



## Effect of good corporate governance and corporate social responsibility on firm value moderate by profitability

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### ABSTRACT

*This research aims to investigate the effect of the role of good corporate governance and corporate social responsibility on firm value with profitability as a moderate variable. The object of this research is manufacturing companies that listed in index SRIKEHATI period 2017 until 2019, while the subject are 10 companies. All variables from the research data were gathered through secondary data exactly from Indonesia Stock Exchange and company's website. Statistical Analysis of the research data used moderate regression analysis with the significant in accordance with the output of SPSS 20. Findings indicated that managerial ownership has a positive significant effect on firm value, institutional ownership has a positive significant effect on firm value, board commissioners has a positive significant effect on firm value, and corporate social responsibility has a negative insignificant effect on firm value. Variable profitability moderates managerial ownership, institutional ownership and corporate social responsibility on firm value but can't moderate board of commissioners on firm value.*

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## Introduction

Competition in the business world in the 21st century as we known is getting tighter every year. The company's efforts in facing competition are certainly by optimizing the company's performance as much as possible. Good company performance will increase the value of the company. The value of the company describes how the welfare condition of the owner of the company. The value of the company creates a certain stigma that has been achieved as a public image towards companies that have carried out various activities from the beginning of the formation of the company. Good company value will attract investors and be seen as good by all stakeholders. The value of the company forms a perception that is assessed by investors can be reflected in the share price. The company's high value can make the share price higher.

Corporate values oriented to corporate sustainability are formed by all internal and external values of the company that are integrated into one into a culture at the organizational level. This can be achieved if the implementation of corporate governance is implemented to the maximum level. In Indonesia, corporate governance practices are clarified by the Decree of the Minister of State Owned Enterprises Kep-117/M-MBU/2002 Article 1, the decision states that the principles of corporate governance include fairness, transparency, accountability, and responsibility. The principle of responsibility is an idea in social responsibility because this principle explains that the company is no longer based on the single bottom line but has to be based on triple bottom lines. The implementation of corporate governance will encourage companies to carry out social responsibility. One of the initiators of social responsibility is Caroll. Caroll (Jamali, 2007) mentions the four levels that companies need to achieve in order to contribute to the philanthropic responsibilities that society and the environment need.

The harmony of social responsibility practices contained in the disclosure of social responsibility and the application of good governance will increase the value of a company. As happened in one of the sectors in the Indonesia Stock Exchange, namely the manufacturing sector. Companies in the manufacturing sector in recent years have increased the value of the company. Based on data

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from [investasi.kontan.co.id](http://investasi.kontan.co.id) the manufacturing sector rise at 1.22% at the close of the Composite Stock Price Index (JCI) in 2017. Then in 2018 according to [katadata.co.id](http://katadata.co.id) the manufacturing sector grew up 1.64% . At the end of 2017 also several companies from the manufacturing sector received Corporate Social Responsibility (CSR) awards including the Annual Global Awards 2017 named PT Pertamina EP as the Best Environmental Excellence Award Companies with market capitalisation more than USD 1 Billion. At the end of 2018 precisely at the ICSRA II 2018 award ceremony PT Indofood Sukses Makmur ranked top ([neraca.co.id](http://neraca.co.id)). In line with the phenomenon, corporate governance whose aspects not only include social responsibility if fulfilled properly will affect the achievement of the increase in the value of the company. It can also be seen from the appreciation of good corporate governance practices by the Indonesian Institute of Corporate Directorship (IICD) in 2018 PT Unilever Indonesia Tbk became one of the award-winning companies ([kontan.co.id](http://kontan.co.id)). The increase in the number of shares in the manufacturing sector can be supported by a reflection of the company's success in implementing its social responsibility and corporate governance in a good and sustainable manner.

Beside that in this research profitability is used as a moderating variable, because theoretically with the high level of profitability achieved by the company it can make the stronger the relationship of disclosure of social responsibility and corporate governance with the value of the company. This is based on investor consideration in making investment decisions that assess the high or low profit gain of the company in addition to social responsibility and corporate governance factors. In other words, the addition of profitability variables refers to the investor's point of view which leads to profitability as a consideration in the investment. Therefore, in this study profitability is expected to contribute in strengthening or weakening the interaction between social responsibility and corporate governance to the value of the company.

## **Literature Review**

### **Theoretical Background**

#### **Stakeholders Theory**

Stakeholders are widely described by Freeman and Reed (Ambler, T., & Wilson, 1995), stakeholders are groups or individuals that can influence or be influenced by the process of achieving organizational goals. Edward Freeman mentioned in his famous article "Strategic Management, Stakeholder Approach" that the company has stakeholders, namely groups and individuals who benefit related to corporate actions, therefore the company needs to take responsibility for all corporate actions.

Corporate responsibility that originally focused on economic indicators (economics focused) in financial statements, has now shifted and considers more social dimension factors to stakeholders, both internal and external. To ensure the survival of the company, it is highly dependent on stakeholder support. The more powerful stakeholder support, the greater the company's ability to adapt to the environment. Social disclosure is considered part of the dialogue between its stakeholder companies.

As a descriptive theory, stakeholder theory has been used to describe the nature of the company, the management of the company, and how the board of directors thinks about the importance of the company's constituency. While from an instrumental perspective, this theory is used to identify the relationship between stakeholder management and corporate social responsibility (CSR) approach. After defining stakeholder theory and its relationship with CSR, the main question is how to apply stakeholder theory to be more responsive to the interests of the community as a whole by including stakeholder participation in the company's board of directors.

#### **Agency Theory**

According to agency theory, agency relationships are contracts in which — One or more persons (owners) who are owners of economic resources involve others (agents) who are required to use and control resources to perform multiple services on their behalf, involving the delegation of multiple decision-making authorities to (Jensen, 1976).

Agency theory is the basis for understanding social responsibility and corporate governance. Companies that attach more importance to the interests of capital owners will make the company use natural and social resources uncontrollably and result in environmental damage. Awareness to reduce the negative impact caused by the company is corporate social responsibility. Another important thing that needs to be considered by the company, one of which is the good corporate governance mechanism considering the agency theory that describes the existence of asymmetry in the company, namely between management and shareholders.

#### **Carroll's Theory**

Carroll's theory (Pigé, 2002) consists of four obligations that create the foundation or infrastructure for business responsibility to society. The first obligation is economic responsibility. Economic responsibility is the obligation of business organizations to make money. Carroll places economic obligations at the base of the CSR Pyramid because those elements are essential for business continuity. The second obligation is social responsibility. The Company must respect the specified laws and regulations. The third obligation is ethical responsibility. Companies must behave as good citizens in their communities. Such responsibilities allow companies to make what is good for society even if the law does not require it. The fourth obligation is the responsibility of philanthropists. Philanthropic responsibility is a gift purely to the community, it is an activity or project created by the company and purely dedicated to the expectations of the community.

### **Good Corporate Governance (GCG)**

The definition of GCG from FCGG (Finance Committee Corporate Governance) is the process and structure used to direct and manage the company's business and activities towards improving business growth and corporate accountability (Effendi, 2016). Furthermore, the Forum corporate governance on Indonesia (FCGI) explained that GCG is a set of regulations governing the relationship between shareholders, administrators (managers) of companies, creditors, governments, employees, and other internal and external stakeholders related to their rights and obligations or in other words a system that controls the company (Effendi, 2016).

The reason for the importance of the implementation of good corporate governance is because it can direct the management of the company to be able to achieve increased corporate value and sustainability in a balanced manner. The achievement of these benefits is a form of shareholder fulfillment and cannot be separated from the efforts to achieve sustainability which is a manifestation of the fulfillment of the interests of stakeholders. The company is not just a place to turn inputs into output but a place to realize an environmentally friendly business, profitable but not detrimental to the community.

### **Corporate Social Responsibility (CSR)**

The definition of social responsibility or CSR itself has been put forward by many experts. One of them defined that corporate social responsibility (CSR) is the view of the corporation and its role in the community that assumes the responsibility of the company to pursue goals other than maximizing profits and responsibilities among stakeholders to hold accountability to stakeholders for corporate actions (Chandler dan Werther, 2014).

CSR is a real step of the company in responsible to maintain and improve the quality of social circumstances around the company basically. The existence of this form of corporate responsibility is expected to maintain the balance of all internal and external aspects of the company. The company actually not only has an economic responsibility side but also needs to have a side of social responsibility. Therefore, the company began to take seriously the influence of social and environmental dimensions in each of its business activities, because that aspect is not a separate option but goes hand in hand to improve the sustainability of the company. CSR can also be used as an investment for the company for the growth and sustainability of the company. That is, CSR is no longer seen as a cost center but as a profit center in the future.

CSR disclosure practices play an important role for the company because the company is in a community environment and its possible activities have social and environmental impacts. With the disclosure of CSR, it is expected that the company is able to meet the needs of information needed and support from stakeholders in order to support the company in achieving the objectives, namely business stability and guarantee going concern.

### **Firm Value**

Welley & Untu (2015) states that "The value of the firm is the stock market value of the company that reflects the wealth of the owner. The Company's value is an economic measure that reflects the market value of the entire business, or it can be said that the value of the company is the price that a prospective buyer must pay when the company is sold. The main objective of the company is to increase the value of the company through increasing the prosperity of the owner or shareholder. One way to measure the value of a company is to use Tobin's Q. This study uses Tobin's Q to measure the value of the company.

### **Profitability**

Based on (Hassan, 2018) accounting ratios, also called financial ratios, help in measuring the efficiency and profitability of a company based on financial reports. This ratio provides an answer to explain the relationship between one accounting data and another so that it can be compared. One of those ratio is profitability ratio which is an indicator for the overall efficiency of the company. It is typically used as a measure for revenue generated by the company over a period of time based on sales rate, assets, capital used, net worth and earnings per share. The profitability ratio measures the company's earning capacity, and it is considered an indicator for its growth, success and control. Creditors, for example, are also interested in profitability ratios because they demonstrate the company's ability to meet interest obligations. Shareholders are also interested in profitability. This will show the progress and return on their investment.

### **Research and Methodology**

The subject in this research are companies that listed in Indonesia Stock Exchange. The population in this research are all manufacturing companies that have been listed in the SRI KEHATI index in 2017-2019. SRI KEHATI index is an index that measures the share price performance of 25 issuers that perform well in encouraging sustainable business efforts and have awareness of the environment, social and good corporate governance. The number of samples was determined using with these criteria :

- i. Manufacturing companies that have published information on their social responsibility either separately or incorporated with the annual report continuously during the period 2017 - 2019.
- ii. Manufacturing companies that earn positive profits

The calculation using the above formula resulted in 10 samples companies. The sampling technique used purposive sampling.

**Data Analysis Technique**

The model of data analysis in this research is as follows:

The first one :

$$Y = \alpha + b_1KM + b_2KI + b_3DKI + b_4CSR + b_5ROE + e$$

After that analysis using moderate regression as follows :

$$Y = \alpha + b_1KM + b_2 KI + b_3DKI + b_4CSR + b_5 ROE+ b_6(KM ROE) + b_7(KI ROE) + b_8(DKI ROE) + b_9(CSR ROE) + e$$

Where :

Y = Variable of firm value

a = Constanta

b1-b9 = Regression Coefficient

KM = Variable of managerial ownership (proxy of good corporate governance)

KI = Variable of institutional ownership (proxy of good corporate governance)

DKI = Variable of board commisioners (proxy of good corporate governance)

CSR = Variable of corporate social responsibility

ROE = Variable of return of equity (proxy of profitability)

e = Standard Error (error rate) 5%

There are 6 (six) assumption test for this research results.

- i. Normality Test
- ii. Multicollinearity Test
- iii. Heteroscedasticity Test
- iv. Multiple regression test
- v. Moderate regression test
- vi. Coefficient of Determination

**Result and Discussion**

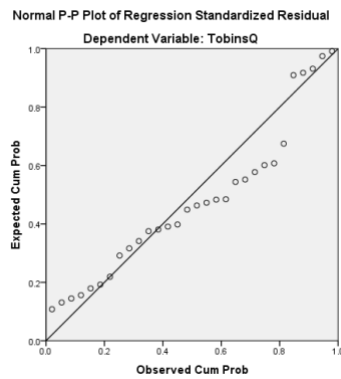
**Normality**

Below is the result of normality test using Kolmogorov-Smirnov:

**Table 1:** Normality Test

<b>One-Sample Kolmogorov-Smirnov Test</b>		
		Unstandardized Residual
<b>N</b>		30
<b>Normal Parameters<sup>a,b</sup></b>	Mean	.0000000
	Std. Deviation	1.12079036
<b>Most Extreme Differences</b>	Absolute	.182
	Positive	.182
	Negative	-.096
<b>Kolmogorov-Smirnov Z</b>		.998
<b>Asymp. Sig. (2-tailed)</b>		.272
<i>a. Test distribution is Normal.</i>		
<i>b. Calculated from data.</i>		

Based on the data on the table above, the value of Sig.= 0,272 > 0.05 thus declared as normally distributed. Other data normality test in this research used graphics (*Normal P-P Plots*).



**Figure 1:** Normal P-P Plots

From the above figure, it can be seen that the points or data are unidirectional and follow the diagonal lines. This can be concluded that the data are normally distributed.

**Multicollinearity Test**

The results of data processing from multicollinearity test is presented in the following table:

**Table 2:** Multicollinearity Test

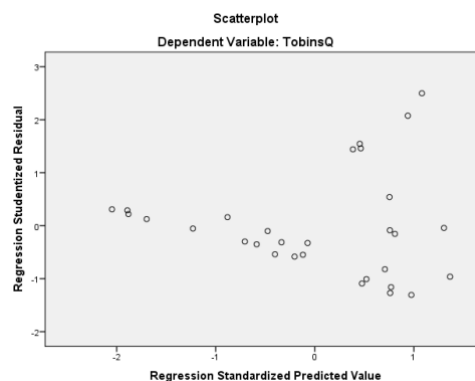
Coefficients <sup>a</sup>		Collinearity Statistics	
Model		Tolerance	VIF
1	KM	.768	1.302
	KI	.645	1.550
	DKI	.894	1.119
	CSR	.767	1.304
	ROE	.687	1.455

*a. Dependent Variable: Tobins Q*

The above table shows that *no the tolerance value* under 10% and the value of *Variance Inflation Factor (VIF)* is no more than 10, which indicates that this regression model of these variables shows no multicollinearity problems.

**Heteroscedasticity Test**

How to predict heteroscedasticity in a model can be seen using Scatterplot pattern below :



**Figure 2:** Heteroscedasticity test

From the above figure, it is seen that the points are spread at random and spread out above or under 0 on the Y axis. It is concluded that heteroscedasticity does not occur in a regression model.

**Multiple Regression Analysis**

**Table 3:** Multiple Linear Regression Test Results Coefficients

<b>Coefficients<sup>a</sup></b>		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
<b>Model</b>		B	Std. Error	Beta		
		<b>1</b>	(Constant)	1.192		
	KM	.406	.569	.748	2.112	.043
	KI	.574	.646	.846	3.890	.025
	DKI	.398	.197	.219	2.138	.017
	CSR	-.888	1.216	-.173	-.831	.414
	ROE	.101	.103	.214	.976	.339

a. Dependent Variable: Tobins Q

Data for multiple linear regression test of these variables: The regression equation formed from the data on the above table is as follows:

$$Y = 1,192 + 0,406 KM + 0,574 KI + 0,398 DKI - 0,888 CSR + 0,101 ROE + e$$

The above equation leads to the following results:

- i. Constanta (a) = 1,192 which means that although the independent variable (KM) ; managerial ownership and independent variable (KI), : Institutional ownership and the independent variable (DKI) : board commisioners and independent variable (CSR) : corporate social responsibility and independent variable ROE : return on equity are 0, then firm value (Y) remains to be 1,192
- ii. Coefficient KM (b<sub>1</sub>) = 0,406 and positive value. This means that each managerial ownership variable improvement by 1 leads to the increased firm value (Y) by 0,406
- iii. Coefficient KI (b<sub>2</sub>) = 0,574 and positive value. This means that each institutional ownership variable improvement by 1 leads to the increased firm value (Y) by 0,574
- iv. Coefficient DKI (b<sub>3</sub>) = 0,398 and positive value. This means that each board commisioners variable improvement by 1 leads to the increased firm value (Y) by 0,398
- v. Coefficient CSR (b<sub>4</sub>) = -0,888 and negative value. This means that each corporate social responsibility variable improvement by 1 leads to the decreased firm value (Y) by 0,888
- vi. Coefficient ROE (b<sub>5</sub>) = 0,101 and positive value. This means that each board commisioners variable improvement by 1 leads to the increased firm value (Y) by 0,101

**Moderate Regression Analysis**

Below is the table of the results of the processed

**Table 4:** Moderate Regression Test Results Coefficients

<b>Coefficients<sup>a</sup></b>		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
<b>Model</b>		B	Std. Error	Beta		
		<b>1</b>	(Constant)	1.413		
	KM	.329	.692	.120	.476	.639
	KI	.812	.762	.285	1.066	.299
	DKI	.023	.022	.269	1.057	.303
	CSR	-1.033	1.484	-.263	-.985	.336
	ROE	.099	.136	.211	.730	.474
	KM.ROE	.055	.025	1.113	.201	.034
	KI.ROE	1.740	.650	2.164	2.688	.011
	DKI.ROE	-.001	.015	-.026	-.086	.932
	CSR.ROE	.052	.037	1.166	1.012	.042

a. Dependent Variable: TobinsQ

Data for moderate regression test of these variables: The regression equation formed from the data on the above table is as follows:

$$Y = 1,413 + 0,329 KM + 0,812 KI + 0,023 DKI - 1,033 CSR + 0,099 ROE + 0,055 KM*ROE + 1,740 KI*ROE - 0,001 DKI*ROE + 0,052 CSR*ROE + e$$

The above equation leads to the following results:

- i. Constanta (a) = 1,413 which means that although the independent variable (KM) ; managerial ownership and independent variable (KI), : Institutional ownership and the independent variable (DKI) : board commissioners and independent variable (CSR) : corporate social responsibility and independent variable ROE : return on equity are 0, then firm value (Y) remains to be 1,413
- ii. Coefficient managerial ownership (KM) with profitability as moderate variable (ROE) = 0,055 and positive value. This means that the higher management ownership (KM) with the moderation of profitability (ROE) will increase firm value.
- iii. Coefficient institutional ownership (KI) with profitability as moderate variable (ROE) = 1,740 and positive value. This means that the higher institutional ownership (KI) with the moderation of profitability (ROE) will increase firm value.
- iv. Coefficient board commissioners (DKI) with profitability as moderate variable (ROE) = - 0,001 and negative value. This means that the higher board commissioners (DKI) with the moderation of profitability (ROE) will decrease firm value.
- v. Coefficient corporate social responsibility (CSR) with profitability as moderate variable (ROE) = 0,052 and positive value. This means that the higher board commissioners (DKI) with the moderation of profitability (ROE) will increase firm value.

### Coefficient of Determination

**Table 5:** Coefficient of Determination Coefficients

<b>Model Summary</b>				
<b>Model</b>	<b>R</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
<b>1</b>	.661 <sup>a</sup>	.436	.247	121.2320
<i>a. Predictors: (Constant), ROE, KM, DKI, CSR, KI</i>				

The value of coefficient of determination (R Square) revealed that firm value mutually influenced by management ownership, institutional ownership, board commissioners, corporate social responsibility with profitability as moderate variable by 0,436 while the remaining is influenced by other factors beyond the scope of this research.

Based on the data analysis previously mentioned, its discovered that :

- i. Managerial ownership obtained the coefficient regression value 0,406 with significant 0,043. The result show that significant number less than 0,05 (sig < 0,05) which lead to the conclusion that managerial ownership has positive effect and significant on firm value. These results support the agency's theory because information asymmetry and moral hazard can be minimized with managerial shareholdings. This indicates good control and performance by the board of directors and commissioners to the performance of managers so as to increase the value of the company. Managerial ownership can motivate management to work well as a result of the company's high value.
- ii. Institutional ownership obtained the coefficient regression value 0,574 with significant 0,025. The result show that significant number less than 0,05 (sig < 0,05) which lead to the conclusion that institutional ownership has positive effect and significant on firm value. This result supports the research from Lestari (2017) which proves that institutional ownership has a positive effect on the company's value. Institutional ownership has a control function of the owner is very decisive in improving the performance of the company. The greater the value of institutional ownership, the stronger the control over the company so that the owner of the company can control management behavior in order to act in accordance with the company's objectives that will ultimately increase the value of the company.
- iii. Board of commissioners obtained the coefficient regression value 0,398 with significant 0,017. The results show that significant number less than 0,05 (sig < 0,05) which lead to the conclusion that board of commissioners has positive effect and significant on firm value. The study found results that support the agency's theory that the effectiveness of the presence of independent commissioners or outsider directors helps plan the company's long-term strategy and periodically conducts reviews on the implementation of such strategies. The existence of independent commissioners can improve the effectiveness of supervision and strive to improve the quality of financial statements.
- iv. Corporate social responsibility obtained the coefficient regression value -0,888 with significant 0,414. The result show that significant number more than 0,05 (sig > 0,05) which lead to the conclusion that corporate social responsibility has negative effect but insignificant on firm value. This is because the gap of existing reporting indicator items then causes the ratio between companies is quite far when its compared.

The second data analysis about moderate variable on table 4 show:

- i. Variable interaction of  $KM*ROE$ ,  $KI*ROE$ ,  $CSR*ROE$  have significant number ( $<0,05$ ) that is 0,034; 0,011 ; 0,042. This indicates that profitability has successfully moderated the managerial ownership, institutional ownership, and corporate social responsibility on firm value.
- ii. But variable interaction  $DKI*ROE$  have significant number ( $>0,05$ ) that is 0,932. This indicates that profitability can't moderate board commissioners on firm value. This study shows that the board of commissioners is not affected by the company's short-term orientation of profit. The small amount of profit cannot strengthen or weaken the board of commissioners' relationship to the value of the company. This illustrates that the board of commissioners in doing its job is not focused on corporate profits.

## Conclusions

Overall, this study explains that the effect of good corporate governance (managerial ownership, institutional ownership, board commissioners) have an important role on firm value. The result from SPSS showed that good corporate governance has significant effect on firm value. Meanwhile, corporate social responsibility hasn't significant effect on firm value. Good corporate governance has proven of good existence implementation of governance will result the better version of a firm. Then, corporate social responsibility hasn't significant effect because application of corporate social responsibility disclosure in Indonesia aren't same on each company. The difference is not without reason, in period 2017 until 2019 there is transition application from G4 to GRI Standards. So, the companies have their own version and haven't same the number of disclosure points. Then its impact on the comparison of corporate social responsibility report. However, profitability as a moderating variable is able to be a moderating variable in proxies' managerial ownership, institutional ownership, corporate social responsibility on firm value but profitability can't moderate board of commissioners on firm value. The commissioner is not affected by the company's short-term orientation of profit. The small amount of profit cannot strengthen or weaken the board of commissioners' relationship to the value of the company. This illustrates that the board of commissioners in doing its job is not focused on corporate profits.

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