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Financial Performance as an Intervening Variable on the Relationship of Corporate Social Responsibility Disclosure and Firm Value: Evidence From Indonesia

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***Abstract*—This study aims to analyze and explain the effect of Corporate Social Responsibility (CSR) on firm value, CSR on financial performance, and financial performance as a mediator of the effect of CSR on firm value. Data collection method used in this study is documentation of annual report and Indonesia Capital Market Directory (ICMD) issued by the company. The sampling method using purposive sampling method obtained 23 companies as the final sample. The data analysis used was path analysis. The population of this study is all mining companies listed in Indonesia Stock Exchange over the period 2013-2016. The results show that CSR does not affect on financial performance that measured by return on asset (ROA), CSR affects the financial performance that measured by Return on Sales (ROS), CSR has an effect on firm value that measured by Tobin's Q, financial performance that measured by ROA as a mediator of the effect of CSR on firm value, ROS does not mediate the effect of CSR on firm value.**

Keywords—CSR, financial, performance, firm, value

I. Introduction

The main issue in this research is about the effect of CSR disclosure on firm value related to financial performance as an intervening variable, the emergence of CSR is a form of demand from the public towards business people who do not pay attention to the impact of their business activities resulting in various environmental and social problems. Phenomenon in the field shows that there are still problems arising from the lack of attention to environmental and social conditions carried out by the company, especially for companies whose industrial activities are directly related to natural resource management such as mining companies. Judging from the various problems that arise as a result of companies that do not care about social and environmental aspects can have an impact that can harm the company itself. Losses to the company in the form of sanctions imposed by the government on the company as compensation for the problems caused by the company, and decreased public trust in the company in the form of a decline in corporate personal branding that is considered bad and will ultimately affect the company's value which declined in the stock market.

The value of the company is one of the main objectives for the company, which along with increasing the value of the company will increase prosperity for shareholders. Firm value is a reflection of company performance that is used as a benchmark for investor perceptions of a company. Firm values describe the condition of a company, as well as current performance and future prospects. The value of the company can be seen from the financial performance of the financial statements disclosed by the company, financial performance that shows a positive prospect will attract investors to invest in the company, and increase the selling price of shares in the company.

An assessment of a company's financial performance can be done with financial ratio analysis. One of the ratios that can be used to measure a company's financial performance is ROA and ROS. ROA itself is used to describe the ability of companies to generate profits with assets owned, while the ROS is used to measure the company's success in getting profits from sales [1]. The company's financial ratio illustrates the success of a company in managing assets and capital owned by the company in maximizing the value of the company.

CSR is a form of social and environmental care carried out by the company towards other parties outside the company such as the community, government, environment, workers and stakeholders, so the company does not only focus on the interests of the company alone or shareholders. Disclosure of information on social and environmental responsibility is carried out by the company to build the company's personal branding in the community. CSR disclosure by the company will enhance a positive image in the eyes of the community so as to increase personal branding and sales [2]. The application of CSR has a positive impact on financial performance, it has been proven by various studies conducted.

According to research conducted by [3] about CSR on firm value with probability as a moderating variable, states that CSR influences firm value and the probability of moderating the relationship between CSR and firm value. Research on the effect of CSR on financial performance and firm value shows that CSR disclosure affects the overall ratio of financial performance measurements, namely ROA and ROS. Disclosure of information about CSR affects financial performance related to firm value, where ROA, ROS as the ratio of financial performance, and the value of the company that is proxied by Tobin's Q from the study shows the results that ROA affects the value of the company as measured by Tobin's Q, but not by ROS that ROS does not have a significant relationship to the value of the company measured by Tobin's Q.

The variety of research findings is used as a reason for this research to be reviewed. Mining sector companies were selected as samples in this study because mining companies are companies whose operations are closely related to the exploitation of natural resources and have impacts related to environmental damage around the mining environment. So the research questions are: 1) does CSR disclosure affect firm value? 2) does CSR disclosure affect financial performance? 3) does financial performance mediate the relationship between CSR and firm value?

II. Literature Review

Legitimacy theory, signalling theory and stakeholder theory are used as grand theories in this research. According to [4] that organizational legitimacy is something given by the company to the community and vice versa, and provides something that is desired or needed by the company and the community or mutual benefit. Signal theory is a desire carried out by a company to give a signal to interested parties, where the company will give the best signal possible by disclosing all information to external parties to get a good image and reputation from the parties concerned, companies that disclose more information compared to other companies considered to have a good image and reputation in the eyes of the parties concerned. Stakeholder theory states that companies must pay attention to shareholders and stakeholders. All stakeholders are influenced and influence the company's activities and actions directly and indirectly.

CSR disclosures carried out by companies are used to provide positive signals in order to build good personal branding in the eyes of the public, the better the reputation of a company will increase public confidence in the company. The increasing personal branding of the company in the eyes of the public, it will facilitate the company in building consumer loyalty and penetrate new market share. Increasing consumer loyalty will increase company sales, where people will tend to choose products from companies that have good personal branding so that the company's product sales will increase. As the company's product sales increase, it will improve financial performance, which is proxied by ROS which is used to measure the company's success in getting profits from sales. The company's profit will also increase along with the increase in sales of the company's products, it also has an impact on the company's financial performance which is proxied by ROA, where ROA is used to describe the company's ability to generate profits with assets owned.

This is in line with the signaling theory which explains that the company's goal of disclosing CSR is to get support from the community, where the company assures the public that the company's industrial activities carried out will not cause environmental and social problems, so companies tend to use social and environmental accounting to get a response that is positive from the community and state that if disclosure of social and environmental responsibility has a positive influence on a company's financial performance, the company must consider more about CSR. Based on the description above, the hypotheses proposed in this study are as follows:

H1: CSR influences ROA

H2: CSR influences ROS

Firm value is a picture of market value, high firm value will provide many benefits for shareholders. The higher the value of a company will further increase the wealth of shareholders. Disclosure of social and environmental responsibility carried out by the company will give a positive signal to the stakeholders and shareholders. The more information received by stakeholders and shareholders about a company, it will increase the confidence of stakeholders and shareholders in the company. So that CSR disclosure that has been done will increase the value of the company.

Disclosure of CSR is used as a strategy, to get a positive response from investors through rising company stock prices. If the company has poor environmental and social performance, the company has a negative image in the eyes of investors so that the company's stock price will decrease. According to research conducted by shows that CSR disclosure has a positive effect on the value of companies proxied by Tobin's Q. This is in line with research conducted by [5] also stated that CSR has a positive influence on firm value. Based on the description above, the hypothesis proposed in this study is as follows:

H3: CSR influences firm value

CSR information disclosure is an action taken by the company voluntarily to the parties concerned with the hope of obtaining personal branding and higher firm value. This is in line with the signaling theory, where the company will give the best possible signal by disclosing all information to external parties to get a good image and reputation from interested parties, companies that disclose more information than other companies are considered to have a good image and reputation in the eyes of the parties concerned. CSR activities carried out not only attract the attention of the general public, but also improve the survival of the company in the long term. CSR carried out by the company will also attract public sympathy to increase consumer loyalty to the products of the company, thus income will increase thereby increasing financial performance. Firm value can be seen from the company's financial performance, with increasing the financial performance it will attract investors to invest in the company, so that CSR is expected to increase the value of a company through the company's financial performance that has increased continuously. A company's value is considered good if the company's performance is also good. The value of a company will increase along with the increasing financial performance of a company, investors will be willing to invest in companies with higher value to the company because it is considered to have promising prospects for investors. Investors see the company's financial ratios as an evaluation tool in making decisions to invest or not in a company. Investors will look at the probability ratio to see how much the company can produce a return on the investment they will invest. The higher the probability of the company will increase investor interest to invest in the company. According to research conducted by [5] where financial performance as an intervening variable proxied by ROA and ROS is able to mediate the relationship of CSR with firm value. The study was supported by research conducted by [6]. Based on the description above, the hypothesis proposed in this study is as follows:

H4: ROA mediates the relationship of CSR to firm value

H5: ROS mediates the relationship of CSR to firm value.

III. Research Method

All companies in the mining industry sector listed on the Indonesia Stock Exchange in 2013 to 2016 were made the population in this study. Purposive sampling is a method used to obtain a representative sample. CSR is measured by using the disclosure index calculation (1) based on ISO 26000 in the following ways:

$$CSRDI_j = \Sigma X_{ij} / n_j \qquad (1)$$

$CSRDI_j$ = corporate CSR index j
Nj = the number of items for the company j, nj = 36
Xij = the number of items disclosed by the company

Measurement of firm value which is proxied by Tobin's Q with the formula (2):

$$Q = (EMV + DEBT) / TA \qquad (2)$$

Q = firm value
DEBT = total debt at the end of the financial year
TA = total assets at the end of the financial year
EMV = equity market value (closing price)

Intervening variables in this study are financial performance which is proxied by ROA and ROS, the following is the formula used to calculate financial performance according to [1]:

ROA = Earnings after tax / total asset

ROS = Earnings after tax / net sales

IV. Result and Discussion

Based on the results of this study it can be concluded that CSR has no significant effect on financial performance measured by using ROA. This research is in line with research that has been done by [7]. CSR carried out by the company has unnecessary costs, thereby reducing shareholder profits and wealth, this causes the company's profits to decline and will be followed by an insignificant increase in ROA. This is supported by [8] states that CSR activities will add costs to the company which will become the company's operating costs so that it will ultimately reduce the company's profitability. [9] states that the costs incurred by companies for CSR activities will actually reduce the financial performance that is proxied by ROA. Corporate awareness in carrying out CSR activities that will increasingly become a financial burden for the company [7]. Finally, this situation will contribute to the decline in financial performance.

The results of this study indicate that CSR affects ROS, which means that the size of CSR disclosed by the company will affect the financial performance proxied by ROS, thus the higher the disclosure and CSR activities undertaken by the company, the more financial performance will be measured by using ROS. Disclosure and CSR activities carried out by the company will improve the image or reputation of the company will increase in the eyes of the public. Along with the increase in the company's reputation, customer loyalty from time to time will be higher opinion in the business literature states that when customers are faced with choosing products, they are more likely to choose products from companies that contribute to environmental management practices such as CSR [10]. The results of this study are in line with research conducted by [11] which states that the more often companies disclose and carry out CSR activities, they will increase product sales at the company, and ultimately will increase the value of ROS. Testing the path analysis for each variable, namely: CSRDI, ROA, ROS and Q (firm value) are as follows:

TABLE I. Hypothesis Analysis (Path Analysis)

No.	Path	Hypothesis Analysis	
		Path Coefficients	***p-value***
1	CSR->ROA	-0.050	0.388
2	CSR->ROS	-0.444	<0.001
3	CSR->Q	0.198	0.035
4	CSR->ROA->Q	0.469	0.004
5	CSR->ROS->Q	0.128	0.280

a. Source of data processing with PLS, 2018

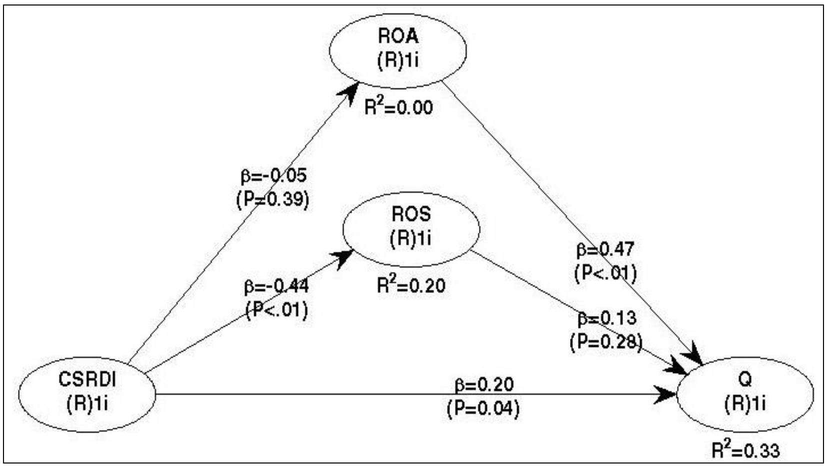

Fig. 1. Effect Size

The influence of CSR on firm value from the results of this study shows that CSR does not influence the value of the company, meaning that the higher the disclosure and CSR activities carried out by a company will further increase the value of the company. This research is in line with research conducted by [5] and [6] which states that CSR influences firm value.

The results showed that ROA is able to mediate the relationship between CSR and firm value, meaning that the size of the disclosure and CSR activities carried out by the company affects the value of the company through ROA as a proxy for financial performance, where as higher CSR disclosures made by the company will increase the value company through financial performance that is proxied by ROA. These results are in line with research conducted by [3] and [6] which proves that financial performance as measured by ROA is able to mediate the relationship between CSR and corporate value.

The results of the research that has been done can be concluded that the financial performance that is proxied by ROS is not able to mediate the relationship between CSR and corporate value. The results of this study are in line with [6] and [3] which states that ROS as a proxy of financial performance is not able to mediate the relationship between CSR and corporate value. [6] states that although sales revenue generates high profits, it does not show a high value of company assets, so investors are not yet interested in ROS as information that can increase firm value, so that ROS as a proxy for financial performance cannot influence as a mediating relationship between CSR and corporate value.

V. CONCLUSION

The conclusions of the results of this study are CSR does not affect financial performance that is measured by ROA, CSR affects the financial performance that is measured by ROS, CSR has an effect on firm values that are measured by Tobins Q, financial performance that is measured by ROA as a mediator of the effect of CSR on firm value, ROS does not mediate the effect of CSR on firm value. Limitations in this study are the p value for the average path coefficient (APC) of 0.085, while the p value for the average R-Squared (ARS) of 10.916, where the p value of APC and ARS must have a p value below 0.05. Future studies are expected to use other variables besides financial performance as a mediating relationship between CSR and firm value, such as probabilities and proxies in measuring financial performance in subsequent studies, it is faced that it can be added or replaced with return on equity (ROE), gross profit margin, and so on.

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