

UDC 332

THE INFLUENCE OF RETURN ON ASSETS, OPERATING PROFIT MARGIN, AND CORPORATE SOCIAL RESPONSIBILITY ON THE ENTERPRISE VALUE OF PUBLIC BANKS LISTED IN THE INDONESIAN STOCK EXCHANGE DURING 2017-2019

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ABSTRACT

The research examined the influence of Return on Asset (ROA), Operating Profit Margin (OPM), and Corporate Social Responsibility (CSR) on the Enterprise Value. Financial performance refers to Return on Asset and Operating Profit Margin. Company stock value refers to Price to Book Value (PBV). The research sample was public banks listed on the Indonesian Stock Exchange (IDX) from 2017 to 2019. We used purposive sampling to collect samples. Based on predetermined criteria, we chose 16 banks. We used multiple linear regression techniques and classical assumption tests (normality, autocorrelation, multicollinearity, and heteroscedasticity) to analyze the data. The research result showed that: (1) ROA has a positive and significant influence on Enterprise Value, (2) OPM has a negative and significant influence on Enterprise Value, and (3) CSR has a negative and insignificant influence on Enterprise Value.

KEY WORDS

Financial performance, corporate social responsibility, enterprise value.

Indonesia has fast economic growth due to the advancement of science and technology, increasing bank interest rates, stable inflation rate, and high-quality infrastructure. In addition, Indonesia has large numbers of entrepreneurs with creative and innovative businesses. The entrepreneurs establish new businesses and companies each year. Each company aims to obtain large profits for the owners and shareholders. Furthermore, a company aims to maximize its Enterprise Value on the stock exchange. Enterprise Value illustrates how a company manages its resources through financial performance.

Measuring financial performance is crucial as it influences payment within the company, decision-making behavior, and usage of resources. Financial ratio analysis is often used to measure financial performance. Various research used Return on Asset (ROA), Return on Equity (ROE), and Profit Margin Ratio indicators to determine company profitability.

In addition to making a profit, companies need to pay attention to the social responsibility for the community. The covid-19 pandemic highly influenced the Indonesian community, especially the economic sector. On April 16, 2020, the Ministry of Labor stated that 229,789 formal sector workers were laid off. Furthermore, 1,270,367 workers had to work from home. Therefore, the total affected formal sector workers were 1,500,156 in 83,546 companies. In addition, 443,760 informal sector workers from 30,794 companies were laid off.

The companies need to alleviate the burden of the community through CSR programs. The government has stipulated the necessary laws and regulations for CSR programs, and therefore the companies may establish CSR programs easily. The President Director of PT Tower Bersama Infrastructure Tbk (TBIG), Heman Setya, stated that the company experienced difficulty performing CSR programs during the Covid-19 pandemic.

TBIG addressed the education sector and distributed assistance (groceries and medical tools). TBIG distributed 22,600 groceries assistance and 40,000 masks to communities near TBIG telecommunication towers in Indonesia. Furthermore, TBIG provided 11 ventilator machines, 7,425 hazmat suits, 8,625 medical gloves, 20 forehead

thermometers, and 58,000 medical masks for hospitals and health workers responsible for Covid-19 patients in Indonesia (money.kompas.com).

Damage to the environment influences community awareness of the importance of CSR. Indonesian manufacturing and mining industries have performed various CSR programs. Banking companies performed CSR due to paradigm shifts of company responsibility which involve management, shareholders, and stakeholders. However, the banking companies tended only to perform CSR programs and did not adhere to economic capacity, environmental capacity, labor capacity, human rights, community/social capacity, and product appearance. The purpose of this study is to examine and analyze the effect of return on assets, operating profit margin, corporate social responsibility on firm value,

LITERATURES REVIEW

Enterprise Value

Companies aim to obtain profits and improve the welfare of the owners and shareholders. The success of a company may be measured through Enterprise Value. For public companies, improving Enterprise Value is equal to improving company stock value. However, improving stock value does not necessarily increase profit. Therefore, the companies tend to improve Enterprise Value due to the following factors:

- a. Improve current Enterprise Value to increase future profit (long term orientation)
- b. Risk factor
- c. Stresses on cash flow instead of profit
- d. Fulfill social responsibility

Enterprise Value illustrates the welfare of shareholders. It also reflects the decision-making on investment, funding, and asset management of a company. A high Enterprise Value may increase the stock value of a company. Price to Book Value (PBV) can determine Enterprise Value. PBV determines how the market values the book value of a company. Investors require Enterprise Value to determine whether stock value conforms to the quality of a company.

Aries (2011) stated that all have the same basis, namely maintaining the company's viability through improving performance from time to time. Calculation of company value is useful for measuring the effectiveness of each management policy.

Financial Performance

A financial report analysis is necessary to determine the strength and weaknesses of a company. Financial reports evaluate the management performance and determine company changes. Financial analysis determines the achievement and financial condition of a company. Financial analysis requires specific measurements such as ratios.

Management may use the financial report to identify the cause and effect of a decision making, map business plan, and reduce company activity when necessary. It is necessary to calculate the financial ratio to determine financial performance.

Corporate Social Responsibility (CSR)

CSR is a company program that reflects the companies' responsibility and contribution to the nation, community, and company environment. Companies recorded their CSR in the financial report to fulfill company responsibility.

Companies may perform CSR transparently and ethically, adhere to sustainable development and community welfare concepts, adhere to stakeholders' needs, and adhere to prevailing laws and international behavior norms. CSR refers to consumer protection, adequate workers' wage, work safety, assistance to education and health sectors, a green environment promotion, and so forth.

I Made (2011) defined CSR as the responsibility of a company organization for the impact of its decisions and activities on society and the environment

Hypothesis Development

The Influence of ROA on Enterprise Value

Investors tend to use ROA to determine the efficiency of a company to generate profit for the investors. ROA compare the financial ratio between pre-tax earnings and total company asset. A higher return rate indicates good financial performance and therefore improves Enterprise Value. A lower return rate indicates bad financial performance. Based on the explanation above, the researcher formulated the following hypothesis:

Ha1: ROA has a positive influence on Enterprise Value.

The Influence of OPM on Enterprise Value

Earning Before Interest and Tax (EBIT) compares the financial profitability ratio between pre-tax earnings and net income. A High OPM rate indicates the company's efficiency in managing operational costs and improving sales rates. Therefore, a high OPM rate indicates good company performance and improves Enterprise Value in the stock market. Based on the explanation above, the researcher formulated the following hypothesis:

Ha2: OPM has a positive influence on Enterprise Value.

The Influence of CSR on Enterprise Value

Company activities influence social-economic, surrounding environment, and community social life. Therefore, companies need to perform CSR programs to address issues caused by company activities. Furthermore, various sectors have practised CSR programs. Based on the explanation above, the researcher formulated the following hypothesis:

Ha3: CSR has a positive influence on Enterprise Value.

METHODS OF RESEARCH

The research sample was public banks listed on the Indonesian Stock Exchange (IDX) from 2017 to 2019. We used purposive sampling to collect samples. Based on predetermined criteria, we chose 16 banks. We used multiple linear regression techniques and classical assumption tests (normality, autocorrelation, multicollinearity, and heteroscedasticity) to analyze the data.

Operationalization of Enterprise Value Variable

Enterprise Value

Companies aim to improve Enterprise Value to attract investors. High Enterprise Value indicates the welfare of the shareholder. Enterprise Value may be determined using the following formula:

$$PBV = \frac{\text{Stock Price}}{\text{Stok Book Value (BV)}}$$

$$BV = \frac{(\text{Total Asset} - \text{Total Debt})}{\text{Outstanding Shares}}$$

Financial Performance

A financial performance report reflects the condition of a company. The financial analysis uses balance sheets, cash flow statements, and profit/loss statements.

Profitability ratio

A. ROA

ROA determines a company's ability to manage company assets and generate profit.

ROA may be determined using the following formula:

$$\text{return on assets} = \frac{EAT}{\text{total assets}}$$

B. OPM

OPM determines the company's ability to generate profit through sales. OPM illustrates the efficiency of the production section, personnel section, and marketing section in generating profit. OPM may be determined using the following formula:

$$\text{oprating profit margin} = \frac{EBIT}{\text{sales}}$$

CSR

Companies are responsible for maintaining the surrounding environment and community. Global Reporting Initiative (GRI) illustrates the standards of company responsibility. GRI covers economic, environmental, and social indicators. CSR may be determined using the following formula:

$$CSR = \frac{\text{stated items}}{\text{total item indicators}} \times 100\%$$

RESULTS AND DISCUSSION

Hypothesis Test

Simultaneous Test (F-test)

F-test determines whether all independent variables simultaneously influence dependent variables in the research model.

Table 1 – F-test Result

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	30.345	3	10.115	4.708	.004 ^b
	Residual	223.448	104	2.149		
	Total	253.793	107			

a. Dependent Variable: NP

b. Predictors: (Constant), CSR, OPM, ROA

Source: Processed data using SPSS 25.

Table 1 shows that F-test obtained significance value of 0.004 < 0.05. Therefore, F-test indicated that the research regression model was fit or can be used to determine the Enterprise Value disclosure variable.

Individual Parameter Test (t-test)

t-test determines whether independent variables influence the dependent variable.

Table 2 – t-test Result

Coefficients ^a								
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	2.170	.653		3.323	.001		
	ROA	28.815	9.619	.402	2.996	.003	.471	2.125
	OPM	-1.808	.485	-.494	-3.729	.000	.482	2.076
	CSR	-1.353	1.689	-.076	-.801	.425	.951	1.051

a. Dependent Variable: NP

Source: Processed data using SPSS 25, 2021.

Based on Table 2, the multiple regression formula is as follows:

$$NP = 2,170 + 28,815 ROA - 1,808 OPM - 1,353 CSR + e$$

DISCUSSION OF RESULTS

ROA obtained a coefficient value of 28.815 and a significance value of $0.003 < 0.05$. Therefore, ROA influenced Enterprise Value. ROA measures the ability of bank management to generate a profit and manage banking assets as a whole. High ROA indicates a high rate of profit and vice versa.

OPM obtained coefficient value of -1.808 and significant value of $0.000 < 0.05$. Therefore, OPM did not influence Enterprise Value. OPM determines whether a company is capable of generating EBIT. High OPM indicates the efficiency of a company to manage and increase sales. Furthermore, high OPM increases Enterprise Value and stock price.

CSR obtained the coefficient value of -1.353 and significance value of $0.425 > 0.05$. Therefore, CSR did not influence Enterprise Value. Companies need to perform CSR to generate good influence on Enterprise Value. CSR programs allowed the community and investors to know the company.

CONCLUSION

Based on the research result, we formulated the following conclusions:

1. ROA has a positive influence on Enterprise Value. High ROA value allows companies to generate high Enterprise Value despite low earning power and inefficient asset management. ROA increases the Enterprise Value in the following year's return;
2. OPM has a negative influence on Enterprise Value. High OPM indicates the efficiency of a company in managing operational costs and increasing sales;
3. CSR has a negative influence on Enterprise Value. CSR disclosure did not significantly influence Enterprise Value, indicating that investors did not respond to CSR disclosures.

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