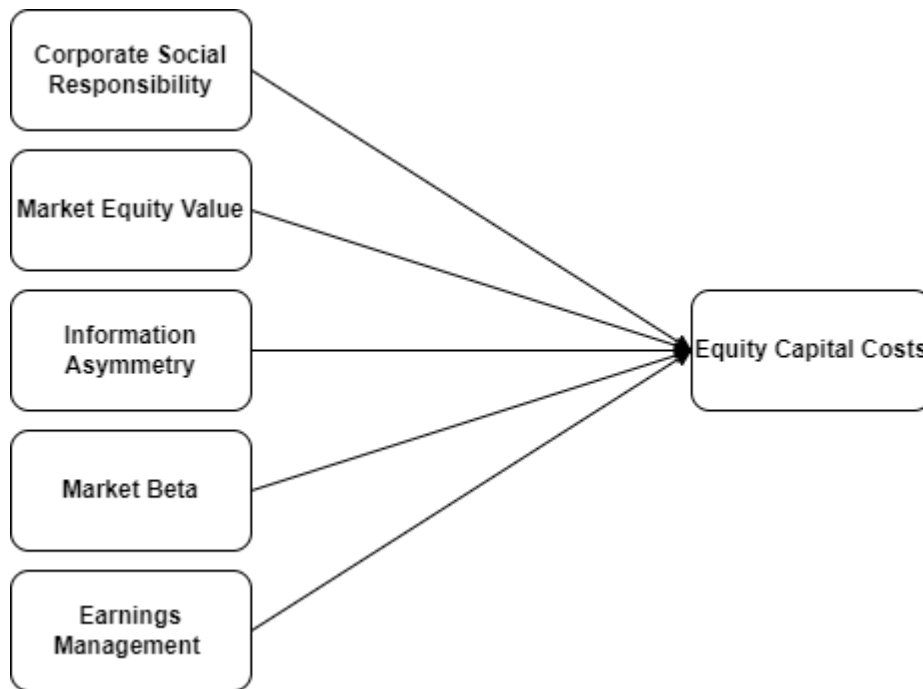
Figure 1. Conceptual Framework

Hypothesis

Based on the conceptual framework described above (Figure 1), the hypotheses in this research can be developed as follows:

- H1: The influence of corporate social responsibility on the cost of equity capital in property and real estate companies listed on the Indonesia Stock Exchange in 2019-2021.
- H2: The impact of market equity value on the cost of equity capital in property and real estate companies listed on the Indonesia Stock Exchange in 2019-2021.
- H3: The effect of information asymmetry on the cost of equity capital in property and real estate companies listed on the Indonesia Stock Exchange in 2019-2021.
- H4: The effect of market beta on the cost of equity capital in property and real estate companies listed on the Indonesia Stock Exchange in 2019-2021.
- H5: The influence of earnings management on the cost of equity capital in property and real estate companies listed on the Indonesia Stock Exchange in 2019-2021.

3. Methodology

This Research methods are steps possessed and carried out by researchers in order to gather information or data and to conduct investigations on the data obtained. This research uses a quantitative approach. It is a quantitative study with a causal relationship nature. The population in this study is 82 property and real estate companies listed on the Indonesian Stock Exchange for the period 2019-2021. The research sample was drawn using purposive sampling. The sample of this study consists of 72 financial reports of property and real estate companies listed on the Indonesian Stock Exchange for the period 2019-2021. Data collection techniques with documentation and literature review. Documentation was conducted to obtain banking financial reports and literature reviews to get the theory that supports this research. The type of data used in this study is quantitative data, which is data measured in numeric scale, while the source of data is secondary data.

According to Ghozali (2016:154), the normality test aims to test whether the residuals have a normal distribution. In this study, to detect normality two methods are used: Graphical Analysis, Statistical Analysis. According to Ghozali (2016:103), the multicollinearity test aims to test whether there is correlation between independent variables in the regression model.

According to Ghozali (2016:134), heteroscedasticity is a condition where there is inequality in the variance of residuals for all observations in the regression model. This can be detected by looking at the Scatterplot graph. The model used is multiple linear regression according to Supranto (2009:250), which is:

$$Y = b0 + b1\ X1 + b2\ X2 + b3\ X3 + b4\ X4 + b5\ X5 + e.$$

Explanation:
Y = Equity Capital Costs
b0 = Constant Coefficient
X1 = Corporate Social Responsibility
X2 = Market Equity Value
X3 = Information Asymmetry
X4 = Market Beta
X5 = Earnings Management
e = Error Coefficient (Disturbance Variable)

According to Hartono (2017:74), the t-test is used to test whether the independent variable influences the dependent variable. The decision-making basis is: If t_calculated > t_table, then the independent variable partially influences the dependent variable. If t_calculated < t_table, then the independent variable partially does not influence the dependent variable. According to Ghozali (2016:95), "the determination coefficient (R^2) fundamentally measures how far the model's ability to explain the variation of the dependent variable."

4. Result and Discussion

Descriptive Statistics

In this study, the results of the descriptive statistical test can be found in the Table 1 as follows:

Table 1. Descriptive Statistics

Variables	N	Minimum	Maximum	Mean	Std. Deviation
Corporate Social Responsibility (X1)	72	.17	1.67	.6928	.30214
Equity Market Value (X2)	72	20.12	31.89	27.7199	2.69402
Information Asymmetry (X3)	72	3.92	161.27	54.6022	29.51876
Market Beta (X4)	72	.04	3.19	.9311	.63934
Earnings Management (X5)	72	-3.21	12.78	1.0592	2.21545
Equity Capital Costs (Y)	72	-1.00	55.90	3.6893	9.93905

Source: Research Results, 2023 (Processed Data)

From the 72 data samples of social responsibility (X1), the minimum value obtained is 0.17 and the maximum value obtained is 1.67, while the average (mean) obtained is 0.6928 with a standard deviation of 0.30214. From the 72 data samples of equity market value (X2), the minimum value obtained is 20.12 and the maximum value obtained is 31.89, while the average (mean) obtained is 27.7199 with a standard deviation of 2.69402. From the 72 data samples of information asymmetry (X3), the minimum value obtained is 3.92 and the maximum value obtained is 161.27, while the average (mean) obtained is 54.6022 with a standard deviation of 29.51876. From the 72 data samples of market beta (X4), the minimum value obtained is 0.04 and the maximum value obtained is 3.19, while the average (mean) obtained is 0.9311 with a standard deviation of 0.63934. From the 72 data samples of profit management (X5), the minimum value obtained is -3.21 and the maximum value obtained is 12.78, while the average (mean) obtained is 1.0592 with a standard deviation of 2.21545. From the 72 data samples of cost equity capital (Y), the minimum value obtained is -1.00 and the maximum value obtained is 55.90, while the average (mean) obtained is 3.6893 with a standard deviation of 9.93905.

Normality Test

Based on the analysis of the histogram graph above, it can be seen that the histogram graph shows a pattern of normally distributed data because it forms a symmetrical curve and shapes an inverted bell, thus fulfilling the assumption of normality. This means that the distribution of the data is not skewed significantly to the left or right, and it is approximately symmetrical. The assumption of normality is important in many statistical tests and methods, as they are based on the assumption that the underlying data are normally distributed., which you can see in Figure 2 below:
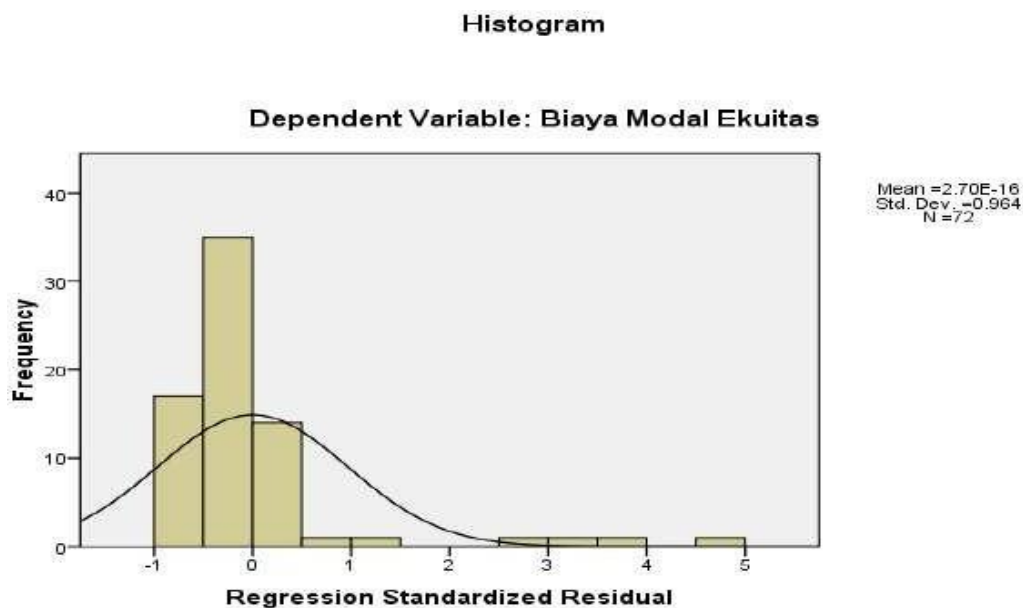

Figure 2. Normality Test Histogram
Source: Research Results, 2023 (Data Processed)

Heteroskedasticity Test

In this study, the heteroskedasticity test was employed using statistical methods and graphical methods, where the chosen statistical method used the Glejser test (Figure 3).
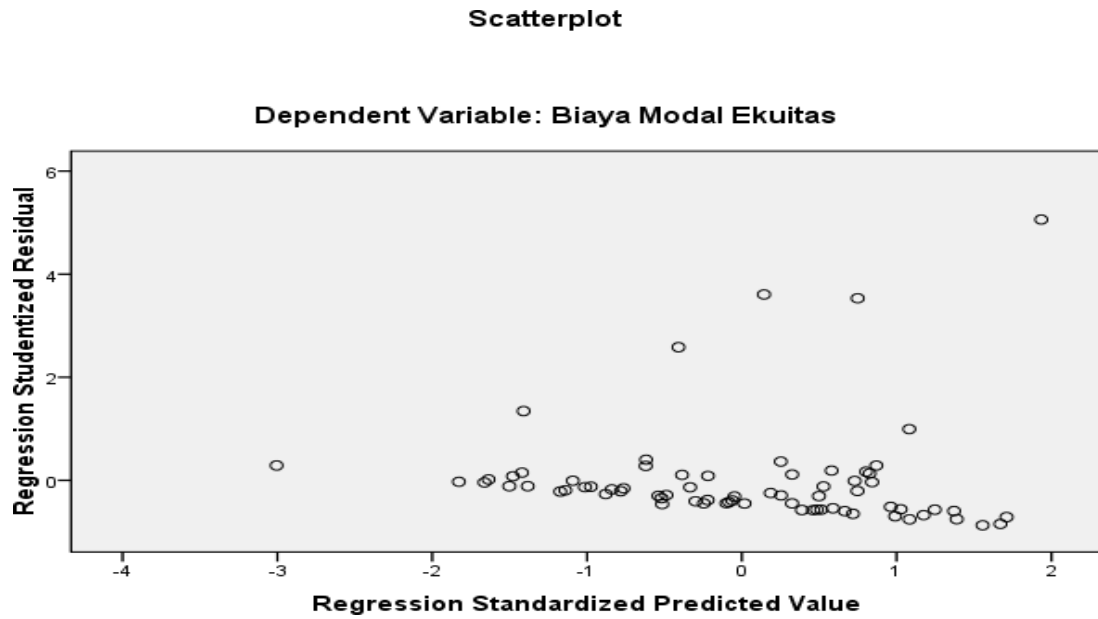
Figure 3 Heteroskedasticity Test
Source: Research Results, 2022 (Data Processed)

From the pattern of the Scatterplot, it is observed that there is no specific pattern formation and points are randomly well dispersed both above and below the number 0 on the Y-axis. This indicates that there is no Heteroskedasticity. Heteroskedasticity refers to the circumstance where the variability of a variable is unequal across the range of values of a second variable that predicts it. In simpler terms, it suggests that there's a systematic change in the spread of the residuals or errors in a regression model. In this case, the absence of heteroskedasticity implies a more robust and reliable regression model.

Multiple Linear Regression Analysis

Table 2. Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	18.020	13.067		1.379	.173
Corporate Social Responsibility (X1)	1.542	4.017	.047	2.384	.702
Equity Market Value (X2)	.705	.460	.191	1.533	.130
Information Asymmetry (X3)	.044	.041	.130	1.062	.292
Market Beta (X4)	1.496	1.891	.096	1.791	.432
Earnings Management (X5)	.093	.548	.021	2.169	.866

Source: Research Results, 2023 (Data Processed)

The The results of the multiple linear regression analysis suggest the following interpretations:

1. The constant value of 18.020 indicates a positive sign. This means that if Corporate Social Responsibility (X1), Equity Market Value (X2), Information Asymmetry (X3), Market Beta (X4), Earnings Management (X5), and the error term are zero, the company's value (Y) will increase by 18.020 units.
2. The coefficient of Corporate Social Responsibility (X1) is 1.542. It has a positive sign, which means that with every unit increase in X1, the company's value increases by 1.542 units.
3. The coefficient of Information Asymmetry (X3) is 0.044. It has a positive sign, which means that for every unit increase in X3, the company's value increases by 0.044 units.
4. The coefficient of Market Beta (X4) is 1.496. It has a positive sign, which means that for every unit increase in X4, the company's value increases by 1.496 units.
5. The coefficient of Earnings Management (X5) is 0.093. It has a positive sign, which means that for every unit increase in X5, the company's value increases by 0.093 units.
6. The standard error term (e) represents all factors that influence the dependent variable (Y) but are not included in the equation. This term represents the random variability that is not explained by the variables included in the model.

This equation suggests that all independent variables (X1, X2, X3, X4, X5) have a positive influence on the dependent variable (Y), i.e., the company's value. However, the extent of this influence varies according to the coefficient of each variable. The effect of these variables is additive, with the total effect on the dependent variable being the sum of the individual effects. The standard error term introduces a degree of uncertainty into the model, reflecting the fact that not all variability in the dependent variable can be explained by the independent variables.

Discussion

The Influence of Corporate Social Responsibility on Equity Capital Cost

This research indicates that Corporate Social Responsibility does not influence the cost of equity capital. It's consistent with Nugroho's (2012) study, but contradicts Setiawan and Ayu's (2013) study, suggesting differences in research contexts or methods could lead to these disparities.

The Influence of Equity Market Value on Equity Capital Cost

This research shows that Equity Market Value has a negative impact on the cost of equity capital. It aligns with Mulyati's (2018) study but contradicts Putra's (2013) findings, implying that as the market value of a company's equity increases, the cost of equity capital required by investors decreases.

The Influence of Information Asymmetry on Equity Capital Cost

This research aligns with the research of Yupriana, Sri Luayyi, and Ratih (2018), where information asymmetry was found not to influence the cost of equity capital. However, it contradicts Purwanto's (2012) research, which found a positive and significant relationship between information asymmetry and the cost of equity capital.

The Influence of Market Beta on Equity Capital Cost

This research suggests that Market Beta does not influence the cost of equity capital, which is consistent with Rochmawati's (2005) study but contradicts Rahmayani's (2018) study. Different contexts or research methodologies might be the reason for these discrepancies.

The Influence of Earnings Management on Equity Capital Cost

This research shows that Earnings Management doesn't influence the cost of equity capital. This is consistent with Perwira's (2015) study but contradicts Ashidqi's (2013) study, indicating that the effect of Earnings Management on the cost of equity capital may vary depending on different research contexts or methods.

5. Conclusions

The research findings suggest that profitability has a non-significant negative effect on the investment decisions of IDX 80 companies listed in the Indonesia Stock Exchange (BEI) from 2016 to 2021. It was also determined that liquidity and solvency do not significantly impact these investment decisions. In contrast, institutional ownership was found to exert a significant positive effect on the investment decisions of these companies. Similarly, activity was shown to have a significant positive impact on these decisions. Moreover, it was concluded that profitability, liquidity, solvency, institutional ownership, and activity collectively have a significant impact on the investment decisions of these companies. From these findings, several recommendations can be drawn. Firstly, investors are advised to bear in mind that the objective of investing in shares or capital should be to generate a higher level of profit from the initially invested capital. Secondly, this research can serve as useful material for library studies at the Universitas Primia Indonesia. Lastly, future researchers are encouraged to broaden the scope of their research beyond IDX 80 companies to encompass other sectors listed on the Indonesia Stock Exchange. Additionally, future studies could explore other factors apart from the ones included in this model that might influence a company's investment decisions, such as company size, share ownership, and budget.

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