A STUDY ON FIRM VALUE WITH CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE AND GOOD CORPORATE GOVERNANCE APPROACH IN SUB-SECTOR OF BANKING IN INDONESIASTOCK EXCHANGE

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ABSTRACT

This study aimed to determine the effect of CSR disclosure and GCG implementation on firm value. A combination of quantitative and qualitative research methods were used in this study. A purposive sampling method was used to select 41 banks in the Indonesia Stock Exchange. The inclusion criteria for this study include companies that went publicbefore the year 2011, companies that disclosed information on CSR, companies with institutional ownership, companies with independent commissioners, the size of the audit committee, and the size of the board of directors. The results of this study showed that CSR disclosure (p=0.899) and GCG proxies such as institutional ownership (p=0.851), independent commissioners (p=0.723) and the size of the audit committee (p=0.322) have no effect on the firm value. However, the study showed that the size of the board of directors (p=0.009) has a positive influence on the firm value.

KEYWORDS: *Corporate Social Responsibility*, *Corporate Governance, Tobin's Q*

INTRODUCTION

The public companies listed on the Indonesia Stock Exchange has begun to realize the importance of increasing firm value by paying attention to financial and non-financial factors. These nonfinancialfactors include Good Corporate Governance (GCG) and Corporate Social Responsibility(CSR).The existence ofgovernment regulations that mandate the application of Good Corporate Governance and Corporate SocialResponsibility has triggered the implementation of these non-financial approaches in public companiesThe concept of Corporate Social Responsibility is related to the concept of Good Corporate Governance because responsibility is one of the key principles of Good Corporate Governance. Corporate social responsibility mandate companies to carry out Corporate Social Responsibility practices in their host community and environment. Companies that understand the principle of Corporate Social Responsibility do not isolate themselves from the host community and environment in which they conduct their business operations. Such business entities develop ways to adapt their business

culture with their social environment. Theoretically, CSR is defined as the moral responsibility of a company towards its strategic stakeholders, particularly the members of the host community. Companies must always uphold morality, with or without the rule of law. It is an indication of the management of an unhealthy company by the management of the company and avoiding conflicts between stakeholders and company's management. Thus, investors must consider the implementation of GCG in order to improve the transparent management of the company. GCG enable companies to improve their self-image as well as maximize firm value.

The strict regulation of the Bank Indonesia mandate banks in the country to implement Good Corporate Governance. The activities in Indonesia's banking sector is closely related to the core of the country's economy; thus, banking operations require the complete trust of the public. In addition, the banking sub-sector is the biggest contributor to the value of Indonesia's Stock Exchange transaction. Thus, this study aimed to investigate the effect of *Corporate Social Responsibility Disclosure* and *Good Corporate Governance Approach* on the firm value of banking sub-sectors in Indonesia's Stock Exchange market.

LITERATURE REVIEW

The term CSR came into use in the 1970s and became increasingly popular after the publication of the book titled "Cannibals With Forks: The Triple Bottom Line of 21st Century Business" authored by John Elkington in the year 1998. The book explained that the main focus of CSR includes 3Ps: profit, planet and people. A good company must be concerned about economic benefits (profit), environmental sustainability (planet) and community welfare (people). The World Commission on Environment and Development (WCED) in the Brundtland Report (1987), focused on the development of three important components of sustainable development; economic growth, environmental protection, and social equity. CSR as: "*The contribution that acompany makes in society through its core business activities, its social investment and hilanthropyprograms, and its engagement in public policy* " (Wineberg and Rudolph, 2004, p.72). Schermerhorn (1993) defined CSR as a concern for business organizations to act in ways that serve the interests of the organization and external public interests.

. The financial contributions of companies show that the implementation of CSR in Indonesia has resulted in an increase in the diversity of activities and management in various sectors. The study conducted by PIRAC (2001), showed that CSR funds from 180 companies in Indonesia reached more than 115 billion rupiahs (approximately 11.5 million US dollars). The mass media documented that these funds were spent on 279 CSR activities in different host environments. Although this fund is nothing compared to the funds spent on CSR activities in the United States, the cumulative figure shows that the development of CSR in Indonesia is quite encouraging. It is estimated that companies have spent 640 million rupiah on CSR activities in Indonesia. However, in the United States, CSR fund donations increased from 21.51 billion dollars in the year 1998 to 203 billion dollars (equivalent to 2,030 trillion rupiah) in the year 2000.

CSR is an ethical action undertaken by companies to pay attention to the environmental and social issues in their host community. The participation of companies in CSR activities alleviates the negative impacts of their business operations on their host environment and creates harmonious relationships between such companies and their host community. In spite of the cost implications of adopting CSR practices, companies that engage in CSR activities stand to enjoy different long-term benefits. CSR serves:

> "…as a social investment that is a source of competitive advantage for companies in the long-term; strengthen the company's profitability and financial performance; increased accountability and positive appreciation; increased commitment, work ethic, efficiency, and employee productivity; increasing company image and reputation; decreased vulnerability to social upheaval and resistance from surrounding communities; increased reputation and firm value in the long-term." (Lako, 2011, p.7)

Companies that engage in CSR activities disclose this in their annual report. Companies hopeto improve their self-image and increase the positive sentiment from the market via CSR disclosure; thereby increasing their firm's value. This finding is in line with the report of the study conducted by Widyasari, Suhadak and Husaini (2015) which documented that CSR disclosure has a positive effect on the firm's value.

Meanwhile, the definition of *Corporate Governance* according to the *Cadbury Committee* as quoted:

> "A set of rules regulating the relationship between shareholders, management (organizer) of the company, the creditor, the government, employees, as well as other internal and external stakeholders related to their rights and obligations; or in other words a system that directs and controls the company." (Sigit, 2012, p.139)

Bank Indonesia (BI) has been tried to initiate the Indonesian Banking Architecture (API) in which one of its objectives will be based on Bank Indonesia Regulation Number 14 of 2006 concerning Implementation of Good Corporate Governance for Commercial Banks in the 3rd Point of 6 points. In order to encourage the implementation of Good Corporate Governance in the banking sector, there is a need to develop a Good Corporate Governance regulation by the sector.

In Indonesia, several regulations relating to the implementation of the GCG principles contained in the provisions of Article 1 number 6 of Act Number 10 of 1998 concerning Banking have been issued. These include the Bank Indonesia Regulation Number 8/4/PBI/2006 concerning Implementation of GCG for Commercial Banks which is enhanced by Bank Indonesia regulation No. 8/14 / PBI / 2006 concerning the Implementation of GCG for Commercial Banks. The creation of these regulations show the seriousness of Bank Indonesia in ensuring that the management of the banking sub-sector implement risk management practices in order to protect the interests of their stakeholders. The development of various regulations in the banking sector to ensure the protection of the interests of the society makes the banking sector a *highly regulated* sector.

GCG became a predominant concept in the banking sub sector due to the existence of conflicts of interest between investors and the management of the company; this phenomenon is also referred to as the *Agency Theory*. According to Sutedi (2012), agency relations occur when company owners hand over the management of their company to professionals called *agents,* who have an understanding of better ways to effectively run a business. Under these circumstances, the company owners are only in charge of supervising and monitoring the company's operations.

Agency relationships become problematic when managers take actions that prioritize their personal interests and ignore company goals. Thus, companies need to implement GCG in order to ensure that managers prioritize company goals over their personal interests. In addition, GCG practices enable companies to improve their self-image and maximize firm’s value.

The GCG proxy in this study comprised of institutional ownership, independent commissioners, the size of the audit committee and the size of the board of directors. According to Murwaningsari (2009), institutional ownership can be defines as the ownership of companies by institutions. The institution has a high level of control over the

management of the company in order to ensure that the management makes good decisions for the company at all times.

According to Sutojo and Aldridge (2008), the role of institutional investors is to direct and monitor the direction of the company's business activities, provide a credible source of corporate information to other investors who have a close relationship with them and submit votes at the GMS.Institutional investors have a large proportion of shares and are supported by adequate facilities, funds and management expertise to control and restrain the company's business operations. The high control of institutional investors fosters improved company management and increases the firm's value. This finding is in line with the report of the study conducted by Widyasari, Suhadak and Husaini (2015) which documented that institutional ownership has a positive effect on firm value.

An independent commissioner as:"…a person appointed to represent independent shareholders who make decisions and actions based on the consideration of professionalism from within without outside interference. In addition, independent commissioners do not have blood relations with the company or stakeholders." (Sigit, 2012, p. 146)

Independent commissioners play a crucial role in bridging the interests of managers and investors because they do not favor the interests of any party or group of people. Therefore, the increase in the predominance of independent commissioners in companies is believed to increase the firm's value. This findings is in line with the report of the study conducted by Perdana and Raharja (2014) and Puteri (2013). These authors stated that independent commissioners have a positive influence on the firm's value.

According to Arens, *et al*. cited by Zarkasyi (2008): The audit committee is a member of an elected decree that help auditors to remain independent of management.

> "…monitor that the company complies with applicable laws, oversee the process of preparing *CorporateGovernance*, ensure that senior management actively socializes the *Corporate Governance* culture, monitors that the *Code of Conduct* has been implemented consequently, requires internal auditors to report in writing the results of evaluation of *Corporate Governance* and other findings." (Zarkasyi, 2008, p.22)

The presence of an audit committee asserts the existence of transparency, accountability, responsibility, independence and fairness and equality in a company. In addition, the presence of presence of an audit committee prevents the occurrence of fraudulent activities, thereby increasing the firm's value. This finding is in line with the

report of the study conducted by Widyasari, Suhadak and Husaini (2015) which documents that the audit committee has a positive effect on the firm value.

Zarkasyi (2008) defines the board of directors as a part of the company that is authorized and fully responsible for managing the company in accordance with the purposes and objectives of the company. The board of directors also represent the company, both inside and outside the court in accordance with the provisions of the articles of association.According to Allen and Gale quoted by Wulandari (2006): The board of directors are responsible for ensuring that managers follow the interest of the board. According to Puteri (2013): "The large number of board of directors is considered to help and benefit the company, especially in terms of managing resources owned by the company." (Puteri, 2013, p.598). The increasing number of the board of directors ensures the effective management of company resources. This will lead to improved company performance, and an increase in the firm's value. This finding is in line with the report of the study conducted by Wardoyo and Veronica (2013), which stated that the size of the board of directors has a positive effect on the firm value.

The implementation of CSR and GCG help companies to improve their self-image and maximize the firm value. High firm value results in an increase in the company's stock price and the firm value. According to Nurlela and Islahuddin (2008), the firm value reflects the market value of a business. The firm value can provide maximum prosperity to the shareholders if stock prices continue to increase.

The firm value in this study was measured using Tobin's Q. As for Tobin's Q's strength according to Sukamulja cited by Setyowati, Zahroh and Endang (2014: 5): Tobin's Q includes elements of liability and all company assets in the calculation, so the company does not only focus on stock investors, but also to creditors. According to Herawaty (2008: 100): "If the q-ratio is above one, this indicates that investment in assets generates profit that gives a higher value than investment expenditure, it will stimulate new investment. If the q-ratio is below one, investment in assets is not attractive."

RESEARCH METHODHOLOGY

A combination of quantitative and qualitative research methods were used to generate findings in this study. A purposive sampling method was used to select 41 banks in the Indonesia Stock Exchange., The inclusion criteria for this study include the

following: companies that went publicbefore the year 2011, companies that disclosed information on CSR, companies with institutional ownership, companies with independent commissioners, the total number of the audit committee, and the total number of the board of directors . A total number of 30 banks met the inclusion criteria for this study; these banks published their audit financial reports within the years 2012 to 2016. Data analysis techniques used to analyze and draw conclusions in this study include the Ordinary Least Square method and qualitative methods

> According to Sembiring quoted by Wardoyo and Veronica (2013):
> CSR disclosures disclosed by the company in the annual report are measured using a *dummy* variable, which is giving a *score of* 0. Companies that do not disclose CSR activities are scored 0 while companies that CSR activities are scored 1For the banking sub-sector, the total disclosure was divided into 63 disclosure items.

According to Perdana and Raharja (2014, p.4), GCG can be measured using the proxy below:

$$\text{Institutional Ownership}=\frac{\text{Sum of Institutional Share}}{\text{Sum ofCirculated Share}}$$

$$\text{Independent Commissioner}=\frac{\text{Total number of Independent Commissioner}}{\text{Total number ofBoard of Commissioner member}}$$

Audit Committee Size = Number of audit committees within the company

According to S. Beiner, *et al.* quoted by Wulandari (2006, p. 128):

Board size = Number of board of directors within the company

The dependent variable in this study is the firm value; it was measured using the Tobin's Q ratio. According to Klapper and Love (2005), The formula for the calculation is:

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

Where:

MVE = Market value of outstanding shares (closing price at the end of the year multiplied by the number of outstanding shares at the end of the year)

DEBT = The total firm value's liabilities

TA = Book value of total company assets

RESULTS AND DISCUSSION

Descriptive Analysis

The total number of research data analyzed in his study is 118. The minimum value of CSR disclosure is 0.42857 while the maximum value of CSR disclosure is 0.73016. Mean value of CSR disclosure was 0.57035 while the standard deviation value of CSR disclosure was 0.08204. Meanwhile, the minimum value of institutional ownership is 0.11030 while the maximum value of institutional ownership is 0.98660. The meanvalue of institutional ownership 0.72053 while the standard deviation value of institutional ownership was 0.23417. The minimum value of Independent commissioners is 0.33333 while the maximum value of independent commissioners is 1.00000, the *mean* value of independent commissioners is 0.58401 while the standard deviation value of independent commissioners is 0.10243.

The size of the audit committee has a minimum value of 2 people while the size of the audit committee has a maximum value of 8 people. The mean value of the audit committee is 4 people while the standard deviation value of the audit committee is 1.11800. The size of the board of directors has a minimum value of 3 people and a maximum value of 12 people. The meanvalue of the size of board of directors is 7 people while the standard deviation value of the board of directors is 2.60200. The calculated minimum firm value is 0.90295calculated a maximum firm value is 1.16524, average firm value is 1.03408, and the standard deviation of the firm value is 0.60935.

1. **Analysis of the Effect of Corporate Social Responsibility Disclosure and Good Corporate Governance on Firm Values**

Table 1: Descriptive analysis results

Variable	**Beta *Unstandardized Coefficients***	**t count**	**Sig**
Constants	0.994	16.425	0.000
CSR Disclosure	0.013	0.128	0.899
GCG Proxy of institutional ownership	0.005	0.188	0.851
Independent Commissioner GCG Proxy	-0.020	-0.356	0.723

GCG Proxy size of audit committee	-0.006	-0.994	0.322
GCG Proxy size of the board of directors	0.009	2.678	0.009*
*Significant at the 5% level			
F count = 3.733			
Sig. F = 0.004			
Adjusted R Square = 0.105			

Source: Processed Data, 2018

Equations of Multiple Linear Regression

The multiple linear regression equation is as follows:

Y = 0,994 + 0,013 X 1 + 0,005 X 2 - 0,020 X 3 - 0,006 X 4 + 0,009 X 5 + e

Where:

Y = Firm Value

X 1 = CSR Disclosure

X 2 = Institutional Ownership

X 3 = Independent Commissioner

X 4 = The size of the audit committee

X 5 = Size of the board of directors

e = Disturbing Variables

F test

Table 1 shows that the F count value is 3.733 greater than the F tabulated value of 2.295. In addition, the significance value of 0.004 is less than the critical value of 0.05. Thus, it can be concluded that the regression model produced is feasible.

T test

CSR disclosures have a significance value (p) of 0.899 and the *Unstandardized Coefficients* Beta of 0.013. Since the significance value is greater than 0.05, it can be inferred that CSR disclosure does not affect the firm value. This finding suggests that CSR activities are only carried out to comply with government regulations and not to increase the firm value.

Institutional ownership has a significance value (p) of 0.851 and Beta *Unstandardized Coefficients* of 0.005. Since the significance value is greater than 0.05, it can be inferred that institutional ownership does not affect the firm value. In addition, the proportion of bank ownership by the institution is more than 50%. This gives absolute power in decision making at the GMS to the institutions. As a result, the decisions made may be less effective and tend to prioritize the interests of the majority shareholders at the expense of the interests of minority shareholders.

Independent commissioners have a significance value (p) of 0.723 and the *Unstandardized Coefficients* Beta of -0.020. Since the significance value is greater than 0.05, it can be inferred that presence of independent commissionersdoes not affect the firm value. This finding may be due to weak efforts of independent commissionersto effectively bridge the interests of company owners and management.

The size of the audit committee has a significance value (p) of 0.322 and the *Unstandardized Coefficients* Beta of -0.006. Since the significance value is greater than 0.05, it can be inferred that the size of the auditcommittee does not affect the firm value. This finding may be due to the limited number of members of the audit committees in most banks. Thus, investors cannot ascertain the level of transparency,accountability, responsibility, independence, equality and fairness in such banks. The non-influence of institutional ownership, independent commissioners and the size ofthe audit committee shows that GCG is limited to compliance with government regulations, andhas not been intended to increase the firm value.

The size of the board of directors has a significance value (p) of 0.009 and the Beta *Unstandardized Coefficients is* 0.009. Since the significance value of the board of directors is less than 0.05 and the Beta *Unstandardized Coefficients* are positive, it can be inferred that the size of the board of directorshas a positive effect on the firm value. This finding suggests that an increase in the size of the board ofdirectors results in a more effective management of company resources as well as the company's performance. Thus, the directors can carry out their specific dutiesbetter due to the even distribution of tasks among them. Moreover, an increase in the size of the board of directors reduces agency problems.

The coefficient of determination (R^2)

Table 1, shows that the value of Adjusted $\mathbf{R^2}$in this study is 0.105. Thus it can be inferred that CSR disclosure, institutional ownership, independent commissioners, audit committee size and board size accounts for 10.5% of the variables that influence an increase in firm value while other variables (not included in this study) account for 89.5% of variables that influence an increase in firm value.

CONCLUSION

This research study showed that CSR disclosures, GCG proxy in the form of institutional ownership, independent commissioners, and the size of the audit committee do not affect the firm value. However, the GCG proxy in the form of the size of the board of directors has a positive influence on the firm value.

Suggested Areas for Further Research

For further research, it should also try to do CSR and GCG by using another approach, in order to produce better research results.

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