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The Effect of Corporate Social Responsibility on Firm Value with Financial Performance as an Intervening Variable in LQ 45 Companies Index.

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Abstract. This study aims to determine the effect of corporate social responsibility on firm value with financial performance as an intervening variable in LQ 45 companies index listed on the Indonesia Stock Exchange during the 2016-2019 period. The type of this research was quantitative. The type of data used was secondary data obtained from www.idx.co.id. Whereas, this research sample was determined by purposive sampling method by predetermined criteria. The analytical method employed was a path analysis using SPSS. The results of this study, as directly corporate social responsibility, has a positive and insignificant effect on firm value. Indirectly corporate social responsibility has a significant effect on firm value through financial performance as an intervening variable.

Keywords*: LQ45, stock market, CSR.*

1. INTRODUCTION

Recently corporate social responsibility (CSR) that improves the value of stakeholders or society has become new matric of corporate financial performance. The disclosure of CSR in the company's annual financial statements has increased from year to year, this percentage from the survey data conducted by KPMG where only 35% of the world's 250 companies report CSR, and increased in 2017 to 93% of companies that report CSR in their annual financial reports [1].

The concept of sustainability development, company sustainability will depend on how much the company can be responsible for the impact caused by the company's activities [2]. This responsibility is in the form of financial responsibility and social responsibility. The social and environmental responsibility of the company is communicated tostakeholders through the disclosure of Corporate Social Responsibility (CSR). CSR disclosure is an indicator of achieving the company's goals through the responses provided by stakeholders and the community in assessing the company's value.

Therefore, until now, many economic kinds of research from accounting, management, finance, and marketing have examined CSR from various research angles, including from cost perspective, agency theory, stakeholder theory, resource-based theory (RBV). , legitimacy theory, and reputation theory

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The environment, society, and companies are factors that are interrelated with each other so that to maintain going concern, companies indirectly should solve social and environmental problems even if it does not produce short-term and long-term benefits.

In previous research states that the concept accepted by shareholders in deciding management is to look at the company's value, which consists of three basic pillars, namely Customer Social Responsibility (CSR), Economic Social Governance, and Corporate Governance.

The current focus on corporate accountability is to prioritize the interests of shareholders. Companies tend to ignore the interests of other stakeholders. Whereas the existence of these stakeholders is closely related to the going concern of the business (going concern of an entity). This is in line with stakeholder theory where each stakeholder has an important role in the sustainability of the company and the company must prioritize the interests of all stakeholders. If the company does not prioritize stakeholder satisfaction, it will impact shareholder trust and support. Through the annual financial report, there is disclosure regarding the scope of the company's activities and its accountability to investors, creditors, and other stakeholders. The information contained in the annual financial statements will reflect the company's financial performance. Measurement of financial performance is one of the most important factors for the company because it is used as the basis for preparing a reward system in the company, which can influence decision-making behavior in the company. Through the profitability ratio, the effectiveness of financial performance can be used in maximizing firm value [3].

According to the good management theory, the company will increase its CSR activities to build a good reputation in stakeholders. Because stakeholders will be attracted to companies that have good financial performance. CSR does not only have an impact on stakeholder relationships and company reputation but also company value. Firm value is the process of exploiting the economic value of a company. Firm value is used to determine the fair value of a business, and to assist investors in making decisions [4].

Firm value is determined by investors' perceptions of the company's ability to generate cash flow. The cash flow approach favored by investors in assessing the company, so the focus on free cash flow manager can raise the stock price. In implementing free cash flow, it can be seen from the use of corporate social responsibility (CSR) funds, as well as the company's financial performance.

There have been many studies on the topic of research on corporate value, financial performance, and CSR. However, there are still inconsistent differences in the results of research on this topic. In research [4] in his research in Egypt, it is proven that CSR has a negative effect which is not significant to firm value but has a positive and significant effect on financial performance. Similar results are also found in research, and [5] that there is no significant relationship between CSR and financial performance on firm value.

However, according to several studies conducted [3], and prove that CSR has a positive and significant effect on firm value. This is because CSR can be useful internally, namely motivating employees and good management practices, and externally it can maintain the company's reputation in the community and stakeholders and help maintain better company management. So that CSR will provide benefits in the company value listed from the company's stock price.

Based on the slack resource theory, companies must have a good financial performance to be able to implement CSR [4]. Research [4], [6], and [7] show that CSR can significantly positively improve financial performance. Research revealed that financial performance has a positive effect on firm value [8], [9],[10].

However, based on research [5] CSR has a significant negative effect on financial performance as seen from the proxies for ROA and ROE. And in the research conducted [11] financial performance harms firm value.

Based on research [12] CSR can increase company value by moderating profitability. This is because there is an indirect relationship between CSR and the company's financial performance due to the response of stakeholders as the mediator. Based on the stakeholder theory according to [13] CSR can positively affect the value of the company because CSR can help companies get positive responses from stakeholders.

Based on the description above, the researcher is interested in further researching the effect of CSR, financial performance, and company value by taking the title of the research entitled "The Effect of Corporate Social Responsibility (CSR) on Firm Value with Financial Performance as an Intervening Variable in LQ 45 Companies".

2. THEORY AND HYPOTHESES

2.1. Agency Theory

According to [14] agency theory is:

"Agency theory is based on the relationship between parties involved in the management of the company, namely shareholders (principals) and managers (agents). So, agency theory occurs because of the separation of parties who play a role in managing the company, namely between shareholders and managers, both of which tend to have different interests.

2.2. Legitimacy Theory

According to the theory of legitimacy is:

"The legitimacy theory is based on the phenomenon of social contact between an organization and society, where an organizational goal is needed which should be congruent with the values that exist in a society. According to this theory, organizational action must have activities and performance that are acceptable to society."

The legitimacy theory is a theory which states that a company in a credible form of the business should be in harmony with the values that exist in society. The change of the value system of the company and society can impact to the existence of the company.

2.3. Signaling Theory

According to Signaling theory is:

"Signaling theory or signal theory is a theory that underlies voluntary disclosure in which companies are encouraged to provide information to parties outside the company. This is because of the differences that occur in the reporting manager and outsiders. The discrepancies in reporting are usually caused by one of the parties is more aware than the other parties. Managers in the company have more complete information about company activities than other parties."

The signal theory is related to the openness of the company in disclosing company information to shareholders or other stakeholders. The corporate disclosure would be a signal to investors or external parties which will affect the movement of a company's value.

2.4. Stakeholder Theory

According to Stakeholder theory is:

"Stakeholder theory is not only centered on stakeholder-oriented but all stakeholders should be involved in decision-making companies that have an impact on the shareholders, the managers have a fiduciary duty to improve the profitability of all stakeholder groups, the purpose of the company should contain the promotion of all the interests of the company and not just the interests of shareholders. "

Stakeholder theory is a theory that describes the company's responsibility to related parties. One of the parties is the responsibility of the company is to maintain relationships with stakeholders to accommodate their desires and needs. One way to keep the relationship between the company and stakeholders is by implementing CSR and increasing corporate value. With the implementation of a good relationship between companies

2.5. Hypotheses

In the agency theory, two companies influence the operation of a company, namely the agent (manager) and the owner/principal (shareholder). Conflict in agency theory occurs because of differences in interests between the two parties. This is because managers prioritize personal interests compared to company goals. To minimize this conflict, there are 2 ways to do it, namely by emphasizing the shareholder (market forces) and spending supervision (agency cost).

According to [12] CSR is one of the policies that can help solve agency problems because the existence of CSR allows shareholders to commit to reducing supervision costs and can pressure managers to try to increase profits as high as possible.

CSR disclosure shows that the company's goal is not only to seek profit but also to align with the goals or values of the surrounding community to maintain the sustainability of both the company or the environment and the surrounding community. Also, CSR is a strategy to fulfill shareholders' desires which can be realized by increasing the company's financial performance to achieve profit.

To be able to budget CSR, the company must have good financial performance. Financial performance can be seen from the company's financial condition during a certain period. Financial performance is the result of various policies made by company management to run the company effectively and efficiently.

This is because investors tend to invest in companies that are stable and can provide profit. In general, a stable company has CSR funds for the environment and its surroundings, wherewith this CSR a company can harmonize corporate values and environmental values for the community. This will certainly help bring the company's good name to the environment and society, which can increase the company's value which can be seen from the increase in stock prices.

H1: CSR has a significant positive effect on firm value.

H2: CSR has a significant positive effect on firm value through financial performance.

3. RESEARCH METHODS

3.1. Population, Sample, and Sampling Techniques

This type of research was quantitative research with data used were secondary data sourced from the annual report of LQ 45 index companies listed on the Indonesia Stock Exchange in 2016-2019. The data were obtained through direct access from the Indonesia Stock Exchange website (www.idx.com). The population in this study was LQ 45 index companies listed on the Indonesia Stock Exchange (IDX) in 2016-2019. Where, the sampling in this study use a purposive sampling method, which is sample selection technique based on specific criteria. The sample selection criteria were as follows : (1) Companies that are on the LQ 45 index during the 2016-2019 period. (2) Companies that are in the index of LQ 45 in a row during the period 2016-2019. (3) The company publishes complete annual reports and presents independent auditors' reports successively during the 2016-2019 period.

3.2. Definition of Operational Variables and their Measurements

- Dependent Variable

Frim value is the dependent variable. According to the value of the company is:

"The company value is a description of a company according to investors, which is often reflected in the stock price. Firm value is an illustration of market value because the firm value can increase profits for shareholders if the share price increases. "

So, firm value is the investor's perception of the company's success rate associated with the stock price. The high share price makes the company value also high. A high company value will make the market believe not only in the company's current performance but in the company's prospects.

This study examines firm value with an approach using Tobin's Q ratio. The reason for choosing the Tobin's Q ratio in this study to measure firm value is because the calculation of the Tobin's Q ratio is more rational considering that the elements of obligation are also included as the basis for the calculation. One of the following modified and simplified versions of Tobin's Q:

$$Tobin's\ q = (MVE + DEBT) / TA$$

Note:
MVE (Market Value Equity) : The closing price of shares at the end of the year x the number of ordinary shares outstanding.

DEBT : total current liabilities + total non-current liabilities TA : total assets

- Intervening Variable

Financial performance is intervening variable that use ROA as indicator. According to financial performance is:

"Financial performance is an achievement that the company has achieved in a certain period that reflects the health level of the company."

So, financial performance is the result achieved by the company in managing the company is reflected in the level of the company's financial health.

$$ROA = \frac{Earning\ Avaliable\ for\ Common\ Stock\ Holder}{Total\ Asset}$$

- Independent Variable

Corporate social responsibility is independent variable.

According to The World Business Council for Sustainable Development (WBCSD), corporate social responsibility is a business commitment to contribute to sustainable economic development, working with company employees, the families of these employees, as well as local communities and communities as well as the whole, to improve the quality of life in ways that are beneficial to both one's own business and for development. Corporate Social Responsibility (CSR) is a corporate social responsibility.

So it can be concluded that Corporate Social Responsibility (CSR) is a company effort to improve the quality of life of employees, society, and the environment as a form of a contribution to sustainable socio-economic development that reflects through good business practices.

$$CSRIj = \sum Xij / nj$$

Note:
CSDI : Corporate Social Responsibility Disclosure Index of the company j.
Xij : Dummy variable; a score of 1 for disclosed CSR items and a score of 0 for undisclosed items. Nj : The number of items for company j, nj = 83.

In this study, the model used was path analysis.

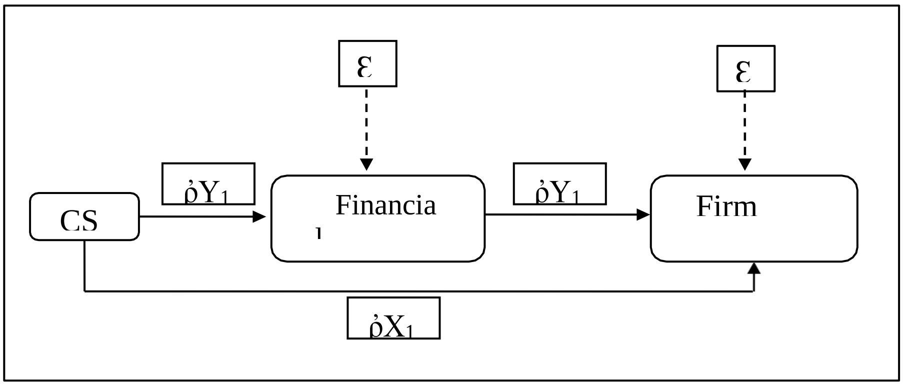

Figure 1

Based on the path diagram above, the structural equation formula is formulated:

$$Y1 = \dot{\rho}Y1X1 + \mathcal{E}1$$
$$Y2 = \dot{\rho}X1Z + \dot{\rho}Y1\ Z + \mathcal{E}2$$

Note:
Y1 = Financial Performance Z = Company Value
X1 = CSR
ṗY1X1 = CSR path coefficient with financial performance
ṗX1Z = CSR path coefficient with firm value
ṗY1 Z = path coefficient of financial performance with firm value Ɛ1 Ɛ2 = Error term

4. RESULT AND DISCUSSION

1. Path coefficient model I

Table 1
Path Coefficient Model I

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,367[a]	,134	,123	4,73521

a. Predictors: (Constant), CSR

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	,475	1,772		,268	,789
	CSR	14,393	4,137	,367	3,479	,001

a. Dependent Variable: ROA

Source: Result of the SPSS Data Process, 2020

Based on the results of Model I Regression in the coefficient section, it can be seen that the significance value of the variable X = 0.001 is smaller than 0.05. These results conclude that Model I Regression, namely the CSR disclosure variable (X) has a significant effect on the financial performance variable ROA (Y). The value of R2 or R Square found in the Model Summary table is 0.134, this shows that the contribution of X's influence on Y is 13.4% while the remaining 86.6% is the contribution of other variables not included in the study. Meanwhile, for e1 it can be found with the formula e1 = √ (1-R2), thus e1 = 0.9306. Thus the path diagram for the model I is obtained as follows:

Y1 = 0.367XY + 0.9306

2. Path coefficient model II

Table 2

Path Coefficient Model II

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,532[a]	,283	,264	,90146

a. Predictors: (Constant), ROA, CSR

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	T	Sig.
1	(Constant)	,820	,338		2,429	,017
	CSR	,506	,846	,062	,598	,552
	ROA	,105	,022	,506	4,878	,000

a. Dependent Variable: Tobin Q

Source: Result of the SPSS Data Process, 2020

Based on the results of Regression Model II in the coefficient section, it can be seen that the significance value of the variable X = 0.552 is greater than 0.05 and the Y variable is Y = 0.0001 less than 0.05. These results conclude that the Regression Model II, namely the CSR disclosure variable (X) has no significant effect on Z and the Y variable has a significant effect on Z.The value of R2 or R Square found in the Model Summary table is 0.283, this shows that the contribution The effect of X on Y is 28.3% while the remaining 71.7% is the contribution of other variables not included in the study. Meanwhile, e2 can be found using the formula e2 = √ (1-R2), thus e2 = 0.8468. Thus, the path diagram model II is obtained as follows:

Y2 = 0.062 XZ + 0.506YZ + 0.8468.

From the results of the SPSS output above, this study can find out whether there is a relationship that means that the intervening variable is significantly capable of acting as a mediator in the relationship. Where the Sobel test uses the z test with the formula:

$$z = \frac{ab}{\sqrt{(b^2 SE_a^2) + ((b^2 SE_b^2)}}$$

Where it is known that a = 14.393, b = 0.105, SEa = 4.137 and Seb = 0.022, the z test value is 2.811, because the z value obtained is 2.811> 1.98 with a significance level of 5%, it proves that financial performance can mediate the relationship between the influence of CSR to company value.

The following is an interpretation of the test results between the independent variables and the dependent variables through the intervening variables, namely CSR, ROA, and Tobin Q.

1. The effect of CSR on financial performance

Analysis of the effect of X on Y: from the above analysis, the significance value of X is 0.001 <0.05. So it can be concluded that there is a direct significant effect of X on Y.This supports the research of Hafez [4] which shows that CSR disclosure has a positive and significant effect on financial performance.

2. The effect of CSR on firm value

Analysis of the effect of X on Z: from the above analysis the significance value of X is 0.552> 0.05. So it can be concluded that X directly has an insignificant effect on Z. This supports the research of Hafez [4] which shows that CSR has a positive and insignificant effect on firm value.

3. The effect of financial performance on firm value

Y analysis on Z: from the above analysis, the Y significance value is 0.000 <0.05. So it can be concluded that there is a direct significant effect of Y on Z.This supports the research of Sari et al. [10] which shows that financial performance has a positive and significant effect on firm value.

4. The effect of CSR on firm value through financial performance

Analysis of the effect of X through Y on Z: it is known that the direct effect X on Z is 0.062. While the indirect effect of X through Y on Z is the multiplication of the beta value X against Y with the beta value of Y on Z, namely: 0.367 x 0.506 = 0.186.

Then the total effect given by X on Z is the direct effect plus the indirect effect, namely: 0.062 + 0.186 = 0.248. Based on the results of the above calculations, and known that the value of the direct effect is 0.062 and the indirect effect is 0.186, which means that the value of the indirect effect is greater than the direct effect, the result shows that indirectly X through Y has a significant effect on Z.

This supports the research of Rahardjo et al (2016) which shows that indirectly CSR disclosure has a significant effect on firm value through financial performance.

5. CONCLUSION

- CSR has a positive and significant effect on financial performance.
- CSR has a positive and insignificant effect on firm value.
- Financial performance has a positive and significant effect on firm value.
- Indirectly, CSR disclosure has a significant effect on firm value through financial performance.
- Financial performance can mediate the relationship between the influences of CSR on firm value.

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