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The Effect of Financial Performance on Profit Growth Moderated by CSR Disclosure

Ulfatun Nikmah*[1] and Indah Fajarini Sri Wahyuningrum[2]

[1,2]Accounting Department, Faculty of Economics, Universitas Negeri Semarang

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ABSTRACT

Profit growth is one of the indicators used by stakeholders to know the company's financial performance before. The high-profit growth represents that financial performance is well. The emergence of the obligation to disclose Sustainability Reporting included CSR affects financial performance and profit growth. This study intended to know the effect of financial performance on profit growth moderated by CSR disclosure. Financial performance was measured by using Net Profit Margin (NPM), Return on Equity (ROE), Current Ratio (CR), and Debt to Equity Ratio (DER). The population was 42 consumer goods industry sector companies registered on the Indonesia Stock Exchange from 2014 to 2016. The study used purposive sampling method and obtained 75 analysis units from 15 companies with 5 years of observation. The data analysis technique used moderating regression analysis with SPSS. The study showed that NPM had a significant positive effect on profit growth, whereas ROE, CR, and DER did not. CSR could moderate the effect of NPM, ROE, and DER to profit growth, but it could not moderate the effect of CR to profit growth. The conclusion was CSR disclosure proven to strengthen financial performance on profit growth.

INTRODUCTION

The development of industry which is increasingly advanced makes business competition more competitive (Andriyani, 2015). This condition encourages each company to improve performance to maintain its existence. This is in line with the opinion of Wajongkere et al., (2017) who stated that in maintaining existence, it is very important to improve sustainable development in order to attract stakeholders. The role of stakeholders is needed so that company operations run smoothly, especially investors as supporting funds.

Febriarty & Divanto (2017) stated that profit growth is the most important factor in maintaining business continuity. High-profit growth owned by a company can make it easier to attract investors. Earnings are a measure of business success. Ifada & Puspitasari (2016) stated that profit growth is closely related to financial performance. Financial policy depends on increased or decreased earnings. Company performance is considered good if it experiences an increase in earnings.

Information on profit growth greatly influences investors' consideration in determining investment decisions. This information is also useful in analyzing profit projections (Hakim, 2013). To know the projection of profit growth, it can be reviewed through financial ratio analysis. This research uses profitability, liquidity, and solvency ratios. (1) Profitability ratio provides an overview of how corporate earnings are achieved for each period. The measures used are Net Profit Margin (NPM) and Return on Equity (ROE). (2) Liquidity ratio provides an overview of the company's short-term debt analysis. The measure used is Current Ratio (CR). (3) Solvency ratio provides an overview of the company's long-term debt analysis. The measure used is Debt to Equity Ratio (DER).

Previous studies on the effect of financial performance on profit growth still show inconsistent results. Rusiyati (2018) found NPM has a significant effect on earnings growth, but Qur'aniah & Iynuwardhana (2018) found the opposite result. Heikal et al. (2014) stated that ROE has a significant positive effect on profit growth. Umobong (2015) and Sokang & Ratanak (2018) found ROE has a significant negative effect on earnings growth, but according to Khaldun & Muda (2014), ROE does not have a significant effect on profit growth. Anggani et al.(2017) showed that CR has a significant effect

* *E-mail: ulfatunnikmah23498@gmail.com/089660350380*
Address: L2 Building 2nd floor, Campus Sekaran, Gunungpati, Semarang, Indonesia, 50229

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on earnings growth, but Andriyani (2015) found the opposite result. Nugroho et al. (2017) found that DER has a significant effect on earnings growth, whereas Riyadi (2017) said that DER has no significant effect on profit growth.

This research is a form of further study of previous research by reviewing inconsistent variables and adding a moderating variable of Corporate Social Responsibility (CSR) disclosure. The reason for the addition of CSR disclosure as a moderating variable is due to the inconsistent results of the independent variables, so it is assumed that there are other variables that affect profit growth. In addition, the implementation of Law no. 40 of 2007, article 74, requires companies that have businesses related to natural resources to fulfill their social and environmental responsibilities with CSR. The emergence of CSR allocations in companies conceptually is useful for improving the company's image in the eyes of stakeholders (Hidayah & Khafid, 2016) so that the company operations run smoothly and profit growth increases. But in fact, CSR raises social costs that can reduce profits (Cahyonowati & Darsono, 2013). Research conducted by Agyemang & Ansong (2017), Cao et al. (2018), Syamni et al. (2018), as well as Gunawan & Setin (2019) stated that there is a significant effect between CSR on financial performance and profit growth. However, Yuliawati & Sukirman (2015) and Issarawornrawanich (2015) stated that there is no significant relationship between CSR and financial performance.

The phenomenon of the research gap is the emergence of CSR disclosure as a government policy program makes company profits contextually increase which has an impact on profit growth. However, on the other hand, CSR also creates social costs that can reduce profits. The research objective is to analyze and describe how financial performance affects profit growth after the implementation of CSR disclosure. The addition of a moderating variable in the form of CSR disclosure is the originality of this study.

The theories used as references in explaining profit growth are signal theory, stakeholder theory, and legitimacy theory. Signal theory discusses how management signals the company's prospects to investors (Brigham & Houston, 2014). Hakim (2013) stated that earnings announcement events basically will provide a signal that contains useful information for investors to make investment decisions. The more positive the profit growth information, the better the feed received.

Stakeholder theory emphasizes that when stakeholders play an important role by controlling economic resources, the company will try to fulfill the wishes of the stakeholders (Ghozali & Chariri, 2014). Besides that, Febrianty & Divanto (2017) explained that stakeholder theory aims to assist companies in increasing their value. This theory underlies the importance of stakeholder support to achieve high-profit growth.

Agustina (2013) stated that legitimacy theory shows the occurrence of a social contract where companies must be responsible for the demands of the community. Legitimacy is done to avoid a legitimacy gap that has the potential to cause protests from stakeholders so that it can disrupt operational stability (Lindawati & Puspita, 2015). CSR be one of the methods that management can use to avoid a legitimacy gap. This theory underlies the importance of legitimacy from the community in supporting company success to increase profit growth.

One of the factors that triggers the increase in profit growth is sales. High sales can boost corporate net profit. Murhadi (2015) stated the increase in net income from sales could be measured by NPM. The higher the NPM, the higher the company's profit growth. According to signal theory, each company will try to increase its profitability, including in terms of sales in order to attract investor support. Heikal et al.(2014), Gunawan & Wahyuni (2013), Ifada & Puspitasari (2016), as well as Nugroho et al.(2017) stated NPM has a significant positive effect on profit growth.

H_1: NPM has a significant positive effect on profit growth

Besides NPM, investors will also consider ROE in making investment decisions. ROE shows the level of corporate effectiveness in managing capital. High ROE reflects a large return. The greater the company's return, the better the profit growth. Signal theory states that investors will be more interested in high return guarantee. Heikal et al. (2014), Febrianty & Divanto (2017), and Aryanto et al. (2018) said ROE has a significant positive effect on profit growth.

H_2: ROE has a significant positive effect on profit growth

Companies that have good financial performance are companies that have good liquidity. CR is one of the ways that can be used in measuring corporate liquidity. A high CR represents that a company's ability to fulfill its financial obligations is good. This will give assurance to stakeholders that the company's financial condition is stable. According to stakeholder theory, companies need stakeholder support to support its operations. Heikal et al., (2014) and Anggani et al.(2017) stated that CR has a significant positive effect on earnings growth.

H_3: CR has a significant positive effect on profit growth

The level of solvency can be measured by DER. DER shows the amount of debt used to fund companies. A high DER represents a high level of corporate risk so that it can have a negative impact on operations. This can reduce stakeholders' trust. Stakeholder theory states that stakeholder trust is an important part of maintaining business sustainability. Heikal et al. (2014) and Nugroho et al.(2017) stated DER has a significant negative effect on profit growth.

H_4: DER has a significant negative effect on profit growth

CSR disclosure aims to improve corporate images in the eyes of stakeholders including investors so that company investment will increase. An increased investment makes operations run smoother thus resulting in more output. This condition will push an increase in NPM and profit. Legitimacy theory states that with the existence of CSR, the company's image will be better so that it can increase NPM and profit growth. Agyemang & Ansong(2017), Cao et al. (2018), Syamni et al.(2018), as well as Gunawan & Setin (2019) stated that there is a significant effect between CSR on financial performance and profit growth.

H_5: CSR disclosure significantly moderates the effect of NPM on profit growth

Apart from high returns, a good corporate image also becomes a separate consideration for investors. CSR disclosure can improve corporate images in the eyes of investors thus encouraging investment to increase. The more investors who invest, the better the condition of the company's operating funds. This will increase ROE and profit growth. Legitimacy theory states that with the existence of CSR, the company's image becomes better so that it can increase ROE and profit growth. Agyemang & Ansong (2017), Cao et al. (2018), Syamni et al.(2018), and Gunawan & Setin (2019) stated that there is a significant effect between CSR on financial performance and profit growth.

H_6: CSR disclosure significantly moderates the effect of ROE on profit growth

CSR disclosure causes high stakeholder trust. Stakeholder trust to the company can ease the company to obtain additional capital. The more sufficient the company's capital is, the better its operation is, so that it can increase profits in the future. Increased profit also pushes the increase in CR and profit growth. Legitimacy theory states that with the existence of CSR, the company's image becomes better so that it can increase CR and profit growth. Agyemang & Ansong (2017), Cao et al. (2018), Syamni et al. (2018), as well as Gunawan & Setin (2019) stated that there is a significant effect between CSR on financial performance and profit growth.

H_7: CSR disclosure significantly moderates the effect of CR on earnings growth

CSR disclosure aims to improve corporate images in the eyes of creditors. A high CSR disclosure can make creditors' assessment on the company is good. CSR that has succeeded in attracting additional capital from creditors has made the operational level better. This condition can increase profits so that the company's ability to meet financial obligations also increases. This indicates that CSR disclosure is able to moderate the relationship between DER and profit growth. Legitimacy theory states that with the existence of CSR, the company's image becomes better so that it can increase DER and profit growth. Agyemang & Ansong (2017), Cao et al. (2018), Syamni et al.(2018), as well as Gunawan & Setin (2019) stated that there is a significant effect between CSR on financial performance and profit growth.

H_8: CSR disclosure significantly moderates the effect of DER on earnings growth

RESEARCH METHODS

The research was conducted using a quantitative approach and secondary data sourced from the annual reports on the IDX. The research was conducted on the consumer goods industry with a population of all consumer goods industry companies listed on the IDX for the 2014-2018 periods. The selection of objects of the consumer goods industry was since the industry is the main support for the manufacturing sector which produces the primary needs of all levels of society, but it is still minimally studied. The sample selection was carried out by purposive sampling and produced 75 analysis units. The following shows the sample selection criteria used in table 1.

The research variables can be defined as follows. (1) Profit growth is a number that represents the rise and fall of profit each year (Andriyani, 2015). Profit growth was measured using the formula = (current year's profit - last year's profit) /last year's profit (Harahap, 2009). (2) NPM is a ratio that shows an analysis of corporate achievements in generating net sales income (Murhadi, 2015). NPM could be measured using the formula = net income/ total sales. (3) ROE is the ratio that represents the amount of return that can be generated for every rupiah invested (Murhadi, 2015). ROE was measured using the formula = net income /total equity. (4) CR is a ratio that functions to analyze whether current assets are able to cover the company's short-term debt (Prihadi, 2010). CR could be measured by the formula = total current assets/total debt. (5) DER is a ratio that shows the ratio of debt and equity (Murhadi, 2015). DER could be measured using the formula = total debt/ total equity. (6) CSR is organizational responsibility to society and the environment for the impact of decisions and activities through sustainable development that is transparent, ethical, and consistent for the welfare of so-

Table 1. Purposive Sampling Criteria

No.	Sample Selection Criteria	Elimination	Total
1.	The consumer goods industry listed on the IDX for the 2014-2018 period		42
2.	The consumer goods industry that provided financial statement data	(16)	26
3.	The consumer goods industry experienced profit	(6)	20
4.	The consumer goods industry that presented CSR reports	(2)	18
5.	The consumer goods industry presented complete financial statement data related to research variables such as NPM, ROE, CR, DER, and CSR	(3)	15
	Total Research Data		75

Source: Financial Statement and ICMD Processed (2020)

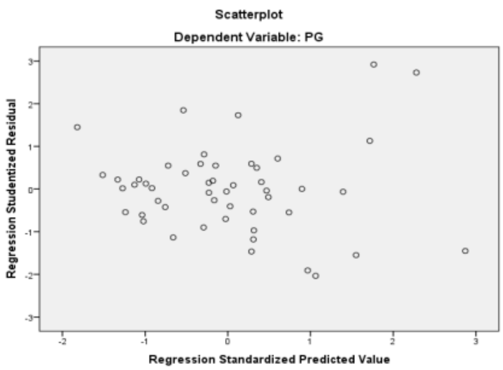

Figure 1. Results of Heteroscedasticity Test

ciety (OECD & ISO, 2017). CSR was measured by the GRI index calculated by the formula = total company items / total number of CSR items.

Data collection used literature review and documentation. Data analysis used descriptive and inferential statistics. Inferential statistical analysis was carried out by using classical assumption tests and moderating regression analysis through the absolute difference value approach with a significance level of 5%. The following is presented the formulation of the research model used in equation 1:

$$PG = \alpha + \beta_1 NPM + \beta_2 ROE + \beta_3 CR + \beta_4 DER + \beta_5 |NPM\text{-}CSR| + \beta_6 |ROE\text{-}CSR| + \beta_7 |CR\text{-}CSR| + \beta_8 |DER\text{-}CSR| + e \quad (1)$$

RESULTS AND DISCUSSIONS

The descriptive statistical analysis serves to provide data description. The following shows the results of the descriptive statistical test in table 2. Classical assumption test is a prerequisite test to do regression. The normality test uses the Kolmogorov Smirnov (K-S) which produces an asymp.sig value of 0.098 greater than 0.05 indicating that the data residuals are normally distributed. The multicollinearity test produces a tolerance value above 0.10 and a VIF value less than 10, which indicates that the data are free from multicollinearity. The autocorrelation test using Durbin Watson pro-

Table 2. The Results of the Descriptive Statistics Test

	N	Min	Max	Mean	Std. Deviation
NPM	75	.03	.39	.11	.07
ROE	75	.04	1.43	.29	.38
CR	75	.51	6.57	2.69	1.54
DER	75	.16	3.03	.70	.63
CSR	75	.04	.19	.11	.04
PG	75	-.74	2.11	.10	.46

Source: Secondary Data Processed (2020)

duces 2.034 in the range du<DW<4-du = 1.770 <2.034 <2.230 which shows that there is no autocorrelation either positive or negative. The heteroscedasticity test with the scatterplot graph depicts a dot pattern on the graph spreading above and below the number 0 on the Y-axis and the image has a clear pattern, which shows the data is free from heteroscedasticity. Figure 1 shows the results of the data heteroscedasticity test.

The results of the classical assumption test have shown that the model can be used to examine the effect of financial performance on earnings growth with the moderating variable of CSR disclosure. The adjusted R2 value of 20.287 obtained represents that 28.7% of the variation in earnings growth can be explained by NPM, ROE, CR, DER, and CSR disclosure. The remaining 71.3% is explained by other variables. The following is the summary of the hypothesis testing results in table 3 and table 4 is also presented the summary of the proportions of each variable

The Effect of NPM on Profit Growth

NPM has a significant positive effect on profit growth. This positive relationship is due to the existence of high enough profit from each sale. High profit income makes the NPM figure also high. This condition will cause profit growth to increase significantly along with the increase in NPM. The result of the study have shown the conformity of the results with Heikal et al.(2014), Gunawan & Wahyuni (2013), Ifada & Puspitasari (2016), as well as Nugroho et al.(2017) who stated that NPM has a significant positive effect on profit growth.

Table 3. Summary of the Hypothesis Test Results

No	Hypothesis	Regression Coefficient	Sig.	Results
1	NPM has a significant positive effect on earnings growth	0.184	0.035	Accepted
2	ROE has a significant positive effect on profit growth	-0.172	0.209	Rejected
3	CR has a significant positive effect on profit growth	-0.005	0.954	Rejected
4	DER has a significant negative effect on profit growth	0.119	0.320	Rejected
5	CSR disclosure significantly moderates the effect of NPM on profit growth	0.236	0.026	Accepted
6	CSR disclosure significantly moderates the effect of ROE on profit growth	-0.317	0.020	Accepted
7	CSR disclosure significantly moderates the effect of CR on profit growth	0.046	0.457	Rejected
8	CSR disclosure significantly moderates the effect of DER on profit growth	0.154	0.045	Accepted

Source: Secondary Data Processed (2020)

Table 4. Summary of Variable Proportions

Variables	Total companies	
	Low Proportion	High Proportion
NPM	40%	60%
ROE	79%	21%
CR	21%	79%
DER	47%	53%
PG	33%	67%

Source: Secondary Data Processed (2020)

The Effect of ROE on Profit Growth

ROE does not have a significant effect on profit growth. As many as 79% of the companies have ROE below the average (table 4). Low ROE indicates less effective capital management. The result in the company's productivity tends to be low so that the generated profit is not able to increase ROE. The research results have shown the conformity of the result with Khaldun & Muda (2014) who stated that ROE has no significant effect on profit growth.

The Effect of CR on Profit Growth

CR does not have a significant effect on profit growth. The majority of companies have high CR values of more than 1.5 but are unable to have a significant impact on profit growth. Gunawan & Wahyuni (2013) stated that a high CR does not necessarily guarantee that there is sufficient capital to support operational activities in generating profits. Besides, ineffective capital management can also be one of the factors why CR cannot have a significant effect on profit growth in this study. High current assets result in high company capital. However, if the companies do not do management as maximally as possible, they will not be able to increase the company's productivity so that it does not significantly affect its profit growth. The research results have been in line with Gunawan & Wahyuni (2013), Andriyani (2015), as well as Riyadi (2017) who stated that CR has no significant effect on profit growth.

The Effect of DER on Profit Growth

DER does not have a significant effect on profit growth. As many as 53% of companies have a high proportion of DER (table 4). However, even though DER is quite high, the companies are still able to stabilize their productivity. This is proven from the value of profit growth which continues to rise and is not negative, as much as 67% of companies keep experiencing positive profit growth (Table 4). The result of this study has shown the conformity of the results with research conducted by Ifa & Puspitasari (2016) and Riyadi (2017), which state that DER has no significant effect on profit growth.

CSR Disclosure Moderates the Effect of NPM on Profit Growth

CSR disclosure moderates significantly the effect of NPM on profit growth. Companies with high CSR disclosure have a better image than those that do not disclose CSR. The public, as the target consumer as well as investors, has become to have more trust to the companies, thus easing the companies to increase productivity and marketing reach. This will push profit growth along with an increase in NPM.

CSR Disclosure Moderates the Effect of ROE on Profit Growth

CSR disclosure significantly moderates the effect of ROE on profit growth. Companies that have high CSR disclosure rates have more value than those that do not disclose. This will drive stakeholder trust so that company productivity can increase. The increase in the company's productivity causes profit growth increases along with an increase in ROE.

CSR Disclosure Moderates the Effect of CR on Profit Growth

CSR disclosure is not able to moderate significantly the effect of CR on profit growth. The reason CSR disclosure cannot moderate the relationship between CR and profit growth is due to the CR of the companies studied was significantly high, 79% of companies have CR above 150% (table 4). High CR indicates the company's high current assets. However, management has not been able to maximize asset management so that operating capital depends more on creditors than investors. This is proven from the proportion of DER which is higher than ROE (table 4). The existence of CSR disclosure cannot have a significant impact on asset management. The lack of effectiveness in asset management can only be increased by management itself. Therefore, the implementation of CSR funds in the companies does not have a significant effect on the relationship between CR and profit growth.

CSR Disclosure Moderates the Effect of DER on Profit Growth

CSR disclosure significantly moderates the relationship between DER and profit growth. Agyemang & Ansong (2017) stated that the implementation of CSR helps to improve the company's reputation in the eyes of stakeholders, including creditors. It is easier for companies to seek additional funds from creditors. This will increase DER. However, the positive impact is that operating capital becomes more stable so that the companies can increase their productivity and profit growth.

CONCLUSIONS

The research gives the results that NPM has a significant positive effect on earnings growth, but ROE, CR, and DER have no effect. CSR is able to moderate the relationship between NPM, ROE, and DER with profit growth, but is unable to moderate the relationship between CR and profit growth. The results of the study provide an overview to management that the companies should pay more attention to NPM which is proven to have an effect on profit growth. The companies can also push profit growth by increasing CSR disclosure which can strengthen profit growth. The research is only conducted in the consumer goods industry so the results cannot be generalized to all company sectors. Suggestions for further research can add other variables that have not been studied such as government policies and developing socio-political issues. This is since the variables in the model can only explain 28.7% of the profit growth, while the remaining 71.3% is still influenced by other factors. In addition, the tendency of corporate profit disclosure is strongly influenced by government policies and developing social issues such as CSR disclosure policies.

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