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Impact of Financial Performance On Firm Value: The Mediation Role of CSR Disclosure

Renny Nur'Ainy;
Gunadarma University;
renny@staff.gunadarma.ac.id

Bagus Nurcahyo;
Gunadarma University;
bagus@staff.gunadarma.ac.id
bnur_c@yahoo.com

Misdiyono:
Gunadarma University
misdie@staff.gunadarma.ac.id

Abstract

Early research on firm value was conducted, while the result still discussed. Research on ROA as a one of financial measurement has positive effect on firm value, while others were shown negative. This condition drive us to use corporate social responsibility (CSR) disclosure as mediating variable. This research examine the role of them on mediating relationship between financial performance and firm value.

This research use 27 manufacture firm that listed on JSX during 2006 - 2007 as sample with 54 observation, we use regression to see the role of CSR. Tobin's Q uses for measure firm value, while CSR measured by CSR index, and ROA use to measure financial performance.

Result shown that ROA has positive impact on firm value, and disclosure of CSR has mediation role on relationship between ROA and firm value.

Keywords : *Corporate Social Responsibility, Financial Performance, Return on Asset, Firm Value.*

1. Introduction

Early research on the factors that have some impact on firm value has done. Their result found that financial risk structure and income smoothing have the same impact too (Suranta dan Pratana, 2004; Maryatini, 2006). Invesment opportunity set and leverage affected on firm value (Andri dan Hanung, 2007). Research on financial performance-return on asset/ROA- shown inconsistence. Modigliani and Miller in Ulupui (2007) said that firm value is determine from earning power in firm assets. Positive result shown that higher earnings power will make assets turnover more efficient and/or higher profit margin. It will affect on increasing firm value.

Ulupui (2007) found that ROA has significant effect on stock return in the next periode. According to that research, ROA is the one factors that have impact on firm value. Makaryawati (2002), Carlson and Bathala (1997), Suranta and Pratana (2004) said the same thing, that ROA has positive effect on firm value. But the other found that ROA have negative effect on firm value (Suranta and Pratana, 2004). These result shown us that there is another factors are mediating the relationship between ROA and firm value. According to that result, we interested to know the role of CSR as mediating variable, will make the impact stronger or not.

In the last view years, more company knows that aplicated CSR programme as a part of their business strategy is very important. Basamalah and Jermias (2005) shown that disclosured of CSR is more strategic reason. Although it was not mandatory, almost company who listed in

JSX are disclosured their CSR in their financial statement. From economics sight, company disclosured some information, if the information would be increasing the firm value. (Basamalah and Jermias, 2005). Company will reach social legitimation and maximize their financial power in long term through the CSR aplication (Kiroyan, 2006).

According to the research background, the research problem is CSR disclosure has mediation role on the relationship between financial performance and firm value. So the question on this research are :

(1) Is financial performance has positive effect on firm value in manufacture firm that listed on JSX?
(2) Is CSR disclosure has mediating role on the relationship between financial performance and firm value?

This research would have contribution to extend knowledge on relationship between financial performance and firm value with mediation role of CSR. And this research will informed about CSR disclosure relevance on relationship between firm value and financial performance in annual report.

2. Literature review

CSR is an alternative concept to handle complicated social problem in the last decade. Social problem not only government to take care, but everyone have social responsibility. Industry must drive positive economic growth wich friendly to the environment. CSR was proposed in early 1970s, wich known Theory of Stakeholders. In Indonesia, CSR is ruled by UU No. 40 Tahun 2007 Pasal 74.

In the regulation Pasal 15 Undang-Undang No. 25 Tahun 2007 about Capital Investment point b, investors have to implement CSR. CSR will be one of strategic business to increase compettitiveness through corporate image and/or reputation and brand loyalty. It will be a competitive advantage for the corporate. The growth on consumer need to buy product based on ethics and values would change consumer behavior to determine purchase in the future. CSR is a sustain processing so that will be create benefit to everyone, consumer and producer.

To succeed CSR implementation need commitment, active participation and honesty. CSR became important because it was the human responsibility to social condition.

Theory was proposed by Mondigliani and Miller said that firm value was determine by earnings power on corporate asset. The positive result shown that higher earnings power will incrrease asset turnover efficiently and/or made profit margin higher. Its brings impact to the firm value. Ulupui (2007) and Makaryawati (2007), Carlson dan Bathala (1997) in Suranta and Pratana (2004) found the positive effect of ROA on firm value. On the other side, result from Suranta and Pratana (2004) and Kaaro (2002) found negative effect of ROA on firm value.

Accordding to the theory and the empirical result, first hypotheses developed to this research is:

H1: Financial performance has positive effect on firm value.

That founding drive us to involve CSR disclosure as mediation variable. Signaling theory said that corporate give signs to outsider for increase firm value. The insight of stakeholder theory said that corporate should have social disclosure as one of responsibility to the stakeholders. This research use CSR disclosure as mediation variable laid on insight thought that positive appreciation from the market shown on increasing market price. Price increasing would be driven higher firm value.

Based on that description, second hyphotheses is :

H2: CSR disclosure has mediation role on relationship between financial performance and firm value.

3. Research Methods

The firms in manufacture industry that listed on JSX in 2006-2007 were choosen as populations for this research. We use purposive sampling methods which parts of nonprobability sampling. The criteria which used on our research is:

(1) Sample are corporate which listed on JSX during 2006-2007, in manufacture industry whose published their annual report on this periode periodictly.
(2) Corporates have financial report which ending periods on December 31th and use IDR on their reporting.
(3) Corporates reporting their CSR disclosure on annual report periodictly whithin 2006-2007.

(4) Sample has information completely.
Based on these criteria, we found 27 firm with 54 observation.

Variable Measurement

1. Dependent Variable, we used Tobin's Q to measure firm value.
   Tobin's Q formula is:

$$\frac{\{(CP \times \text{Number of Stock}) + TL + I)\} - CA}{TA}$$

   Keterangan:
   CP = *Closing Price*
   TL = *Total Liabilities*
   I = *Inventory*
   CA = *Current Assets*
   TA = *Total Assets*
2. Independent Variable, we use return on assets (ROA) to measured financial performance. ROA found by dividing Net Earning After Tax to Total Asset.
3. Mediation Variable, CSR disclosure is an information disclosure which has interconnected to corporate responsibility in annual report. The instrument to use these measure relay on instrument conducted by Sembiring (2005) which consisting of 78 item.

4. Result and Analysis

Based on Kolmogorov-Smirnov test we found the significance is 0,493 > 0,05, it means that residual of the data has normal distribution. Glejser test shown that no variable has significance effect to residual value, thereby the regression model is free from heteroscedasticity. Durbin-Watson value is 1,945, laid on acceptable area so that we could said no autocorrelation. Result of multicolinearity shown that no tolerance value < 1 and no VIF value > 10 thereby we could said no multicolinearity.

Result of Test Hyphotheses 1

Linear regression shown that value of R^2 is 0,140, its mean that 14% variance of firm value can described by ROA, while 86% described by other variables that not involved in this model. ROA has t value 2,906 with 0,005 significance level, t value 2,906 larger than t table 2,010, so we could accept hyphothese 1, while the significance level is 0,005 < 0,05 so that ROA has positive effet on firm value. This result shown if we could increase financial performance more higher, we could increase firm value higher. This is in line with Mondigliani and Miller Theory, and other research (Ulupui, 2007).

Result of Test Hyphotheses 2

Interaction whithin ROA and CSRI has t value 4,774 with significance level is 0,000. Positive t value and significance level smallest than significance level of ROA before mediated by CSRI, so we could said that CSRI has mediation role in the relationship between ROA and Tobin's Q. According to this result we could accept second hyphothes. The implication of this result is market responding corporate CSR disclosure beside considering financial performance.

5. Conclusions and implications

Base on that result, we could draw a conclusion, below:
1. Return On Asset had positive effect on manufacture firm value which listed in JSX on 2006-2007 statistically.
2. CSR disclosure as mediation variable had positive effect on the relationship between ROA and firm value statistically. So we can said that CSRI has mediation role on the relationship between ROA and firm value. It means that the impact of financial performance on firm value would be stronger when it has mediated by CSR disclosure.

These result have implication on investment decision, while investors have to make decision on their investment, they did not only considering the financial performance, e.g. ROA, ROE, DER, etc, but they would considering corporate CSR program too.

We suggest to use another mediating variable like GCG to know its role in the relationship between financial performance and firm value and also use another financial performance indicator, to know which dominant it is to influencing firm value

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