ISSN No:-2456-2165

Corporate Social Responsibility and Cost of Equity Capital: The Moderating Role of Capital Structure

Ovi Itsnaini Ulynnuha[1], Maulidyah Indira Hasmarini[2], Adinda Putri Wahyuningtyas[3], Anabilla Khoirunnisa[4]
Faculty of Economics and Business,
Universitas Muhammadiyah Surakarta, Surakarta – Indonesia

Abstract:- In order to continue their existence and remain competitive in the business sector, companiesoperational activities necessitate an increase in finance. Funding for a business can be impacted by a number of variables. This study aims to analyze the effectof CSR performance on the cost of equity capital and the effect of CSR performance on the cost of equity capital using capital structure as a moderator. This study's sample consists of 202 non-financial businesses listed on the Indonesia Stock Exchange (IDX) throughout the course of three years, 2017-2019. The data were examined usingthe classical assumption test, multiple regression methods, and moderated regression analisis. The results of this study indicatethat CSR performance negatively impacts the cost of equity capital in Indonesia. In contrast, the moderation test indicates that capital structure cannot alter the relationship between CSR performance and the cost of equity capital.

Keywords:- *CSR performance; cost of equity capital; capital structure; moderated regression analysis.*

I. INTRODUCTION

A. Research Background

Companies increasingly require finances to carry out operational tasks in order to compete in the commercial sector. This funding requirement is obviously a concern for the company's management when deciding which source to use, but the most important factor is that the company's financial requirements can be met at a reasonable cost. This money can originate from either internal or external sources. Aside from that, the corporation can issue securities or debt securities that can later be traded in the stock market to raise funds (Suto, 2017).

Depositing investor funds and issuing debt incur costs. This expense is known as the equity capital cost. The cost of equity capital is the expense a firm incurs to fund its operating activities (Vitolla et al., 2020). The cost of equity capital is invested in a variety of factors, including the expectations of shareholders on the capital invested in the company. According to Ross et al. (2019), the cost of equity capital is the amount of money that investors are ready to put in a business.

A capital market dominated by investors tends to select stocks with high expected returns for investors. On the other side, if a stock carries high risk, the predicted return will be higher as well. Its goal is to entice investors to the traded shares. Before investing, investors might do a fundamental study to evaluate whether the firm being considered for investment is a going concern. Shareholders might use the presentation of news in financial statements to grasp the content of the information when making decisions. For long-term investing objectives, investors can consider this rate of return while making investment selections. According to Hajawiyah et al. (2019), investors who place a high value on environmental and social factors can reduce the projected rate of return and the cost of equity capital. The prospect for lower equity capital costs then encourages companies with high equity capital costs to engage in broad corporate social responsibility.

According to Chen et al. (2020), companies that can appropriately formulate policies and implement social responsibility mechanisms are able to reduce the cost of equity capital and improve the company's operating performance, making it advantageous for investors to invest in companies with good CSR performance.

One of the phenomena concerning the cost of equity capital is the pharmaceutical business PT. Kalbe FarmaTbk, which declared a fall in the dividend payment ratio of Rp. 937.5 billion of the total earnings last year. This change occurred in the company's dividend payout ratio. The distribution of profits on shares that are owned by shareholders is known as dividends. However, if gains are not dispersed, they will become retained earnings, which might cause an increase in the cost of equity capital that the company is required to meet. In the meantime, investors undoubtedly desire earnings or returns on the shares that they now hold. If a corporation is unable to pay dividends, it indicates that it is unable to provide shareholders with the rate of return on shares that was anticipated by those shareholders. As a consequence, shareholders will anticipate a higher rate of return during the subsequent term, which will cause the company to incur a higher cost of equity capital in order to fund its operations.

Corporate social responsibility is one of the variables that can affect the price of equity capital (CSR). Business social responsibility (CSR) activities are the manifestation of corporate obligation to stakeholders. The company's CSR performance can be determined by the value assigned to CSR efforts. CSR reports typically include budgeted expenditures in accordance with the company's CEO's determination, and there is no higher or lower limit for deciding the allocation of CSR costs. According to Chen et al. (2020), the government must create a policy mandating the development of a social responsibility policy and the publication of a corporate social responsibility report. The government of Indonesia has mandated that companies listed on the Indonesian Stock Exchange (IDX) include social and environmental actions in their annual report. The

Government Regulation of the Republic of Indonesia Number 47 of 2012 on the Social and Environmental Responsibility of Limited Liability Companies is one of the provisions of this regulation.

Sustainability in business is inextricably linked to the concept of social responsibility in the workplace. This is due to the fact that pretty excellent sustainability management is required in order to ensure the continued existence of the organization. In the context of managing for sustainability,efforts to enhance the company's environmental and social conduct in order to satisfy its obligations under corporate social responsibility(CSR) are included.According to Yi et al. (2020) research's, learning about CSR can explain howa company can become sustainable.

According to Bae et al. (2020), one of the systematic risks that goes into calculating the return on individual shares is whether or not the information that was provided by the corporation was of a high enough quality. Therefore, in order to adequately describe the whole risk that the organization faces, it is necessary to have information in the form of both financial and non-financial details. Companies that are able to successfully integrate CSR performance mechanisms can lower the cost of equity capital, which is beneficial for investors who choose the company as a location for their investments because of this benefit.

II. LITERATURE REVIEW

A. Signalling Theory

Stephen A. Ross developed signaling theory for the first time in 1977. Signaling occurs when a firm's management takes an action that sends a message to investors about how management envisions the company in the future (Brigham and Houston, 2017). According to Morris (1987), signaling is a crucial general market phenomenon. Sellers can lessen information asymmetry between sellers and potential purchasers by offering more specific information to buyers. When some investors have more personal information than others, information asymmetry can emerge. Signaling theory, according to Connelly et al. (2011), is effective for describing the behavior of individuals or organizations when the two parties have differing access to information. In most cases, one party is the transmitter and must decide how to communicate the information, while the other is the receiver and must decide how to interpret the received signal.

Signaling theory may be able to help reduce information imbalance. In this study, the signaling process between the signaler and the receiver is discussed when the signaler sends a signal to the receiver. After seeing and interpreting the received signal, the receiver will make a judgment and send it to the signaler. The signalers in this study are corporations that communicate CSR, while the signal receivers are investors. Then, after receiving and interpreting these signals, investors make investment selections and determine how much payment they require in this scenario, known as feedback (Yeh et al., 2020).

In relation to the signaling theory, which suggests how a firm should deliver a signal to consumers of financial statements about its situation, the company must seek to be evaluated both in the eyes of investors and the general public. Companies can adopt steps, such as CSR, to improve their image in the eyes of investors and the general public. This CSR activity will eventually be disclosed in the company's annual report in order to demonstrate the company's competitive edge over other companies. As a result, it can boost investor confidence in investing in the company, lowering the cost of equity capital provided by the company (Yeh et al., 2020). As a result, signaling theory can explain the link between corporate social responsibility and cost of equity capital.

The capital structure may also be explained by the signal theorybecause it assumes that managers and shareholders do not have access to the same corporate information. There is information that only management have access to, whereas stockholders have not. As a result, when the company's capital structure changes, it sends information to shareholders, causing the cost of equity capital to alter. Outsiders may interpret manager activity in deciding capital structure as a favorable indication (Mamduh, 2004).

B. Cost of Equity Capital

The cost of equity capital is defined as the actual cost a firm must expend to get funds to finance an investment (Brigham & Houston, 2004). Contrary to the beliefs of investors, the cost of equity capital is the discount level on cash flow or equivalent to the needed return of the investor's portfolio on all company securities, or the expected rate of returnon investment profits (Mawaniar, 2012). Two options, namely debt and equity, are utilized to fund the company's operational activities. Both debtors and shareholders who invest their capital in the form of shares receive varied returns. Investors receive returns on their assets in the form of dividends or capital gains, while creditors receive interest on loans.

A manager must be aware of his company's cost of equity capital in order to make decisions regarding the equity budget and equity structure, as well as to facilitate leasing decisions, debt settlement funding, and capital working management. This cost of equity capital determines the rate of return investors are entitled to get on their investments in certain companies (Ross et al., 1998).

According to Botosan and Plumlee (2002), the cost of equity capital is a measure of the discount level utilized by the market to anticipate the company's future cash flows in order to establish the current stock value. The cost of equity capital is often difficult to quantify and must thus be estimated, as there is no technique to directly monitor the desired rate of return.

According to research conducted by Lambert et al. (2007), more detailed corporate disclosure can reduce the covariance of a company's cash flows, hence mitigating the risk of individual firms and reducing the cost of equity capital. The knowledge asymmetry between investors and

managers can be diminished if the disclosure is accurate and comprehensive. This reduces the likelihood of adverse selection and moral hazard, resulting in self-beneficial behavior on the part of the management. According to Botosan (1997), the level of disclosure, the risk proxied by BETA, and the market value of equities can influence the cost of equity capital. When the risk of an investment is high, the expected rate of return is similarly high for investors. This implies that the company must offer the highest potential return to attract investors.

C. CSR Performance

According to regulation of UndangUndang No. 40/2007 about Perseroan Terbatas (PT), the definition of CSR isthe seriousness of the company in its role in sustainable economic development to improve the quality of life and nature in a way that is beneficial for companies, the public, and local communities.This definition is based on the concept that CSR isthe seriousness of the company in its role in sustainable economic development to improve the quality of life and nature in a way that is CSR isa corporation that must be accountable for its acts that have societal, environmental, or community implications,as defined by Lawrence and Weber (2008:45). If whatever the company does has a detrimental impact on society, the environment, or the community, then the corporation is required to set aside some of its revenues in order to prevent or mitigate the severity of that harm. A positive and beneficial social impact for the firm can be achieved, however, if the corporation takes action that has a favorable influence on the general public, the environment, and the community as a whole.

On the basis of these definitions of CSR, one can draw the conclusion that CSR is not only a reactive responsibility, but also a proactive responsibility, in the sense that it is a responsibility undertaken by businesses in the form of sustainable activities and measures to prevent the possibility of having adverse effects on society and the environment (Lako, 2019). As a result, businesses have the obligation to create a balance between their economic responsibilities and their social and environmental responsibilities.

The process of social responses, procedures, programs, and outcomes that can be traced is related to corporate social responsibility. CSR performance can be thought of as a configuration or shape of business strategy that is based on the idea of social responsibility (Wood, 2010). Either a company's performance in its social responsibilities is what determines its level of corporate social responsibility, or a firm may look for business opportunities in the social links it maintains.

One of the ideas that is introduced by the execution of corporate social responsibility is the manner in which a corporation is able to see the actions and consequences of social actions that are carried out by the organization. One good illustration of this would be a business that is able to quantify its day-to-day operations. This is of utmost significance to the company because the CSR program that it is responsible for implementing is restricted in scope and is sponsored by company funds. On the other hand, the amount of funds set aside by the corporation for activities related to CSR is not a trivial one. As a result, it is necessary to conduct evaluations of the company's philanthropic endeavors. In this way, the organization is able to assess the effects of these operations.

D. Capital Structure

According to Weston and Copeland (1996), the capital structure consists of permanent financing, which is represented by long-term obligations, preferred securities, and shareholders' equity. According to Ross et al. (2001), the phrase "capital structure" refers to the many forms of long-term financing that a company uses. According to Brigham and Houston (2004:596), the capital structure is a mixture of debt, preferred securities, and general equity, and the company has plans to raise its equity. This is in accordance with the company's capital structure.

The cost of capital and the capital structure of the organization are intricately connected to one another. Making a decision regarding a company's capital structure should be done with the intention of maximizing the market value of equity by including the appropriate sources of long-term funding. An optimal capital structure is one that will reduce the total cost of capital by the greatest amount possible. This can be accomplished by combining different types of long-term funding sources. It is essential for businesses to improve their existing levels of financial stability since businesses operating within this type of capital structure are able to engage in value transactions (Fahmi, 2011).

The fundamental capital structure procedures are based on the relationship between decisions made in determining the source of funds and the type of investment that the company needs to choose to suit the company's goals. These decisions must be made in order to determine the fundamental capital structure procedures. The objective of the corporation is to maximize either the well-being of shareholders or the value that the market places on each share. The ratio of a company's own sources of cash to its debt in the context of satisfying the company's funding requirements is what is referred to as the company's capital structure. The optimal capital structure for a firm must be located at the point of equilibrium between risk and return, which maximizes the company's stock values (Brigham & Houston, 2004).

E. Research Framework

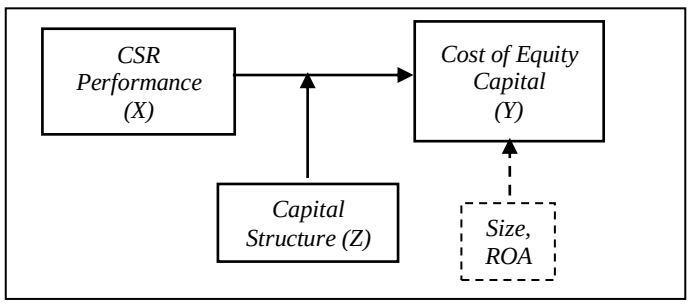

Fig. 1: Research Framework

ISSN No:-2456-2165

F. Hypothesis

Based on the preceding framework, the initial hypothesis is as follows:

a) The effect of CSR performance on cost of equity capital

Companies are beginning to be required to report on environmental, social, and economic activities that are sustainable because technological advancements, globalization, and pressure placed on companies have forced companies to change their production methods so that they are not harmful to society and the environment. In addition, companies are beginning to be required to report on their own efforts to become more sustainable (Orazalin et al., 2019). Companies can improve their communication with various stakeholders by reporting on the actions associated with their corporate social responsibility programs. Businesses have the ability to convey their associated plans on a variety of topics, including those pertaining to the environment, the economy, and society through this manner (Junior et al., 2017).

According to Dhaliwal et al. (2011), when a company interacts with its stakeholders through CSR activities, the company is able to fulfill the disclosure of information related to its operating activities while also providing stakeholders with a broad understanding of those activities and developing a positive image for the company. Businesses that have a positive public image have a lower chance of being rejected by the general public and of having informational inconsistencies occur. Investors will be interested in putting their money in the company because of its risk as well as the relatively minimal knowledge asymmetry that exists. Because of this, the company may be able to reduce its cost of capital, which will pique the interest of potential investors and lead to a further reduction in the cost of equity capital (Chen et al., 2020).

The theory of signaling can be utilized to provide an explanation for the connection that exists between CSR performance and the cost of equity capital. It is possible for there to be a disparity in the amount of information that is held by managers and shareholders, which might prompt corporations to send signals to investors. This signal can be shown to be present in the company's CSR actions that are documented in its sustainability reporting. This is an indication to potential investors that the company is low risk and has a chance of surviving in the long term if they pay attention to it. According to Hajawiyah et al. (2019), businesses are allowed to continue their financial activities while also engaging in initiatives that benefit society and the environment.

A better performance in terms of corporate social responsibility makes it possible for companies to achieve stronger operating performance and raise their profitability, which in turn helps to bring down the cost of equity capital. Companies who are successful in their CSR efforts during the current year have a better chance of luring investors to invest in the firm in the coming year, which will result in a lower cost of capital for the company. Because of this, it might be less difficult for businesses to spend their capital costs. Because of the availability of credible CSR communication, a good relationship with legitimacy can be established. This allows the company to continue to function with the trust of the community, which ultimately leads to the firm being able to earn a good reputation in the community. The reputation of this company will then play a role in the decision of investors over whether or not to purchase a stock. Because investors will be more interested in providing capital to the company if it has a good reputation, the company will not need to pay big costs in order to receive cash from investors. As a result, having a solid performance in terms of corporate social responsibility can bring down the cost of equity capital.

H1: CSR Performance has a negative effect on Cost of Equity Capital.

b) The effect of CSR performance on cost of equity capital with capital structure as a moderating

The cost of equity capital is closely tied to capital structure. The capital structure choice was made with the goal of optimizing the company's market value with the optimum combination of long-term capital sources. When decisions are influenced by information asymmetry, the capital structure chosen reflects the firm's cost of capital (Bertomeu et al., 2011). Yeh et al. (2020) conclude that when enterprises lack information, they are more inclined to employ debt financing.

Signaling theory can be used to explain the relationship between capital structure and signaling. Companies with successful prospects will strive to avoid selling shares and instead seek additional cash through debt issuance. Signaling theory presumes that managers and shareholders do not have equal access to information within the organization. Certain information is only known by the manager, while the shareholders are unaware of it, resulting in information asymmetry. As a result, when a company's capital structure changes, it might generate shareholder information that changes the cost of equity capital. People outside the organization regard the manner in which managers choose a capital structure as a positive sign (Mamduh, 2004).

Kochhar and David (1996) show that tax breaks are the key incentive for managers to raise funds through debt capital markets, but debt financing can increase risk when enterprises are unable to pay interest and loan payments. As a

result, when there is greater information asymmetry, businesses tend to grow their capital through debt financing. When organizations raise money through debt financing and there is greater knowledge asymmetry between insiders and outside investors, the cost of capital may rise. As a result, companies with low debt ratios and strong CSR performance can lower their equity capital costs.

H2: The capital structure strengthens the negative effect of CSR performance on the cost of equity capital.

III. RESEARCH METHODS

A. Population and Sample

This is a quantitative study aimed to test hypotheses. This study employs data analysis, namely descriptive analysis, hypothesis testing, and moderated regression analysis (MRA) to examine moderation. IBM SPSS 25 is the instrument for statistical testing. In this study, the population consists of all non-financial sector firms listed on the Indonesia StockExchange (IDX) from 2017-2019. Purposive sampling was employed in this study with a sample of 204 companies.

B. Variable Operational Definitions

A variable's operational definition describes how variables are measured and calculated (Chandrarin, 2017: 88). Following is an explanation of each variable's operational definition:

Variable	Indicator
Cost of Equity Capital (Y)	R PEG = $\sqrt{\frac{eps_t - eps_{t-1}}{P_{it}}}$
CSR Performance (X)	The cost of CSR on annual report
Capital Structure (Z)	$DER = \frac{\text{Total Liabilities}}{Total\ Equity} x\ 100\%$
Firm Size (C1)	Ln Total Asset
Return on Asset (C2)	Net Profit/Total Asset

Table 1: Variable Operational Definitions

C. Data Analysis Method

The following data analysis techniques were used in this study: the classical assumption test,multiple regression analysis, and moderated regression analysis. The equation model used in this study is as follows:

COE = α + β1CSRP + β2SIZE +β3ROA +e

COE=α+β1CSRP+β2SIZE+β3ROA+β4CS+β5CSRP*CS+e

Description:
COE = Cost of Equity Capital
α = Constant
β1- β5 = Regression coefficient of each independent variable
CSRP = CSR Performance
SIZE = Firm Size
ROA = Return on Asset
CS = Capital Structure
e = error

IV. RESULT AND DISCUSSION

This research utilizes a sample of all non-financial sector companies listed on the Indonesia Stock Exchange. Sampling utilized purposive sampling with a final sample size of 204, and then 2 outliers were used to overcome abnormal.The following are the results of the classical assumption test, multiple regression analysis, and moderated regression analysis:

A. Descriptive Statistics Results

	N	Min.	Max.	Mean	Std. Deviasi
COE(Y)	202	-418,27	300,22	4,9902	41,85835
CSRP(X)	202	21,00	530576,0	7331,49	76508,441
SIZE(C1)	202	20,56	32,20	28,5416	1,89920
ROA(C2)	202	-30,03	92,10	6,0292	11,73481
CS(Z)	202	-221,45	786,11	485,148	5531,0451

Table 2: Descriptive Statistics Results

Based on the results of the descriptive analysis in the table above, the conclusions that can be drawn are as follows:

- The results of the descriptive analysis of the cost of equity capital variable are known to have an average value of 4.9902, with a minimum value of-418.27, and a maximum value of 300.22, and with a standard deviation of 41.85835,
- The results of the descriptive analysis of the CSR performance variable have an average value of 27331.49 with a minimum value of 21.00 and a maximum value of 530576.0 with a standard deviation of 76508.441.
- The results of the descriptive analysis of the firm size variable have an average value of 28.5416 with a minimum value of20.56 and a maximum value of 32.20, while the standard deviation is 1.89920,
- Based on the descriptive analysis of the return on asset variable, the average value is 6.0292with a minimum value of -30.03 and a maximum value of 92.10, while the standard deviation is 11.73481.
- Then the results of the descriptive analysis of the capital structure variable have an average value of 485.148 with a minimum value of -221.45 and a maximum value of 786.11, while the standard deviation is 5531.0451.

B. Classical Assumption Test

a) Autocorrelation Test

MODEL 1

R	R Square	Adj. R Square	Durbin-Watson
.239[a]	.057	.043	1.907

Table 3: Aurocorrelation Test Result

ISSN No:-2456-2165

MODEL 2

R	R Square	Adj. R Square	Durbin-Watson
.245[a]	.060	.036	1.918

Table 4: Aurocorrelation Test Result

This study's autocorrelation test employs the Durbin-Watson test, with autocorrelation-free test conditions if the dU<DW < 4-dU. (Ghozali, 2018:111). Based on the table above, autocorrelation does not exist in the data in research models 1 and 2.

b) F Test

MODEL 1

F	Sig.
3.998	.009[b]

Table 5: F Test Result

MODEL 2

F	Sig.
2.509	.031[b]

Table 6: F Test Result

The estimated F value and significance level, as shown in the table above, indicate that 0.05 is significant. Thus, it can be assumed that models 1 and 2 of multiple regression are applicable and that the independent variables influence the dependent variable simultaneously.

c) Normality Test

The normality test is used to determine if the distribution of data in a group of data or variables is normally distributed or not. This study makes the Central Limit Theorem (CLT) assumption, which states that a data sample of 30 or more will be centered on the population parameter values and will have normal distribution features.

d) Multicolinearity Test

Model	Tolerance	VIF
(Constant)		
CSRP	.772	1.295
SIZE	.773	1.294
ROA	.964	1.037

Table 7: Multicoliniearity Test Results

On the basis of the above table, it can be inferred that all independent variables passed the multicollinearity test, as evidenced by VIF values greater than 1 and fewer than 10.

e) Heteroscedasticity Test

MODEL 1

t	Sig.
CSRP	0,176
SIZE	0,212
ROA	0,806

Table 8: Heteroscedasticity Test Results

MODEL 2

t	Sig.
CSRP	0,085
SIZE	0,257
ROA	0,553
CS	0,206
CSRP*CS	0,115

Table 9: Heteroscedasticity Test Results

Based on the above table of Glejser test findings, it can be inferred that there is no heteroscedasticity problem in this regression model because the significance level of the independent variables is greater than 0.05.

C. Hypothesis Testing

MODEL 1

Variable	B	T_{count}	Sig.
CSRP	-0,212	-2,700	0,008
SIZE	-0,098	-0,057	0,955
ROA	-0,311	-1,242	0,216

Table 10: Hypothesis Testing Results

MODEL 2

Variable	B	T_{count}	Sig.
CSRP	-0,422	-1,574	0,117
SIZE	-0,139	-0,080	0,936
ROA	-0,298	-1,139	0,256
CS	-0,001	-0,742	0,459
*CSRP*CS*	7,8207	0,548	0,585

Table 11: Hypothesis Testing Results

- The effect of CSR performance on cost of equity capital

The results of the regression test of model 1 can be seen in the table above, the CSR Performance variable with a beta coefficient value of -0,212 and a significance of 0.008. This means that the CSR Performance variable has a negative effect on the cost of equity capital. This shows that the high CSR Performance of the company can reduce the cost of equity capital.Therefore, there is a negative relationship between CSR performance and the cost of equity capital, and H1 is accepted.The following year's cost of equity capital will be lower the greater the company's performance in CSR. This is a result of the company's greater openness in providing the public with information. This CSR performance data offers additional information regarding management's environmental, product, labor, and social activities (Shad et al. 2020). From the standpoint of an investor, CSR performance does not necessarily ensure a cheap cost of equity capital. There appears to be a negative association between the quality of financial disclosure and the cost of equity capital, according to a consensus of scholars.

The cost of equity capital is the actual expense incurred by a firm in order to get cash to finance an investment. CSR performance is one technique to provide a positive message about a company's health in order to enhance its credibility and optimize its worth (Ok et al., 2019). Companies that develop and publish CSR performance reports, which will reduce the cost of equity capital in obtaining capital, can pose problems for CSR's

impact on the cost of equity capital. Socially responsible businesses attract consumers that care about social issues, resulting in increased sales and improved financial performance. This is consistent with the signaling theory, which states that the information in the company's report can be used as a signal to help enhance the firm's image or reputation, thereby resulting in the company incurring money for CSR initiatives, which will effect the company's sustainability. The organization hopes to continue obtaining a higher cost of funding. Due to low interest rates, it will be less expensive the following year, hence reducing the cost of equity capital for the company.

This study's findings align with those of Chen et al. (2020), who discovered that companies that engage in CSR activities can minimize the cost of equity capital. If the company can create pertinent policies, boost information transparency, interact frequently with stakeholders, and reduce information asymmetry between the company and the public, it will be able to lower its cost of equity capital. In order to lower the cost of equity capital, organizations with a higher level of CSR performance are also able to boost their operating performance and profitability.

This study utilizes firm size and ROA as additional control variables. The findings indicated that the control variable firm size and ROA had no impact on the cost of equity capital. This is because not all large corporations increase the cost of equity capital on a consistent basis. As a result, the cost of equity capital will be affected.

- The effect of CSR performance on cost of equity capital with capital structure as a moderating
  The moderated regression test results are shown in the table above. The operating capacity variable has a beta coefficient of 7,8207and a significance value of 0,585.This indicates that the capital structure cannot moderated the relationship between CSR performance and cost of equity capital. The regression results indicate that the model 2 has a negative association between CSR performance and the cost of equity capital cannot be strengthened by the capital structure, it means H2 is rejected. Because corporate social responsibility is mandatory in Indonesia and regulations have been established, corporations do not consider capital structure when allocating funds for CSR activities. The corporation is solely concerned with how, by investing in CSR activities, it can still access low-cost equity capital.

This research confirms the findings of Yeh et al. (2020), namely that the capital structure does not influence the association between CSR and the cost of equity capital. This is because of compliance on the Chinese market. The corporation conforms with China's restrictions so that it cannot generate additional revenue from operating or financing activities. This explains why the capital structure does not moderate the relationship between corporate social responsibility and the cost of equity capital.

V. CONCLUSION

A. *Conclusion*

This study aims to examine the impact of CSR performance on the cost of equity capital and the significance of capital structure in Indonesia. This research includes 202 representative samples of non-financial companies that have been listed on the Indonesia Stock Exchange over the course of three years (2017–2019). This research does not use data from the year 2020 because the researcher is concerned about the potential for bias in the research data and the COVID-19 pandemic that is occurring in Indonesia at the same time. In this particular investigation, the level of CSR performance is treated as the independent variable, while the cost of equity variable is treated as the dependent variable. This research makes use of two control variables, namely firm size and ROA, to limit the possibility of bias creeping into the findings of the computations that it does.

For the purpose of determining the influence that moderating factors had on the results of this study's tests, multiple linear regression and moderated regression analysis were utilized.

According to the findings of this research project, corporate social responsibility (CSR) performance has a negative effect on the price of equity capital in Indonesia. On the other hand, the moderation test demonstrates that the capital structure does not have the ability to affect the link between CSR performance and the cost of equity capital.

B. *Suggestion*

- Future research is expected to be able to increase the number of samples and expand the object of research into other countries or into other industrial sectors. Additionally, it is hoped that the time span that is to be researched could be extended.
- Since the PEG method is the only one used in this study to calculate the cost of equity capital and CSR expenses are used to calculate CSR performance, the majority of the samples have been thrown out. Therefore, it is to be anticipated that future study will be able to improve on this research by employing alternative measurement techniques in order to determine whether or not the results are comparable.

REFERENCES

[1.] Álvarez, I. G., Sánchez, I. M. G., & Domínguez, L. R. (2008). Voluntary and compulsory information disclosed online: The effect of industry concentration and other explanatory factors. *Online Information Review*, *32*(5), 596–622.

[2.] Bae, S. M., An, H. T., & Kim, J. D. (2020). Mediators Linking Information Quality and the Cost of Equity Capital*. *Asia-Pacific Journal of Financial Studies*, 1–28.

[3.] Bertomeu, J., Beyer, A., & Dye, R. A. (2011). Capital structure, cost of capital, and voluntary disclosures. *Accounting Review*, *86*(3), 857–886.

[4.] Bessler, W., Drobetz, W., & Grüninger, M. C. (2011). Information asymmetry and financing decisions. *International Review of Finance*, *11*(1), 123–154.
[5.] Botosan, C. A. (1997). Disclosure level and the cost of equity capital. *Accounting Review*, *72*(3), 323–349.
[6.] Brigham, E. F., & Houston, J. F. (2004). *Dasar-Dasar Manajamen Keuangan*.
[7.] Chen, R. C. Y., Lee, C. H., & Hung, S. W. (2020). The relationship between ex-ante cost of equity capital and corporate social responsibility in introductory and maturity period. *Corporate Social Responsibility and Environmental Management*, *27*(2), 1089–1107.
[8.] Christine A. Botosan, & Marlene A. Plumlee. (2002). A Re-examination of Disclosure Level and the Expected Cost of Equity Capital. *Journal of Accounting Research*, *40*(1), 21–40.
[9.] Connelly, B. L., Certo, S. T., Ireland, R. D., & Reutzel, C. R. (2011). Signaling theory: A review and assessment. *Journal of Management*, *37*(1), 39–67.
[10.] Cooke, T. E. (1989). Disclosure in the Corporate Annual Reports of Swedish Companies. *Accounting and Business Research*, *19*(74), 113–124.
[11.] Core, J. E. (2001). A review of the empirical disclosure literature: Discussion. *Journal of Accounting and Economics*, *31*(1–3), 441–456.
[12.] Cox, P., & Wicks, P. G. (2011). Institutional Interest in Corporate Responsibility: Portfolio Evidence and Ethical Explanation. *Journal of Business Ethics*, *103*(1), 143–165.
[13.] Craven, B. M., & Marston, C. L. (1999). Financial reporting on the internet by leading uk companies. *International Journal of Phytoremediation*, *21*(1), 321–333.
[14.] Dhaliwal, D., Li, O. Z., Tsang, A., & Yang, Y. G. (2014). Corporate social responsibility disclosure and the cost of equity capital: The roles of stakeholder orientation and financial transparency. *Journal of Accounting and Public Policy*, *33*(4), 328–355.
[15.] Dhaliwal, D. S., Li, O. Z., Tsang, A., & Yang, Y. G. (2011). Voluntary nonfinancial disclosure and the cost of equity capital: The initiation of corporate social responsibility reporting. *Accounting Review*, *86*(1), 59–100.
[16.] El Ghoul, S., Guedhami, O., Kim, H., & Park, K. (2018). Corporate Environmental Responsibility and the Cost of Capital: International Evidence. *Journal of Business Ethics*, *149*(2), 335–361.
[17.] El Ghoul, S., Guedhami, O., Kwok, C. C. Y., & Mishra, D. R. (2011). Does corporate social responsibility affect the cost of capital? *Journal of Banking and Finance*, *35*(9), 2388–2406.
[18.] Ghozali, Imam. 2017. *Ekonometrika Teori, Konsep, dan Aplikasi dengan IBM SPSS 24*. Semarang: Badan Penerbit Universitas Diponegoro.
[19.] Ghozali, Imam. 2018. *Aplikasi Analisis Multivariate dengan Program IBM SPSS 21*. Semarang: Badan Penerbit Universitas Diponegoro.
[20.] Hajawiyah, A., Adhariani, D., & Djakman, C. (2019). The sequential effect of CSR and COE: family ownership moderation. *Social Responsibility Journal*, *15*(7), 939–954.
[21.] Hughes, P. J. (1986). Signalling by direct disclosure under asymmetric information. *Journal of Accounting and Economics*, *8*(2), 119–142.
[22.] Humphrey, J. E., Lee, D. D., & Shen, Y. (2012). Does it cost to be sustainable? *Journal of Corporate Finance*, *18*(3), 626–639.
[23.] Kochhar, R., & David, P. (1996). Institutional Investors and Firm Innovation: a Test of Competing Hypotheses. *Strategic Management Journal*, Vol. 17, pp. 73–84.
[24.] Korajczyk, R. A., Lucas, D. J., & McDonald, R. L. (1992). Equity Issues with Time-Varying Asymmetric Information. *The Journal of Financial and Quantitative Analysis*, *27*(3), 397.
[25.] Ng, A. C., & Rezaee, Z. (2015). Business sustainability performance and cost of equity capital. *Journal of Corporate Finance*, *34*, 128–149.
[26.] Ok, Y., & Kim, J. (2019). Which corporate social responsibility performance affects the cost of equity? Evidence from Korea. *Sustainability (Switzerland)*, *11*(10), 1–14.
[27.] Orazalin, N., Mahmood, M., & Narbaev, T. (2019). The impact of sustainability performance indicators on financial stability: evidence from the Russian oil and gas industry. *Environmental Science and Pollution Research*, *26*(8), 8157–8168.
[28.] Vitolla, F., Salvi, A., Raimo, N., Petruzzella, F., & Rubino, M. (2020). The impact on the cost of equity capital in the effects of integrated reporting quality. *Business Strategy and the Environment*, *29*(2), 519–529.
[29.] Xu, S., Liu, D., & Huang, J. (2015). Corporate social responsibility, the cost of equity capital and ownership structure: An analysis of Chinese listed firms. *Australian Journal of Management*, *40*(2), 245–276.
[30.] Yeh, C. C., Lin, F., Wang, T. S., & Wu, C. M. (2020). Does corporate social responsibility affect cost of capital in China? *Asia Pacific Management Review*, *25*(1), 1–12.
[31.] Yi, Y., Xie, B., Zhou, L., & Wei, Y. (2020). Does CSR affect the cost of equity capital: Empirical evidence from the targeted poverty alleviation of listed companies in China. *PLoS ONE*, *15*(2), 1–22.