Corporate Governance Mechanism And Corporate Social Responsibility On Firm Value

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ABSTRACT

This study aims to empirically examine the effect of corporate governance and corporate social responsibility on corporate value using agency perspectives and stakeholder theory. Corporate governance is measured using an independent commissioner, a board of directors, and an audit committee. The research data were obtained from manufacturing companies listed on the Indonesia Stock Exchange in 2015-2017. The test results using multiple linear regression indicate that corporate governance as measured by the board of directors and audit committee has a positive effect on firm value. Meanwhile, the existence of independent commissioners in the sample companies did not have an impact on increasing the value of the company. The same result also occurs for CSR variables, which have not been proven to affect the firm's value. The results of the sensitivity analysis show that the research model is robust, both by measuring PBV or Tobin's Q for the dependent variable.

INTRODUCTION

Maximizing the value of shares is one of the main objectives of modern companies whose shares are publicly traded, because the value of shares reflects the company's ability to achieve expected profits, sales growth, and increase equity. Firm value is the most important variable for future investors in valuing the company as a whole (Cheung, Chung, & Fung, 2015). It has attracted many scholars to inquiry the deteminantfactorcs which affected on that variable. Previous studies proved, both internal fundamental factors such as financial ratios and external factors such as inflation and the exchange rate. Recently, corporate governance and corporate social responsibility (CSR) practices are non-financial factors that need to be considered in an effort to increase corporate value (Thohiri, 2011).

Corporate Governance is a principle that directs and controls a company in order to strike a balance between the strength and authority of the company in providing accountability to shareholders (Indarti & Extaliyus, 2013). The emergence of the concept of corporate governance is motivated by problems that arise in the agency relationship between shareholders and management. This problem can be overcome by increasing management ownership and control, so that good governance is realized. Increasing their common stock ownership in the firm is better aligning their interst with stockholders' interests (Crutchley & Hansen, 1989; Thohiri, 2011). Corporate governance is the structure, process, culture, and system for creating successful operational conditions for an

organization (Keasey & Wright, 1993). In developing countries, good corporate governance plays an important role in efforts to increase firm value. However, there are differences in social problems, the economic and regulatory structure in these countries, causes the relationship between corporate governance and corporate value to differ from one country to another (Rouf, 2011).

Corporate governance practices can affect firm value in two ways (Ammann, Oesch, & Schmid, 2011). First, good corporate governance may lead to high stock price multiples because investors will anticipate by transferring shares with smaller cash flows, so that most of the company's profits will return to investors in the form of interest or dividends (Jensen & Meckling, 1976; Porta, Lopez-De-Silanes, & Shleifer, 2002). Second, good corporate governance can reduce the expected cost of equity capital through reducing the costs of monitoring and auditing shareholders (Shleifer & Vishny, 1997). Companies with effective governance tend to disclose higher quality information, are better able to monitor their managers directly, which, in turn, aligns the interests of managers with the interests of shareholders and reduces agency problems arising from the separation of ownership, and has a viable future economic viability better (Mouselli & Hussainey, 2014).

The importance of the role of corporate governance in determining firm value has encouraged researchers to examine the effect of corporate governance on firm value. The majority of the previous literature on the relationship between corporate governance and firm value documented that stronger corporate governance is associated with higher corporate valuations (Bebchuk, Cohen, & Ferrell, 2009; Core, Guay, & Rusticus, 2006; Cremers & Nair, 2005). Several studies have shown that corporate governance has a positive influence on firm value (Ammann et al., 2011; Chen, Chung, Hsu, & Wu, 2010; Inastri & Mimba, 2017; Renders & Gaeremynck, 2012). In her research, Rofika (2016) has found that good corporate governance with institusional ownership and independent commissioners influence the value of the firm.

However, Mouselli and Hussainey (2014) proved that corporate governance has no effect on firm value. In this study four proxies were used to measure the quality of corporate governance, namely board, analyst following, compensation, and audit committee. Their findings indicate that both better corporate governance quality and greater analyst following have no significant effect in enhancing firm value. Financial analysts who are expected to have a role as an additional monitoring mechanism on the stock market are not yet operational. The quality of corporate governance did not affect financial analysts' stock recommendations, whether to buy, sell or hold, and their earnings forecasts accuracy.

CSR practices and disclosures are a logical consequence of the application of the concept of good corporate governance, which in principle states that companies need to pay attention to the interests of their stakeholders. From a business perspective, CSR initiatives can be seen as a method for achieving significant competitive advantages (Cheng, Lin, & Wong, 2015). CSR practices are considered important by the company because in addition to being profit-oriented, the company must

also be responsible for the social problems they cause as a result of operational activities carried out by the company on the environment(Kastutisari & Dewi, 2014). CSR can have a positive impact on the company, because by carrying out CSR activities the company can enhance its reputation through public trust in the company's products (Rosiliana, Yuniarta, & Darmawan, 2014).

The modern concept of corporate social responsibility states that business is not only an economic entity but also a social entity. Investors are becoming more interested to invest in the companie whose good social and environment responsibility (Hategan, Sirghi, Curea-Pitorac, & Hategan, 2018). Therefore, in the business decision-making process, companies must pay attention to the social interests of the community in the company environment (Kusumadilaga, 2010).

Several studies have been conducted to examine the impact of CSR disclosure on firm value. Research Feng, Wang, and Kreuze (2017) provided evidence that CSR has a positive effect on firm value in the USA, that the better the application of CSR will encourage the value of the company to get increasing profits. This means that there is a significant relationship between CSR and corporate value. The findings of research conducted by Rofika (2016) show that CSR practices in a company can increase firm value. Meanwhile, Inastri and Mimba (2017) and Putra and Wirakusuma (2017) research show that CSR has no effect on firm value.

Based on the description above, this study reexamined the influence of CG and CSR represented by an independent commissioner, board of directors, and audit committee on the value of the company in manufacturing companies listed on the IDX. The difference between this study and previous research is that 1) this study includes two control variables, namely leverage and firm size, and 2) conducts sensitivity analysis by using two proxies for the dependent variable (firm value), namely price to book value (PBV) and Tobin's Q.The results of this study are expected to provide management insights on the importance of good corporate governance and disclosure of corporate social responsibility, so that stakeholders respect the company. as a consequence, stock market prices and firm value will increase.

The contractual relationship between shareholders as principals and management as agents can be explained through agency theory (Jensen & Meckling, 1976). The problem that arises from this agency relationship is a conflict of interest, because the agent does not always act in the interests of the principal. Conflicts between managers and shareholders can be minimized by monitoring mechanisms through good corporate governance. Such the interests among of them has been aligned, it would cause the agency cost decreased. Morover, good corporate governance is also employed to diminish the behavior of moral hazard as well as encourage management to disclose firms' informations. Accordingly, it would decrease the asymmetry between manager and shareholder. Indeed, another key think to remember it would increase firm value (Ainy & Barokah, 2019).

Stakeholder theory views the company as a collection of stakeholders, namely a group of individuals who can influence or be influenced by the company's actions in achieving company goals.

Companies are not entities that only operate for their own interests but must also benefit their stakeholders (Price & Sun, 2017). Therefore companies must be able to provide benefits to stakeholders in the form of implementing CSR programs. CSR programs are expected to improve the welfare of employees, customers and the local community, so there is a good relationship between the company and the surrounding environment (Firizqi, 2019). Stakeholder theory states that companies owe social responsibility to a broad group of stakeholders (Hategan et al., 2018). Therefore, it is expected that the company can satisfy stakeholders at a certain level, so that the focus of CSR lies in stakeholder management (Latupono & Andayani, 2015). Investors will give a positive response to companies that have good social performance, which will be reflected in the rise in the company's share price ((Kusumadilaga, 2010).

According to many previous studies, the good corporate governance manifested by the number of independent commisioner employed in the company. Independent commissioners are the number of commissioners in a company that come from independent parties. The greater the number of independent commissioners on the board of commissioners, it is hoped that the oversight and coordination functions in the company will run better. An independent board of commissioners is the core of corporate governance assigned to guarantee the company's strategy, oversee managers in managing the company, and require accountability. The results of research conducted by Rofika (2016) show that the existence of an independent commissioner has a positive impact on firm value. The results of this study are in line with the findings of Alfinur (2016) who revealed that the higher the number of independent commissioners the higher the value of the company. These results support the Agency's theory of the positive influence caused by the strong control mechanism of the independent commissioner over management, where the control mechanism is a vital role for the creation of good corporate governance.

The board of directors in a company acts as an agent or manager of the company whose position is fully responsible for the company's operational activities (Syafitri, Nuzula, & Nurlaily, 2018). Board size is the number of board of directors in a company. The more the number of board of directors in the company, the better supervision and control of the company, more overcan improve the company's performance. Improved company performance will increase investor interest in company shares so that the company's stock price and firm value will increase (Purwaningtyas, 2011). This logic of thinking is supported by the results of research conducted by Purwaningtyas (2011), Onasis and Robin (2016) and Syafitri et al. (2018) which prove that the board of directors has a positive effect on firm value. The size and composition of the board of directors can influence the effectiveness of monitoring activities. Based on the logic of thought and empirical evidence above, the hypothesis is formulated as follows:

An audit committee is formed and reports to the board of commissioners. The main function of the audit committee is to assist the board of commissioners in carrying out the oversight function of

the running of the company. The existence of the audit committee is intended as an effort to improve the way the company is managed, especially how to supervise the company's management. The audit committee has a role as a liaison between management with the board of commissioners and other external parties (Purwaningtyas, 2011).Research by Onasis and Robin (2016) shows that the existence of an audit committee in a company has a positive impact on firm value. This finding was supported by Syafitri et al. (2018) who found that the existence of the audit committee was able to increase the value of the company. This shows that the audit committee contributed in increasing the value of the company through improving the quality of financial reporting. Based on the logic of thought and empirical support above, the following hypothesis is proposed.

The implementation of CSR is a form of company's participation and attention towards improving the welfare of society at large that has a positive impact on the company's survival. Reporting on the company's CSR activities can be used by stakeholders to assess a company's performance and is considered a corporate accountability practice (Gunawan, 2017). The impact of implementing CSR on a company will be reflected in the value of the company through an increase in share prices as a result of investors investing in the company. The existence of good social responsibility in a company, is expected to get a good assessment by investors.Research conducted by Latupono and Andayani (2015) found that CSR has a positive influence on firm value. This finding is supported by the findings of Rofika (2016) and Firizqi (2019) which prove that CSR has increased firm value and share prices. These findings proved that investors in Indonesia have considered corporate social responsibility reports as one of the considerations in making investment decisions.Based on the above description, the following hypothesis is proposed.

RESEARCH METHODS
Data and Sample

This study used manufacturing companies listed on the Indonesia Stock Exchange (IDX) in the period 2015-2017 as a population and sample selection using the following criteria: 1) publishing financial statements in 2015-2017 and 2) having complete data, Based on these criteria, 339 observations were obtained. The 2015-2017 election as a time range in this study because it is associated with CSR data. This study used 78 CSR disclosure items developed by Sembiring (2005). The latest CSR measurement, GRI 101, was launched in 2016 and only became effective in 2018. If this study uses the latest CSR measurements, the available data is relatively small, namely 2018 data only because at the time the study was conducted 2019 data was not yet available. Data were obtained from the Indonesian Capital Market Directory (ICMD) and annual reports that can be obtained at the Indonesia Stock Exchange (IDX) through the website www.idx.co.id.

Variable and Data Analysis

Firm value which is the dependent variable in this study was measured using two proxies, namely price to book value (PBV) and Tobin's Q. PBV is calculated by the following formula (Faozi & Ghoniyah, 2019):

$$PBV = \frac{\text{Total number of stock circulated x stock price}}{\text{Total Equity}}$$

Meanwhile, Tobin's Q is calculated by the following formula (Chung & Pruitt, 1994; Wolfe & Sauaia, 2005):

$$Tobin\text{'}sQ = \frac{\text{MVE + DEBT}}{\text{TA}}$$

Where:

Tobin's Q	=	Firm Value
MVE	=	Equity market value (stock closing price x number of shares outstanding)
DEBT	=	Total Debt
TA	=	Total Asset

The corporate governance variable is measured by three proxies, namely an independent commissioner, a board of directors, and an audit committee. Independent Commissioners are a percentage of the number of independent commissioners to the total commissioners calculated by the following formula (Rofika, 2016):

$$\text{Independent Commissioner} = \frac{(\sum \text{independent commissioner})}{(\sum \text{member of the board of commissioners})} \text{ x } 100\%$$

The Board of Directors is measured by the number of board members in the company (Wardoyo & Veronica, 2013). Meanwhile the audit committee shows the large number of audit committee members in a company (Wardoyo & Veronica, 2013).Corporate social responsibility (CSR) variables were measured using 78 CSR disclosure items developed by Sembiring (2005), with the following formula:

$$CSRij = \frac{\Sigma Xij}{Nj}$$

Where:

CSR_{ij}	= Social Responsibility Index, company j for year i
N_j	= Number of CSR item indicators (78 items)
ΣX_{ij}	= Total number of CSR disclosures by company j for year i.

This study uses two control variables, namely leverage and firm size. Leverage is measured using the ratio between debt to equity / debt to equity (DER). Meanwhile, company size is proxied by

the logarithm of natural total assets (Retno & Priantinah, 2012; Widiatmoko & Indarti, 2018; Widiatmoko & Indarti, 2019):

$$Size = Natural\ Logarithms\ (total\ assets)$$

The data analysis technique used in this study is ordinary least square regression, with the following statistical equations (Model 1 as the main model, while Model 2 is used as a sensitivity analysis):

Model 1:

$$PBV = \alpha + \beta_1\ IC + \beta_2\ BOD + \beta_3\ AC + \beta_4\ CSR + \beta_5\ LEV + \beta_6\ SIZE + \varepsilon\ldots\ldots\ldots..(1)$$

Model 2:

$$Tobin's\ Q = \alpha + \beta_1\ IC + \beta_2\ BOD + \beta_3\ AC + \beta_4\ CSR + \beta_5\ LEV + \beta_6\ SIZE + \varepsilon\ldots\ldots\ldots..(2)$$

Where:

PBV : Price to Book Value as a proxy for corporate value

Tobin's Q : Tobin's Q as a proxy for corporate value

IC : Independent commissioner

BOD : Board of directors

AC : Audit committee

CSR : Corporate social responsibility

SIZE : Company size

LEV : Leverage

α : Constant

$\beta_1 - \beta_6$: Beta coefficient

RESULTS AND DISCUSSIONS

The results of residual normality testing after changing data by deleting outlier data can be seen in Table 2. The information in Table 2 shows that the Z-skewness and Z-kurtosis values ± <1.96, so that the regression of Model 1 and Model 2 has normally distributed residuals.

Table 2
The Results of Normality Testing

	N	Skewness		Z- skewness	Kurtosis		Z-kurtosis
		Statistic	Std. Erorr		Statistic	Std. Erorr	
Model 1	221	0.299	0.164	1,82	-0.551	0.326	-1,69
Model 2	210	0.291	0.168	1,73	0.644	0.334	-1,92

The results of multicollinearity testing are presented in Table 3. Tolerance values of all variables used in this study are above 0.10, as well as VIF values below 10. Therefore, regression of Model 1 and Model 2 is free from multicollinearity.

The Durbin-Watson value in Model 1 with the PBV dependent variable is 2.007. This value is between the values of du 1,825 and 4-du of 2,174, so there is no autocorrelation disturbance in the Model 1 regression. The Durbin Watson value in Model 2 with Tobin's Q variable is 2.130, which is between the du value of 1,822 and 4-du of 2,177, so that in Model 2 regression there is no autocorrelation.

Table 3
The Results of Multicollinearity Testing

	Model 1		Model 2	
	Tolerance	**VIF**	*Tolerance*	**VIF**
IC	0.957	1.044	0.979	1.021
BOD	0.595	1.681	0.530	1.887
AC	0.832	1.202	0.880	1.137
CSR	0.891	1.122	0.892	1.122
SIZE	0.695	1.438	0.532	1.879
DER	0.992	1.008	0.962	1.040

Detection of heteroscedasticity problems in this study used the Park test. The information in Table 5 shows that all variables are not significant at alpha 5%, so there is no heteroscedasticity in the regression model.

Table 4
The Results of Heteroscedasticity Testing

Model	Model 1 (PBV)				Model 2 (Tobin's Q)			
	Unstandardized Coefficients		Standardized Coefficients	Sig	Unstandardized Coefficients		Standardized Coefficients	Sig
(Constant)	-3.773	2.822	-	.183	-3.906	2.320		.096
IC	.221	1.520	.010	.884	1.049	1.275	.084	.413
BOD	.100	.077	.114	.196	-.016	.060	-.036	.787
AC	-.295	.345	-.063	.394	.167	.242	.075	.493
CSR	-1.642	1.235	-.095	.185	-1.701	.912	-.195	.065
SIZE	.072	.099	.059	.465	.067	.089	.106	.450
LEV	-.002	.003	-.050	.464	.005	.003	.175	.101

The adjusted value of R2 Model 1 shows the number 0.195, which means that PBV variation can be explained by an independent variable of 19.5%. The rest is explained by variables not included in the model. The F test results in Model 1 show a figure of 9,898 with a significance level of 0,000, which means that corporate governance is proxied by an independent commissioner, board of directors, and audit committee, CSR, company size, and leverage together affect the value of the company as measured by PBV.

The results of testing the hypothesis in this study can be seen in Model 1 Table 5. The independent commissioner has a regression coefficient of -0.087 with a significance level of 0.798,

which means that the independent commissioner has no effect on the value of the company, so the first hypothesis in this study was rejected.

Table 5
Results of Multiple Linear Regression Testing

Model	Model 1 (PBV)				Model 2(Tobin's Q)			
	Unstandardized Coefficients		Standardized Coefficients	Sig	Unstandardized Coefficients		Standardized Coefficients	Sig
	B	Std. Error			B	Std. Error		
(Constant)	.009	.632		.989	-.771	.480		.110
IC	-.087	.341	-.016	.798	.518	.251	.127	.040
BOD	.087	.017	.398	.000	.047	.014	.283	.001
AC	.177	.077	.152	.023	.229	.060	.248	.000
CSR	-.675	.277	-.156	.015	-.160	.187	-.056	.392
SIZE	.127	.040	.276	.002	.254	.042	.481	.003
LEV	-7.831E-005	.001	-.008	.889	.000	.000	-.015	.806
Adjusted R Square			.195				.220	
F hitung			10.820	.000			9.898	.000

The results show that the existence of an independent commissioner does not guarantee good governance so that the market does not respond positively. As a result the market value of stock does not increase, and so does the value of the company. The results of this study are in line with the findings of research conducted by (Syafitri et al., 2018) which shows that independent commissioners have no effect on value of firm. The results of this study contradict to the agency theory which states that conflicts of interest between management and owners should be resolved by the existence of an independent commissioner. This finding also contradicts the results of research by Rofika (2016) and Alfinur (2016) which proved that the existence of an independent commissioner is able to improve corporate governance so as to increase the value of the company.

The regression coefficient for the board of director variable is 0.087 with a significance value of 0,000, so the second hypothesis stating that the board of directors has a positive effect on the value of the company is accepted. More and more boards of directors in the company will provide more effective management supervision, so that the company's performance is getting better. This condition will increase public trust in the company, so as to increase the company's stock price and ultimately increase the value of the company. The results of this study are in line with agency theory. The existence of the board of directors in the company is important to create effective communication between board members, so as to reduce the opportunistic behavior of management. The results of this study are consistent with research conducted by Syafitri et al. (2018) and research by Onasis and Robin (2016) which found that directors had a positive effect on firm value.

The audit committee variable shows a beta coefficient of 0.177 with a probability value of 0.023, which means the existence of the audit commitee have a positive impact on the value of the company, so the third hypothesis is accepted. The findings in this study indicate that the greater the number of audit committees, the more effective it is in conducting surveillance to increase public

trust, thus impacting on increasing firm value. This condition is in line with agency theory which states that agency conflict will be reduced by good governance. The greater number of audit committees will reduce agency conflict, so that reports submitted to interested parties can be trusted and can help increase the value of the company in the eyes of investors. This study supports the results of research conducted by Onasis and Robin (2016) and Syafitri et al. (2018)who found that the audit committee had a positive effect on firm value.

The value of the regression coefficient for CSR variables shows -0.675 with a significance level of 0.015, so the fourth hypothesis which states that corporate social responsibility has a positive effect on corporate value is rejected. The findings in this study contradict the stakeholder theory which states that the company operates not only for its own interests but must provide benefits for its stakeholders. CSR disclosure is not entirely successful as an investor valuation medium in making investment decisions in companies. This finding is in line with research findings submitted by Servaes and Tamayo (2013) and Inastri and Mimba (2017) who found that CSR has no impact on firm value. However, the results of this study differ from the findings of Latupono and Andayani (2015), and Rofika (2016) which proved that CSR implementation has a positive impact on the company.

The results of the sensitivity analysis by replacing the PBV variable with Tobin's Q are presented in Table 5 of Model 2. The results indicate that corporate governance represented by an independent commissioner, board of directors, and audit committee is able to play a role in increasing firm value. This condition is consistent with the results of hypothesis testing except for the independent commissioner variable. CSR also shows results that are consistent with the results of hypothesis testing. It can be concluded that the results of the sensitivity analysis show that the model built in this study is strong.

This study used two control variables, namely company size and leverage. The results of testing of firm size as control variables provide information that the large companies are seen as more stable because they have large assets, so the projected stock price will increase (Onasis & Robin, 2016). Instead the results of testing on the variable leverage shows that leverage has no effect on firm value. This condition shows that high leverage is not always considered bad by investors.

CONCLUSION

This study examined the effect of corporate governance as proxied by independent commissioners, the board of directors, and the audit committee as well as the disclosure of corporate social responsibility (CSR) on corporate value. The results showed that corporate governance proxied by the board of directors and the audit committee had a positive influence on the value of the company. Meanwhile, corporate governance, which is proxied by an independent commissioner, does not affect the value of the company. The same results also occur on corporate social responsibility variables, which have no influence on corporate value.

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The results of the sensitivity analysis with the Tobins'q variable as a measure of firm value indicate that corporate governance represented by an independent commissioner, board of directors, and audit committee is able to play a role in increasing firm value. This condition is consistent with the results of hypothesis testing except for the independent commissioner variable. CSR also shows results that are consistent with the results of hypothesis testing. It can be concluded that the results of the sensitivity analysis show that the model built in this study is strong.

Apart from the contributions made, this study had limitations including a low adjusted R^2 value of 19.5%. Therefore, future researchers are advised to consider variables that can determine firm value, such as audit quality as a form of external corporate governance mechanism (Ainy & Barokah, 2019; Rofika, 2016). The next limitation is that this study uses a 78 item CSR indicator developed by Sembiring (2005) because the measurement of the new CSR standard is effective in 2018, so that the adequacy of the data is not met. Future studies need to consider the latest CSR indicators, so that better results can be obtained.

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