International Journal of Sciences: Basic and Applied Research (IJSBAR)

ISSN 2307-4531
(Print & Online)

http://gssrr.org/index.php?journal=JournalOfBasicAndApplied

Corporate Value, Performance, and Reputation: Evidence from Indonesia

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Abstract

This study was done due to raise more empirical evidence on the effect of corporate performance and corporate social responsibility to corporate value. This study use Return on Asset (ROA), Economic Value Added (EVA), and Corporate Social Responsibility Disclosure (CSR) as independent variables, and Tobin's Q as an indicator of corporate value as dependent variable. This study is using a total of 138 manufacturing company that listed in Indonesian Stock Exchange during 2012 – 2016, and a total of 43 companies are selected by using purposive sampling method. This study is using multiple linear regresson analysis to analyze the data. This study suggest that both variable ROA and EVA have positive impact to corporate value, while CSR has negative impact to corporate value.

Keywords: Corporate Social Responsibility; Economic Value Added; Return on Asset; Tobin's Q.

1. Introduction

The signalling theory has provide and encourage companies to provide many kind of material or immaterial information to stakeholders. This encouragement is due from an existing information asymmetry between the management themselves and stakeholders. And to reduce the level of information asymmetry, the companies have to disclose all of the available information, both financial and non-financial information. The investors will receive those information as good news or bad news.

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If the disclosed information is seen as a good news by the investor, the share price will increase, therefore the corporate value will also increase. And on the other hand, if the disclosed information is seen as bad news, what happen next is otherwise. The ups and downs of a company's stock price can also provide good or bad signal to investors, and will take effect to corporate value as well [1].

The impact of falling stock prices can reduce the confidence level that investor have on a company because the investment will become uncertainty and can lead to sale of a stock portfolio and create a condition where potential investor hesitate to make an investment. Stock price fluctuations occurred in 2008, where Indonesian Composite Index collapsed and force Indonesian Stock Exchange to temporarily closed their stock trading on October 8th, 2008 caused by global economic crisis. The economic crisis was also experienced by United States, where the fourth largest investment bank, Lehman Brothers Holdings Inc, went bankrupt and caused falling stock prices worldwide. The movement of the stock prices can reduce a company's performance which will inflict a financial loss on stakeholder. This has become ironic because one of the investment goals is to provide fortune to shareholder through a good performance that can lead to increasing corporate value [2].

One of the ways to measure the success level of one company is through their outstanding financial performance. If the performance of a company is increasing, the corporate value will increase too [3]. Companies must be able to create outstanding financial performances to attract potential investor to invest. If the company succeeds in creating good financial performance, then the company's stock price will be able to compete competitively in the capital market.

Profitability is one of the conventional methods to measure corporate performance that emphasize only on profit and loss. Companies that generate high profit indicate that the company have good prospects in the future, this will lead to increasing in their value as well. The conventional method of measuring performance has a weakness that overlook the existence of cost of capital, so that the concept of economic value based was developed. Economic Value Added (EVA) is a better measurement tool for additional value creation that were given to shareholder and directly related to market value [4]. Measuring a company's financial performance using EVA has a positive impact on corporate value because EVA will be able to provide solution for companies during an effort to encourage the value creation process.

A corporation is not an entity that operates based on personal interests, however it operates based on stakeholder interests. To maintain the sustainability growth, a company is not only disclosed their financial aspects, but also non-financial information as well, such as Corporate Social Responsibility (CSR) activity. CSR activity can help to reduce a conflict of interest between management and stakeholder, this will impact directly to the corporate value [5].

The legitimate theory is based on social contract between the company and local communities around where the company carrying out their activities [6]. The survival of the company will be threatened if there is no alignment between company values and local community values. CSR activity is a form of corporate responsibility in improving social inequality and environmental damage which could happened during a company's operating activity. Investors are more interested in investing in companies that have a good image in society.

2. Hypothesis Development

2.1 Corporate Performance and Corporate Value

Profitability ratio aim to measure the ability of a company to generates profit. If a company can generate high profit, then the performance is considered good, and it can also indicate that company have a good prospect in the future and will lead to increased corporate's value [4]. Prior study has suggested that one of the profitability ratios, Return on Asset (ROA) have positive and significant effect to corporate's value [7–12].

On the other hand, ROA is one of the conventional measurement tools. ROA has overlooked the existence of cost of capital, therefore the value-based measurement was developed, it was called Economic Value Added (EVA). EVA is a better measurement tool since it relates directly to market value and provides value added to shareholders. Prior study has suggested that EVA have positive association to corporate market value [12–15]. Therefore, the first and second hypothesis are proposed as follow:

H_1 : Companies with higher Return on Asset ratio, tend to have higher Corporate Value

H_2 : Companies with higher Economic Value Added, tend to have higher Corporate Value

2.2 Corporate Social Responsibility and Corporate Value

Corporate Social Responsibility activity act as reputation. With CSR activity, corporate value is expected to be good by investor [16]. The existence of CSR information indicates that the company care about the local environment. The existence of CSR information will be responded positively so that later will have an impact to corporate's value. Prior studies suggest that CSR activity have positive association to corporate value. The more CSR activities are disclosed, the company's images will increase from the stakeholder's perspective, and it will impact to increased corporate value [5][17]–[19]. Therefore, the third hypothesis is proposed as follow:

H_3 : The higher a company disclosed their CSR activity, the higher their corporate value will rise.

3. Materials and Methods

3.1 Population and Sample Selection

This study is using a total of 138 manufacturing company that listed in Indonesian Stock Exchange as population. A few 43 sample is selected by using purposive sampling method. This study is using a 5-year research period from 2012 – 2016.

3.2 Variables and Dataset

This study is using financial performance that measured using Return on Asset (X_1) and Economic Value Added (X_2), and Corporate Social Responsibility Disclosure Index (X_3) as independent variables. Tobin's Q (Y) as dependent variable is used as a proxy for corporate value. Return on Asset is measured using net profit after tax scaled by total asset and the end of the year *t*, Economic Value Added is measure using net profit after tax less weighted average cost of capital at the end of the year *t*. While CSR Disclosure Index is measure by using Global Reporting Initiative (GRI) disclosure guidelines version 3.1 with a total of 84 disclosure items. All the dataset used in this study is taken from financial statements and annual reports of selected samples.

3.3 Data Analysis and Hypothesis Testing

To measure the impact of corporate performance and reputation on corporate value, this study is using multiple regression analysis. First the dataset is test by using classical assumption test as follow, normality test, multicollinearity test, autocorrelation test, and heteroskedasticity test. Then continue to conduct F-test and t-test to simultaneously and partially test each variable, respectively.

4. Results

4.1 Classical Assumption Test

- Normality Test

The normality test aim to test the distribution of regression's residual, whether the distribution follows normal distribution pattern or otherwise. The normality test is using non-parametric statistical Kolmogorov-Smirnov (KS) test. The residual is considered normal if the level of significant is above alpha value (0.05).

Table 1: Normality Test Result

Remarks	Unstandardized Residual
n	215
Kolmogorov-Smirnov	0,767
Significant level	0,599

Table 1 above shown that the level of significant is above alpha value (0.599 > 0.05). This result suggests that the distribution of the residual from regression model is proven to be normal.

- Multicollinearity Test

This study is using multicollinearity test to find any correlation between independent variables.

This test is using Variance Inflation Factor (VIF) value, and if the VIF value is higher than 10.00, that indicates a high correlation is exist between independent variable tested.

Table 2: Multicollinearity Test Result

Variables	VIF Value	Remarks
ROA (X_1)	1,622	No correlation
EVA (X_2)	1,738	No correlation
CSR (X_3)	1,149	No correlation

Table 2 above shown that VIF value for each independent variable is below 10.00. This also indicates that there is no sign of high correlation between independent variables.

- Autocorrelation Test

The autocorrelation test aims to find any correlation from one residual to another [20]. Autocorrelation test in this study is using Durbin-Watson (DW) value and compared to DW statistical table, considering alpha value is at 0.05. The regression model was considered free from autocorrelation if the DW value, when compared with DW table, is between dU < DW < 4-dU.

Table 3: Durbin-Watson Value Result

Category	Result
DW Value	1,877
dU Value	1,797
4-dU value	2,203
Conclusion	1,797 < 1,877 < 2,203

From table 3 above, the DW value result has met the conditions in dU < DW < 4-dU. Therefore, it can be concluded that there is no autocorrelation effect in regression model.

- Heteroskedasticity Test

In this study, heteroskedasticity test is done by using Glejser test. The Glejser test aims to find the variants inequality from one residual’s observation to another. The Glejser test observe the significant level of each independent variables. If the significant level of each independent variables is below 0.05, that indicate the existence of variants inequality in regression model.

Glejser test was done by using absolute residual value of regression model as dependent variable. Table 4 above suggest that all independent variables tested have significant level above alpha value, 0.05. This result indicates that the regression model has no sign of heteroskedasticity effect.

Table 4: Glejser Test Result

Variabel	Significant	Remarks
ROA (X_1)	0,212	No sign of Heteroskedasticity
EVA (X_2)	0,709	No sign of Heteroskedasticity
CSR (X_3)	0,434	No sign of Heteroskedasticity

4.2 Hypothesis Testing

The result of overall regression analysis can be seen from table 5 below.

Table 5: Multiple Regression Analysis Result

Variables	Coefficient	t - Sig.	F - Sig.	Adj. R^2
Constanta	-0,988		0,000	0,610
ROA (X_1)	0,384	0,000		
EVA (X_2)	0,209	0,000		
CSR (X_3)	-0,172	0,709		

This study used Return on Asset (ROA), Economic Value Added (EVA), and Corporate Social Responsibility Disclosure (CSR) as independent variables, and Tobin's Q (Q) as dependent variable. This study is using multiple regression analysis and using Statistical Package for Social Science (SPSS) version 24 as analysis tool. Table 5 above show the multiple regression analysis result. From table 5, the adjusted R^2 value is showing 0.610. This indicate that all 3 independent variables used in this study, ROA, EVA, and CSR, only have around 61.0% effect to Tobin's Q. While the remaining around 39.0% effect could be explained by other factors outside this study, such as Corporate Governance, and other internal aspects. However, this result can be concluded that the effect of ROA, EVA, and CSR to corporate's value has strong position point. Simultaneously, all independent variables used in this study have significant effect to Tobin's Q, this can be seen from the result of F – test that showing significant value of 0.000, below the alpha value 0.05. And partially, both ROA and EVA have positive and significant effect to Tobin's Q, this can be seen in table 5, where both of their significant level are showing 0.000 or below the alpha value 0.05, and CSR has negative and insignificant effect to Tobin's Q, this because of the significant level for CSR is showing 0.709 or above alpha value 0.05.

5. Conclusions

This study aims to test the effect of corporate performance measured by using Return on Asset and Economic Value Added, and corporate reputation measured by Corporate Social Responsibility Disclosure to corporate value, measured by Tobin's Q. This study suggests that both Return on Asset and Economic Value Added have positive and significant effect to Tobin's Q, while CSR has negative and not significant effect to Tobin's Q.

When profit increased, it indicates that a company's performance is in a good condition, this also gives a green signal to potential investor to invest their funds. This result will have an effect to the company stock prices, the more good news a company can publish, the demand for stock of the company will rise, therefore will increase their stock price and their corporate value will also increase. Same goes for EVA as investors give their attention to additional value that a company can generate, so that the corporate value will increase. A positive EVA values indicate that the company is successful in creating additional value to shareholder, because the company can generate higher return than their cost of capital. Therefore, the first and second hypothesis are accepted. While CSR information should be disclosed at some point, many of the sample companies did not fully disclosed their CSR activity, this has caused the CSR variable has negative effect to Tobin's Q. Maintaining CSR activity will cost a company a lot, because basically CSR activity is huge and exist on every aspect of a company's operational activity, so that investors respond CSR activity as negative because CSR activity is considered to reduce short-term profits instead of long term.

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