

# The Influence of Financial Performance and Corporate Social Responsibility on Firm's Value

(For Companies (Food and Beverage Sector) Listed in Bursa Efek Indonesia)

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**Abstract**—The purpose of this study was to determine whether the firm's financial performance mediates the relationship between CSR on firm value. The research was conducted by taking a sample of 8 companies listed in Indonesia Stock Exchange 2013-2017 for food and beverage sector. Sampling was done by purposive sampling method. The analysis technique used is regression of panel data. Based on the analysis found that the financial performance variable is not significant to firm value, only CSR is related to firm value.

**Keywords:** corporate social responsibility, financial performance, firm's value, Indonesia Stock Exchange

## I. INTRODUCTION

Each firm has a different vision and mission. It is depending on the objectives to be achieved. There are several things that express the purpose. The first one is the intention to achieve maximum profit. The second goal is to proper the owner of entity or the shareholders. And the third objective of the firm is to maximize the value of the firm which is reflected in its share price [1].

The way to measure the level of prosperity of shareholders is through the firm's value. High increasement of firm value is a long-term objective that should be achieved by a firm that will be reflected in the market price of its shares as considered by investors' valuation through the movement of stock prices of companies traded on the stock exchange. Enterprise value (EV) or also known as firm value is an important concept for investors, because it is an indicator for the market to assess the firm as a whole [2].

Firm's value illustrates how well or poorly management manages its wealth. This can be seen by the measurement of financial performance. The firm's financial performance is one of the factors seen by potential investors to determine stock investment. A firm will try to maximize the value by maintaining and improving financial performance so that the shares still exist and remain in demand [3].

Price to Book Value (PBV) is a ratio that can be used to measure the value of a firm. PBV shows the firm's ability to create corporate value in the form of prices against the availability of capital. In research conducted by Deswanto and

Siregar explains that the value of the firm using the Price to Book Value (PBV) ratio shows that financial performance has a significant and positive effect on firm value [4]. The better the financial performance of a firm the better the value of the firm. The higher the value of the firm the higher the returns obtained, and the higher the stock returns the more prosperous its shareholders.

In addition, according to Gamayuni measurement of financial performance is one of the very important factors of the firm, because these measurements are used as a basis for developing a reward system in the firm that can influence the behaviour of decision making in the firm and provide useful information in making important decisions about assets which is used to make decisions that bridge the firm's interests [5].

Through these financial ratios, it can be seen how successfully the firm's management manages its assets and capital to maximize the value of the firm. Usually investors do a review by looking at financial ratios as investment evaluation tools. With this ratio can strengthen the relationship of financial performance with firm's value. To measure the financial performance of companies usually use financial ratio analysis. These ratios include Return on Assets (ROA), Return on Equity (ROE).

This is supported by Gamayuni that states Return on Assets (ROA) is one form of profitability ratio to measure the firm's ability to generate profits using total existing assets. The results of his study concluded that Return on Assets (ROA) had a positively significant effect on firm value [5]. It was found that the total assets used for the firm's operations provide profits for the firm.

ROE is a profitability ratio to measure a firm's ability to generate profits using its existing capital. Gamayuni found ROE has a positive and significant effect on firm value [5]. But for companies involved in the field of food and beverage is a type of business in which the firm is directly related to the customer where should highly concern about the quality and quantity of the product.

In addition, nowadays the social community is very careful in choosing product to consume, both from the products to be consumed and the results of such production such as the

impacts caused by the production process both waste or materials used during the production process. Based on this reason, today companies are competing to create high quality for their products and to win the hearts of the public. Companies are competitively disclosing reports on Corporate Social Responsibility (CSR).

CSR is an ongoing commitment by the business community to act ethically and to contribute to the economic development of the local community or to the wider community, by improving the living standards of workers and their families [6].

In several studies, CSR on firm's performance showed influential results, including research by Harjoto and Laksamana in their research stating that CSR proved to have a statistically positive effect on financial performance which is proxied by Return on Assets (ROA) and has a positive effect on firm value [6].

But there are studies that find different results. Ardimas et al [7] Examined the effect of Corporate Social Responsibility (CSR) on financial performance proxied by Net Profit Margin (NPM) and Return on Equity (ROE). The results obtained are Corporate Social Responsibility (CSR) has a positive effect on Net Profit Margin (NPM) and Return on Equity (ROE), but not significant. Larasati [8] found research results that CSR had no significant effect on Return on Assets (ROA) but had a positive effect on ROE.

From several studies regarding the effect of financial performance in this case on the value of the firm can show inconsistent results. This shows the existence of other factors that also influence the relationship of financial performance to firm value. Therefore, in this study revealed corporate social responsibility (CSR) as a variable.

In addition, information about profitability in the manufacturing sector has fluctuated, resulting in reduced investor confidence. This is based on empirical data on return on assets (ROA), return on equity (ROE), corporate social responsibility (CSR) manufacturing companies listed on the IDX. The following is the overall average sample of companies from 2013-2017: PT. Wilmar Cahaya Indonesia, Tbk., PT. Delta Jakarta, Tbk., PT. Delta Jakarta, Tbk., PT. Indofood Sukses Makmur, Tbk., PT. Mayora Indah, Tbk., PT. Nippon Indosari Corpindo, Tbk., PT. Sekar Bumi, Tbk., and PT. Ultra Jaya Milk Industry, Tbk.

Founding the phenomena were Return On Assets (ROA) (8.33%), Return On Equity (ROE) (15.32%) and corporate social responsibility (CSR) (10.63%) are low and compared to Return On Assets (ROA) (24.74%), Return On Equity (ROE) (31.52%), high corporate social responsibility (CSR) (24.81%).

The signal theory explains why the firm has the urge to give financial purpose to the external trust by voluntary. The firm's encouragement is to give the problem because there are asymmetry between firm and outside trust because the firm knows more about the firm and prospects that will come from the outside trust (investor, creditor). The lack of a problem for outside trust about the firm led to them protecting themselves by delivering for the Sell for the firm. Companies can increase the value of the firm by reducing one way to reduce about

asymmetry is to signal on outside trust, one of which is a trustworthy financial problem and will reduce Uncertainty about the future prospected firm. This theory suggests about how the firm's people should give signals to financial users. This signal is a question about what is registered done by management to realize the wishes of the election. Signals can be promotions or other questions stating that the firm is better than other companies [9].

The contingency theory states that there is no best way to achieve conformity between organizational and environmental factors to acquire a good achievement for the organization. The basis of the contingency theory is that the firm has become very large, and causes the community to become pervasive so that the firm needs to implement its accountability to various sectors of society and not only to shareholders Course.

## II. METHODS

Method for this study used quantitative approach while the strategy used as associative. The data used are the financial statements of manufacturing companies in the food and beverage sector from 2013 to 2017 that are listed in Indonesian Stock Exchange. The indicators are used return on asset (ROA), return on equity (ROE), Corporate Social Responsibility (CSR) as independent variables. In addition, dependent variable is price to book value (PBV). The data are collected and organized into pooled data. Pooled data are combination of cross-section and time series data where the same cross-section units are measured at different times [10].

Testing hypothesis in this study was conducted with multiple linear regression test based on data that is processed using Eviews software 10 with the following equation and research model (figure 1).

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \varepsilon_{it} \quad (1)$$

Description:

Y: Firm's Value

$\beta_0$ : Constant

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ : regression coefficient

X1: Return on Asset

X2: Return on Equity

X3: Corporate Social Responsibility

i: Time series

t: Cross section

$\varepsilon$ : Error term

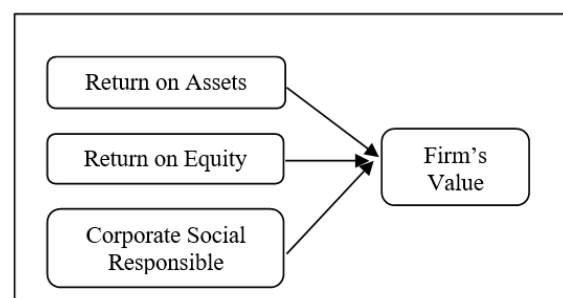


Fig. 1. Research model 2019.

### III. RESULTS AND DISCUSSION

TABLE I. RESEARCH SUMMARY RESULT

| Variable | Coefficient | Std. Error | t-statistic | Prob.  |
|----------|-------------|------------|-------------|--------|
| C        | -1.766576   | 0.825952   | -2.138837   | 0.0393 |
| ROA      | -0.016659   | 0.057520   | -0.289622   | 0.7738 |
| ROE      | 0.012186    | 0.039801   | 0.306183    | 0.7612 |
| CSR      | 0.212524    | 0.033973   | 6.255656    | 0.0000 |

#### A. *The Influence of Return on Assets (ROA) on Firm's Value*

Based on table 1, the result of the regression coefficient has negative value of -0.016659 with a probability value of 0.7738, this value is greater than the significance of 0.05. Furthermore, the value of  $T_{\text{calculate}}$  is -0.289622 smaller than 2.042. So it can be concluded that Return on Assets has no significant and negative effect on the firm's value in the firm listed on the Indonesia Stock Exchange in 2013-2017.

#### B. *The Influence of Return on Equity (ROE) on Firm's Value*

Based on the results of the T test above, results obtained from the testing of the regression coefficient of 0.012186 valued at a probability value of 0.7612 > 0.05, this value is greater than the significance of 0.05. Next, the value of  $T_{\text{calculate}}$  0.306183 <  $t_{\text{this}}$  2.042. It can be concluded that Return on Equity (ROE) has no significant and positive effect on the firm's value in the firm listed on the Indonesian stock exchange in 2013-2017. The weakening of customer demand and the increasing supply in the market forced the firm to change its sales strategy by lowering the selling price of products/services which means down the profits gained. The investors chose to secure the money by pulling it heavily, so the firm's value was shrinking. This situation will force the firm to minimize losses by restructuring the capital that will add to the loan. The high interest rate of credit due to the impact of the global crisis must be paid by the firm although it will reduce net profit and risk at the decline of the firm's value.

#### C. *The Influence of Corporate Social Responsibility (CSR) on Firm's Value*

Based on the results of the T test above, results obtained from the testing of the regression coefficient with a positive xvalue of 0.212524 with a probability value of 0.0000 < 0.05 this value is smaller than the significance level of 0.05. Next value of  $T_{\text{calculate}}$  6.255656 >  $t_{\text{this}}$  2.042. So it can be concluded that the Corporate Social Responsibility (CSR) has a significant positive impact on the firm's value in the firm listed on the Indonesia Stock Exchange in 2013-2017. In theory, the disclosure of Corporate Social Responsibility (CSR) should be considered investor's consideration before investing because therein contains social information that the firm has done. The information is expected to be considered to invest by investors. In the limited liability firm LAW No. 40 year 2007, that the firm must implement the Corporate Social Responsibility (CSR) and disclose it because if it does not implement the Corporate Social Responsibility (CSR) then the firm will be subject to sanctions. In accordance with the provisions of the laws and regulations so that the disclosure of Corporate Social Responsibility (CSR) does not influence the value of the firm.

### IV. CONCLUSION

Based on the analysis and discussion that has been explained in the previous chapter, the conclusion of the study is:

- Return on Asset (ROA) has no negative effect on the firm's value. Because the profit earned by the firm is unstable year after year.
- Return on Equity (ROE) does not impact positivity on the firm's value. Due to the high rate of credit interest impact of the global crisis should be paid firm even though it will reduce net profit of the firm and risk at the decline in the value of the firm.
- Corporate Social Responsibility (CSR) positively affects the value of the firm. This indicates that the investor responds to the disclosure of the Corporate Social Responsibility (CSR).
- There is the influence of financial performance of Return on Asset (ROA), Return on Equity (ROE) and Corporate Social Responsibility (CSR) to firm value Indonesia Stock Exchange period 2013-2017. This indicates that the firm's value is influenced by the financial performance of Return on Asset (ROA), Return on Equity (ROE) and Corporate Social Responsibility (CSR) amounting to 51.10%, while the remaining of 48.90% is influenced by other factors not [11].

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