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Analysis of the Influence of Financial Performance on Company Value by Disclosure of Corporate Social Responsibility and Good Corporate Governance as Moderating Variables

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Abstract: The aim of this research is to identify the influence of financial performance to firm value with moderating variables: Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG). The main method of analysis used is the multiple linear regression. By using the manufacturing companies registered on the Indonesia Stock Exchange (IDX) during 2012-2015 as the sample with purposive sampling technique. The analysis finds that Corporate Social Responsibility and Good Corporate Governance can influence the effect of financial performance on firm value. Beside, this research also found that ROA has positive significance to Tobin's Q.

Keywords: Corporate Social Responsibility, Financial Performance, Firm Value, Good Corporate Governance.

INTRODUCTION

Financial performance can be shown through the results of calculations from the accounting process which are often called financial reports. Information from these financial statements has a function other than as a means of information as well as a management accountability tool to company owners and a description of indicators of company success as well as material in consideration of decision making (Harahap, 2004). Therefore, investors usually use this information as a benchmark in buying and selling shares of a company.

Assessment of the company's financial performance can be done by financial ratio analysis. One of the ratios that can be used to measure a company's financial performance is return on assets (ROA). Return on assets (ROA) itself is a form of profitability ratios to measure a company's ability to generate profit by using the total existing assets. A positive ROA indicates that the total assets used for the company's operations are able to provide profit for the company. Conversely, if the ROA is negative, it indicates that the total assets used are not profitable. Therefore, the more positive the value of ROA, the better financial performance will also be followed by an increase in the stock price of the company.

Firm value is an investor's perception of the company, which is often associated with stock prices. High stock prices make the company value also high. The main goal of the company according to the theory of the firm is to maximize the wealth or value of the firm (Salvatore, 2005). High corporate value can increase prosperity for shareholders, so that shareholders will invest their capital in the company (Haruman, 2008). This is also a success of the company in achieving its goals. The success of achieving company goals depends on the performance of the company and company managers in carrying out their responsibilities. In the long run, the value of a stock generally moves in the direction of the company's performance.

According to Modigliani and Miller (1961) explains that the value of the company is determined by the economic profitability or earning power of the company's assets. The level of earning power is determined by two factors, namely the profit margin, which is the ratio of net profit to net sales and turnover of operating assets, namely the speed at which operating assets rotate in a certain period by dividing net sales by total assets. So that it can be seen that the higher the earning power, the more efficient the asset turnover and/or the higher the profit margin obtained by the company, this will have an impact on the company's value.

By implementing Corporate Social Responsibility, companies can create a good image for the company so as to generate positive ratings from consumers who are able to increase their loyalty to the products produced by the company. The better the disclosure of Corporate Social Responsibility, the higher the consumer loyalty which will have an impact on increasing sales which can provide added value for the company.

According to stakeholder theory, companies must make social disclosures as a form of responsibility to stakeholders. This shows that in addition to looking at financial performance, the market also responds positively to CSR disclosures by companies (Wirakusuma and Yuniasih, 2009).

The concept of sustainable development is a development concept in which meeting the needs of today's human life should not interfere with the ability of the next generation to meet their needs in the future. Based on this concept, the concept of sustainability management emerged. In this case, the benefits of sustainable management are that the company will care more about the community and the surrounding environment in the development of Corporate Social Responsibility (CSR), where the company is not only pursuing profit, but must also maintain and provide added value to the community and the environment.

The Global Reporting Initiative (GRI) has issued guidelines that can be used to measure sustainability management practices in the form of the GRI Sustainability Reporting Guidelines version 3.0 by showing several important elements related to 3 aspects, namely the economy, environment and people which will be reflected in sustainability reporting.

Sustainability Reporting is reporting on economic, environmental and social policies, influence and performance of organizations and their products in the context of sustainable development. Companies that have gone public have the obligation to make sustainability reports in accordance with the mandate of Article 66 paragraph 2 of Law no. 40 of 2007 concerning Limited Liability Companies. Bapepam has issued regulations requiring public companies to disclose the implementation of their CSR activities in their annual reports.

Furthermore, disclosure of Corporate Social Responsibility was chosen as a moderating variable because Corporate Social Responsibility activities are part of good corporate governance which is expected to strengthen the relationship between financial performance and firm value. However, this does not rule out the possibility that this only occurs in certain companies because the conditions of each company are different, both in terms of vision, mission, market segments and company management which makes it possible that the implementation of Corporate Social Responsibility and Good Corporate Governance does not affect the increase in company value. .

Corporate governance is a system that regulates and controls companies that are expected to provide and increase corporate value to shareholders (Shleifer and Vishny, 1997). FCGI (Forum for Corporate Governance in Indonesia) in (Susanti, 2010) explains that the purpose of corporate governance is "to create added value for all interested parties (stakeholders)."

Good Corporate Governance (GCG) is said to be able to create added value because by implementing Good Corporate Governance, it is hoped that the company will have good performance so that it can create added value and increase corporate value which can provide benefits for shareholders or company owners. In more detail, corporate governance terminology can be used to explain the roles and behavior of the board of directors, board of commissioners, company management and shareholders. (Susanti, 2010)

Based on the explanation above, this research takes the title "The Influence of Financial Performance on Firm Value by Disclosure of Corporate Social Responsibility and Good Corporate Governance as Moderating Variables". The variable used in this study is financial performance proxied by profitability, measured by Return on Assets (ROA) and company value as measured by Tobin's Q, as well as disclosure of Corporate Social Responsibility based on the Global Reporting Index (GRI), and disclosure of Good Corporate Governance based on the main guidelines for implementing Corporate Governance issued by the Committee National Governance Policy (KNKG) as a moderating variable.

LITERATURE REVIEW

Financial Performance

Performance is a description of the level of achievement of the implementation of a company's activities in realizing the goals, objectives, mission and vision of an organization contained in the strategic planning of a company. Meanwhile, financial performance is work performance that has been achieved by the company in a certain period and is stated in the financial statements of the company concerned (Munawir, 1998)

Measurement of financial performance can be done by assessing the analysis of financial statements. Financial ratio analysis is the basis for assessing and analyzing the company's operating achievements or company performance. Financial ratios are designed to evaluate financial statements, which contain data about the company's position at a point and the company's operations in the past. The real value of financial reports lies in the fact that they can be used to help predict future earnings and dividends.

Financial ratios are a form of important accounting information for a company during a certain period. Based on these ratios, it can be seen financially which can reveal position, financial condition, and future economic performance in other words accounting information.

Company Value

According to Husnan (2000) company value is the price that prospective buyers are willing to pay if the company is sold. Meanwhile, according to Nurlela and Islahudin (2008) explained that enterprise value or known as firm value is an important concept for investors, because it is an indicator for the market to assess as a whole.

Firm value is very important because with high corporate value, it will be followed by high shareholder wealth. The higher the stock price, the higher the company value. A high company value is the desire of the company owners, because a high value indicates the prosperity of the shareholders is also high. The wealth of shareholders and companies is represented by the market price of shares which is a reflection of investment, financing and asset management decisions.

There are several ratios to measure a company's market value, for example price earning ratio (PER), market-to-book ratio, Tobin's Q, and price flow ratio, market-to-sales ratio (Sukamulja, 2004). Tobin's Q ratio is considered a ratio that gives the best information because it explains phenomena in company activities such as cross-sectional differences in investment and diversification decision-making, the relationship between management share ownership and firm value, the relationship between management performance and gains in acquisitions, and funding, dividend and compensation policies.

Corporate Social Responsibility

The definition of Corporate Social Responsibility is very diverse, depending on the vision and mission of the company that is tailored to the needs, desires, wants, and interests of the community. Following are some definitions of Social Responsibility. "Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the work before and their families as well as the local community and society at large" The World Business Council for Sustainable Development Social Responsibility is the responsibility of a company for the impact of its various decisions and activities on society and the environment through an open and ethical behavior, consistent with sustainable development and community welfare, taking into account the expectations of stakeholders, complying with applicable laws and conditioned by international norms of behavior and integrated into all parts of the organization."

Good Corporate Governance

Today's business development has reached the stage of global and open competition with such rapid dynamics of change. In a situation of global competition like this, Good Corporate Governance (GCG) is a must in order to build a strong and sustainable company condition. It is hoped that with the implementation of GCG, the company's resource management is expected to be effective, efficient, economical and productive by always being oriented towards company goals and paying attention to the stakeholder approach.

The term corporate governance was first introduced by the Cadbury Committee in 1992 in a report known as the Cadbury Report. This report is a decisive turning point for corporate governance practices throughout the world. According to them, good corporate governance is a principle that directs and controls companies in order to achieve a balance between the power and authority of the company in providing accountability to shareholders in particular, and stakeholders in general. Of course this is intended to regulate the authority of directors, managers, shareholders and other parties related to the development of the company.

According to FCGI (2001) the notion of Good Corporate Governance is a set of rules governing the relationship between shareholders, management (managers) of the company, creditors, government, employees and other internal and external stakeholders relating to their rights and obligations or in words another a system that manages and controls the company.

METHODS

In this study, the data collection method used is the documentation method because the data is in the form of secondary data contained in the company's annual report which is the research sample, such as ROA information, CSR disclosure, and GCG disclosure.

As for data on CSR performance measurement and GCG disclosure, the content analysis method is used, which is a way of scoring the social measurement of annual reports by observing the presence or absence of an item of information specified in the annual report.

RESULT AND DISCUSSION

Effect of Financial Performance on Firm Value

ROA reflects a company's ability to generate profits from the turnover of its assets. The results of testing hypothesis 1 with CSR and GCG as moderating variables show that financial performance (ROA) has a positive effect on firm value, meaning that the null hypothesis (H01) is rejected and hypothesis 1 (Ha1) is accepted. The results of simple regression analysis obtained a positive regression coefficient of 1.369 on CSR and GCG and a significance value of 0.000 (smaller than (0.05), this means that the Financial Performance Return on Assets (ROA) has a positive and significant influence on Firm Value This is in line with the findings of previous studies from Handoko (2010), Damara et al (2015), Muliani et al (2014), Pertiwi et al (2012) which state that Return On Assets (ROA) has a significant effect on Tobins Q which is a proxy of company value.

If the financial performance of the company, as reflected by the high return on assets, the company value will also increase because the company value is determined by the efficiency of the company's assets. The more efficient asset turnover, the higher the profit margin obtained by the company. The higher the Return On Assets (ROA), the investors assess and have a good perception of financial performance in the future. This can increase investor satisfaction. The higher the investor satisfaction with the company's financial performance, the more actively traded the company's shares, which automatically increases its share price. By increasing the stock price it will increase the value of the company.

Effect of Disclosure of Corporate Social Responsibility (CSR), Financial Performance on Company Value

The results of the hypothesis research show that Corporate Social Responsibility (CSR) functions as a moderator of the relationship between Financial Performance and Firm Value, meaning that the null hypothesis (H02) is rejected and hypothesis 2 (Ha2) is accepted. The direction of the relationship between financial performance and Corporate Social Responsibility (CSR), shows a positive interaction by showing the results of the moderation regression calculation, the result of which is quasi moderation. Where the disclosure of CSR will strengthen the relationship between financial performance and company value. From an economic perspective, companies will disclose information if the information will increase the value of the company. In several studies on the disclosure of Corporate Social Responsibility (CSR), it affects investors' decisions even though Corporate Social Responsibility (CSR) is not a mandatory financial report to be presented.

Consumers will appreciate companies that disclose CSR more than companies that do not disclose CSR, they will buy products where a portion of the profit from these products is set aside for social and environmental interests, for example for scholarships, construction of community facilities, environmental preservation programs, and so on.

These results are consistent with research findings from Handoko (2010), Damara et al (2015), Muliani (2014) which states that Corporate Social Responsibility (CSR) is able to moderate financial performance on firm value. Companies that are oriented towards the social and physical environment are expected to provide information about social responsibility because it can enhance the company's positive image. The more information about social and environmental activities conveyed by a company, the more investors will tend to invest in that company, which will have an impact on increasing the company's profitability due to the purchase of shares.

Effect of Disclosure of Good Corporate Governance (GCG), Financial Performance on Company Value

From the results of hypothesis testing 3 (Ha3) it is concluded that the disclosure of Good Corporate Governance (GCG) is able to function as a pure moderator of the relationship between Return On Assets (ROA) as financial performance to company value. The direction of the relationship between Return On Assets (ROA) and Good Corporate Governance (GCG) shows a positive interaction. In this study it can be concluded that the disclosure of Good Corporate Governance (GCG) is able to moderate the relationship of financial performance to firm value, which means the null hypothesis (H03) is rejected and hypothesis 3 (Ha3) is accepted. This is in accordance with the conclusions of research conducted by Handoko (2010), Ariyani (2014) which shows that the disclosure of Good Corporate Governance affects company value.

The results of empirical studies from companies that have implemented CG have concluded the same thing from implementing CG, namely that CG can provide a positive contribution to companies as well as investors and other stakeholders. The positive contribution in question is that well-implemented CG can be beneficial for increasing the performance and value of the company in the long term.

The company's performance is determined by how serious it is in implementing Good Corporate Governance. The higher the implementation of corporate governance disclosed through annual reports, theoretically the Good Corporate Governance practices disclosed earlier can improve company performance, reduce risks that may be carried out by management with decisions that benefit themselves and generally Good Corporate Governance can increase investor confidence to invest their capital. strengthen the impact of the relationship between financial performance and company value.

CONCLUSION

From the hypothesis that has been formulated, it is concluded that:

1. Return on Assets as a proxy for a company's financial performance has a significant positive effect on firm value, which means that by increasing the ROA (Financial Performance) of a company, the value of the company concerned also increases.
2. Corporate Social Responsibility (CSR) is able to moderate or strengthen the relationship between financial performance and company value, where CSR disclosure will further strengthen the effect of increasing ROA (Financial Performance) on increasing the company value.
3. Good Corporate Governance (GCG) is able to moderate or strengthen the relationship between financial performance and company value, where the disclosure of GCG will further strengthen the effect of increasing ROA (Financial Performance) on increasing the value of the company.

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