THE INFLUENCES OF FINANCIAL PERFORMANCE, CORPORATE SOCIAL RESPONSIBILITY, AND GOVERNMENT OWNERSHIP STRUCTURE TOWARD FIRM VALUE IN MALAYSIAN LISTED

COMPANIES



Thesis by: OKTARINA CHANDRA 01121003056 ACCOUNTING

Asserted as a Thesis to Meet Requirements for Bachelor Degree

MINISTRY OF RESEARCH, TECHNOLOGY AND HIGHER EDUCATION OF THE REPUBLIC OF INDONESIA SRIWIJAYA UNIVERSITY

ECONOMICS FACULTY

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The Influences of Financial Performance, Corporate Social Responsibility and Government Ownership Structure on Firm Value Evidence from Malaysian Listed Company

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Oktarina Chandra 01121003056 Indeed Allah will not change the condition of a people until they change what is in themselves – QS. Ar. Rad: 11

The worst blindness is straying from the straight past after receiving true

guidance – Prophet Muhammad SAW

Believe you can and you're halfway there – Theodore Roosevelt

In order to success, your desire for success should be greater than your

fear of failure – Bill Cosby

Put your dreams near the star and run toward it - Mine

Dedication

This script is dedicated to: My beloved father and mother Salim Chandra and Sri Mulyani

And

My respected supervisor, Dr. Wan Nur Syahida Wan Ismail En Nik Mohd Norfazilah Rashid Dr. Luk Luk Fuadah, S.E, MBA, Ak, Ca Drs. Hj. Kencana Dewi, M.Sc, Ak

ACKNOWLEDGMENT

Alhamdulillah.

All praises and thanks to Allah SWT, The most Gracious and The Most Merciful who gave me the strength and substance in accomplishing this study.

The completion of this study demanded the time and efforts of many individuals that deserve my appreciation and which cannot be repaid with money. Firstly, I would like to offer my deepest appreciation and gratitude to my beloved parents Salim Chandra and Sri Mulyani for their parental and eternity love, the understanding, the guidance, and all of prays and support they gave me. Without them, it is impossible for me to finish this journey.

I would like to offer my profound gratitude and appreciation to my supervisor, Dr. Wan Nur Syahida Wan Ismail and En. Nik Mohd Norfadzilah Rashid, for their professional guidance and patience is assisting me to complete this script. Without them, I might not be able to finish this script. "Dr and Mr thank you so much for guiding me of all my acknowledgement, I have nothing to pay yours truly kindness, may Allah present the best replacement for both of you". A credit of appreciation will also goes to the all staff at UniSZA Faculty of Economics, Accountancy and Management Sciences, UniSZA. I would like to thanks to my supervisor in UNSRI for their guidance and helpful until I finished my script, for my first supervisor Dr. Luk Luk Fuadah, S.E, MBA, Ak, Ca and my second supervisor Drs. Hj. Kencana Dewi, M.Sc, Ak, I might say that without them I may not finished this final result with a good mark. And specially for International Class Coordinator mam Hasni Yusrianti, S.E, M.Acc, Ak and Mr. Muizzudin, S.E, M.M for their support until I can finish this script on the Inbound Mobility program in UniSZA. For Mr. Mukhtaruddin, S.E, M.Si, Ak, Ca who accompany and support us until I can finish my degree study.

My special thanks are also due to my beloved sibling, Sisilia Chandra for supporting me until my completion. Not forgetting, my big thanks also goes to my lovely Nopriyan for all this help and support until I have complete my script. Their support being my strength to pass all the barriers and finish this study.

Another special thanks also presented for my best friends Yol, Yuni, and Mar for all their support when I was too bored during my study until I've finished my study. Also for all of my friends in Accounting 2012 for their lovely things, especially for them who was called 'Sekitoan'.

Indralaya, February 22th 2016

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THE INFLUENCES OF FINANCIAL PERFORMANCE, CORPORATE SOCIAL RESPONSIBILITY, AND GOVERNMENT OWNERSHIP STRUCTURE TOWARD FIRM VALUE IN MALAYSIAN LISTED COMPANIES

Abstract

By:

Oktarina Chandra

Firm Value is one of the indicators on measuring the ability of a company to compete with other companies. In order to increase the firm value, the company need to implement several strategies on gaining more funds, therefore financial performance of the company is seen as crucial factor that might influences the investor's decision. Furthermore, the development of the business indicates that financial aspect is not the only factor that has ability to measures the firm value. Implementation of Corporate Social Responsibility (CSR) and Government Ownership Structure (GOS) are also assumed as other factors that used by the companies as their strategy in order to maximize their firm values. Accordingly, the main objective of this study is to examin e whether financial performance, corporate social responsibility, and government ownership structure affects the firm value of Malaysian listed companies. The object of this study is 172 companies which have been listed in Malaysian Listed Company from year 2010 to 2014. The data was analysed using the Eviews 8 with Fixed Effect Regression Model. The regression result suggests that only CSR and GOS have a significant impact on firm value. Contrary to the expectations, the finding shows financial performance has no significant impact on firm value. Accordingly further study should be conducted to explore the issue deeply.

Keywords : Corporate Social Responsibility, Financial Performance, Firm Value, and Government Ownership Structure.

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Nilai perusahaan adalah salah satu indikator dalam mengukur kemampuan perusahaan untuk berkompetisi dengan perusahaan lainnya. Untuk meningkatkan nilai perusahaanya, perushaan harus mengimplementasikan beberapa strategi guna mendapatkan lebih banyak modal, oleh karena itu kinerja keuangan perusahaan dianggap sebagai faktor yang sangat berpengaruh pada nilai perusahaan. Lebih lanjut lagi, perkembangan dalam dunia bisnis mengindikasi jika aspek keuangan bukanlah satu-satunya faktor penentu. Sebaliknya, pengaruh dari penerapan tanggung jawab sosial dan struktur kepemilikan pemerintah juga dianggap sebagai faktor lain yang dapat digunakan perusahaan sebagai strategi mereka untuk meningkatkan nilai perusahaan. Tujuan utama dari penelitian ini adalah untuk menentukan apakah kinerja keuangan perusahaan, tanggung jawab sosial perusahaan, dan struktur kepemilikan pemerintah mempengaruhi nilai perusahaan. Jumlah objek dari penelitian ini adalah 172 perusahaan yang terdaftar di Bursa Malaysia tahun 2010-2014. Data di analisa menggunakan Eviews 8 dengan model regresi Fixed Effect. Hasil dari regresi ini menunjukkan jika tanggung jawab sosial dan struktur kepemilikan pemerintah berpengaruh secara signifikan pada nilai perusahaan. Sebaliknya, penelitian ini menunjukkan bahwa kinerja keuangan tidak memiliki pengaruh yang signifikan terhadap nilai perusahaan.

Kata Kunci : Kinerja Keuangan, Nilai Perusahan, Struktur Kepemilikan Pemerintah, dan Tanggung Jawab Sosial

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LIST OF ABBREVIATION

CĠ	Corporate Governance
CLM	Central Limit Theorem
CPF	Corporate Financial Performance
CSR	Corporate Social Responsibility
CSRÍ	Corporate Social Responsibility Index
FV	Firm Value
ĞČĞ	Good Corporate Government
GOP	Government Ownership Percentage
GOS	Government Ownership Structure
IHSG	Stock Price Index Composition
JSX	Jakarta Stock Exchange
MXY	Malaysia Stock Exchange
MPS	Market Price Per Share
OLS	Ordinary Least Square
PV	Probability Value
ROA	Return on Assets
ROE	Return on Equity
ROI	Return on Investment

CHAPTER ONE INTRODUCTION



1.1. BACKGROUND OF THE STUDY

Nowadays the development of the business makes many companies are emerging, it influences the competition between a whole companies. In order to maintain their business operations and compete with other companies, many things is needed such as new ideas, customer trust, even a large capital. The company was established to achieve certain objectives. The first objective of the establishment of the company is to maximize profit. The second objective is to maximize the prosperity of the owners or shareholders. The Third objective is to maximize its firm value. The three objectives of the company actually are not substantially different, but there are some difficulties faced by each company to reach the objectives (Widyaningdyah, 2001).

One indicator shown that the company in a good condition to compete with the other companies are firm value. In order to maximize the firm value, the company have to increase their funds so they need to find investors and gain more funds. Therefore the company should apply a strategy to take investor's attention. Financial performance is assumed as one factor that may impacts investor's decision, but in this era financial aspect is not the only one. A company with good financial condition of course would be seen as a great place to be invested, but an existences of another factor might have a significant impacts in increasing the value of the company.

Some research that discussed about factors affect the firm value have been carried out since several years ago. There are some factors that already mentioned about firm value and financial performance. Other factors such as investment opportunity and the leverage also affected on the value of the company (Radzi et al., 2011). While another research finds that the value of the company is determined by the earnings power of the company's assets, positive results shows that the higher the earnings power the higher the efficiency of asset turnover and profit margin obtained by the company's financial performance impacts the firm value (Modigliani and Miller 1958).

Nowadays, many companies used strategy in outside the economics aspect in order to increase their firm value, Corporate Social Responsibility (CSR) and Good Corporate Governance (GCG) seen as factors that might give a significant impacts to the firm value, these two strategies are often used widely in all kinds of company. Therefore, the writer includes the disclosure of CSR and GCG which represented by Government Ownership Structure (GOS) as the independent variable that allegedly contribute to influences firm value. In the last few years, many companies are increasingly aware about the importance of implementing CSR as part of the business strategy. One of the management's reason for reporting social activity is a strategic reason (Hildebrand et al., 2011).

CSR and GCG now become really popular issues as a response of society to both of this topics increasing from time to time. According to the global CSR survey organization, they find a valid data about the society's positive respondents of CSR, the survey tested among ten countries and find the result about 72 % costumers more comfort bought some products from companies that disclosure the reporting of CSR. Contrary, about 61 % customers said that they stop consuming products from companies that do not report their CSR activity. Scientists and marketing professionals emphasize the importance of

corporate social responsibility (CSR) in the consumer's decision making process. Due to the fact that social responsibility is becoming more popular on a global scale, CSR is seen as crucial in influencing company's performance, leading to business success emphasizing actuality of the chosen topic.

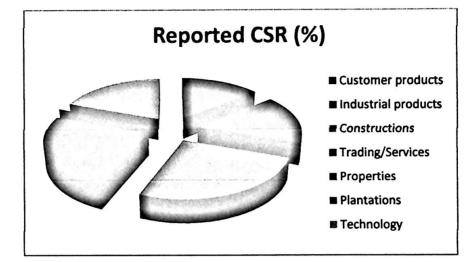
GCG is the exercises of authority over the members of a corporate community based on formal structures, rules and processes. Corporate governance is control systems that helps corporations on effectively their administer economic resources (Fombrun 2006). Corporate Governance is a mechanisms used to reduce agency problems between managers and shareholders, including inside decisions and control systems and outside market effects (Yang & Shan, 2008). There are two types of GCG's mechanism, internal mechanism and external mechanism. Internal mechanism is activity to control the company uses an internal factors and process such as in general meeting of stockholders, broads of director composition, broads of commissioners' composition and ownership structure. An external mechanism is activity to control the company using external factor such as company's control and market's control (Bruno & Claessens, 2010).

The writer uses Government Ownership Structure Percentages (GOSP) as the proxy of GCG mechanism to be analysed. The society, stakeholders and stockholders believe that with good corporate governance, the company will run well for a long period and strengthen the values of the company. GOS defined as the condition when some amount of shares in the company owned by the government. Previously, many studies had discussed about the relation between government ownership and firm value. The debated still not clearly find a result, whether the government ownership necessarily curbs firm performance and efficiency, or it helps achieving better performance by improving efficiency. The previous study discussed about firm value and government ownership

generally showed that government ownership has a positive effect on the value of the company in China trading company (Le and Buck 2011). This finding supported by Ahmad and Devi (2005) who stated that GOS bring a positive influences to the Asian company, because it can strengthen the political connection and distribute a potential support from the government. Other research also finds a positive impact from government ownership on firm value for the company in 29 European countries during the crisis, this research stated that first, stock returns and capital investments during a crisis when the risk of expropriation by the government is sufficiently small. Second, the risk of investor expropriation by governments is small. Government ownership finds that a control relinquishment by the government is a key determinant of profitability, efficiency gains and output increases (Christof Beuselinck, 2012). While other research finds a contrary result, such as a study from Ahmad et al., (2005) which tested the financial statements of firms in 16 Far East countries from 1989 - 2004, find from this study showed that government ownership had a negative influence on bank performance. The above study also finds the negative impacts on government ownership to the company's value except in United Emirates Arab (UEA), in UEA about 48% share in all listed company owned by the government (Uddin, 2015). Due to the inconsistencies result from previous research the writer assumed study about the relation between government ownership structure and firm value is needed to be retested. This study also provides a new evidence about the implementation of government ownership structure to the company's value in a company that listed in Malaysia Stock Exchange (MXY). The writer agrees with an opinion that an implementation of government ownership structure will positively influences the firm value, because it might lowering an agency problem in the company. Since the government asses as a trustworthy part from stakeholder they might keep the belief from shareholder to the company, so it will reduce the agency

problem in the company. Then a government also can provide a good support for the company, they also build a political connection to the company as well.

Corporate Social Responsibility Reported of All Industry Sector in



Company Listed in Malaysia Stock Exchange (MYX)

Reference : Shirley et al (2014)

Figure 1.1 : Reported CSR All Sector Company Listed in Malaysia Stock Exchange

The main purposes of this study is to analyse the impact of financial performance, corporate social responsibility and government ownership structure on firm value in Malaysian listed company. This research presumes that the financial performance, corporate social responsibility and governance ownership structure will give significance impacts on firm value significantly. The object of this study is the company listed on MYX.

Based on previous explanation and several data is shown CSR has a positive effect to the company's operation activity so the writer assumed that CRS will directly affects the firm value. GOS included in this research based on the assumption that GOS might has a positive influences on the company in order to increase firm value. Due to the several explanations related to this study and inconsistently result from previous research the writer conduct that this research are necessary to retest whether the financial performance, disclosure of corporate social responsibility and the government ownership structure will influences the firm value.

One indicator that shown if the company have an ability to compete with the other companies are firm value. In order to increase their firm value the company should gain more investor otherwise they need to influences an investor's decision on having investation in the company. The company needs to find another strategy rather than only financial aspect, because the development in this globalization era effect on the investors, they will be more critical on viewing the company as a place to be invested. The evidence that supported this opinion are the inconsistencies result from several previous research that discussing about the factor effect on firm value. Study obtained by Yuniasih & Wirakusuma (2009) which studied the financial performance used ROA stated that ROA significantly give a positive impacts on firm value While other research conducted by Suranta and Pratana (2004) and Suteja and Manihuruk (2009) stated that ROA has no significant influences on firm value. This inconsistently result brings us to the assumption that there are many other factors that might influence firm value, and the current issues being more popular during this time is the implementation of good corporate governance and the disclosure of corporate social responsibility. CSR not only as the responsibility or the payment for the company's obligation to the society, but also one of the factors that might influences firm value. Good Corporate Governance suggests has positive impacts to firm value, good implementation of GCG will protect the relation between shareholder and organization by reduces agency problem. This idea supported by previous research conducted from Ang and Ding (2006) corporate governance is a mechanism used to reduce agency problems between managers and stockholders. including inside decisions and control systems and outside market effects. Due to that explanation this study trying to define a result, whether in Malaysian listed

company ROA will impact positively on firm value or not. This research also tries to analyse even the disclosure of CSR and implementation of GCG could define as another strategy that the company use in order to increase their firm value. Therefore the writer addresses the questions of this research "Does the financial performance, disclosure of Corporate Social Responsibility, Government Ownership Structure as a proxy of Good Corporate Governance will positively influence firm value?"

1.1. RESEARCH QUESTION

The main question appears on this study is:

Do financial performance, corporate social responsibility and government ownership structure have any impact on firm value in Malaysian Listed Company? Based on the main research question, the following specific research questions need to be answered in this study:

- **RQ1**: Is there any significance relationship between the financial performance and firm value?
- **RQ2**: Is there any significance relationship between the corporate social responsibility and firm value ?
- **RQ3**: Is there any significance relationship between the government ownership structure and firm value ?

1.2. RESEARCH OBJECTIVES

Based on the research question the main objectives of this study is:

To examine whether financial performance, corporate social responsibility, and government ownership structure affects the firm value of Malaysian listed company.

The following specific objectives of the study were then formulated:

- **RO1**: To examine whether there is a significance relationship between financial performance and firm value.
- **RO2** : To examined whether there is a significance relationship between corporate social responsibility and firm value.
- **RO3** : To examine whether there is a significance relationship between governance ownership structures on firm value.

1.3. RESEARCH HYPOTHESES

- Hypothesis 1 : There is a significant relationship between financial performance and firm value.
- **Hypothesis 2 :** There is a significant relationship between the disclosure of corporate social responsibility and firm value.
- **Hypothesis 3 :** There is a significant relationship between the governance ownership structure with firm value.

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