CHAPTER I

INTRODUCTION

1.1. Background

Firm value is an important measurement to show the performance of the company which can guide to how investor insight to the company. According to Brigham and Houston (2011), the value of firm is very important because higher firm's value in line with the higher prosperity of shareholders. If the firm value is high, then the branding of the company is seen good by the potential investor. This condition requires companies to attract more investors to invest. Hafez (2016) in Narayana et al., (2021) stated that the firm value used to acknowledge the fair market value from business to help the investor in making decisions.

In terms of attracting investors, the company need to engage with society. According to Carroll (1999), public interest on the role of business in society is driven by greater sensitivity and awareness of environmental and ethical matters. Corporate social responsibility (CSR) is an effective strategy that is conceived broadly as a firm's or brand's commitment to maximising long-term economic, societal, and environmental well-being through business practices, policies, and resources (Du et al., 2011). According to William (2012) and Wijaya et al (2019). The Corporate Social Responsibility disclosure as a whole and the CSR dimensions has a positive and significant impact on the firm value.

CSR in Indonesia before 2007 are issued by the companies willingly. Because there is no regulation to force the company to perform the CSR before

2007. But since the high and sensitive environmental focus, CSR become the "separate standard" to evaluate the company performance besides of the company financial performance. It supported by government by issuing the related regulation. Government issues a Law No. 40 on 2007 concerning Limited Liability Company (UU PT). Article 74 verse (1) stated that "The companies that carry out their business activities in the field of and or related to natural resources are required to carry out social and environmental responsibility". On the verse (2) "Social and environmental responsibility is a company obligation that is budgeted and calculated as a company expense whose implementation is carried out with due regard to propriety and obligation". On the verse (3), stated that "Companies that do not carry out their obligations are subject to sanctions in accordance with the provisions of the legislation". This regulation is limited only to the Limited Liability Company. Today, the Indonesians Parliament still in progress to make the RUU of Corporate Social Responsibility become the legal Law.

Besides the needs of the company to perform their social responsibility to fulfil their obligations as a legal firm, the company needs to do this responsibility to other parties such as stakeholder. According to Ghozali & Chariri (2014) in Naraya et al., (2021) the stakeholder theory explains that the companies operate not only for their own interests but provide benefits to their stakeholders. The stakeholder as "the owner" of the company has a right to be satisfied. That's why the stakeholder (including the customer, employee, investor, and community) needs to attract to this kind of responsibility.

The focus to the CSR will never be pass over the Company financial performance. This is become very significant assessment in valuing the company performance. The indicator that is often used to evaluate the company's performance is called the financial ratio. There are ratios such as Return on Asset (ROA), Return on Equity (ROE) and Earning Per Share (EPS). The use of financial ratios has its functions. According to Sawir (2009), ROA is a ratio used to measure the company management's ability in profit. If ROA value is bigger, it means the profitability that can be earned are greater and the company is good at making a decision. Maridiyanto (2009) also stated that ROA ratio used to measure the company ability to gain profit derived from investment asset. If the ROA value is bigger, then the level of profit achieved is higher, and the company position is in a good position in term of asset used.

According to Sawir (2001:25) in Citraningrum et al (2014) ROE is a ratio between Net Income After Tax divided by the whole asset, which shows the productivity of asset in giving returns to the investors. Same as ROA, ROE is a ratio that used to measure the company profitability, but the ROE ratio will show how that company succeed for making the stock price higher and could easily issue new financial sources. Higher the ROE ratio means the company has become more easily attracted many new investors, and it will be affected the company's profitability and development. Also, ROE can be used to measure the allocation of management efficiency in operating a company. According to Atiningsih et al (2018) ROE has a positive impact and significant impact to the firm value.

If ROE and ROA show the company profitability in one financial period, the Earning Per Share (EPS) is used to show the company effectivity by looking up the past financial performance. The EPS in investment will affect the risks that might be taken by the company. The higher EPS value means the risks that might be taken will be high. According to Nurdin (2003), any investor who would invest should do proper research on EPS and the risks that will take place. That's why EPS could be concluded as one company success indicator. Kasmir (2010) stated that lower EPS means that management has not succeeded in satisfied shareholders, thus the higher EPS the welfare of shareholders will be four times increased. But, according to Subing et al (2019) which states the EPS did not affect the Firm Value because the higher of lower the EPS in the company do not give effect to the decrease or increase in the firm value.

Theoretically, based on the research that have performed, the author interested to do empirical study about the effect CSR and the Company Financial Performance affected the Firm Value in the company listed in SRI KEHATI Index. The SRI KEHATI Index provide the shareholder with the information needed such as shows which company that has a good performance CSR during periods. Therefore, the author chooses to obtain this topic to see the correlation between CSR recognition and Financial Performance on the value of the Firm.

1.2. Problem Formulation

Firm value as mentioned above used to show the performance of the company and to attract the stakeholder. To satisfy the stakeholder, the company need to show their commitment to social life which their report available in the Corporate Social Responsibility Report and, the responsibility to the creditor by showing a benefitable report of the company's financial condition.

Based on the background described, the focus formulation of the research is to identify how the Corporate Social Responsibility (CSR) disclosure and Company Financial Performance affected the Firm Value. The topic will examine using the company listed in SRI KEHATI Index from 2018 until 2020. The research questions obtained as follows:

1. Does the Corporate Social Responsibility affect the firm value?
2. Does the Return on Asset (ROA) affect the firm value?
3. Does the Return on Equity (ROE) affect the firm value?
4. Does the Earning Per Share (EPS) affect the firm value?

1.3. Objective of The Study

The objective of the study is to give empirical evidence of how the Corporate Social Responsibility and Company's Financial Performance could influence the Firm Value listed in the SRI KEHATI index in the 2018-2020 period.

1.4. Benefit of the study

There are several benefits of the study, there are:

1. Theoretical benefits

   The result of the study is expected would be empirical evidence of how Corporate Social Responsibility and Company’s Financial Performance affected the Firm Values.

2. Practical benefits

a. Academic

This research expected can be used as a reference to the next research.

b. Firm

The research result is expected to become management consideration in valuing the company performance based on how their dedication to accomplishing not only financial performance but also CSR.

c. Investors and the people who have an interest in the research result can use this report as a guideline to make investment decisions for the company.