Is CSR A Moderating Variable On The Relationship Between Financial Performance And Firm Value?

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Abstract. This study aims to empirically test the effect of financial performance on firm value and prove that Corporate Social Responsibility (CSR) is a moderating variable that can strengthen the influence of financial performance on firm value. The stock price is one indicator that reflects the public's assessment in assessing the value of a company. The higher the value of the company, the level of prosperity of shareholders also increases. Measurement of firm value in this study using Tobin's Q, CSR is measured using content analysis, and ROA measures financial performance. Manufacturing companies listed on the Indonesia Stock Exchange from 2017-2020 were used as samples with criteria. The results show that financial performance positively affects firm value, and CSR is a moderating variable in the relationship between financial performance and firm value.

Keywords: Firm Value, Corporate Social Responsibility, Financial Performance

1 Introduction

The main purpose of companies is to provide prosperity for their shareholders. The bigger the company's prosperity for its shareholders, the higher its stock price. The higher the company's stock price, the more interested investors are in this company. Firm value is an assessment of public trust in a company by observing the company's activities for some time, namely since the company was founded until the company is still operating and running a business activity [1]. How to reflect the value of the company can be by observing the demand and supply of stock prices in the capital market [2].

The stock price determines the attractiveness of investors. Investors in assessing the prospects of a company by analyzing its financial performance. So that the company's stock price is high, it must improve its financial performance [3]. The company's financial performance can be seen from its annual financial statements. Effective and efficient funds management from internal and external sources can be seen in the financial statements. Financial statement analysis is one way to determine the company's financial performance in one period, using financial ratio calculations.

Conservative economics views companies as only oriented to maximizing profits and prospering company owners. But now, apart from being profit-oriented and responsible to shareholders, they must also be responsible to users, the environment, and society, known as 3P (Profit, Planet, and People).

The important thing that is of concern to stakeholders besides survival, competition, and company development is how the company runs a socially responsible business to provide opportunities to build competitive advantage, increase market share and open new markets [4]. According to Gray (2002), management can voluntarily disclose its social and environmental performance to build and maintain company legitimacy.

Research on CSR as a moderating variable on the relationship between financial performance and firm value still gives inconsistent results. This can be seen from the results of the study by [6], [8], and [7] state that CSR can strengthen the relationship between financial performance and firm value. Meanwhile, [9]–[11] stated otherwise.

2. Hypothesis Development

2.1 The Influence of Financial Performance on Firm Values

Financial performance is an indicator to evaluate the company's financial condition by measuring the company's ability to generate profits [1]. Financial performance is an important factor in the development and efforts of the company to achieve its goals. Financial performance can be analyzed by analyzing the company's financial ratios [12].

Good company performance will increase investor confidence so that the company will benefit by reducing the cost of capital [13]. The more investors are interested in investing, the company's share price will also increase, which will increase the prosperity of shareholders, which will ultimately increase the company's value.

A study by [14], [10], [15] states that financial performance has a positive effect on firm value.

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H1: Financial Performance has a positive effect on Firm Value

2.2 The Influence of Corporate Social Responsibility on Financial Performance on Firm Value

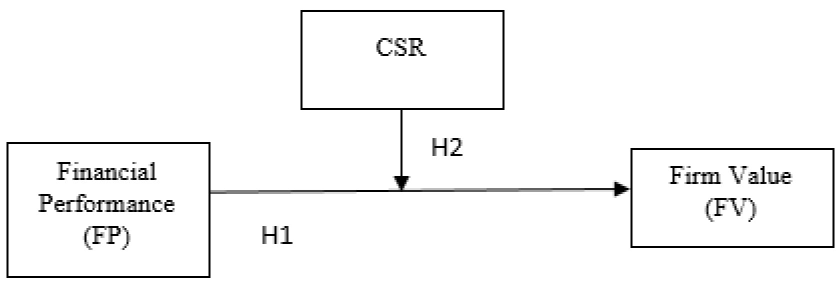
Corporate social responsibility (CSR) has become an important part of governance since the United Nations conference on The Human Environment held in Stockholm in 1972 and since the publication of the Brundtland report in 1987 [16]. Corporate Social Responsibility is a framework for defining sustainability variables based on the triple bottom line model (profit, planet, people), which defines and applies measurement techniques. It reports the actual status of variables in public reports by a company [17].

Accountability to users, the environment, and society must be disclosed by companies listed on the stock exchange [18], [19]. The results of a study by [20], [21] found that Corporate Social Responsibility had a positive effect on firm value, and a study by [6], [8], [7], [22] stated that CSR is a moderating variable.

H2: Corporate Social Responsibility can strengthen the positive influence of Financial Performance on Company Value

2.3 The model in this study can be seen in Figure 1 as follow:

Figure 1. Model of the Study



2.4 The statistical equation used is as follows:

$$FV = \alpha + \beta_1 FP + \beta_2 CSR + \beta_2\ FP*CSR + \varepsilon$$

3. Research Method

3.1 Population And Data Collection

The population in this study are companies listed on the Indonesia Stock Exchange during 2017-2020, while the sample used in manufacturing companies. The method of collection is by taking data from financial and non-financial reports.

3.2 Research Variable

The variable in this study is firm value. The company's value is used to measure how high the "level of interest" of a company is from the point of view of several parties, such as investors who will associate it with its share price. [23]. Firm value is measured using Tobin's Q, with the formula:

$$Tobin's\ Q = \frac{(EMV + D)}{(TA)}$$

The independent variables are Corporate Social Responsibility (CSR) and Financial Performance. CSR is defined as a concept that reveals that a company has various forms of responsibility to all stakeholders and the environment. Corporate Social Responsibility is measured using the Corporate Social Responsibility Disclosure Index (CSRDI) by the GRI (Global Reporting Initiative). The formula for calculating CSRDI is as follows:

$$CSRDIj = \frac{\Sigma xij}{nj}$$

The second independent variable is Financial Performance, proxied by Return on Assets (ROA). Profitability is the company's ability to manage company resources to generate profits for investors. Profitability is considered important because it is an indicator in measuring a company's financial performance so that it can be used as a reference for assessing the company.

3.3 Hypothesis Testing

The hypothesis is tested using moderating regression analysis (MRA).

4. Analysis And Discussion

4.1 Descriptive Statistic

The number of industrial sector manufacturing companies listed on the Indonesian Stock Exchange in 2018-2020 in 52 companies. The data obtained are 156 data. These data were analyzed according to the category of researchers, then obtained data that can be processed as much as 135 data.

Table 1. Descriptive Test

	Minimum	Maximum	Mean	Std. Deviation
CSR	.18	.54	.3108	.08778
FP	-.06	.47	.0545	.08050
FV	.11	18.40	1.7827	3.35754

Based on table 1, it is known that CSR disclosure in the sample is 31.08%. It can be understood that the level of CSR disclosure is still not maximized. The average financial performance of 5.45% indicates that the average sample can still generate profits from the management of assets owned. The firm value variable has an average of 1.78, meaning that the average sample has a large firm value, or the value is greater than the value of the listed company assets. This also shows that investors or the market assess the company well.

4.2 Classical Assumption Test

Based on the normality test for 135 data, the Kolmogorov-Smirnov Z value is 1.236, and a significant value is 0.094. This shows if the data is normally distributed. The results of the multicollinearity test obtained a tolerance value for the Financial Performance (ROA) variable of 0.859 with a VIF value of 1.164. For the CSR variable, the tolerance value is 0.917 with a VIF value of 1.091. The interaction between Financial Performance and CSR has a tolerance value of 0.373 with a VIF value of 2.678. The calculation of the multicollinearity test shows that there were no symptoms of multicollinearity for all variables because all tolerance values were more than 0.10 and VIF was less than 10.

The results of heteroscedasticity testing show that in the regression model, there are no symptoms of heteroscedasticity. This is because X2 count (23.49) < X2 table (28.869). The calculated X2 value is obtained from the equation X2 arithmetic = n x R2, where n = 135 and R2 = 0.174. So the calculated value of X2 = 135 x 0.174 = 23.49. While the value of X2 table (pdf, n), with df = 0.05 and n = 18. So the value of X2 table ((0.05, 18) = 28,869) is obtained.

Likewise, for the autocorrelation test, based on the results of the autocorrelation test, it shows that the Durbin-Watson value is 1.113 with a significant 0.05 so that the DW value is in a position of more than -2 and less than 2 (-2 < 1.113 < 2). This means that the research variables are free from autocorrelation problems.

4.3 Test of Hypothesis

Table 2. F test

Model	F	Sig.
Regression	175.192	.000

Table 2. This shows that the significant value in the F test is 0.000, which means that moderating regression analysis can be used to test research data.

Table 3. t-test

Model	Unstandardized Coefficients		
	B	t	Sig.
(Constant)	1.073	1.537	.129
FP	3.877	2.710	.018
CSR	-2.145	-1.042	.301
Moderate (FP*CSR)	136.211	6.551	.000

Based on the moderate regression analysis test, it is known that the first hypothesis, which states that financial performance has a positive effect on firm value, is acceptable. The second hypothesis, which states that CSR can strengthen the relationship between Financial Performance and Firm Value, is accepted.

4.4 Discussion

Based on the results of hypothesis testing, firm value is significantly affected by financial performance. Following the theory, companies are encouraged to provide financial statement information to external parties. Companies can increase the value of the company by reducing information asymmetry. One way to reduce information asymmetry is to provide signals to outsiders through reliable financial information, reducing uncertainty about the company's prospects (Wolk et al., 2000).

The test results also show that CSR is a variable that can strengthen the relationship between financial performance and firm value. According to the legitimacy theory presented by Lindblom (1994), if an entity's value system is congruent with the value system of a larger social system of which the entity is a part, the entity will gain legitimacy so that the company's performance related to the environment and social becomes a rational thing to increase the value of the company [24].

5. Conclusion

Based on the analysis and discussion results, it can be concluded that financial performance positively affects firm value. This means that the better a company's financial performance, the value of the company will also increase. In addition, based on the analysis above, it can also be concluded that information regarding CSR disclosure can strengthen the influence of financial performance on firm value. So if the company improves its CSR performance, the value of the company will also increase

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