

## **Corporate Social Responsibility (CSR) Performance, Information Asymmetry, Agency Cost and Investment Efficiency: The Characteristic of Audit Committee as Moderating Variable**

**Yunita Lisnaningtyas Utami<sup>1</sup>, Alfita Rakhmayani<sup>2</sup>, Nanik Hidayati<sup>3</sup>,  
Ika Puspitasari<sup>4</sup>, Azizah Indriyani<sup>5</sup>, Neli Hajar<sup>6</sup>**

<sup>1,3,4,6</sup>Universitas Selamat Sri, Kendal, Indonesia

<sup>2</sup>Universitas Diponegoro, Semarang, Indonesia

<sup>5</sup>Universitas Muhadi Setiabudi, Brebes, Indonesia

Corresponding: yunita.utami321@gmail.com

### **ABSTRACT**

The purpose of this research is to analyze the effect of Corporate Social Responsibility (CSR) performance, information asymmetry and agency cost as well as their impact on the company investment efficiency with Audit Committee characteristic as moderating variable. The corporate social responsibility (CSR) performance used in this study are Environmental, Social, Governance (ESG) disclosure which is obtained from database released by Bloomberg. Information asymmetry in this study is measured by company's bid ask spread. Agency cost in this study is measured by company's free cash flow. Audit Committee characteristic in this study is size of Audit Committee based on the number of Audit Committee members. The population in this study is non-financial companies listed on the Indonesia Stock Exchange in the 2014-2017 periods. Based on the purposive sampling method, 29 companies were selected with a total of 116 elections. Data analysis in this study uses e-views 9. The results of this study indicate that companies with increased CSR have positive and significant increases in investment efficiency. In companies with high information asymmetry and high agency costs have a significant negative effect on investment efficiency. Characteristics of the Audit Committee are able to moderate the increasing of CSR performance in investment efficiency. Information asymmetry has a significant influence in being able to mediate the effect of increasing CSR on investment efficiency. Meanwhile agency cost does not have a significant effect to mediate the effect of increasing CSR on investment efficiency.

**Keywords:** CSR performance, information asymmetry, agency costs, characteristic of the Audit Committee.

### **INTRODUCTION**

The progress of a company's business begins with the success of making quality investment decisions that are free from financial constraints, by avoiding unnecessary expenses. Investment success can be seen from the project value that has a positive Net Present Value (NPV) (Modigliani and Miller, 1958). The value of an investment project is in the efficient category, if the benefits obtained from the investment are greater or at least equal to the cost of project expenses (Hayashi, 2006). In fact, not a few companies experience

investment inefficiency which leads to two things, namely underinvestment and overinvestment (Samet and Jarboui, 2017). Management, as the main player in determining the size of the company's progress, should emphasize the importance of investment efficiency in its decisions (Xu, Wang and Han, 2012).

Efficient investment acts as a signal indicating that the company has good governance in planning investments now for the company's financial stability in the future (Chen, Sung and Yang, 2017). The signal represents information on investment activities that have been realized by management through sound business practices based on good governance to optimize profits as expected by the owner. Information of a positive and informative clues to investors that the company has good business prospects.

The contribution of investment efficiency in terms of management integrity is as a driver and indicator for measuring management performance, so that they are motivated to place assets effectively and efficiently (Chen, Sung and Yang, 2017). Good asset placement as a form of management compliance and loyalty to satisfy shareholder interests. This is a form of optimization of idle assets, namely through effective and efficient investment to increase the added value of the company so that profitability continues to grow. Optimizing asset management is the main focus of business management, as expressed by Liu and Zhang (2017) that business uncertainty requires carefulness to see opportunities and potentials through effective asset empowerment.

Investment efficiency is important to encourage the formation of company value which aims to increase business competition. Xu et al., (2012) and Houcine (2017) in their research stated that the success of companies in achieving efficient investment to get investor sympathy is part of the effort to create value. Firm value is a manifestation of investors' perceptions of the quality of the company's current performance and the company's future growth prospects, which are reflected in high stock prices.

Studies related to investment efficiency so far have examined investment efficiency that focuses on organizational financial performance. Some of these studies have been developed in a number of countries but not many have touched on the role of social investment in mitigating investment efficiency. Research conducted by Xu et al., (2012), Razzaq (2016), Khan et al., (2017) and Biddle et al., (2009) proved that conservatism accounting has a positive effect on investment efficiency so that it is able to solve agency problems. in China. Biddle et al., (2009), Ballesta and Gomariz (2014) prove that the quality of disclosure of financial statements and maturity of debt increases the level of investment efficiency in Spain.

Given the fact that various research results on determinant analysis to mitigate investment efficiency are not necessarily a solution to encourage and increase the level of investment in each country. The level of investment in Indonesia based on data information from the Badan Pusat Statistik (BPS) shows that the level of investment in Indonesia has a stagnant investment rate against Gross Domestic Product (GDP) and forms a parallel curve from 2000 to 2017 (Adhidarma and Purbasari, 2015). This means that during that period, investment growth did not have a significant impact on GDP growth.

The level of investment efficiency can also be seen from the Incremental Capital Output Ratio (ICOR). ICOR is the ratio between last year's investment and regional output growth.

The ICOR issued by the Central Statistics Agency (BPS) shows that the level of investment efficiency in Indonesia is still very high from 2016 to 2018, namely at the level of 6.3. This figure is lagging behind Singapore, Malaysia, Thailand etc. Both of these evidences show that investment in Indonesia is still at a level far from the expectations of supporting the national economy.

Hui et al., (2009), Xu et al., (2012), and Chen et al., (2017) prove that the problem of low investment efficiency is triggered by agency cost and information asymmetry. Agency cost is a cost that must be incurred by the principal for hiring an agent to follow up on his interests. In practice, agents tend to prioritize their interests for personal gain through abuse of authority by selecting projects according to personal motivation (Xu et al., 2012; Jin and Yu, 2018).

The empirical facts presented in the research of Chen et al., (2011) show that developing countries tend to be weak in investor protection, so that in imperfect capital market conditions (capital market imperfections) are prone to information asymmetry and agency costs that can affect investment efficiency. The high level of information asymmetry and agency cost raises a need for additional information besides financial reports to improve the quality of decision making. A study by Zhong and Gao (2017) proves that Corporate Social Responsibility (CSR) acts as additional information in decision making through the publication of sustainability reports.

CSR performance is seen as capable of playing a role as an activity organized to control the role of management in optimizing company resources. CSR activities require companies to allocate funds to finance each of their program activities and the results are reported through disclosure of sustainability reports. This reporting requires management to be more transparent in reporting all funds for activities carried out. This CSR activity can simultaneously reduce management opportunities to use company resources (Samet 2017). In this context, CSR performance limits the amount of free cash flow available which brings potential and opportunities for management to take projects that are not profitable. This is because CSR performance consists of social and environmental activities that are beneficial and have a direct impact on stakeholders. Thus, through CSR performance that is disclosed openly and transparently in a sustainability report that gets direct attention and is monitored by stakeholders, it is considered capable of suppressing the opportunistic behavior of management in making inefficient investments.

Several cross-country studies have examined the role of CSR performance in investment efficiency. The results of Benlemlih and Bitar's (2016) research state that CSR has a significant effect on investment efficiency. Furthermore, Samet's research (2017) states that CSR performance can positively increase investment efficiency by reducing the influence of information asymmetry and agency costs. Zhong and Gao (2017) present empirical facts that CSR has a significant effect on investment efficiency, especially in the condition of companies experiencing underinvestment.

Different research results were conveyed by Mukherjee et al., (2018) that companies in India experienced difficulties in optimizing investment efficiency after the Government stipulated mandatory CSR implementation. In line with this research, Preston and O'Bannon (1997), Yoon and Chung (2018), Maqbool and Zameer (2018) explained that CSR activities

fail to function as a program to control opportunity management because they result in investment inefficiency due to agency problem practices being exploited. management for personal gain, resulting in decreased profitability.

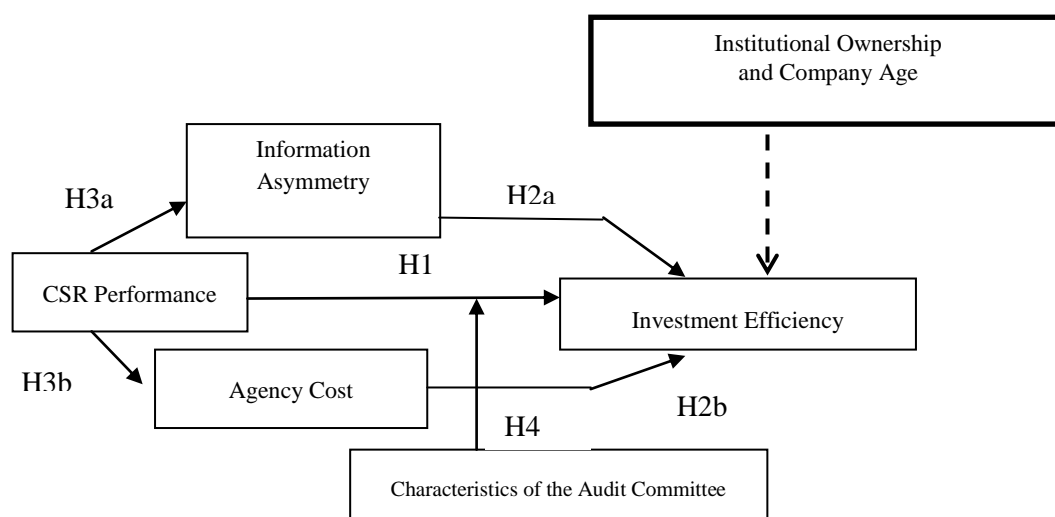
In this study, inconsistencies in the results of research were still found which became a necessity for a more in-depth study. The large number of studies examining the performance of CSR on investment inefficiency abroad shows that investment efficiency is an interesting study to research. Apart from being based on these factors, this research extends the results of Benlemlih and Bitar's research which states the need to conduct a study on the relationship between investment efficiency and CSR performance, especially in each country which has different characteristics.

Based on agency theory, investment inefficiency can be minimized through control mechanisms and good governance to reduce information asymmetry and agency costs that lead to the opportunistic nature of management (Ballesta and Gomariz, 2014). Ika and Mohd Ghazali (2012) explain that the function of the audit committee is responsible for providing assurance of supervision, as a control mechanism in a good governance system to limit management behavior as well as strengthen management's role in decision making. Choi et al., (2014) and Buallay (2018) state that the Audit Committee has a role as monitoring in the financial disclosure and reporting process. The quality of the company's financial reports is better with the existence of an audit committee (Naiker and Sharma, 2009). On the other hand, the opposite statement was conveyed by Blanco et al., (2014) and Cho et al., (2015) in their research that the duties and functions of the audit committee did not contribute to carrying out the supervisory and monitoring function of financial statements, because in fact financial reports were often distorted or even experienced cheating. The inconsistency of the results of the role of the audit committee led to the desire of researchers to determine the role of the audit committee characteristic variables in moderating the relationship between CSR performance and investment efficiency.

Research that examines the role of CSR on investment efficiency in Indonesia is still limited. This underlies the need for investigations into how and to what extent CSR involvement affects the efficiency of corporate investment in Indonesia. This research provides solutions and breakthroughs for companies experiencing underinvestment and overinvestment by providing new perspectives on CSR performance. This study seeks to explore how the involvement of information asymmetry and agency cost directly affects investment efficiency, and to identify whether the characteristics of the audit committee are able to moderate the effect of CSR on investment efficiency.

## **Framework**

This study analyzes the determinants of investment efficiency. The characteristics of the audit committee used as a proxy include the size of the Audit Committee. In addition, this study also analyzes the indirect effect of information asymmetry and agency cost on CSR and investment efficiency. In order to understand this research comprehensively, the framework used is as follows:



**Figure 1. Framework**

### CSR performance has an effect on investment efficiency

A series of studies have been conducted to examine the contribution of CSR performance to investment efficiency. Empirically, Sharfman and Fernando (2008) 's previous research shows that companies implementing CSR are the same as improving environmental risk management which makes the company more valued by the financial market. Getting a lower risk, being at risk can reduce the cost of capital. Likewise, Nandy and Lodh (2012) state that companies with higher environmental scores get more profitable loan contracts. Therefore, CSR can determine the cost of bank debt. El Ghouli et al., (2015) stated that CSR performance has an effect on increased access to finance, greater investment, lower risk of default, and credit trading with a longer period. Cheng et al., (2011) found that the implementation of CSR activities that have quality CSR performance with high scores, provides easy access to external funding. The ease of obtaining external funding keeps the company away from financial difficulties in moving the company's investment wheels so as to reduce the potential for underinvestment.

Preston and O'Bannon (1997) explained that CSR activities have the potential for overinvestment because the practice of agency cost that is used by management for personal gain affects firm value negatively. The role of CSR activities was conveyed by Waddock and Graves (1997), that social investment in CSR activities in addition to reducing conflicts of various stakeholders, also improves community and employee relations. Eccles et al., (2014) explained that companies with high sustainability have the possibility to build stakeholder engagement relationships that can limit the possibility of short-term opportunistic behavior so as to reduce the potential for overinvestment.

Benlemlih and Bitar (2016) highlight that the implementation of CSR activities helps reduce investment inefficiencies. More precisely, those dimensions related to key stakeholders such as employee relations, diversity, environment and product characteristics, are most relevant in increasing investment efficiency. Samet and Jarboui (2017) also explain

that the dimensions of CSR related to the environment and social significantly increase investment efficiency. The above statement shows that CSR performance plays an important role in strategic investment decisions. Companies with higher CSR performance invest more efficiently. According to this argument, the hypotheses in this study are:

H1: CSR performance has a positive effect on investment efficiency

### **Information asymmetry affects investment efficiency**

Jensen and Meckling (1976) state that in the decision-making process there are constraints on information asymmetry, namely adverse selection and moral hazard. Adverse selection occurs when the market lacks information about the quality of the company or project. Moral hazard arises when managers use company resources for their own benefit through projects that create overinvestment problems. High information asymmetry makes the company imprecise in making decisions so that it rejects projects that have the potential to have a positive NPV value which results in investment inefficiency. A study analyzes the effect of information asymmetry on investment efficiency through improving financial information. Companies with high-quality financial information are able to have optimal investment levels (Biddle et al., 2009; Chen et al., 2011; Ballesta and Gomariz, 2014). A high level of transparency increases the efficient allocation of capital so that management is able to make better decisions. Based on the description above, the problem of investment inefficiency can be minimized through reducing information asymmetry. In particular, the existence of information asymmetry between different company stakeholders is generally related to the problem of underinvestment. Based on the description above, the hypotheses in this study are:

H2a: Information asymmetry has a negative effect on investment efficiency

### **Agency Cost affects investment efficiency**

Agency conflicts between management and shareholders, as well as between controlling shareholders and minority shareholders, have a significant influence on company investment decisions (Luo et al., 2015). Very severe investment inefficiencies are found in companies that experience agency problems (Guariglia and Yang, 2016). Managers as decision makers prioritize personal gain through the use of free cash flow funds to fund projects that have a negative NPV which results in investment inefficiency. Cui et al., (2016) explained that reducing agency cost interventions is part of risk management to control manager behavior. Samet and Jarboui (2017); Majeed et al., (2018) prove that agency cost affects the level of investment efficiency. In this description, the problem of investment inefficiency may be realized through agency cost mitigation. Based on the description above, the hypotheses in this study are:

H2b: Agency Cost has a negative effect on investment efficiency

### **CSR performance affects information asymmetry**

Information asymmetry is a gap in the flow of information that results in different information receiving. Information asymmetry leaves management with little information to make efficient decisions. Ascioğlu et al., (2008) proved that companies with a high level of information asymmetry have greater investment cash flow sensitivity. Based on the

perspective of agency theory, there are various control mechanisms to minimize information risk. CSR can contribute as a mechanism to improve the quality of company information (Zhong and Gao, 2017). Attig et al., (2013) and Cho et al., (2013) state that CSR performance is able to reduce information asymmetry and suppress adverse selection that is often faced by investors who have little information by adding non-financial information. Based on the description above, the negative impact of information asymmetry can be minimized through increasing CSR performance. So the hypothesis in this study are:

H3a: CSR performance has a negative effect on information asymmetry

### **CSR performance affects the Agency Cost**

The emergence of agency problems begins when managers make decisions that tend to be selfish by diverting company resources into personal gain (Jensen and Meckling, 1976). El Ghouli et al., (2016) found that family companies with poor quality CSR performance experience greater agency problems. Preston and O'Bannon (1997) explained that CSR activities have the potential for investment inefficiency because the practice of agency cost that is used by management for personal gain affects firm value negatively. In contrast to the opinion of Preston and O'Bannon (1997), the role of CSR activities was conveyed by Waddock and Graves (1997), that social investment in CSR activities in addition to reducing conflicts of various stakeholders, also improves community and employee relations. Eccles et al., (2014) explain the implications of organizations that integrate social and environmental problems into corporate strategy. They argue that companies with high sustainability have the possibility to build stakeholder engagement relationships that limit the possibility of short-term opportunistic behavior. As explained by Benlemlih and Bitar (2016), CSR performance is part of stakeholder management to avoid agency costs so that they can meet social expectations. Based on the description above, the hypotheses in this study are:

H3b: CSR performance has a negative effect on agency cost

### **The characteristics of the Audit Committee moderate the effect of CSR on Investment Efficiency**

In practical terms, CSR is a strategy for managing the company's internal and external participation to jointly support the company's business activities (Cui et al., 2016). A study states that CSR is useful as additional information to improve the quality of decision making (Zhong and Gao, 2017). Making the right decision is expected to be able to lead companies to make efficient investment decisions. CSR performance is important because it has a link to support efficient investment decisions. Several studies by Benlemlih and Bitar (2016) and Samet and Jarboui (2017) have proven that CSR performance has a positive effect on increasing investment efficiency. CSR performance integrally provides an understanding that the company's business operations cannot be separated from the harmonious attention and participation of both shareholders, management and external stakeholders which must always be managed properly.

Agency theory provides an understanding that the relationship between management and shareholders will be effective and avoid agency costs and information asymmetry if there is a system that functions as a supervisor that monitors and provides input on its performance.

This need is based on the existence of a relationship between managers and agents who have a tendency to drive different interests because each acts to prioritize their personal interests (Jensen and Meckling, 1976).

The Audit Committee, as the party that has the authority and function of monitoring / supervising the implementation of financial reporting and company business activities, is seen as having an important role in minimizing information asymmetry and agency costs in increasing investment efficiency (Choi et al., 2014). Research by Ika and Mohd Ghazali (2012) and Buallay (2018) states that the audit committee plays an active role in limiting the opportunistic behavior of management through control mechanisms with good governance to be responsible for the quality of financial reporting. Cai et al., (2015) prove that the existence of the Audit Committee complements the internal governance system by reducing agency conflicts in the ownership structure. Based on this statement, the audit committee is expected to be able to perform an active audit function, provide suggestions and input on the implementation of financial report preparation in synergy and establish harmonious and communicative communication with management.

Buallay stated that the size of the audit committee can improve earnings quality. The greater the number of audit committees, the more diverse, expert and capable they will ensure the continuity of monitoring operations (Bédard and Gendron, 2009). The number of audit committee members allows the company to expose and solve issues and problems in the governance reporting process (Buallay, 2018). This means that the number / size of the audit committee is an integral factor for the audit committee to oversee the company's disclosure practices. Based on the explanation above, a hypothesis can be formulated as follows:

H4: The characteristics of the Audit Committee moderate the effect of CSR performance on investment efficiency.

## RESEARCH METHODS

This research was conducted with the aim of analyzing and examining the effect of the performance of Corporate Social Responsibility (CSR) on agency cost and information asymmetry, the effect of information asymmetry and agency cost on investment efficiency, the effect of CSR performance on investment efficiency with the characteristics of the audit committee as a moderating variable. The characteristics of the audit committee as a moderating variable to test whether the characteristics of the audit committee can moderate CSR performance on investment efficiency. The characteristics of the audit committee use a proxy, namely the size of the audit committee. The population in this study are non-financial companies listed on the Indonesia Stock Exchange in the 2014-2017 period. Based on the purposive sampling method, 29 companies were selected with a total of 116 observations. Data analysis in this study using e-views 9.

The dependent variable in this study is investment efficiency. Measurement of the investment efficiency variable in this study uses the model found by Biddle et al., (2009) and developed by Chen et al., (2010), the model is used to see the deviation (residual value) of the company's expected investment so that it can be used. to predict investment as a function of growth opportunities. The measurement of company investment is based on the amount of long-term investment and fixed assets of the company for the current year, compared to the



previous year, regressed with the growth in company revenue.

The independent variables in this study consist of CSR performance, information asymmetry and agency cost. The CSR variable uses data published in the Bloomberg database. The information asymmetry variable is measured using the SPREAD ratio. In line with Cheng et al., (2011) and Cho et al., (2013), calculating the spread (SPREAD) every year with the average daily bid-ask spread ratio to the closing price. Agency cost is measured using free cash flow obtained from operating income minus the amount of capital expenditure and property improvement.

The control variables in this study were company age and institutional ownership. Company age (AGE) is measured by subtracting the year the company was founded from the year the company was founded. Institutional ownership (INS) shows what level the proportion of share ownership is. Share ownership is measured as a percentage of the total issued shares, either owned by investment banks or institutions.

The moderating variable in this study uses the characteristics of the audit committee. This study uses 1 (one) moderating variable as a proxy for the characteristics of the audit committee, namely the size of the audit committee. Audit committee size shows the total number of audit committee members in the company.

## RESULTS AND DISCUSSION

### Overview of Research Objects

This study uses a sample of all companies listed on the Indonesia Stock Exchange that consistently disclose ESG and financial reports in 2014-2017 except for the financial services sector. The sample used in the study from 2014 to 2017 was 116 observations.

### Descriptive Statistical Analysis

Descriptive statistical analysis was carried out to determine the statistical picture. The information will be presented in the following table:

**Tabel 1. Descriptive Statistical Analysis Results**

Variable	N	Min	Max	Average	Median	Deviation Methods
EI	116	0.002	0.3199	0.115981	0.085663	0.079384
CSR	116	8.16	67.13	30.6759	29.22	14.73264
AGC	116	-	2.050.000.0	288.000.	3370000	19700000
		1.570.000	00.000	000.000	00	000000
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AI	116	3.0429	46.085	20.40062	16.2539	10.98853
ACZ	116	2	5	3.715517	4	0.766767
INSO	116	0.005	0.9985	0.331296	0.2033	0.321166
AGE	116	2	84	39.67241	38.5	16.89019

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EI = investment efficiency; CSR = Corporate Social Responsibility; AGC = Agency Cost; AI = Information Asymmetry; ACZ = Audit Committee Size; INSO = Institutional Ownership; AGE = Company Age.

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Source: Secondary data processed, 2019

### Data analysis technique

The data analysis tool used in this study was EVIEWS-9 which was used for descriptive statistical analysis and for testing the research hypothesis

### Analysis Test

Based on the results of data processing with multiple regression methods, it can be explained how the data is tested and the relationship between variables. The following table summarizes the results of data processing for the Eviews 9 program as follows.

**Table 2. AI Regression Test Results (Information Asymmetry)**

Variable	Coef	Error. Std	Prob
Constant	34.04401	2.870736	0.0000***
CSR	-0.386230	0.060035	0.0000***
INSO	0.867118	2.739359	0.7522
AGE	-0.053123	0.052336	0.3123
<i>S.E. Of Regresion</i>	9.425742		
<i>S.D. Dependent Var</i>	10.98853		
$R^2$	0.28		
<i>Adjusted R<sup>2</sup></i>	0.26		
<i>probability F statistic</i>	0.00		
N	116		

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CSR = Corporate Social Responsibility INSO = Institutional Ownership; AGE = company age

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Source: Secondary data processed, 2019 \*\*\* Significance Level 1%, \*\* 5%, \* 10%

**Table 3. AGC (Agency Cost) Regression Test Results**

Variable	Coef	Error. Std	Prob
Constant	2388.333	2190.140	0.2786
CSR	-13.33556	5.144021	0.0112***
INSO	628.6887	375.1667	0.0975
AGE	-48.44557	56.71779	0.3955
<i>S.E. Of Regresion</i>	655.7711		
<i>S.D. Dependent Var</i>	856.5197		
$R^2$	0.57		
<i>Adjusted R<sup>2</sup></i>	0.41		
<i>probability F statistic</i>	0.00		
N	116		

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CSR = Corporate Social Responsibility; INSO = Institutional Ownership; AGE = company age

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Source: Secondary data processed, 2019 \*\*\* Significance Level 1%, \*\* 5%, \* 10%

**Table 4. EI Regression Test Results (Investment Efficiency)**

Variable	Coef	Error. Std	Prob
Constant	0.368046	0.057468	0.0000
CSR	-0.005813	0.001717	0.0010***
AI	0.001780	0.000490	0.0004***
AGC	0.000011	0.000005	0.0518**
ACZ	-0.071100	0.014511	0.0000***
CSR*ACZ	0.001151	0.000439	0.0100***
INSO	-0.003600	0.016953	0.8322
AGE	0.000284	0.000406	0.4865
<i>S.E. Of Regresion</i>	0.040312		
<i>S.D. Dependent Var</i>	0.065939		
$R^2$	0.64		
<i>Adjusted R<sup>2</sup></i>	0.62		
<i>probability F</i>			
<i>statistic</i>	0.00		
N	116		

CSR = Corporate Social Responsibility; AI = Information Asymmetry; AGC = Agency Cost; ACZ = Audit Committee Size; INSO = Institutional Ownership; AGE = company age

Source: Secondary data processed, 2019 \*\*\* Significance Level 1%, \*\* 5%, \* 10%

## Discussion of Results

### Effect of CSR performance on Investment Efficiency (H1)

Based on testing hypothesis 1, the direct test results shown in table 4.8 provide an understanding that the CSR performance variable has a significant negative effect (probability = 0.00 < 0.05) on investment inefficiency. The negative value on the coefficient indicates that CSR has a negative effect on investment inefficiency. However, this result means the opposite that CSR has a positive effect on investment efficiency. The higher the level of corporate CSR performance will contribute to increasing investment efficiency than companies that have low CSR performance scores. These results provide evidence that high CSR performance helps companies to increase their investment towards optimal and efficient levels.

These findings explain that companies with high CSR performance contribute to optimizing investment efficiency, because through CSR performance management becomes more efficient and prudent in allocating company capital. Samet (2017) explains that high CSR performance plays a role in improving the quality of management performance in decision making and reducing financial constraints that lead to increased investment efficiency. CSR performance encourages the delivery of more transparent and reliable financial reports so that higher quality information is obtained for efficient investment decision making (Cui 2016).

The results of this study are in accordance with agency theory. A company in creating an

effective managerial environment away from the drive of personal interests is not easy, it needs a form of control and CSR performance which is a bridge that monitors management in implementing investment decisions. Implementation of CSR performance indirectly encourages company management to manage the company properly, including implementing its social responsibility. Cui (2017) views that CSR performance is a risk management mechanism that regulates and controls companies to create added value that can increase investment efficiency.

The results of this study contradict the empirical facts put forward by Yoon and Chung (2018) which state that CSR activities in preference value increase market value but in economic value have a negative impact on investment efficiency because they relate to the company's operational profitability value. Maqbool and Zameer (2018) also support this statement by explaining that the high cost of social activities for CSR activities is not balanced with the achievement of benefits that should accompany it.

### **Effect of Information Asymmetry on Investment Efficiency (H2a)**

Based on hypothesis testing (H2a), the direct test results show that the information asymmetry variable has a negative significant effect (probability = 0.00 < 0.05) on investment efficiency. This means that the higher the level of information asymmetry, the lower the level of investment efficiency or investment in the company becomes more inefficient / inefficient.

The high level of information asymmetry leads the company to a lower level of investment efficiency. The existence of a high level of information asymmetry in a company makes the distribution of information flow poor, not transparent and not credible to every stakeholder which leads to increased investment inefficiency. Information asymmetry makes management decisions biased which results in managers not making investment decisions based on accurate information. This invalid information causes management to be prudent in making inefficient investment decisions because management invests in projects that are supposed to produce higher returns. This is detrimental to the company because if the information they have is complete, valid and credible, the company should be able to get a higher return.

In terms of external factors, the flow of bad and not credible information makes the company less trusted in accessing external funding (Cheng et al., 2011). External stakeholders who have poor quality information about the company's performance and prospects tend to be hesitant and prudent in providing investment funds, either in the form of shares or loans. This results in the company having limited operational funds to take investment projects as desired. The impact is that companies become prudent and inflexible in making investment decisions due to limited funds to invest in large projects (Xu et al., 2012).

The results of this test are in accordance with the viewpoint of agency theory that the principal and management should be integrated with each other in running the business wheel for the same purpose. Ownership of quality information that prioritizes openness and transparency in a company management system is important so that there is no mistake in making strategic decisions. Decision making that is not supported by the availability of complete, quality, credible and valid information makes it difficult for management to make decisions that lead to prudent decision making. This encourages managers to reduce

investment levels which results in neglecting projects that have the potential to bring higher returns. In the end, the investment decision led the company to the problem of investment inefficiency (Samet and Jarboui, 2017).

The results of this study support research conducted by Felix (2018), Lara et al., (2016) and Benlemlih and Bitar (2016) which state that information asymmetry has an effect on investment efficiency. This result is different from the research conducted by Majeed et al., (2018) that there is no significant relationship between information asymmetry and investment inefficiency.

### **Effect of Agency Cost on Investment Efficiency (H2b)**

Based on hypothesis testing (H2b), direct test results show that the agency cost variable has a significant negative effect (probability = 0.05 < 0.1) on investment efficiency. This means that the higher the level of agency cost of a company, the lower the level of investment efficiency or make investment in the company more inefficient / inefficient.

The findings suggest that high agency cost practices have a significant negative impact on investment efficiency. This means that companies with high agency cost practices experience the phenomenon of investment inefficiency because they are prone to misuse of managerial policies that lead to excessive utilization of assets. In this condition, managers tend to take over company resources by making decisions that are more in favor of themselves. Managers are more likely to spend free cash flow on projects that are not profitable than use it for the benefit of the company such as paying dividends to shareholders (Samet and Jarboui, 2017).

The results of this study are in accordance with agency theory. This refers to the basis that as an agent, managers cannot be separated from self-interest interventions that encourage managers to make decisions based on their personal interests. Managers have access to utilize their utility as control holders in practicing business (Jensen and Meckling 1976). This leads managers to make investment decisions involving personal desire to maximize projects and profits for personal satisfaction.

The results of this study are in line with research conducted by Samet and Jarboui (2017) which states that high free cash flow in a company is closely related to investment inefficiency practices, where the use of available free cash flow is intentionally maximized for the personal benefit of managers. García Lara, Garcia Osma and Penalva, (2016) also explain the results of a similar study which explains that agency cost has a positive effect on investment inefficiency.

### **The Effect of CSR Performance on Information Asymmetry (H3a)**

Based on the results of hypothesis testing (H3a), the direct test results show that the CSR variable has a significant negative effect (probability = 0.00 < 0.05) on Information Asymmetry (AI). This means that the higher the CSR performance of a company, the lower the level of information asymmetry of a company.

The results of this test are in accordance with the viewpoint of agency theory that CSR performance is considered a relationship between the principal and the agent, namely the relationship between managers and shareholders. The relationship between CSR performance and shareholders becomes a good, compact and in accordance with the company's goals if it is

avoided from information asymmetry. Information asymmetry causes management decision making to be disturbed and bias is not in accordance with the actual conditions faced. One way to reduce information gaps caused by information asymmetry is through CSR performance. CSR is part of stakeholder management which is one of the company's strategies to integrate the interests of owners and agents (Benlemlih and Bitar, 2016). Through CSR the company is required to inform and report the overall program of activities that have been carried out. In this context, CSR performance serves as a provider of additional information on various activities that the company has carried out (Zhong and Gao 2017). This information can be used as material for consideration by management and shareholders to determine the condition of the company and to be used as business decision making.

The results of this study provide further explanation that higher CSR performance has a significant impact in reducing the level of information asymmetry. This means that high CSR performance makes the distribution of information flow more transparent and credible to every stakeholder in a company, thereby reducing the level of information asymmetry. Lopatta et al., (2016) and Kim et al., (2012) prove that CSR activities can increase company transparency and encourage managers to produce high-quality financial reports. In this condition, CSR performance becomes a better communication mechanism between managers and non-investment stakeholders. Cui (2016) explains that the relationship between CSR and information asymmetry has major implications for risk management efforts.

This study strengthens previous research. Cho et al., (2013) stated that CSR performance has a negative effect on investment inefficiency. Furthermore, Attig et al., (2013) in their research stated that CSR performance is able to reduce information asymmetry and suppress adverse selection that is often faced by investors who have little information because CSR performance will add non-financial information.

### **The Effect of CSR Performance on Agency Cost (H3b)**

Based on the results of hypothesis testing (H3b), the direct test results show that the CSR variable has a significant negative effect (probability = 0.01 < 0.05) on AGC. This means that the higher the CSR performance of a company, the lower the agency cost of a company.

The findings explain that the high CSR performance has a significant effect on reducing the agency cost level. That is, high CSR performance indicates a control mechanism that is part of risk management to limit opportunistic management behavior. Eccles et al., (2014) and Zhong and Gao (2017) explain that companies that implement CSR show higher performance which makes it easier and increases stakeholder involvement to monitor managerial activities in making business decisions so as to limit the possibility of opportunistic behavior.

The results of this study are in accordance with agency theory. CSR is considered as a strategy to build relationships between agents, principals and stakeholders. Agents are seen as having a tendency to make decisions according to personal motivation to be selfish by diverting company resources to form personal benefits that are incompatible with the interests of the owners (Jensen and Meckling, 1976). In this regard, one way to overcome opportunistic management behavior is to rely on the adoption and implementation of a CSR strategy. CSR has a function related to a form of control in the form of social investment. CSR is seen as a

social investment because in addition to reducing the conflicts of various stakeholders in CSR activities, it also improves community relations and employee relations which creates a form of control that functions to monitor, monitor and evaluate management performance (Waddock and Graves, 1997; Benlemlih and Bitar, 2016). Through CSR performance, it can encourage performance and management activities to be more monitored, limited and more responsible in carrying out managerial activities so as to reduce agency costs. CSR serves to build stakeholder engagement that is able to limit the possibility of short-term opportunistic behavior.

This empirical result is in line with the results of research by Samet and Jarboui (2017) that CSR performance has an effect on agency cost. Furthermore, Samet explained that CSR performance is able to reduce agency cost problems as a risk control mechanism related to supervision and monitoring by both internal and external parties.

#### **Audit Committee characteristics moderate the relationship between CSR performance and Investment Efficiency (H4)**

Based on the results of hypothesis testing (H4), the direct test results show that the variable characteristics of the Audit Committee which are proxied by the size of the Audit Committee (moderating variable) have a significant positive effect (probability = 0.01 < 0.05) on CSR to Investment Efficiency. This means that the higher the level of the characteristics of the audit committee will strengthen the relationship between CSR performance and investment efficiency of a company.

These results explain that the higher the size of the audit committee, the better input and quality of financial performance monitoring will be than the small number of audit committee members. The high size of the Audit Committee will provide a better and more comprehensive quality of the supervisory function and monitoring system on management performance to minimize opportunistic management actions (information asymmetry and agency costs) that lead to investment inefficiencies that are detrimental to the company. The level of size of the Audit Committee is in line with the large contribution of the Audit Committee to play an active role in solving issues and problems in the corporate governance management process (Buallay, 2018). In line with this, Bédard and Gendron (2009) stated that the more the number of Audit Committees, the more diverse the expertise brings along with their capabilities to ensure the sustainability of the effectiveness of company performance. Furthermore, Bedard and Gendron explained that the effectiveness of the Audit Committee will increase when the Audit Committee has adequate and independent quality and quantity of resources supported by the quantity of member ownership to be able to contribute to each other in increasing company transparency and accountability.

Referring to the viewpoint of agency theory, management as a party which is an extension of the company owner, is presumed to have personal motives that cause management to not always work for the benefit of the company (Jensen and Meckling, 1976). In this context, the Audit Committee is present as a system of control mechanisms to limit and monitor management behavior in carrying out business processes to suit company goals (Bédard and Gendron, 2009). Management as the control holder and having the authority to

make business investment decisions requires a function that provides assistance and performance evaluation as a second opinion for consideration. This is intended as part of the company's anticipatory steps so that management works more efficiently, transparently, accountably and with integrity.

The results of this study are in line with the research described by Ika and Mohd Ghazali (2012) that the Audit Committee has an effect on limiting opportunistic management behavior which causes information asymmetry and agency costs. Buallay (2018) further states that the number of Audit Committees forms an integral function to oversee the performance of company management. Contrary to the results of this study Blanco et al., (2014) & Cho et al, (2015) state that the results of their research show that the duties and functions of the Audit Committee do not contribute to carrying out the supervisory and monitoring function of financial reports, because in fact financial reports are still distorted or even experiencing cheating.

## CONCLUSION

Based on the data obtained and the results of the analysis carried out in this study, it can be concluded as follows: 1). CSR (Corporate Social Responsibility) performance has a significant positive effect on investment efficiency. Companies that implement CSR performance will increase investment efficiency. 2). Information asymmetry has a significant negative effect on investment efficiency. Companies that have high information asymmetry will reduce the level of investment efficiency. 3). Agency cost has a significant negative effect on investment efficiency. Companies that have a high level of agency cost will reduce the level of investment efficiency. 4). CSR (Corporate Social Responsibility) performance has a significant negative effect on information asymmetry. Companies that implement CSR performance will reduce the high level of information asymmetry. 5). CSR (Corporate Social Responsibility) performance has a significant negative effect on agency cost. Companies that implement CSR performance will reduce the large level of agency cost. 6). Characteristics of the Audit Committee, namely company size strengthens the relationship between CSR performance and investment efficiency. In improving investment efficiency, it is expected that the company will also pay attention to its non-financial performance, company size is used to strengthen the company's strategy so that the company is able to deal with capital market imperfections caused by agency costs and information asymmetry due to the characteristics of the Audit Committee who are capable and competent in their fields.

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