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Managerial Share Ownership, Audit Committee, and CSR Disclosure Impact to Enterprise Value

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A B S T R A C T

The purpose of this research is to analyse the effect of managerial ownership and the audit committee on the disclosure of corporate social responsibility (CSR) and how it subsequently affects firm value. This study employs multiple regression and path analysis as its analytical methods, utilizing SPSS version 25 for the statistical processing. Based on the linear regression model and hypothesis testing conducted on 46 companies, the findings indicate a significant correlation between managerial ownership and the audit committee with CSR disclosure. The simple linear regression test between CSR and company value does not confirm a significant impact of CSR disclosure on firm value. Similarly, no substantial evidence was found to support the influence of managerial ownership and the audit committee on enterprise value. However, the findings do validate a strong causal relationship between managerial ownership, the audit committee, and CSR disclosure. But the statistical analysis on 46 mining companies failed to prove a significant impact of CSR Disclosure on Enterprise Value. Novelty – this research ran on data of 46 mining companies listed on IDX year 2021 – 2023 and involving four variables that each variable simultaneously influences the other.

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1. INTRODUCTION

To enhance the stock price—an indicator of the company's overall value—maximizing profit becomes one of the primary objectives of the business (Hidayah, 2015; Nugroho et al., 2019). This priority objective was created because it affects shareholders, increasing their welfare (Sucuahi and Cambarihan, 2016). Company value can be seen from a traditional view, which states that maximizing shareholder value will influence company value (Lonkani, 2018). Firm value serves as a quantitative indicator that potential investors consider when evaluating a company's financial health, which in turn influences the company's overall valuation (Suzan and Fauzi, 2024).

According to Fuentes (2019), social and environmental issues provide a good opportunity for companies because "environmental concerns can be traded". Businesses engaged in environmental preservation and improvement can leverage these efforts as part of their marketing strategy, as consumers generally favor companies that contribute positively to their environment (Fuentes, 2019). According to Idowu and Towler (2004), as cited in Kim et al. (2017), CSR reporting serves as a means for companies to demonstrate their commitment to societal and environmental well-being. In the context of Indonesia, previous studies have yielded mixed findings regarding the effect of CSR on firm value. Research by Ronald et al. (2019) and Machmuddah et al. (2020) confirms that CSR influences company value. However, other studies have reported differing results, indicating variations in the significance of CSR's impact on firm value (Adiputra and Hermawan, 2020).

Ongsakul et al. (2021) suggest that agency conflicts can drive CSR activities, where managers might excessively invest in CSR initiatives for personal gain, thereby placing a financial burden on shareholders. From the perspective of agency theory, aligning the interests of managers and owners—through managerial share ownership—can enhance organizational performance (Singal and Putra, 2019). Isa and Muhammad (2012), as cited in Singal and Putra (2019), argue that such ownership can help mitigate agency problems, as management becomes more inclined to support CSR practices when their goals align with those of the company. Conversely, Withisuphakorn and Jiraporn (2018) found that when managers hold a large portion of shares, they tend to limit CSR spending to avoid extra costs. Nonetheless, recent findings from Indonesia show a different pattern, revealing a significant and positive correlation between managerial ownership and CSR disclosure (Singal and Putra, 2019).

Mining companies are often considered as companies related to environmental damage in Indonesia (Iskandar, 2016). Article 74 of Law No. 40 of 2007 of the Republic of Indonesia regarding Limited Liability Companies mandates that businesses involved in the management, exploitation, or association with natural resources must carry out and report their corporate social responsibility initiatives (Pemerintah Indonesia, 2007). According to Iskandar (2016), legitimacy theory implies that mining firms rely on gaining approval from both the government and the public through their CSR practices and disclosures to ensure long-term business sustainability (going concern). However, previous studies have not provided consistent results related to this theory. Research by Puspaningrum (2017) proved that in mining companies listed on the IDX, company value was negatively affected by CSR, but not significantly. However, other research by Ayu and Suarjaya (2017) concluded that there was a significant relationship in company value caused by CSR.

The following section outlines prior studies that have explored the connection between audit committees, managerial ownership, CSR activities, and firm value among mining sector companies listed on the Indonesia Stock Exchange. In mining companies, Puspaningrum (2017) found that company value was negatively influenced by social responsibility disclosure but not

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significantly, and company value was not influenced by managerial ownership. Other studies have found that a greater number of audit committee members positively impacts the level of corporate social responsibility disclosure (Dewi et al., 2021). Research in Spain showed that increasing CSR can boost company value by decreasing the company's equity capital cost (Reverte, 2012, as cited in Yuliyanti et al., 2023). Due to differences in results between previous studies, differences in results with the underlying theory, the increasing number of companies disclosing their social responsibility, and updates to the data used in the analysis, it is necessary to carry out related research for mining companies in the last 3 (three) years. This study explores the relationship between managerial ownership and audit committee roles in corporate social responsibility and how these factors influence firm value, with empirical data drawn from mining companies.

This study analyzes data from 46 mining companies listed on the Indonesia Stock Exchange between 2021 and 2023, focusing on four interrelated variables: managerial ownership, audit committee, CSR disclosure, and Tobin’s Q as a representation of firm value. The first aim is to evaluate the effect of managerial ownership and audit committees on the level of CSR disclosure. The second objective is to assess the impact of CSR disclosure on firm value. Lastly, the study investigates how managerial ownership and the audit committee influence company value.

2. METHODS

This study falls under the category of causal research, which investigates cause-and-effect relationships. The process involves identifying theoretical links between variables, recognizing actual patterns to enhance understanding and predict outcomes, constructing causal interpretations from sequential events, and evaluating the variation between presumed causes and effects. The ultimate goal is to develop a model that explains these relationships based on existing hypotheses.

The research targets mining companies operating in Indonesia. Sample selection was based on specific criteria applied to data from the Indonesia Stock Exchange (IDX): companies must be listed as public issuers on the IDX during 2021, 2022, and 2023, and categorized under the mining sector. Secondary data were gathered from qualified companies through annual reports published on the IDX and company websites, using content analysis as the data collection method.

The analysis employs multiple regression and path analysis techniques. Panel data—combining cross-sectional and time-series data—were used for the regression analysis. Path analysis was utilized to examine the interconnectedness among variables, where a dependent variable in one equation may serve as an independent variable in another. This method enables the assessment of both direct and indirect effects within the model. In addition, classical assumption tests were conducted on the models, showing significant results. Below is the diagram representing the multiple linear regression equation used in this study.

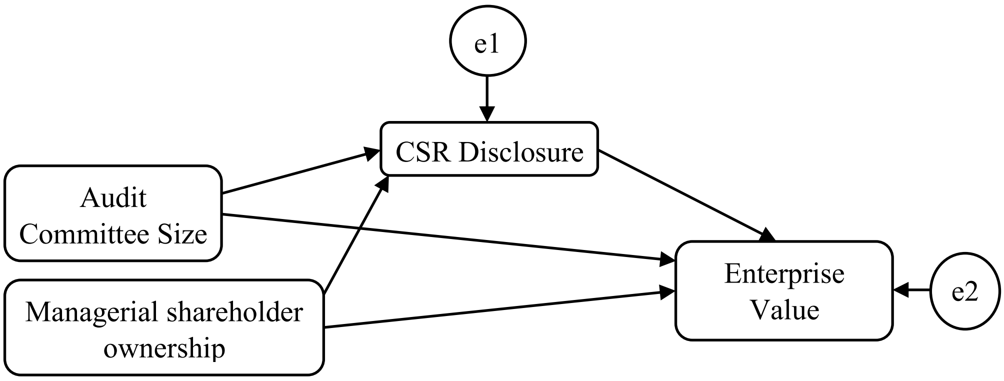

Figure 1. Multiple Linear Regression Model to Analyze the Causal Relationship Between Variables.

The diagram tells us that based on theories, there's three regression equations between the variables. If statistically significant proven, those models will be useful for predicting the dependent variables: CSR Disclosure and Enterprise Value. These are the three equations.

$$CSR = \beta_0 + \beta_1 SM + \beta_2 KA + \varepsilon_1 \text{.....}(\textit{first model})$$
$$Q = \beta_3 + \beta_4 CSR + \varepsilon_2 \text{.................}(\textit{second model})$$
$$Q = \beta_5 + \beta_6 SM + \beta_7 KA + \varepsilon_3 \text{.......}(\textit{third model})$$

The above three equations simultaneously connect four variables discussed in this study. Those variables are notated as SM for managerial shareholder ownership, KA for audit committee size, CSR for CSR disclosure based on GRI G4, and Q for enterprise value. The table below defines the variables and the way they're measured.

Table 1. Operational definitions of the research variables

NO	VARIABLE	DEFINED AS	HOW TO MEASURE	REFERENCE
1.	SM	Managerial shareholder ownership	$SM = \frac{Managerial\ ownership}{Total\ Share\ Outstanding} \times 100\%$	(Diyah and Eman, 2009) In (Dewi and Sanica, 2017)
2.	KA	Audit committee size	*KA = the total number of audit committee members in a company*	(Dewi, Merawati, and Tandio, 2021)
3.	CSR	CSR disclosure based on GRI G4	$CSR = \frac{Total\ Disclosure\ Score}{Maximum\ score}$	(Trisnadewi and Amlayasa, 2020)
4.	Q	Enterprise Value	Using Tobin's Q : $Q = \frac{EMV + D}{EBV + D}$ Where: EMV = Market Value of Equity D = Book Value of Liability EBV = Book Value of Equity	(Tobin, 1976) in (Estiasih, Yuniarsih, and Wajdi, 2019)

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3. RESULTS AND DISCUSSION

3.1. Analysis of Correlation

Before applying regression analysis, the correlation coefficients between variables are examined. Based on the sample size above 100, the critical value for correlation is 0,196. The output result shows that those four variables have significant positive and negative correlations since all their absolute value are larger than the critical value. The only insignificant correlation is between Managerial shareholder ownership and Audit committee size. This is good, because those two variables are independent variables that assumed no autocorrelation between them. Due to this condition, the analysis continues to multiple regression analysis. The table below shows correlation coefficients for the variables.

Correlations

		CSR	Saham_Manaj	Komite_Audit
Pearson Correlation	CSR	1.000	-.272	.399
	Saham_Manaj	-.272	1.000	-.073
	Komite_Audit	.399	-.073	1.000
Sig. (1-tailed)	CSR	.	.001	.000
	Saham_Manaj	.001	.	.197
	Komite_Audit	.000	.197	.
N	CSR	138	138	138
	Saham_Manaj	138	138	138
	Komite_Audit	138	138	138

Figure 2. SPSS Output for Analysis of Correlation.

3.2. Multiple Regression Analysis

3.2.1. The Link Between Managerial Shareholder Ownership, Audit Committee Composition, and Corporate Social Responsibility

The findings derived from the regression analysis for the initial model demonstrate statistically significant outcomes. This particular model represents a regression equation in which Corporate Social Responsibility (CSR) disclosure functions as the dependent variable, while managerial share ownership and audit committee size serve as the explanatory (independent) variables. The resulting equation—formulated through this analytical procedure—captures the nature and strength of the relationship among these constructs and is presented as follows.

$$\widehat{\boldsymbol{CSR}} = -\mathbf{0,009} - \mathbf{0,297}\boldsymbol{SM} + \mathbf{0,108}\boldsymbol{KA}$$

Based on the regression equation above, it is evident that managerial ownership has a negative relationship with CSR disclosure, whereas the size of the audit committee shows a positive relationship. Specifically, a 1% rise in managerial ownership is associated with a 0.297-point decline in CSR disclosure levels. Conversely, adding one member to the audit committee corresponds to a 0.108-point increase in CSR disclosure.

The F-test used to evaluate the overall significance of the model yields statistically significant results, indicating that the regression equation is suitable for predicting CSR disclosure using managerial ownership and audit committee size as predictor variables. The adjusted R^2 value of 20.7% suggests that these two variables collectively explain approximately 20.7% of the variation in CSR disclosure.

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However, the relatively low adjusted R^2 indicates that the majority—around 80%—of the variation in CSR disclosure is influenced by factors not captured in this model. Future research aiming for higher explanatory power should consider including additional relevant variables.

In addition to the overall model test, individual t-tests on each independent variable also produced significant outcomes. Both managerial ownership and the audit committee individually show a statistically significant influence on CSR disclosure.

To ensure the validity of the regression analysis, classical assumption tests were also conducted. Out of the four standard assumptions, two were fulfilled by this model: homoscedasticity and the absence of multicollinearity. However, the assumption of no serial correlation and the assumption of residual normality (expected error = 0) were not met.

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.009	.072		-.128	.899
	Saham_Manaj	-.297	.093	-.244	-3.206	.002
	Komite_Audit	.108	.022	.382	5.003	.000

a. Dependent Variable: CSR

Figure 3. SPSS Output for Multiple Regression Coefficients Analysis on First Model.

3.2.2. Relationship Between CSR and Company Value

Apart from the first regression model, this research also looks for a second suspected regression model. The second regression model utilizes Tobin's Q as the dependent variable and CSR disclosure as the independent variable. The estimated equation for this model is presented below.

$$\hat{Q} = 1,385 - 0,017CSR$$

Based on the regression equation above, the coefficient for the effect of CSR on Tobin's Q is -0.017, indicating a very weak influence. This suggests that, within the data analyzed, CSR disclosure has minimal impact on firm value as represented by Tobin's Q. The statistical test results for the model also reflect similar findings.

The lack of a significant correlation between Tobin's Q and CSR indicates an absence of a strong linear relationship between these two variables. The adjusted R^2 value of just 0.7% further confirms the weak association. This outcome is consistent with the results of the t-test on the CSR coefficient (β_1), which shows that CSR does not have a statistically significant effect on Tobin's Q among the mining companies in the sample.

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.385	.155		8.931	.000
	CSR_2	-.017	.409	-.004	-.043	.966

a. Dependent Variable: Tobins_Q

Figure 4. SPSS Output for Multiple Regression Coefficients Analysis on Second Model.

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3.2.3. The Link Between Managerial Shareholder Ownership, Audit Committee Size, and Company Value

The third regression model investigates the effect of managerial ownership and audit committee size on firm value, represented by Tobin's Q. This model was developed based on prior studies suggesting a potential relationship between these independent variables and the dependent variable. The estimated regression equation, generated using SPSS version 25 and based on data from mining sector companies, is presented below.

$$\widehat{Q} = 1,409 - 0,134SM - 0,006KA$$

The regression equation presented above indicates that both managerial ownership and the size of the audit committee have a negative influence on firm value, as measured by Tobin's Q. The coefficient related to the audit committee variable (β2) is notably small, suggesting a weak association with Tobin's Q.

Correlation analysis further confirms that there is no statistically significant relationship between managerial ownership and Tobin's Q, nor between audit committee size and Tobin's Q. This implies that neither of the independent variables shows a linear connection with the dependent variable. The R^2 value for this model is just 0.014, meaning only 1.4% of the variation in Tobin's Q is explained by this equation.

An overall significance test using the F-test also revealed that the model lacks statistical relevance, indicating it is not suitable for predicting company value based on the given variables. Individual significance testing yielded similar findings: managerial ownership did not significantly influence firm value, and audit committee size also did not have a meaningful effect on Tobin's Q.

These findings highlight inconsistencies with some earlier studies. However, this research still supports the conclusion that elements of good corporate governance—such as managerial shareholding and audit committees—positively impact CSR disclosure, aligning with several past studies.

With regard to the expected link between CSR disclosure and company value, this study did not find statistically significant evidence. Similarly, no supporting evidence was identified for a direct connection between managerial ownership or audit committee size and firm value. These outcomes are based specifically on the sample data taken from mining companies listed on the Indonesia Stock Exchange (IDX).

Among the three estimated regression models, only the first demonstrates a strong and reliable predictive capability. The second and third models were not considered robust or predictive. These conclusions were drawn from the analysis of 46 mining companies listed on the IDX during the years 2021 to 2023. The limited significance in the results may be due to an insufficiently diverse sample or the exclusion of additional influential variables. Therefore, future research is encouraged to include a broader range of industries and apply more randomized sampling techniques to improve the generalizability and accuracy of findings.

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Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.409	.385		3.656	.000
	Saham_Manaj	-.134	.500	-.023	-.267	.790
	Komite_Audit	-.006	.116	-.004	-.050	.960

a. Dependent Variable: Tobins_Q

Figure 4. SPSS Output for Multiple Regression Coefficients Analysis on The Third Model.

4. CONCLUSION

This study aims to assess the impact of managerial ownership and audit committee size on CSR disclosure, examine the effect of CSR disclosure on firm value as indicated by Tobin's Q, and evaluate the influence of both managerial ownership and audit committees on Tobin's Q. The research is based on data from 46 mining companies listed on the Indonesia Stock Exchange. The conclusions drawn from this study are as follows: Results from linear regression analysis and hypothesis testing indicate a significant relationship between managerial ownership, audit committee size, and CSR disclosure. Managerial ownership shows a negative correlation with CSR disclosure, while a larger audit committee has a positive influence. Regarding the classical assumption tests for the significant regression model, two assumptions were satisfied—namely, homoscedasticity and no multicollinearity. However, the model failed to meet the assumptions of no serial correlation and normality of residuals (where expected error equals zero).

Furthermore, a simple linear regression test between CSR disclosure and company value revealed no significant relationship. Similarly, the analysis found no statistical evidence of a meaningful impact of managerial ownership and audit committee size on firm value. The result concludes that one equation is statistically significant, and the other two equations in the model must be modified to obtain significant relations. The modification would be adding more governance variables, changing the enterprise value variable, or expanding the samples to companies outside the mining industry. For choosing variables to enter the model, we can infer from other journals or interview results with people involved in the world of capital markets.

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