THE ROLE OF GOOD CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY IN IMPROVING FIRM VALUE

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ABSTRACT

This research aimed to examine the influence of good corporate governance and corporate social responsibility on firm value and the role of corporate social responsibility in mediating the effect of good corporate governance on solid value. The population in this research is food and beverage sub-sector manufacturing companies listed on the Indonesia Stock Exchange for the 2017-2021 period. The sampling technique uses purposive sampling with a sample of 70 observation data. The research results using data analysis using Partial Least Square-Structural Equation Modeling (PLS-SEM) show that good corporate governance and corporate social responsibility have a positive effect on firm value, and good corporate governance has no impact on social responsibility. In contrast, corporate social responsibility cannot mediate the influence of good corporate governance on solid value.

Keywords: good corporate governance, corporate social responsibility, firm value.

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1. Introduction

The dynamic business world and intense competition mean that every company must have a competitive strategy to survive and achieve sustainability. Each period, the company has different goals from one company to another. The company's goal is not only to maximize profits, but more than that, the company must be able to increase the value of the company. The company's success in achieving and growing importance is reflected in the company's share price. Widyantari (2017) revealed that high share prices will raise the perception of potential investors regarding the excellent performance of a company so that it can increase firm value.

According to Brigham and Houston (2011), firm value is a factor related to shareholders' level of prosperity. Therefore, the shareholders' wealth level can be a reference to see the company's performance. The more shareholder prosperity is achieved, the higher the company's value. One way to assess company performance in measuring firm value is using Tobin's q ratio. Tobin's q ratio is used because it can see the opportunities for the company to be developed by comparing the total market value with the total book value of equity and liabilities (Nguyen, 2015). Food and beverage sub-sector manufacturing companies are a sector that can survive and be relatively stable in crisis conditions, such as during the COVID-19 pandemic that hit the world in 2019-2021.

This phenomenon can be seen from data on the average growth of firm value in manufacturing companies in the food and beverage sub-sector period 2017 - 2021. The highest growth in firm value was in 2019, with growth of 5%. This condition means that company management can identify and take advantage of opportunities available in the market to become a competitive advantage for each company. Meanwhile, in 2021, the firm value decreased by -4% from the previous year. The decline in performance indicates that management needs to be able to identify and exploit market opportunities resulting from the COVID-19 outbreak. The COVID-19 pandemic, one of the causes of decreasing firm value, can be pursued by companies to increase their share price by managing and optimizing the factors that influence it. According to Rahayu (2018), efforts to increase firm value have several indicators, namely good corporate governance, corporate social responsibility and many others.

Optimizing firm value can first be done by implementing good corporate governance, and this implementation functions to supervise management. Corporate governance describes the relationship between the two interests of participants in the company, such as the agent and the principal, who can determine the direction of the company's performance. According to agency theory coined by Jensen and Meckling (1976), good corporate governance is a solution to overcome conflicts of interest because implementing good corporate governance will align the agent's interests with the principal's interests, thereby minimizing conflicts of interest. According to Dewi and Abundanti (2019), managerial ownership functions as a company supervisor. Managerial ownership can be seen from the share ownership owned by management. The existence of managerial ownership results in more optimal supervision. The more company management has as shareholders, the more efficient the use of company assets, which is believed to function as added value for the company to create a competitive advantage.

Corporate social responsibility is the subsequent optimization that companies can carry out to increase firm value. Corporate social responsibility (CSR) is the concept of corporate responsibility to contribute to sustainable economic development, looking at a balance of social, economic and environmental aspects. Based on PP Number 47 of 2012, companies must carry out their obligations as legal subjects to be responsible for the company's social and environmental aspects. The implementation and disclosure of CSR have guidelines for its implementation, namely the global reporting initiative as a reference for sustainable reports, which are used as standards worldwide.

Chan et al. (2013) argue that CSR disclosure refers to the information provided by companies in their annual reports about actions, initiatives and resource consumption that affect the general public and stakeholders. Mai (2017) states that CSR is now believed to provide a competitive advantage because investors in making decisions no longer only look at the company's financial performance but also the social performance information reported in the company's annual report. Implementation of corporate social responsibility activities also depends on the decisions and policies made by management and the funds available to the company. If the implementation of good corporate governance is high in a company, corporate social responsibility activities will also increase.

Social performance information reported in the company's annual report attracts potential investors, influencing the increase in the company's share price. So, the better implementation of good corporate governance will improve the performance of corporate social responsibility and increasing corporate social responsibility will increase the company's value, which is reflected in the increase in the company's share price. Research by Nguyen (2015) found that the higher the disclosure of a company's corporate social responsibility activities, the more profitable it is, and its value increases. Companies can gain a good image in society and investors, providing a competitive advantage.

2. Literature Review

2.1. Firm Value

Firm value can be assessed by the value of share prices in the market, which reflects the public's assessment of the company's real success. Firm value is the company's ability to look for opportunities that will be implemented and can describe the future to create profits that can be seen through share prices (Nugraha, 2013). The higher the share price can increase the firm value. The company's achievements after proceeding through activities that are created and become trusted by the public are a form of the company's value, which indicates that the company has values to compete in the market (Rinnaya, 2016).

2.2. Good Corporate Governance

Good corporate governance a system companies use to carry out management supervisory duties to reduce the emergence of conflicts of interest between parties. Good corporate governance can be seen using the Managerial Ownership indicator. According to agency theory, conflict arises between the principal and the agent due to differences in interests between the two parties. Managerial ownership is the proportion of shares owned by management from the entire share capital of the company they lead (Astriani, 2014). Low managerial ownership causes more opportunistic manager behaviour. Good corporate governance is an idea to build stakeholder trust in the company.

2.3. Corporate Social Responsibility

Corporate social responsibility was coined by Elkington (1997) a condition where the business world must be involved in realizing the welfare of society, including company employees (people), and can actively participate in environmental management, especially around the company (planet). According to Raharjo (2017), corporate social responsibility is critical for companies to do this in order to follow the rules, laws and regulations, as well as to get a good image for the company.

2.4. Good Corporate Governance and Firm Value

Agency theory emphasizes the granting of authority from the company owner (principal) to the manager (agent) who understands more about carrying out the company's operational activities, and the activities carried out must be in line with the goals of the principal and the goals of the company (Sutedi, 2012). Based on this opinion, Good Corporate Governance is a supervisory system that can carry out supervisory functions on company management and minimize conflicts of interest so that companies do not need to incur agency costs because managers' opportunistic behaviour can be controlled. Share prices will increase because they gain the trust of investors. Muryati's (2014) research found that good corporate governance has a positive and significant effect on firm value through precise control when managerial ownership in a company is high, meaning that the manager also owns shares in the company and is less likely to act opportunistically for himself. Research conducted by Mangitong (2019) also proves that good corporate governance through managerial ownership positively and significantly affects firm value.

H1: Good Corporate Governance has a positive effect on Firm value.

2.5. Good Corporate Governance and Corporate Social Responsibility

Based on signalling theory, the relationship between good corporate governance and Corporate Social Responsibility is explained that with good governance, companies can run their business to report the results of corporate social responsibility widely to attract potential investors. According to Marsudi (2020), high levels of good corporate governance will lead to more outstanding monitoring efforts by shareholders, including shares held by managers, so that it can inhibit the opportunistic behaviour of managers and improve the quality of investment decisions in social responsibility so that they are better corporate governance, companies tend to make broader disclosures regarding Corporate Social Responsibility. The research results of Alfirisi et al. (2020) stated that good corporate governance has a positive effect on corporate social responsibility. The greater the percentage of a company's good corporate governance, the greater the company's corporate social responsibility.

H2: Good Corporate Governance has a positive effect on Corporate Social Responsibility.

2.6. Corporate Social Responsibility and Firm Value

Corporate Social Responsibility (CSR)is a form of the company's social concern for the environment around which it operates. CSR has the aim of increasing firm value, as well as providing profits and benefits for stakeholders and shareholders. Freeman (1984) stated that corporate social responsibility activities can reduce conflicts with all types of stakeholders, both investment (investors) and non-investment interests (environment, society and other community organizations). Schiff's (2018) research found that corporate social responsibility activities positively and significantly affect firm value because corporate social responsibility can provide a solid signal to potential investors. This strong signal is expected to be a positive plus point for the company and get feedback from potential investors (Ender & Brinckman, 2019).

H3: Corporate social responsibility has a positive effect on firm value.

2.7. Good Corporate Governance, Corporate Social Responsibility and Firm Values.

Good corporate governance is a monitoring system carried out by the owner (principal) on the management (agent) to minimize agency conflicts. In a sound corporate governance system, four main components are needed: transparency, accountability, responsibility and justice. Good Corporate Governance has five components that correlate with corporate social responsibility: transparency, accountability, responsibility, independence, fairness and equality. Siti's research (2017) states that the principles of good corporate governance have been consistently proven to improve the quality of financial reports and reduce deviant activities that can affect firm value. Freeman (1984) believes that corporate social responsibility can reduce or minimize conflicts for all types of stakeholders, both internal and external to the company. Research conducted by Utami (2011) found that investors appreciate corporate social responsibility disclosure information for decision-making so that it can increase firm value.

H4: Good Corporate Governance influences Firm value through the role of Corporate Social Responsibility

3. Research Methodology

3.1. Population and Sample

This research is associative research, which aims to analyze the relationship or influence of two or more variables. The population in this research are companies operating in the food and beverage sector listed on the Indonesia Stock Exchange (BEI) for the 2017-2021 period. The sampling technique used was purposive sampling, with the criteria being food and beverage sub-sector manufacturing companies that are listed and listed on the IDX, companies that report and publish financial reports, and companies that have data to support research.

3.2. Data analysis technique

The data analysis technique uses the Partial Least Square-Structural Equation Modeling (PLS-SEM) method. PLS-SEM aims to test the relationship between constructs to find out whether there is an influence or relationship between constructs. The software used for PLS-SEM is AMOS, LISREL, Mplus, and EQS (Hamid and Anwar, 2019). In PLS-SEM there are two steps in evaluating the model, namely the measurement model (outer model) and the structural model (inner model). To determine the accuracy of the model, it can be obtained from the measurement process of convergent validity, discriminant validity, Cronbach's alpha and reliability values. Predicting causal relationships is obtained from the bootstrapping process and T-statistical test parameters. The parameters used are R2 and path coefficients values. The Mediation Test uses the Product of Coefficient (Sobel) method (Sobel, 1982).

4. Results

4.1. Partial Least Square – Structural Equation Modeling (PLS-SEM)

This research uses a quality relationship model using the Partial Least Square - Structural Equation Modeling (PLS-SEM) analysis technique. Structural model testing aims to determine whether or not there is an influence between constructs. The best model can be obtained by modifying the following model.

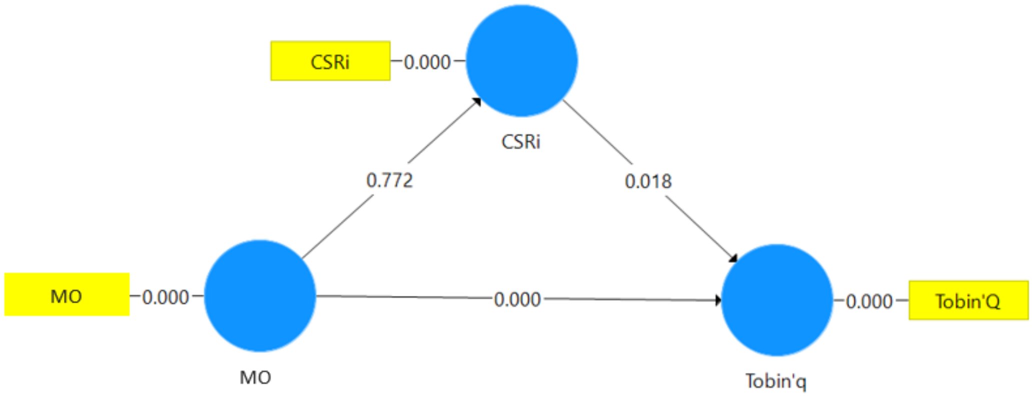

Figure 1. Structural Model

4.2. Hypothesis Test

a. Direct Effect Hypothesis (Direct Effect)

Table 1. Bootstrapping Output from Direct Effect

Variable Relationships	Original Sample	Standard Deviation	T-statistic	P-value	Note
MO --> Tobin'Q	0.414	0.093	4,464	0,000	H1 is accepted
MO --> CSR	-0.041	0.142	0.290	0.772	H2 is rejected
CSRi --> Tobin'Q	0.240	0.101	2,369	0.018	H3 is accepted

Source: processed data

b. Indirect Effect Hypothesis (Indirect Effect)

Table 2. Bootstrapping Output from Indirect Effect

Variable Relationships	Original Sample	Standard Deviation	T-statistic	P-value	Note
MO --> CSRi --> Tobin'Q	-0.010	0.042	0.234	0.815	H4 is rejected

Source: processed data

5. Discussion

5.1. The Influence of Good Corporate Governance on Firm Value

Based on the bootstrapping output results table, it is known that the resulting T-statistic value is 4.464, which means it shows T-statistic (4.464) > t-table (1.96), or the p-value (0.000) < sig value (0.05). The research results show that Good Corporate Governance positively affects Firm value, so hypothesis 1 is accepted. As management ownership of a company grows, so does its value, and vice versa. The findings of this investigation support the agency hypothesis proposed by (Jensen & Meckling, 1976), stating that the principal will transfer decision-making authority to management (agent) to operate the company and is intended to ensure good cooperation between the principal and the agent. The findings of this research support research conducted by (Mangoting, 2019), which claims that good corporate governance has a beneficial influence on firm value by providing added value to the organization. However, the findings of this research contradict research published (Jensect, 2019), which states that good corporate governance does not affect business value.

5.2. *The Influence of Good Corporate Governance on Corporate Social Responsibility*

Based on the bootstrapping output results table, it is known that the resulting T-statistic value is 0.290, which means it shows the T-statistic (0.290) < t-table (1.96), or the p-value (0.772) > sig value (0.05). The research results show that Good Corporate Governance has no significant effect on Corporate Social Responsibility, so hypothesis 2 is rejected. The findings of this study contradict the Signaling theory (Spence, 1973), which suggests that management ownership and CSR indices do not provide information that may be sufficient for potential investors to use to evaluate companies. The findings of this research are contrary to those (Musta'ani, 2017), who found that GCG has a beneficial influence on CSR, with the more significant the presentation of GCG in a company, the broader the scope of CSR carried out by the organization. However, this research's findings align with (Nagari, 2019) who found that GCG (managerial ownership) has no effect on CSR.

5.3. The Influence of Corporate Social Responsibility on Firm value

Based on the bootstrapping output results table, it is known that the resulting T-statistic value is 2.396, which means it shows T-statistic (2.396) > t-table (1.96), or the p-value (0.018) < sig value (0.05). Based on the results of this research, corporate social responsibility does not affect firm value, so hypothesis 3 is accepted. This research's findings follow Spence's (1973) signalling theory, which states that companies can provide information to the public or potential investors to support the company's value. Corporate Social Responsibility can add value to the company because of public awareness regarding this information.

The results of this research also follow stakeholder theory, illustrating that companies are not only responsible for maximizing profits for owners and investors, who can be called shareholders but are also responsible for providing benefits to society, the social environment and the government, which can be called stakeholders (Harmoni, 2013). The findings of this research are in line with research by Sarvares (2013), which found that CSR has a beneficial influence on firm value with high public awareness. However, this is different from (Nagari, 2019), who states that CSR does not affect firm value because potential investors are more concerned with the profits they will receive from invested capital rather than the company's social obligations.

5.4. *Good Corporate Governance influences Firm value through the role of Corporate Social Responsibility*

Based on Table 2, it is known that the statistical T value is 0.234, which means it shows that statistical T (0.234) < T table (1.96), or the p-value (0.815) > sig value (0.05). These results indicate that the influence of Corporate Social Responsibility cannot mediate the influence of Good Corporate Governance, so hypothesis 4 is rejected. It shows that it has

yet to be proven that Good Corporate Governance influences firm value through corporate social responsibility. These findings indicate that food and beverage industry investors pay more attention to Good Corporate Governance than Corporate Social Responsibility.
According to Elkington (1997), corporate social responsibility is an understanding of a company that must be active in improving the welfare of society, including company employees and the company environment, in addition to making a profit. According to Raharjo (2017), corporate social responsibility (CSR) is crucial because it can offer a favourable outlook for increasing firm value and complying with legal regulations. However, the company's lack of social responsibility prevents it from sending a strong signal to investors looking to invest cash. The findings of this study contradict research previously (Buchanan, 2018). However, this is in line with research conducted by (Nagari, 2019), which states that corporate social responsibility cannot mediate the influence of managerial ownership with firm value.

6. Conclusion

Based on the results of research, the higher the implementation of good corporate governance, the higher firm value; the higher implementation of good corporate governance, the less it will affect the scope of corporate social responsibility activities; the higher the scope of corporate social responsibility, the higher firm value; corporate social responsibility cannot mediate the influence of good corporate governance on firm value.

This research provides a new perspective for companies to pay more attention to company value in the market to increase its value and attract potential investors to invest their capital. Companies must further improve corporate governance so that no conflict between owners and management can affect value added to increase company value. Companies can consider disclosing more complete information regarding corporate social responsibility disclosures to investors to reduce information asymmetry.

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