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Financial Performance on Firm Value With CSR As Moderated Variables

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ABSTRACT

The purpose of this study is to examine financial performance on the firm value and to examine corporate social responsibility in moderating the relationship between financial performance and firm value. This study examines the effects of financial applications on industrial figures and examines corporate social responsibility in moderating the ties of financial applications on industrial figures. This study was conducted on 28 banking companies listed on the Indonesia Stock Exchange (IDX) during the 2016–2018 period using secondary data. The samples were selected using the purposive sampling method, with a total of 84 companies. This study's data analysis technique was the simple regression analysis and moderated using Wrap PLS 7 with the independent variable of financial performance, the dependent variable of firm value, and the moderating variable of corporate social responsibility. The results showed that financial performance affected firm value, while corporate social responsibility was able to moderate financial performance on firm value.
***Keywords**: Financial Performance; Firm Value; Corporate Social Responsibility.*

INTRODUCTION

When a company experiences rapid growth, the company will need additional capital to support its operations. It can be obtained from investors as the outside parties of the company. According to (Aziz, 2017), when potential investors decide to invest, they need some related information. This information is the basis used for consideration to investing in the capital market. The predominant estimate is to see a company's good or lousy ability from the industry's value.

Mulianti (2010), quoted by (Wijaya & Sedana, 2015), stated that a company's value is significant. A company's performance can be reflected in its value, affecting investors' assessment of the company. The value of a company is always related to the stock price. If a company's stock price is getting higher, the firm value and the shareholders' prosperity will also increase. Therefore the potential investors are sure to spend their funds to buy and own a company that can provide large profits for the potential investors in the future.

The stock price of a company can change. Several factors can affect a company's stock price, namely financial performance and corporate social responsibility. The good

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and bad financial performance of a company can be seen from the profitability ratio. Profitability is the company's ability to create profit at a certain level of sales, assets, and capital. According to Ambar (2015), a company has good prospects if the profitability ratio is also high. It can cause the potential investors to give a good response; thus, the company's shares' value will increase. If the stock price increases, the firm value will automatically increase as well.

According to (Fasya, 2018), Corporate Social Responsibility (CSR) is the manifestation of implementing a company's social responsibility to society. CSR has the meaning of a company or corporate action that transfers its duties in the form of material such as money, equipment, or other gifts to the community, organization, or someone where the company operates. The company uses CSR as a strategic tool to improve its assessment in the community to impact the financial performance and the firm value.

Researches related to firm value yields inconsistent results. Studies of ((Muliani et al., 2014); (Wayan, 2014); (Ketut, 2016); (Alien; Kevin; Nurul, 2017)) stated that profitability (ROA) affects firm value. Meanwhile, research of (Sigit Hermawan; Afiyah Nurul, 2014) shows that profitability cannot influence firm value. Corporate Social Responsibility can moderate the relationship between profitability and firm value ((Muliani et al., 2014); (Sigit Hermawan; Afiyah Nurul, 2014); (Wayan, 2014); (Ketut, 2016)). However (Alien; Kevin; Nurul, 2017) stated that Corporate Social Responsibility could not moderate the relationship between profitability and firm value.

The majority of the previous research has focused on the companies whose operations impact the surrounding environment, and the products produced are products that aim to meet the community's needs. This study aims to test whether banking companies' financial performance will affect firm value and test whether corporate social responsibility in banking companies will strengthen its financial performance.

This study focuses more on banking companies whose operations do not directly impact the surrounding environment. Besides, the products produced are not the products that aim to meet the needs of society. However, according to (Simatupang, 2019) quoting Sunarsip's (2003) statement, the banking industry's existence makes this

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situation very important if we are in a developing country like Indonesia. It reminds us that the developing countries should have a saving-investment gap that the government budget cannot cover. The process of economic development can be easily calculated, and the public funds can be redistributed to society if it involves banks. Therefore it is not surprising that the role of banking in the developing countries in the economic sector is more dominant than the role of banking in the developed countries.

Indonesian Banking Statistics data (2020) supported it, showing that the development of third-party funds during 2019 continued to increase until December 2019. Based on this fact, the banking industry has good prospects. It is undoubtedly a positive signal to the potential investors that future profits in the banking industry sector will increase. It will attract potential investors to invest in the banking sector. So there is an expectation that the value of the company in the banking industry will increase. The following is the stock price data in several banking sector industries:

Table 1: Stock Price

Companies	2016	2017	2018
BCA	15.500	21.900	24.321
BNI	5.525	9.900	8.800
BRI	2.335	3.640	3.660

Source: Processed Data (2019)

In Table 1.1 above, stock prices in several banking sectors did not experience an increase. Based on the table above, it tends to fluctuate. So that, this study aims to find out whether financial performance has an effect on firm value and to examine the impact of corporate social responsibility (CSR) as one of several corporate strategies. And also increase good value in the company and whether it can moderate the relationship between financial performance in the banking companies listed on the IDX.

THEORETICAL BACKGROUND

The Effect of Financial Performance on Firm Value

The good and bad performance of the company can be seen through its profitability ratio. If the financial performance is getting better, the ability to generate

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profits will also increase. This can be seen from the profitability ratio, which has grown to provide a positive signal that the company has an excellent ability to generate profits for the investors. Suppose the profit generated by the company always increases. In that case, the stock price will also increase, or in other terms, the company's profits can improve the welfare of the company's shareholders. If the investor is well-preserved, then the investor will automatically give a good assessment to the company. This statement is in line with the research results of (Muliani et al., 2014); (Wayan, 2014); (Ketut, 2016) and (Alien; Kevin; Nurul, 2017), showing that financial performance affects the firm value. So that the hypothesis developed in this study is:

H1: Financial performance affects firm value

The Effects of Financial Performance on Firm Value with Corporate Social Responsibility as Moderated Variable

One factor that can determine a company's good or bad value is if the company does not respond well to corporate social responsibility (CSR). The low value of shares and sales volume will result in poor firm value. Companies use CSR intending to increase the reputation and the performance of the company in totality. It means that the market looks at financial performance and responds to the company's allocation of CSR. The company's allocation of CSR is one of several factors that determine the company's good and bad value. Investors will give a positive reaction when a company's performance has increased, accompanied by its concern for the surrounding environment, resulting in its improved value. This statement is supported by the findings of (Sigit Hermawan; Afiyah Nurul, 2014); (Muliani et al., 2014), (Wayan, 2014); and (Ketut, 2016), which state that CSR can moderate the relationship between financial performance and firm value. Therefore the hypothesis developed in this study is:

H2: Corporate Social Responsibility Moderates the Relationship between Financial Performance and Firm Value.

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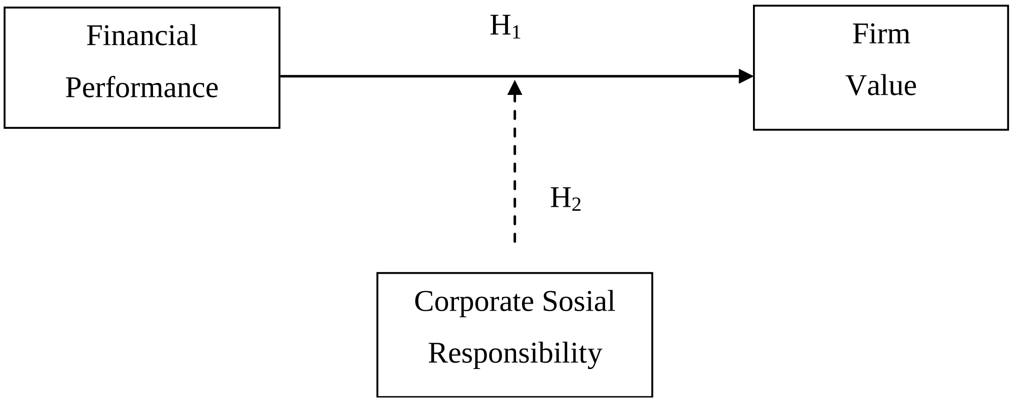

Figure 1: Framework

METHOD, DATA AND ANALYSIS

Research Variables and Operational Definition

This study uses the firm value as the dependent variable, financial performance as an independent study, and corporate social responsibility as the moderating variable. The following is an operational definition for each variable in this study:

(1) Firm value is measured using Tobin's Q ratio, namely:

$$Q = (EMV + D) / (EBV + D)$$

EMV = Equity Market Value (EMV = closing price x the number of shares distributed)

D = total debt

EBV = total assets

(2) Financial performance is measured using ROA, namely net profit after tax divided by total assets,

(3) Corporate Social Responsibility refers to GRI G4, which has 91 items disclosed in the social responsibility report. CSR calculated from the total score of items disclosed by the company divided by the maximum number of items disclosed in GRI G4.

Population and Sample

This study's population were banking companies listed on the Indonesia Stock Exchange (IDX) from 2016 to 2018. Sampling was carried out using the purposive

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sampling method with the criteria that all banking companies listed on the Indonesia Stock Exchange from 2016 to 2018 have all the necessary data for a study thoroughly.

Data Analysis Method

The analytical method used in this study is the quantitative method. The data used are secondary data with the measurement model, or the outer model is the weight of indicators and multiconnerity. Meanwhile, the structural and inner models consist of the coefficient of determination or R Square, predictive relevance, significance of path coefficient, and effect size. The data analysis tool used to test the dependent variable, moderating variable, and independent variable is the Warp PLS 7.

RESULTS

The Description of Research Object

This study's objects are the bank companies and listed on the Indonesia Stock Exchange for three consecutive years (2016-2018), which consistently publish complete annual reports and publish corporate social responsibility; the companies experience profits successively during the observation years. After the selection stage was carried out, 28 companies met the sample selection criteria. Therefore the samples used in this study are several 84 data of companies.

Descriptive Statistical Analysis

Descriptive analysis aims to provide an overview of descriptive data seen from the minimum, maximum, average (mean), sum, range, standard deviation, variance, kurtosis, and skewness (slope of distribution) (Ghozali, 2016). The results of descriptive statistical analysis can be seen in Table 4.1 as follows:

Table 2: Descriptive Statistical Analysis Result

	N	Minimum	Maximum	Mean	Std. Deviation
Firm Value	84	,4762	,8464	,595717	,0870169
Financial Performance	84	,1245	3,1343	1,290129	,7942981
Company's Sosial Responsibility	84	,0549	,3626	,180926	,0729430
Valid N (listwise)	84				

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Source: Processed Data (2020)

Measurement Model (Outer Model)

Model Fit Indicator

The statistical test results show that the P-Value of the Average Path Coefficient (APC) is P < 0.001, and the Average R-squared (ARS) is P < 0.001. So, it shows that the fit model indicators have been fulfilled. It means that the Firm Value is fit when measured with Tobins' Q, Financial Performance, measured with ROA, and Corporate Social Responsibility when measured with the CSR disclosure index.

Multicollinearity

(Solihin M; Ratmono D, 2013) stated that the interaction among variables due to moderated regression analysis might result in multicollinearity problems. (Hair, 2017) said that multicollinearity does not occur if VIF < 5, or ideally < 3.3. The Warp PLS test results show that the value of the Average Block VIF (AFIV) is 1.734 < 5, and the value of the Average Full Collinearity VIF (AFVIF) is 1.429 < 5. Both values are ideally still below 3.3 so that multicollinearity does not occur.

Structural Model (Inner Model)

R Square

R Square is used to predict the strength of the model. (Hair, 2017) divides it into three criteria, namely 0, 25 is weak model, 0.50 is moderate model, and 0.75 is substantial or decisive model. R-Square in this study are 0.414 > 0.25 and 0.414 < 0.50; this indicates that the prediction of the model's strength is weak.

Q-Square Predictive Relevance

Q2 is used to measure predictive relevance; that is, how good a model and its parameter estimations produce the observation value. (Hair, 2017) shows that the value of Q2, which is greater than zero, has predictive relevance on specific endogenous construct models. This study's Q-Square value is 0.409 > 0, meaning that this research model is good and has predictive relevance.

F2 Effect Size

The value of f2 effect size according to (Kenny, 2018) is 0.005 (effect small), 0.01 (effect moderate) and 0.025 (effect large). This study has an effect size value of

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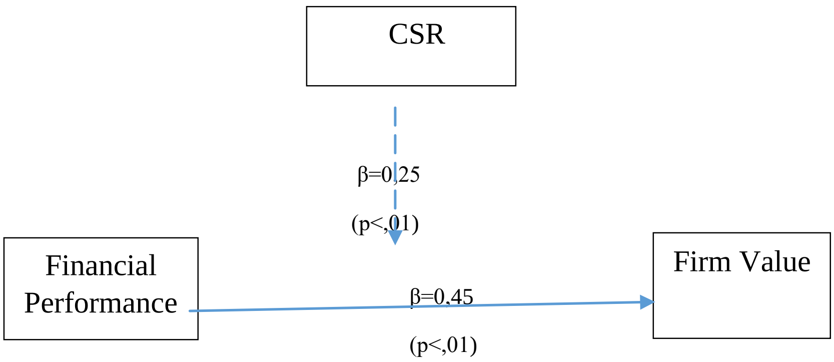
0.279 > 0.025, which indicates a large effect size, which means that moderation's contribution to explaining the endogenous latent variables is large.

Significance of Path Coefficient



Source: Processed Data in 2020

Figure 2: Significance of Path Coefficient

The results of the direct effect test in this study indicate a significance value of < 0.001. Hypothesis one (H1) is accepted, which means an effect between financial performance and firm value. In contrast, hypothesis two (H2) is accepted, indicated by a significance value of < 0.001, so Corporate Social Responsibility strengthens the effect of Financial Performance on Firm Value.

DISCUSSION

The Effect of Financial Performance on Firm Value

The first hypothesis test proves a financial performance effect as measured using ROA on firm value. It demonstrates that if a company's financial performance is getting better, its ability to generate profits will be higher. Likewise, the profit generated by the company continues to increase. It becomes a positive signal for investors who invest capital in the company because they will get a significant investment return if their profits increase. If investors' welfare is maintained automatically, the investors will also provide a good assessment of the company to increase the firm value.

This study's results do not support the research results (Sigit Hermawan; Afiyah Nurul, 2014), which states that financial performance cannot increase firm value. However,

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this study supports the results of research conducted by (Muliani et al., 2014), (Wayan, 2014), (Ketut, 2016) and (Alien; Kevin; Nurul, 2017).

The previous researches focused on companies providing products that are accessible to the public so that public trust focuses more on the good or bad products produced. However, this research's objects are banking companies, where banking companies' financial performance depends on public trust. Therefore, this study's results impact, especially on banking companies, to pay attention to their financial performance so that their financial performance continues to increase. It provides a positive signal to investors and the public; however, the banking industry's existence in developing countries such as Indonesia is very much needed. Banks will find it challenging to obtain additional capital from external parties without good financial performance. It is also difficult to gain public trust in banking.

Corporate Social Responsibility Moderates the Relationship between Financial Performance and Firm value.

The second hypothesis testing provides evidence that corporate social responsibility can strengthen the effect of financial performance on firm value. The company's image will increase when the company contributes significantly to the implementation of corporate social responsibility. When the company's image improves, it will impact increasing financial performance because investors positively signal the company to increase its value further.

This study's results do not support the findings of (Alien; Kevin; Nurul, 2017), which states that CSR cannot moderate financial performance's effect on firm value. But the results of this study support the findings of (Sigit Hermawan; Afiyah Nurul, 2014); (Muliani et al., 2014), (Wayan, 2014), and (Ketut, 2016) which state that CSR can moderate the effect of financial performance on firm value.

The company no longer carries out corporate social responsibility to comply with the company law's regulations regarding the obligation for public companies to implement CSR. Unlike the previous studies that focused on companies dealing directly with natural resources, CSR's implementation is a form of corporate responsibility to the surrounding environment. Although a banking company is not a company related to

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natural resources, CSR is considered banking companies' strategy to improve its image in the public's eyes, especially the investors. It can improve banks' financial performance where many people will trust the banks, which results in the increased firm value.

CONCLUSIONS

This study's conclusions are (1) The financial performance measured using ROA has a significant effect on Firm Value measured using Tobin's Q, (2) Corporate Social Responsibility of companies can moderate the relationship between Financial Performance and Firm Value.

The suggestion that can be given by the researchers based on the research conducted is that the company expected to continue to improve the implementation of corporate social responsibility. It's proven to enhance the company's image, improving the company's financial performance by increasing firm value.

The limitation of this study as follows: (1) Firm value as financial performance variables and corporate social responsibility has negligible effects on dependent variable; (2) This study has high researchers' subjectivity in checking the disclosure checklist of Corporate Social Responsibility using GRI-G4 index and the definition of each indicator is incomplete. This study's limitations can be taken into consideration for further researchers to obtain more optimal research results.

Based on the study's limitations, further research is to increase the number of research samples and extend the research period. Future studies can also use other performance proxies, such as ROE, GCG, PBV, or Laverge, with different models and future research to do the checklist by creating groups to minimize researchers' subjectivity in making a checklist of GRI-G4 items.

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