

The Effect of Financial Leverage on Stock Returns with Corporate Social Responsibility Disclosure as Moderating Variable (Empirical Study on Mining Companies Listed on Indonesia Stock Exchange in 2016-2018)

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ABSTRACT: Stock returns are the results obtained from stock investments. The main purpose of investors investing their capital is to get high returns. In order to get high returns, investors are also faced with high risk that may occur. This study aimed to determine the effect of financial leverage on stock returns with corporate social responsibility disclosure as moderating variable on mining companies listed on Indonesia Stock Exchange in 2016-2018. The sampling method used was purposive sampling and 29 companies used as samples. Moderated Regression Analysis (MRA) was used in this study as data analysis technique. Based on the results, financial leverage has a positive effect on stock return. The higher level of financial leverage used by company, the higher stock return obtained by investors. Corporate social responsibility disclosure can strengthen the effect of financial leverage on stock returns. Corporate social responsibility disclosure in the company's annual report causes investors to be more interested in investing their capital in the company.

KEYWORDS: *financial leverage, stock return, corporate social responsibility disclosure*

I. INTRODUCTION

Stocks are the most popular and widely known securities in the community. The main purpose of investors investing in stocks is to increase the wealth that can be achieved through stock returns. Stock returns have always been a source of controversy in capital market as it is one of the complicated and interesting phenomena for investors and analyst (Karami and Talaei, 2013). That is because high returns are one thing that investors want to achieve. However, to get high returns, investors face high risk as well, so information about company's stock is needed to reduce the existing risk.

One of the information needed by investors in making investment decisions is the company's financial statements. Financial ratios derived from financial statements can be used by investors as a fundamental factor to assess a company's financial performance. This can affect investors' reactions as seen from the stock returns obtained (Gunawan and Hardyani, 2014).

The financial ratio that is often considered by investors in investing is leverage ratio (Aditya and Badjra, 2018). Leverage ratio measures the amount of company's assets financed by debt. Leverage increases company risk, and is often seen negatively by investors. On the other hand, leverage can contribute to increase shareholders' profits as reflected through stock returns (Hasibuan et al., 2016). Companies that use loans from outside parties such as creditors will arise debt, which means that the company is doing financial leverage. Financial leverage is a source of capital or company funding obtained through debt.

The relationship of financial leverage and stock returns is important to understand so that investors can utilize information about financial leverage appropriately to determine stocks that can provide optimal stock returns for them. The level of financial leverage used by the company will give signal to outsiders which is responded by changes in stock trading volume so that it has an impact on the company's stock returns.

Research about financial leverage on stock returns has been conducted by several researchers before. Research conducted by Aditya and Badjra (2018) as well as Wijaya and Djajadikerta (2017) shows that leverage has a positive effect on stock returns. Research conducted by Allozi and Obeidat (2016) and Acheampong et al. (2014) proves that leverage has a negative effect on stock returns. Research conducted by Syaifullah (2018) shows that financial leverage has no effect on stock returns. Research by Supadi and Amin (2012) shows that leverage does not have a significant effect on stock returns.

Based on the inconsistent results found in previous studies, it is necessary to re-examine financial leverage on stock returns because it is important to know what factors that can affect stock returns. Contingency approach can be used as a solution to the inconsistency of the results of previous studies (Govindarajan, 1988). In the context of this study a contingent variable of corporate social responsibility disclosure will be used to see its effect on the relationship between financial leverage and stock returns.

Implementation of corporate social responsibility is important in order to prevent the loss of natural and social environment due to the company's operational activities because the existence of a company directly or indirectly has positive or negative impact to the environment where company operates. The extent of CSR disclosure carried out by the company aims to provide a positive signal to investors that the company is responsible for the impacts resulting from its operational activities and the company is committed to contribute and provide benefit to the social and environment around the company. This causes investors to think that the company in carrying out its activities is not merely for obtaining financial gain, but also pays attention to the interests of all stakeholders so that it gets good recognition from various parties for its business sustainability.

Mining companies are included in the high profile industry. High profile companies are expected to have a higher level of social responsibility disclosure (Roberts, 1992). Exploitation activities without environmental recovery and pollution caused by mining company operations adversely affect the company's reputation, which in turn will affect the stakeholders' perceptions and decision making. This can cause uncertainty in the company's operations which will threaten the company's sustainability.



Figure 1 The Average of Mining Companies Stock Returns on Indonesia Stock Exchange in 2016-2018

Source: Data processed, 2019

Fig. 1 shows that the average stock returns of mining sector companies on Indonesia Stock Exchange during 2016-2018 is classified as experiencing a decline. The declining trend of stock returns in mining companies shows the phenomenon that companies experience decline in performance that would normally be responded by decreasing in stock prices, so the stock returns will also decline.

II. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Signaling theory was first introduced by Michael Spence in 1973 who said that by giving a signal, management tried to provide relevant information that could be utilized by the investors to adjust their decision to the signal given. Signaling theory emphasizes the importance of information released by companies on investment decisions of parties outside the company. Company executives who have better information about their companies will be encouraged to convey this information to investors (Ross, 1977). Information is an important element for investors and business people as it presents information, notes, or good picture of the past, current, and future conditions regarding the company's business prospects and how they are marketed. Complete, relevant, accurate, and timely information is needed by investors in the capital market as an analytical tool for making investment decisions.

According to signaling theory, if management has confidence that the company's prospects are good in the future and has desire that the company's stocks increase, they will convey this to investors. Management can use more debt as a more credible signal. Companies that increase their debt can be seen as companies that are confident in the prospects of the company in the future so that investors are expected to catch signals that the company has good prospects.

Financial leverage shows the proportion of the use of debt to finance its investment. Financial leverage owned by a company is related to stock returns. Compared to other investments, stocks allow investors to get a high return or profit in a relatively short time.

The higher financial leverage reflects the higher use of debt, thereby increasing earnings per share (Sutriani, 2014). The higher leverage ratio will affect the sales volume so that the high sales volume will also

affect the profits obtained. This causes investors to be more motivated to invest in companies, because with the many demands for these stocks, it will raise the stock prices (Dimitrov and Jain, 2008). An increase in stock prices will have an impact on increasing stock returns obtained by shareholders. Research conducted by Ristyawan (2019), Alviansyah et al. (2018), Aditya and Badjra (2018) as well as Wijaya and Djajadikerta (2017) states that leverage has a positive effect on stock returns. Based on the explanations, the research hypothesis can be formulated as:

H₁: Financial leverage has a positive effect on stock returns.

In line with signaling theory, the more extent disclosure will give a positive signal to stakeholders. By providing information disclosure such as CSR, it is expected that parties such as creditors and investors can see this as collateral of the company's going concern so that their rights as creditors and investors are guaranteed and do not put greater pressure on the company.

CSR disclosure can be used as one of the determinants of investment decisions by investors. CSR plays a big role in the company's sustainability. Companies with high leverage ratios have the obligation to make more extent disclosures than companies with low leverage ratios. The more extent disclosures, it will increase the accountability and positive appreciation of investors to buy stocks in the company, because of the profit level (return) offered in the long term.

Research conducted by Yanti and Budiasih (2016) states that leverage has a positive effect on CSR disclosure. Debt ratios are positively related to disclosures, because high-risk companies will make more detailed disclosures to convince investors and creditors (Naser et al., 2006). Karagiorgos (2010) in his research stated that company's stock returns can be increased through the implementation of CSR disclosure in annual report. Research conducted by Putra and Utama (2015) proves that CSR disclosure has a positive effect on stock returns. Based on the explanations, the research hypothesis can be formulated as:

H₂: Corporate social responsibility disclosure strengthens the effect of financial leverage on stock returns.

III. RESEARCH METHODS

This study used quantitative approach in the form of associative with causality type. The data were obtained through the publication of financial report and annual report of mining companies listen on Indonesia Stock Exchange in 2016-2018 accessed through the official website of IDX www.idx.co.id and historical data from Yahoo Finance on www.finance.yahoo.com. The research population is all mining companies listed on IDX in the period of 2016-2018. Purposive sampling method was used to select samples and the criteria established are: (1) Mining companies that present financial reports and annual reports on IDX website consecutively during 2016-2018; (2) Display social responsibility report in annual reports during 2016-2018. Based on the criteria, 29 companies met to be chosen as samples so the number of samples used was 87 samples.

Stock returns were formulated as follow (Hartono, 2016: 284):

$$\text{Stock Returns} = \frac{P_t - P_{t-1}}{P_{t-1}}$$

in which

P_t= current period stock price

P_{t-1}= previous period stock price

Financial leverage was proxied by debt to assets ratio (DAR) as follow (Kasmir, 2016: 156):

$$DAR = \frac{\text{Total Debt}}{\text{Total Assets}}$$

CSR disclosure policy was measured in the amount of CSR disclosure using the Corporate Social Responsibility Disclosure Index (CSRDI) proxy based on the International Organization for Standardization 26000 (ISO 26000). Measurement of this indicator was done by giving a score 1 (one) if the company disclosed 1 (one) item, if the item was not disclosed, then given a score 0 (zero). CSRDI can be formulated as follow (Haniffa and Cooke, 2005):

$$CSRDI = \frac{\sum X_{ij}}{n_j}$$

in which

CSRDI= Corporate Social Responsibility Disclosure Index (0 ≤ CSRDI ≤ 1)

∑X_{ij}= Number of items disclosed, score 1 if disclosed, score 0 if not disclosed

n_j= Maximum number of CSRDI disclosure items

IV. RESULT AND DISCUSSION

There were 87 samples used in this research.

Table 1 Descriptive Statistics Output

	N	Minimum	Maximum	Mean	Std. Deviation
Stock Returns	87	-.63	6.96	.4726	1.15792
Financial Leverage	87	.14	1.90	.5389	.26872
CSRD	87	.03	.59	.2561	.13823
Valid N (listwise)	87				

Source: Secondary data processed, 2020

Table 2 Normality Test Output

		Unstandardized Residual
N		87
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.92048946
Most Extreme Differences	Absolute	.089
	Positive	.089
	Negative	-.084
Kolmogorov-Smirnov Z		.831
Asymp. Sig. (2-tailed)		.495

Source: Secondary data processed, 2020

Table 2 shows the significance value of 0.495 is greater than the significance level of 0.05 so that the data used in this study are normally distributed.

Table 3 Moderated Regression Analysis (MRA) Output

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.088	.105		.844	.401
	Financial Leverage	.354	.116	.321	3.045	.003
	CSRD	.199	.124	.163	1.607	.112
	XZ Interaction	.291	.130	.265	2.242	.028

Source: Secondary data processed, 2020

Based on Table 3, regression equation is formulated as:

$$Y = 0,088 + 0,354X + 0,199Z + 0,291XZ + e$$

in which

X= Financial leverage

Z= Corporate social responsibility disclosure

XZ= Interaction between financial leverage and CSR disclosure

e= error term, the estimator error level in the study

Table 4 Moderated Regression Analysis (MRA) Output

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.597 ^a	.356	.333	.93697715

Source: Secondary data processed, 2020

Table 4 shows the value of adjusted R square is 0.333 which means financial leverage, CSR disclosure, and interaction between financial leverage and CSR disclosure contribute 33.3% to stock returns, while the remaining 66,7% is affected by other factors beyond this model.

Effect of Financial Leverage on Stock Returns

The value of coefficient regression of financial leverage (β_1) is positive by 0.354 with significance value of 0.003 that is greater than 0.05. This result indicates that H_0 rejected and H_1 accepted. It means that financial leverage has a positive effect on stock returns.

High leverage reflects that companies tend to do funding from debt. Companies with high level of financial leverage can have an impact on the emergence of high financial risks, but also have great opportunities to generate high profits. This reflects the optimal ability of debt utilization so that there are benefits obtained by using debt (Gul and Srinindhi, 2000). High profits earned by the company will cause investors to be interested in investing in stocks, so stocks demand will increase along with stock prices. Increase in stock prices will cause an increase in the level of company's stock returns.

The result of this study is in line with research conducted by Ristyawan (2019) that debt to assets ratio which is leverage ratio has a positive effect on stock returns. The same results also obtained by Alviansyah et al. (2018), Aditya and Badjra (2018) as well as Wijaya and Djajadikerta (2017) that state leverage gives a positive effect on stock returns. This result is in accordance with signaling theory where the level of financial leverage that company uses as a signal to investors that the company has good prospects in the future. When the company gets a large debt loan, then the company has funds to finance their operational costs. Companies that are able to use the source of funds from debt properly can obtain optimal profits.

Corporate Social Responsibility Disclosure Moderates the Effect of Financial Leverage on Stock Returns

The coefficient regression of financial leverage (β_1) is positive by 0.0354 with significance value of 0.003 and the coefficient regression of interaction between financial leverage and CSR disclosure (β_3) is positive by 0.291 with significance value of 0.028. This shows a direct relationship because both variables have positive coefficient values, so it can be concluded that the CSR disclosure variable is a moderating variable that strengthens the effect of financial leverage on stock returns. Companies that have a high level of financial leverage tend to disclose more information, one of them is CSR.

Companies that have high leverage ratios will make more extent social responsibility disclosures. This is done to meet the information needs by creditors. Disclosure of CSR implementation by the company will improve the company's image to be better and encourage the sale of products or services produced by the company which in turn will have an impact on increasing profits earned by the company. Before investors decide to invest in a company, they will see the company's annual report as one of the considerations in decision making. The extent level of disclosure provided by the company's management will have an impact on stock price movements and will also have a direct impact on the stock returns obtained.

The result of this study is in line with research conducted by Yanti and Budiasih (2016) and Naser et al. (2006) that state debt ratios (leverage) has a positive effect on CSR disclosure. The results are also in line with Putra and Utama's research (2015) which proves that CSR disclosure has a positive effect on stock returns and Karagiorgos' research (2010) which states that implementation of CSR disclosure in annual report can increase company stock returns. This result is in accordance with signaling theory because investors consider the signal given by company by disclosing CSR are important for them in considering investment decision making. CSR disclosure made by company can convince creditors and investors as collateral for company's going concern.

V. CONCLUSION

Based on the results of the analysis and discussion, it can be concluded that financial leverage has a positive effect on stock returns on mining companies listed on Indonesia Stock Exchange in period of 2016-2018. This means financial leverage can pose financial risks but also has the opportunity to generate optimal profits so that it causes investors to be interested in investing in company. CSR disclosure as moderating variable is able to strengthen the effect of financial leverage on stock returns. This means besides doing financial leverage, investors will be more interested in investing if the company discloses CSR in its annual report.

The suggestion for companies is to manage the source of debt funds (financial leverage) properly and optimally, as well as increasing CSR disclosure in company's annual report. For investors and prospective investors in considering their investment decision to not only pay attention to information about company's financial condition, but also CSR disclosure disclosed by company in its annual report. The samples of study are only limited in 2016-2018 so that if longer period is used, the more relevant results can be obtained in the future. For future research, it's recommended to use other variables that possibly can affect stock returns.

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