Impact of Financial Performance and CSR Disclosures on Consumer Goods Industry Companies

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Abstract. This paper aim to examine the influence of financial performance and disclosure of corporate social responsibility on the market value of consumer goods manufacturing companies listed on the Indonesia Stock Exchange in 2019–2020. The investigation utilizes secondary data extracted from annual financial statements. This study employs a sample of 50 companies that was selected purposively. By employing multiple linear regression model, the test results demonstrate a significantly positive relationship between financial performance as a proxy for return on assets (ROA) and firm value (Tobins Q). These results indicate that the company's capability to generalize assets into profits has a positive impact on the company's market value. Other findings indicate that corporate social responsibility as proxied by the global reporting initiative (GRI) index has a positive and statistically significant influence on company value, implying that disclosure of social responsibility investments has contributed to the enhancement of business reputation. This study can serve as a practical resource for business actors seeking to maximize corporate value by improving financial performance and disclosing social responsibility initiatives.

Keywords: Profitability · Corporate Social Responsibility · Company Value

1 Introduction

During the Covid-19 outbreak, many Indonesian companies were under financial duress and neglected their social responsibility efforts. Companies involved in CONSUMER GOODS, on the other hand, have seen increasing financial performance and social responsibility initiatives focused at assisting residents infected with the Covid-19 virus. This phenomenon indicates that, although the Covid-19 pandemic, consumer goods firms are profitable and investing their wealth in socially responsible actions. Based on this occurrence, the goal of the study is to explore the impact of financial performance and disclosure of social responsibility investments on the company's market value.

Based on occurrences in Indonesia, the Covid-19 pandemic might be considered as an opportunity for corporations to improve their reputation and future financial performance. Many prior research have demonstrated that a company's market value is closely

R. Rahmawati et al. (Eds.): ICBE 2022, AEBMR 229, pp. 37–44, 2022.
https://doi.org/10.2991/978-94-6463-066-4_5

related to its social responsibility and financial performance. Investor confidence in purchasing company shares is influenced by the firm's valuation, which affects performance and future expectations [1, 2]. The financial success of a firm as reflected in its financial statements for a given period is an important factor that investors consider when investing in stocks. Financial statements are used by investors to forecast future earnings and as a decision-making tool [3]. Financial statements are reports that show the existing or forecast financial position of a corporation [4]. Global economic success will compel companies disclosing their social responsibilities. Corporate social responsibility can raise a company's performance by improving its image and attracting new resources [3].

According to [5], corporate social responsibility leads to a competitive advantage and improved revenues. Meanwhile, [6] shown that investing in social responsibility has a considerable positive influence on firm sustainability. Reference [7] discovered evidence that social responsibility promotes company reputation improvement. Another study found that investors are interested in the disclosure of social responsibility in the social and environmental domains while making investment decisions [7].

Social responsibility has a positive and considerable effect on corporate value, according to research [8, 9]. The purpose of this study is to assess the motivations for social disclosure as a measure of social responsibility [10–12]. According to Reintjes [13], the influence of sustainability disclosure on firm value can predict future financial success. According to [14], the perceived benefits of social responsibility outweigh the costs and have an impact on raising corporate value. Social responsibility include the protection of employee welfare, which can boost productivity, business image, and public trust, boosting brand image and competitiveness. Social responsibility can help to build long-term development goals [15].

According to research [16, 17], social responsibility has a favorable association with firm value [18]. This statement indicates that when a corporation fails to declare its social responsibility efforts, the impact on the value and reputation of the company decreases. On the other side, when firms report on their social responsibility efforts, their stock value rises. Social responsibility is defined as a notion that encompasses the environment, employees, communities, and shareholders, as well as the environmental, social, and governance aspects. Firm value serves as a proxy for Tobin's Q as the dependent variable. Tobin's Q is calculated by [19] as the entire book value of assets minus book value and equity market value, divided by the total book value of assets. Tobin's Q is a variable used to calculate a company's value based on its future market value [20, 21].

Several prior studies have demonstrated that the higher the Return on Assets, the greater the firm value [22–24]. Other study, on the other hand, indicates that Return on Assets has a negative and small impact on the company's value [25, 26]. According to these studies, an improvement in profitability or financial performance cannot affect market perceptions of firm value because other factors are suspected to be disruptive.

The differences in prior studies' findings on the effects of social responsibility and financial performance on company market value make this an issue worth debating. Several earlier research concluded that there is no association between disclosure and financial performance [27–31]. Stakeholders prefer high-profit corporations to those that report on social responsibility [30]. These findings are supported by a study [32] that discovered that disclosing social responsibility has no influence on corporate value.

According to research [33], social responsibility that focuses on community participation has a direct positive impact on firm value, whereas [3, 34] state that the disclosure of social responsibility has a positive and significant effect on firm value. As a result, the findings of this study will fill a void left by earlier research.

2 Literature Review

This study employs compliance theory to demonstrate how financial performance and corporate social responsibility impact corporate value. According to compliance theory [35–37], companies must comply with rules and norms that are realized through social action in order to gain recognition from society and the environment, business stability, and achieve good corporate governance practices [38].

Corporate value is a reflection of stakeholders' confidence in the company's ability to meet specified conditions, as a result of the company's operations from their inception to the present. According to [17], optimizing company values is a company's normative objective. For publicly traded corporations, maximizing company value equates to maximizing the stock market price, which maximizes the wealth of shareholders or company owners [18].

The profitability ratio based on Return On Assets is a measurement of a company's capacity to generate profit from its assets [22]. Return on Assets measures profitability by indicating a company's capacity to generate profits from its total assets [39]. Tobins Q is utilized to forecast firm worth by comparing market value to accounting value [40–42].

3 Methodology and Data Analysis

Secondary data from annual reports of consumer goods manufacturing companies listed on the Indonesia Stock Exchange in 2019–2020 is utilized in this study. This study gathered information from 94 annual reports of Indonesian consumer products manufacturing companies. However, many annual reports lack the necessary information for this study. As a result, the sample was chosen on purpose using the following criteria: companies that provide complete information in line with the objectives of this study. Previous research has demonstrated that purposive sampling is suitable for all types of data and generates a convenience sample (Van Ryzin, 1995). Ultimately, a sample of 50 selected companies was obtained for this study.

The assessment of the return on asset ratio (ROA) variable in this study refers to research [43], specifically by dividing total assets (TA) by earnings after tax (EBT) (EAT). Meanwhile, the social responsibility variable is measured using the global reporting initiative (GRI) index score which is displayed in the company's annual report. Furthermore, according to a study [44], the Tobins Q variable is calculated by adding the liquidation value of preferred stock (PS), year-end value of common stock (MVE), book value of inventory (BVI), and total debt (TD), which is then divided by the book value of the company's total assets (TA).

Multiple linear regression models are used in this study to analyze the influence of financial performance (ROA), corporate social responsibility (CSR), and firm market value (Tobins Q). This model is widely used to determine the impact of the independent

Table 1. Statistik Deskriptif

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ROA	50	3.72	9.32	5.21	3.39
CSR	50	2.73	0.43	−0.84	0.43
Tobins Q	50	2.35	8.11	1.47	2.44
Valid N (listwise)	50				

variable on the dependent variable (Wang et al., 2013). The econometric model in this study is defined as follows:

$$\textbf{Tobins Q} = \boldsymbol{\alpha} + \boldsymbol{\beta}\textbf{1 ROA} + \boldsymbol{\beta}\textbf{2 CSR} + \boldsymbol{\mu} \tag{1}$$

where Tobins Q is the company's market value; ROA is the return on asset ratio; CSR is a the value of global reporting initiative (GRI) index; α is constant; β is coefficient; μ is error sign.

4 Result and Discussion

Table 1 illustrates that the Tobins Q variable with an average value (mean) greater than 1 suggests that the company's capital market value tends to rise. With a standard deviation of 2.43%, when the standard deviation value is more than the average value, the outcomes are poor. Because the standard deviation is relatively high, the spread of data produces aberrant results and promotes bias. Tobins' Q has a minimum value of −3.72% and a high value of 8.11%. According to this result, the Tobins Q fluctuation is not exceptionally high.

The ROA variable has an average value (mean) of 5.21% and a standard deviation of 3.38%. Because the standard deviation is less than the mean, the findings are fairly good. This is because the deviation's reflection is so great that the data distribution produces normal results and does not induce bias. The lowest ROA value is −3.72% and the highest is 9.32%. These findings imply that changes in Return On Assets are not excessive.

The CSR variable has an average (mean) value of −0.84% and a standard deviation of 0.43%, where the standard deviation is less than the mean, indicating that the results are fairly satisfactory. This is due to the fact that the standard deviation is a reflection of a very large variance, therefore the data distribution displays normal results and is not biased. Minimum CSR value is −2.73% and highest −0.43%. These findings demonstrate that changes in social responsibility are not excessively high.

This study tested the hypothesis to determine the effect of financial performance and Corporate Social Responsibility on the market value of a firm, and the following findings were determined (Table 2).

It is recognized that financial performance influences company value (Tobins Q) based on partial test findings of financial performance (ROA). The study [7] supports the conclusion that financial performance has a favorable effect on firm value. This

Table 2. Regression Results

Variable	Coefficient	t-Statistic	Prob
C	111.18	0.35	0.73
ROA	−0.34	−2.40	0.02**
CSR	197.57	2.66	0.01*

Note(s): Dependent variable is Tobin Q; Signs * and ** indicate p-value $< 1\%$ and p-value $< 5\%$, respectively

demonstrates that the higher ROA, the greater the impact on the company's value, which will likewise rise. A positive ROA suggests that a profit can be made on the total assets utilized to operate. For investors, an evaluation of the company's capacity to generate profits is essential. The larger the profit of a business, the better its performance. It can be claimed that the better the company, the higher its worth.

The t-test results explain the value of - t in the regression model, indicating that the independent variable on the dependent variable influences firm value substantially. Disclosure of social responsibility has a t-value of 2.65 and a significance value of 0.01 < 0.05, suggesting that disclosure of social responsibility influences corporate value (Tobins Q). The greater the disclosure of social responsibility, the greater the impact on the company's value.

5 Conclusion

This study examines the effect of financial performance and social responsibility on the market value of corporations by examining consumer products manufacturing firms in Indonesia during the Covid-19 pandemic. It has been demonstrated that the financial performance proxied by ROA has a positive and significant effect on the company's value proxied by Tobins Q. The higher the ROA, the better the value of the company. A positive ROA indicates that the company can generate a profit from its total operating assets. Disclosure of social responsibility (CSR) has a positive and substantial effect on corporate value, as measured by Tobins Q. The greater the extent to which a firm discloses its social disclosure features, the larger the effect on the company's value. This study suggests, based on these findings, that the Covid-19 pandemic presents a chance for corporate actors to raise firm value by investing in greater social responsibility, which ultimately improves future financial performance.

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