Research Article

The Role of Financial Performance, Audit Quality, and Corporate Social Responsibility on Firm Value Through Cost of Capital as Mediation

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Abstract.
This study analyzes and determines the impact of financial performance, audit quality, corporate social responsibility (CSR) on firm value through cost of capital as mediation. This type of quantitative research uses an explanatory approach and causality of as many as 565 samples for 5 years in the ASEAN banking industry. The results of this study show that financial performance, audit quality, and CSR affect the company value . Banks with good financial performance, quality audits, and good CSR distribution will be able to improve the company's image. For this reason, banking companies must improve financial performance, audit quality, and properly carry out responsibilities. Cost of capital becomes a mediating variable that strengthens the relationship of financial performance, audit quality, and CSR to company value. For banks when their financial performance is good, checks are carried out with good audit quality, channeling social responsibility well will be a trigger for increasing company value and will indirectly reduce capital costs that must be incurred by the company.

Keywords: financial performance, audit quality, CSR, firm value, cost of capital

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1. Introduction

Globalization characterized by the formation of state unions in certain parts of the region, for example ASEN, has formed strategic economic potential. One form of cooperation, for example, between financial/banking institutions in the ASEAN region, AEC ASEAN Economic Community. This collaboration plays a role in terms of regulatory supervision and encourages the regional economy as well as increasing the role of banks as intermediary institutions in encouraging company performance and competitiveness [1].

AEC is able to increase banking economic integration in the ASEAN region. By launching ABIF which is used as a strategy in increasing banking efficiency. This association emphasizes every incorporated bank to be able to pay attention to financial performance based on internal and external banking factors [2]. For this reason, every bank in the ASEAN region needs a performance appraisal. One performance appraisal that is generally seen is the ability of banks to be able to optimize profits.

This means supporting the statement that the better the financial performance obtained, the higher the value of the company. Measuring the performance of investor companies usually look at the Return on Equity (ROA) and Return on Asset (ROA) indicators used to assess the level of profitability [3]. The large amount of ROE and ROA reflects the company's ability to generate high profits for shareholders. This has an impact on increasing company value by optimizing the cost of capital [4]. Cost of capital as an ideal decision maker to increase profits and reduce company financing.

Cost of capital provides a positive signal for companies to make investment decisions and provides asymmetry of financial reporting information. Asymmetry of financial reporting information makes it possible for managers to perform opportunistic profit management [5]. This triggers conflicts between shareholders and managers related to the increase in company value which signals the company's condition. Signals are provided through disclosure of accounting information [5]. Therefore, the company's financial statements should be audited to reduce the problem of information asymmetry.

Audits conducted by Public Accounting Firms (KAP) have an important role in reducing the problem of information asymmetry and moral hazard related to financial statements [6]. The Financial Services Authority (OJK) even issued Financial Services Authority Regulation (POJK) Number 13/POJK.03/2017 of 2017 concerning the use of Public Accountant (AP) and Public Accounting Firm (KAP) services in financial services activities. Based on this regulation, companies must use AP and KAP services registered with OJK. This further confirms the role of independent auditors is expected to increase market confidence in published financial information. Therefore, the quality of the audit is able to affect the value of the company. Audits conducted by KAP provide quality financial statements in accordance with applicable standards.

Audit quality is not public information and cannot be observed directly by users of financial statements [7]. Therefore, users of financial statements associate audit quality based on the reputation of the auditor. Audit quality cannot be measured by a specific proxy that represents the whole picture [8]. Audit quality can be measured using several indicators, such as brand name and KAP industry specialization. Industry specialization makes auditors offer better audit quality than without specialization.

Auditors with industry specialization offer accurate certainty compared to those without specialization [9–11]. Auditors with experienced industry specialization are better able to correct errors than those without specialization. Industry-specialized auditors associated with declines in higher Earnings Response Coefficient (ERC) and discretionary accruals [8]. Auditors with industry specialization tend to get higher audit fees than auditors without industry specialization [9,12,13]. This provides an interpretation that industry-specialized auditors provide higher audit quality than industry-specialized auditors.

Investor perception recognizes the quality of reporting ex-ante cost of equity capital is related to audit quality [14]. The auditor's knowledge of the client can improve the audit risk assessment and expected audit knowledge, thus helping the auditor anticipate incorrect audit opinions. The ability to have client-specific knowledge is important for detecting misstatements. Auditors with industry specialization are able to reduce information risk, optimize the cost of equity capital [15] and affect firm value [16].

Signaling theory emphasizes the information that companies provide as informed decision making. The information that the company provides is captured as a good signal for the future and has an effect on increasing market reaction through stock trading. Signaling theory provides information content will make the market react . The reaction to the intensity of sustainability disclosure is influenced by stakeholder perspectives [17]. The reaction arises because companies that disclose sustainability reperting can increase stakeholder trust which can be seen from the company's performance.

The relationship between signaling theory and firm value and profitability is that the wider the information on CSR activities, the more positive signals will be on the level of trust [18]. A good company reputation will increase firm value. The same thing is related to profitability in the perspective of financial statement information to assess the company's performance in terms of profit. The higher the company's profit and performance, it will provide positive signals for investors to increase firm value.

Firm value is an investor's evaluation of the success value of company performance which can be seen in the financial statements [19]. A high stock price can increase the value of a company. This will increase market confidence not only in the company's performance but also in the company's prospects in the future [20]. Tobin's Q ratio is a useful measuring tool to calculate the company's firm value. Tobin's Q ratio can look at the expected future value of a firm [21].

There are several factors that affect firm value, one of which is Corporate Social Responsibility (CSR). Nowadays, the implementation of CSR is an important aspect to pay attention to. Companies are not only faced with responsibility for a single bootom line related to finance, but must also pay attention to social and environmental aspects. Financial conditions are not enough to guarantee the company will grow sustainably [22]. The achievement of the company's long-term goals is in line with the implementation of CSR in the form of responsibility to the environment and society. The implementation of CSR is no longer considered as a cost, but a company investment along with the importance of CSR for companies [5].

The implementation of CSR is regulated by Law No. 25 of 2007 concerning Capital Investment and Law No. 40 of 2007 concerning Limited Liability Companies. The regulation has not been able to increase the number of companies implementing CSR activities. The low level of CSR implementation and disclosure will hinder the company in terms of gaining investor trust. Investors are interested in companies that have an image and reputation related to CSR activities [23], high loyalty [24], and increased profitabilityas companies [3]. CSR reporting through sustainability reports requires guidelines, one of which is the Global Reporting Initiative (GRI). The guidelines are used to assess sustainable company performance and provide information on economic, social and environmental performance [25].

The presentation of sustainibility report can help companies in overseeing company operations and efficiency [26], increasing transparency [27], and reputation [28]. The sustainability perspective provides a framework for studying practices adopted to create value. Value creation refers to achieving sufficient profit to meet stakeholder demand. Companies and investors recognize that investing according to sustainability principles has the capacity to create long-term value [29]. Economic aspects of sustainability reporting, aspects of environmental performance also affect the creation of firm value in the future [30].

CSR disclosure for high audit costs in accelerating the incorporation of future earnings information into current stock prices [31]. CSR disclosure can reduce information asymptry by improving the quality of financial statements [32]. Indikator audit quality consists of values, ethics, attitudes, aspects related to the personal characteristics of auditors [33]. Audit quality variables can moderate the relationship between CSR disclosure and cost of equity capital, where audit quality is measured by dummy variables using the Big-4 KAP category based on GRI-4 [34]. The positive relationship of CSR disclosure with audit costs ultimately affects the commitment to high quality financial reporting [35]. The effect of CSR on profit quality moderated by an independent audit committee [36].

Based on the description above, financialgrowth for CSR activities is very important to be implemented. Massive transformation will make business sustainable and support CSR activities that have a positive impact [37]. CSR is considered as a company's way of considering environmental, social, and governance factors in the decisions of various stakeholders [38]. Developed countries such as the United States, companies prefer to raise funds through the stock market, but in China as a developing country tends to raise funds from third parties [39].

The same condition also occurs in Indonesia, where companies rely on debt to meet funding needs. The source of capital of Indonesian companies comes from debt, causing high credit risk. Information asymmetry between companies and investors affects managing debt ratios by issuing equity aggressively [40]. Indonesia as a 'hdebt' market that has an important and dynamic role.

Corporate social responsibility (CSR) is a strategic decision that an organization that is committed to paying forit can help resolve environmental and social issues [41], CSR aims to have a positive effect on people outside the organization. Business organizations recognize the importance of both financial and nonfinancial performance (e.g., corporate social performance) in the overall results of their business [12]. While traditional finance focuses on the theory of corporate profit maximization, CSR approaches introduce the idea of modern stakeholder-oriented organizations [42].

According to IBM Global Business Service, it shows that CSR activities can help companies grow and sustain operations. First, the company initiates CSR activities at the compliant level. Second, giving birth to strategic philanthropy related to CSR activities to strengthen corporate social commitment that has a positive impact on financial performance. Third, generate value-based settings for building standard operating systems. Fourth, the level of efficiency creates business operations. CSR activities not only reduce operational costs, but have a positive impact on the environment.

The above presentation is that researchers are interested in conducting research in ASEAN banking. This research is a case study research at the World Bank with the aim of determining financial performance, audit quality, and CSR against firm value with cost of capital as mediation.

2. Research Methods

This research is a quantitative research, with an explanatory and causality approach. This study was conducted to test the influence between variables using statistical calculations, while explanatory analysis was used when explaining each variable in the study [43].

The population selection in this study is the ASEAN banking industry registered with the ASEAN Banking Council (ABC) in 2018 – 2020. The reason for using the ASEAN banking industry is to find out the comparison of financial performance, audit quality, CSR activities, cost of capital, and firm value listed on ABC. Population selection in this study uses Good Corporate Government, Rist Profile, Earning and Capital (RGEC) methods. The RGEC method is a development of the previous method, namely Capital, Assets, Management, Earnings, Liquidity, Solvency (CAMELS).

RGEC method contains inherent risk and the application of quality risk management in bank operations carried out on 8 (eight) factors, namely: credit risk, market risk, liquidity risk, operational risk, legal risk, strategic risk, compliance risk, and reputation risk.

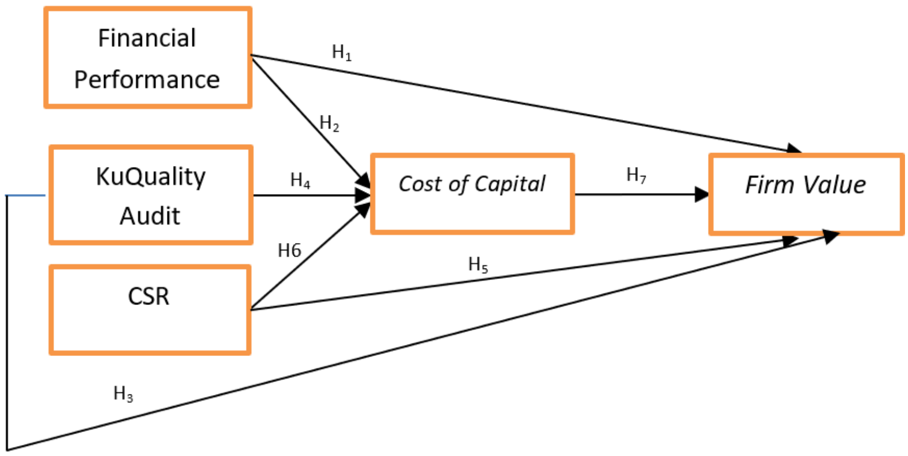

Figure 1: Comparison of financial performance, audit quality, CSR activities, cost of capital, and firm value.

Financial performance is the achievement of company management in managing assets effectively [42]. Financial performance is used to determine and evaluate the level of success based on activities and operational activities. Financial performance as an effective operational determinant based on the objectives, standards, and creteria set [2]. Ideal financial performance should support firm value for investment decision making [44].

Financial performance is one aspect of fundamental assessment regarding the company's condition [2]. Potential investors in investing consider several things related to information to be used as a basis for investment decisions. The good and bad financial performance of the company can be seen from the financial statements. Measurement of the company's financial performance is one of the indicators used by investors to assess a company that is expressed on the stock exchange. The better the financial performance, the higher the return obtained by investors. The company's capital gain will increase if the company has a maximum and significant firm value [1]. Based on the explanation above, the formulation of the hypothesis, as follows:

H1: Financial performance has a positive effect on firm value

Financial performance is the result of decisions made continuously by management to achieve goals effectively and efficiently [4]. Financial performance is the achievement of company management in managing assets effectively [45]. Financial performance is used to determine and evaluate the level of success based on activities and operational activities. Financial performance as an effective operational determinant based on the objectives, standards, and creteria set [2]. Ideal financial performance must pay attention to the cost of capital in decision making [44].

Cost of capital becomes the limit level of investment achievement before increasing shareholder wealth. Cost of capital is important in company spending, because it is used to determine the amount of cost in obtaining capital from various sources. The smaller the cost of capital, it will maximize profits and affect the height of firm valeu [3]. Cost of capital is not very controlled by management and is needed as a net working capital flow [2].

Cost of capital is calculated based on a tax base, because after-tax cash flows are relevant for investment decisions [1]. Companies that have good financial performance, of course, will control the cost of capital to the maximum to be able to increase firm value immediately significantly [46]. Firm value and cost of capital provided by the company aims to control and inform external parties aiming to give each other a positive response [47].

Signalling theory describes management's actions in providing information about company prospects to investors [47]. The published information provides signals for investors to make decisions related to firm value [48]. Positive signal information increases firm value [49]. Increasing firm value reduces the cost of capital [1]. Firm value and cos of capital have a linear relationship [3]. Based on the explanation above, the formulation of the hypothesis, as follows:

H2: Financial performance positively affects firm value through cost of capital

Audit is a process to reduce information misalignment between managers and shareholders by using outside parties to provide endorsement of financial statements. Users of financial statements, especially shareholders, will make decisions based on reports that have been made by auditors regarding a company's financial statements [50]. This shows that auditors play an important role in ratifying the company's financial statements. Therefore, the use of qualified auditors is expected to increase the credibility of financial statements so as to increase firm value.

Bapepam Decree Number Kep-20 / PM / 2002 contains Regulation Number VIII.A.2 relating to the independence of accountants who provide audits in the capital market. The regulation limits the relationship between auditee and auditor within a certain period of time, namely issuers must change accounting firms every 3 (three) and 5 (five) years for auditors. In addition, the provision of certain non-audit services, such as being a tax consultant, management consultant, in addition to providing audit services to clients is not allowed because it can interfere with the independence of the auditor.

The Financial Services Authority (OJK) even issued Financial Services Authority Regulation (POJK) Number 13/POJK.03/2017 of 2017 concerning the use of Public Accountant (AP) and Public Accounting Firm (KAP) services in financial services activities. Based on this regulation, companies must use AP and KAP services registered with OJK. This further confirms the role of independent auditors is expected to increase market confidence in published financial information. Therefore, the quality of the audit is able to affect the value of the company.

Quality audit is an audit process carried out by competent auditors from an independent attitude towards the client being audited [51]. The competence of auditors can be seen from their ability to use technology, implement and understand the correct auditing procedures, use and understand regulatory screening techniques. The auditor's assessment of good audit quality increases investor confidence in the audited company. This encourages investors to invest in the company by buying shares. One component that positively influences firm value is the quality of external auditors [52]. Based on the explanation above, the formulation of the hypothesis, as follows:

H3: Audit quality has a positive effect on firm value

Audit quality is not public information and cannot be observed directly by external financial statement users [53]. Therefore, users of financial statements associate audit quality based on the reputation of the auditor. KAP differentiates auditors by investing more in capital reputation and is seen as a provider of higher quality based on competence and independence. Investors who use auditors have high quality [54]. Auditors have quality-related characteristics, such as specialist training and peer review compared to non-KAP auditors.

Auditors offer a level of audit quality in response to variations in client requests [55]. Auditors use more resources for employee training, non-KAP auditors invest more in information technology and use more advanced techniques to detect earnings management [56]. Auditors are better positioned to negotiate with clients in accounting practices than non-KAP auditors.

Audit services provided by KAP with brand names (Big 8, Big 6, Big 5, and Big 4) are perceived as more trustworthy by investors than other auditors [5]. Companies that use Big N auditors have a low c ost of equity capital compared to companies that use non-Big N 2 auditors. The logical argument underlying this is that the audit quality of Big N contributes to financial disclosures that are more trustworthy than non-Big to contracts made by companies. The reliability of such financial information ultimately provides lower costs for investors, thereby reducing the cost of capital [6]. Clients audited by Big N have a lower cos of debt capital than clients audited by non Big N 3 auditors. Based on the explanation above, the formulation of the hypothesis, as follows:

H4: Audit quality positively affects firm value through cost of capital

The disclosure of Corporate Social Responsibility (CSR) in the annual report strengthens the company's image because it cares about the community and pays attention to the environment not only pursuing profit. Factors that affect firm valeu, one of which is CSR [56]. Carrying out CSR activities, the company's mind will be better so that consumer loyalty is higher. As consumer loyalty increases for a long time, the company's sales will improve and in the end with the implementation of CSR it is expected that the level of profitability will also increase [57]. Therefore, CSR plays an important role in increasing firm value as a result of increasing company sales by carrying out various social activities. Based on the explanation above, the formulation of the hypothesis, as follows:

H5: CSR has a POSITIVE effect on firm value

CSR and Firm value provide information to external parties that is expected (Yeh, et al, 2020). Signals of CSR activities generate positive responses to investors to support stakeholders that have an impact on reputation and increase stock prices and increase firm value [47]. CSR as the ability to achieve company success by obtaining maximum value.

Signalling theory describes management's actions to provide information about company prospects to investors [47]. The published information provides signals for investors to make decisions related to firm value [48]. Positive signal information increases firm value [49]. Increasing firm value reduces the cost of capital [1]. Firm value and cos of capital have a linear relationship [3]. Based on the explanation above, the formulation of the hypothesis, as follows:

H6: CSR positively affects firm value through cost of capital

Signalling theory describes the actions taken by management to provide information signals about company prospects [47]. The information published is an announcement that provides a signal for investors to make decisions related to the cost of capital [58]. This methodconvinces companies to provide positive signal information by lowering the cost of capital [49]. A decrease in the cost of capital can also increase firm value [1]. Cost of capital has a positive effect on firm value because it has a linear relationship [3]. When the company's shares are good, it will automatically reduce dependence on the use of funds from third parties sourced from debt. Based on the explanation above, the formulation of the hypothesis, as follows:

H7: Cost of capital positively affects firm value

3. Results and Discussion

3.1. Financial performance positively affects firm value

The test results show that there is a positive influence of financial performance on firm value. So the first hypothesis that shows the effect of financial performance on firm value is accepted. This shows that a company with good financial performance or in other words having good financial fundamentals will make investors believe that the company will provide higher returns to investors. Financial performance is also a reflection of the reputation of management performance in running the company, processing assets and achieving company goals. Which will ultimately increase the value of the company.

The results of this study are in line with research conducted by Kurniasih [1]. Financial performance proxied with ROA and ROE shows a positive influence on the value of the company proxied with the stock price. ROA and ROE in theory are positively related to company value, the higher the ROA and ROE, the higher the company value. Comparison of company profits with higher assets and acuity will have an impact on increasing company value.

The results of this study do not support the theory that states that information about company returns is useful for users of financial statements as a basis for assessing the company's ability to generate profits.

3.2. Financial performance positively affects firm value through cost of capital

The results of the analysis show that there is a positive influence of financial performance with firm value with cost of capital as a mediation variable. Cost of capital is defined as the costs incurred by the company for the company to obtain or obtain capital. The smaller the cost of capital, it can be interpreted that the company is able to carry out activities efficiently because the costs incurred to get capital are much smaller than the capital obtained.

The results of this study show that the company's financial performance is a reflection or becomes important to build, with good company performance (ROA and ROE) of the company is high, so that creating good company value will be able to contribute to the low cost of capital incurred by the company. This shows that good company performance can trigger investor interest to invest in the company so that the costs incurred by the company to get capital are lower.

The results of this study support research conducted by Tarek Bel which shows that firm value and cost capital are intended by companies to determine and inform external parties to give each other a positive response [47]. Positive information provided by the company is believed to be able to move investors to invest in the company. Positive signal information will increase firm value, increasing firm value will reduce cost of capital [1].

3.3. Audit quality has a positive effect on firm value

The results of the analysis show that there is a positive influence between audit quality and firm value. Audit aims to reduce misalignment between managers and shareholders by using the services of external parties to provide validation on financial statements. Next reports that have been validated will be a source of information for users of financial statements as a basis for decision making [50]. This shows that audits play an important role in determining the basis of information in decision making. Credible financial statements will certainly have an impact on increasing the company's firm value.

The results of this study show that good audit quality will make the company more valuable, increasing company value. With good audit quality, it will encourage investors to invest [52].

The results of this study are in line with research conducted by Coffie et al., which shows that audit quality will be able to boost company value through user trust in financial statements built with good audit quality [50].

3.4. Audit quality positively affects firm value through cost of capital

The results of the analysis show that the company's firm value is influenced by audit quality with cost of capital as the mediating variable. So with these results, the fourth hypothesis in this study was declared accepted. Good audit quality will certainly provide relevant information to users of financial statements, so that financial statement users who see that the company's audit is carried out properly and credibly will be able to increase company value and reduce cost of capital.

With the results of this study, it gives an idea that companies must ensure good audit quality, with good audit quality the company's value will definitely increase and will reduce the cost of capital. A good audit will also make information cheap and efficient for users of financial statements and companies.

The results of this study are in line with research conducted by Lin et al., [53] which states that audit quality is a determinant of the reputation of capital which is seen as a provider of higher quality information with competence and independence which ultimately has an impact on company value creation.

3.5. CSR has a positive effect on firm value

The results of the analysis show that CSR has a positive effect on firm value. This result shows that companies that carry out their social responsibility well, the company's firm value will increase. Social responsibility that is well expressed in the annual report will strengthen and improve the company's image.

The results of this study are in line with research conducted by Ghaul et al., which shows that CSR activities carried out by companies will improve the company's good image shown by consumer loyalty [22]. And in the end it will make the company improve the company's sales.

With the results of this study, it provides an illustration that the company's good image can be realized by implementing good CSR obligations by the company. Companies that carry out CSR obligations well will be known to the public as 'caring' companies that will ultimately form value for the company.

3.6. CSR positively affects firm value through cost of capital

The results of the analysis show that CSR has a positive effect on firm value through cost of capital. This result shows that the responsibility carried out properly by the company will be able to improve the company's image at a low cost or without incurring additional costs. By seeing that many companies spend more to advertise the company to get a good image from the public, with the company carrying out its social responsibility well, the company's value will automatically be helped to rise.

The results of this study are in line with research conducted by Kurniasih [1] which shows that CSR that is well channeled by companies will reduce the cost of capital. This shows that CSR is a more effective promo or advertisement for the company.

4. Conclusion

The test results show that first, financial performance, audit quality and CSR affect the value of the company. This result indicates that banks with good financial performance, quality audits and good CSR distribution will be able to improve the company's image. So when the company wants to improve the company's image, the steps that the company needs to take are to improve financial performance, improve audit quality and carry out corporate responsibilities well.

Second, cost of capital becomes a mediating variable that strengthens the relationship between financial performance, audit quality and CSR to company value. For banks when their financial performance is good, checks are carried out with good audit quality, channeling social responsibility well will be a trigger for increasing company value and will indirectly reduce capital costs that must be incurred by the company.

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