

ABSTRACT

The purpose of this study is to determine the effect of slack resources (free cash flow and return on assets) on firm value by placing Efficiency of Investment Based on Ethical (EIBE) as a mediating variable. Efficiency of Investment Based on Ethical (EIBE) is a proposed new concept that is specifically intended to bridge the empirical controversies regarding the effect of free cash flow on firm value. It resulted from the derivation and synthesis of financial theories namely, agency theory and stakeholder theory as the main theories, as well as agency theory of free cash flow and Islamic corporate social responsibility (i-CSR) approach as a substantial theories.

The sample in this study consisted of 44 sharia-based companies that were listed in the Daftar Efek Syariah (DES). Purposive sampling is used as data collection method. The data used in this study is a combination of cross section and time series (panel data) and observation period from 2012-2016 (5-year observation period), which resulted 220 observations. The hypothesis of this study was tested using PLS-SEM with WarpPLS 5.0 software as the analysis technique.

This study shows the empirical results that can be concluded as follow. First, slack resources which is proxied by free cash flow has no effect on firm value. Second, slack resources which is proxied by return on asset (ROA) has a significant effect on firm value. Third, both slack resources (free cash flow and return on asset) has a significant effect on Investment Efficiency Based on Ethical (EIBE). Fourth, Efficiency Investment Based on Ethical (EIBE) has a significant effect on firm value. Finally, Efficiency Investment Based on Ethical (EIBE) mediates the effect of slack resources (free cash flow and return on asset) on firm value. Thus, this study produces findings that firm value is influenced in stages, through intervening variables. Specifically, this study proves that the proposed newness, Efficiency Investment Based on Ethical (EIBE), is able to overcome the gap in the results of empirical studies (research gap) of the effect of free cash flow on firm value.

Keywords: *Financial Slack, Investment Efficiency, Ethical, Free Cash Flow, Return on Assets, Firm Value.*