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Effect of Corporate Social Responsibility and Good Corporate Governance on Firm Value

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ABSTRACT
The purpose of this study is to examine the impact of corporate social responsibility and good corporate governance on firm value. This study focuses on banking companies that are publicly traded on the Indonesia Stock Exchange between 2019 and 2021. The dataset consists of financial statement data from a total of 72 organizations. The sample was selected using a purposive sampling technique based on predetermined criteria and then analyzed using multiple linear regression method. The findings of this study indicate that corporate social responsibility has a significant impact on firm value, but good corporate governance does not have a significant effect on firm value. The implication of this research is that banking companies are expected to increase their commitment to corporate social responsibility programs as a way to increase the trust and perception of investors, the government and the surrounding community who are stakeholders. Companies also need to evaluate the strategy of using good corporate governance, because although good corporate governance remains important for managing risk and corporate sustainability, companies need to consider how corporate social responsibility elements can be integrated into their good corporate governance framework in order to achieve better results.

***Keywords**: Corporate Social Responsibility, Good Corporate Governance, Firm Value.*

INTRODUCTION

Firm value is not an empty term in the business world. Firm value reflects the essence of how a company is viewed by shareholders, investors, employees, customers, and the wider community. According to (Bagita & Tambun, 2016), firm value is very important because management has a goal to maximize company value. Firm value can be referred to as stock price value, which means that a high stock price indicates a high firm value(Yanti & Darmayanti, 2019). The higher the valuation of a company, the more profitable its shareholders (Putri & Mardenia, 2019).

In the midst of increasingly fierce business competition, investors are now increasingly demanding good corporate governance (GCG). They want to ensure that the company's management carries out its duties properly without taking actions that can harm the company. The reason is that GCG has a direct impact on profitability and firm value. In this case, the better the profitability, the greater the trust given by stakeholders.

According to (Wardhani et al., 2021), GCG is defined as a company management practice that prioritizes transparency, accountability, fairness, and clear policies in decision-making by company management to safeguard the interests of stakeholders, especially shareholders and investors. Research (Utami & Wulandari, 2021) GCG affects firm value in line with GCG principles which emphasize the importance of openness and accountability in running a business so as to increase investor and public confidence in the company, in contrast to the findings (Lestari et al., 2020) GCG has no significant effect. However, the findings of this analysis may differ depending on the research method used and the specific conditions of the company under study.

In addition to GCG, Corporate Social Responsibility (CSR) is also an important factor in building sustainable company value. (Cho et al., 2019) defines CSR as a concept that includes a company's responsibility for the social, environmental, and economic impacts of its operations. This includes aspects of the company's responsibility towards various stakeholders.

CSR is a means by which an organization can voluntarily incorporate environmental and social responsibilities in its interactions with stakeholders. This is part of a business strategy that aims to improve the company's reputation, making it easier to obtain funding. (Rusmaningsih & Setiadi, 2021). Research (Fana & Prena, 2022) shows that CSR affects firm value. This is due to the trust and support given by consumers, employees, stakeholders, and the wider community to companies that are active in CSR. Therefore, CSR plays a role in improving the company's reputation in an effort to increase firm value. However, the correlation with firm value is not always positive. The implementation of CSR can incur significant costs. Therefore, companies should carefully consider their CSR policies, evaluating the trade-off between the necessary sacrifices and the long-term benefits in terms of corporate reputation with stakeholders.

In 2021, PT Bank Mandiri (Persero) Tbk allocated considerable financial resources to help individuals whose economic conditions were affected by the COVID-19 outbreak is an interesting example in the context of CSR and GCG. Despite the company's financial statements showing a decline in profits, the company decided to provide significant assistance. This shows the influence of GCG in managing relationships with stakeholders. However, differences in economic situations and company conditions allow for debate around CSR policies. Are the sacrifices made worth the increase in firm value? How does GCG influence decision-making in these circumstances? These questions are important to understand the relationship between variables as well as the implications for stakeholders.

METHOD

This research adopts a quantitative approach and relies on secondary data. The study focuses on banking institutions which are publicly listed on the Indonesia stock exchange from 2019 until 2021. For sample selection using purposive sampling technique with predetermined criteria.. The documentation method was employed to collect data by retrieving existing documents from the IDX. Multiple regression analysis is a technique used to analyze data.

The evaluation of CSR disclosure is conducted in accordance with the guidelines provided by the Global Reporting Initiative. The method for measuring CSR disclosure is determined by the relevant regulatory standards :

$$CSRIj = \frac{\sum Xij}{Nj}$$

Description:
CSRIj = CSR disclosure index
$\sum$ Xij = value 1 if the item i is disclosed
score 0 if the item i is not disclosed
nj = number of items for the company

GCG is measured using a self-assessment composite value according to Bank Indonesia which consists of eleven implementation assessment factors. The smaller the composite value of a bank, it can be concluded that the banking company has a better GCG composite predicate.

Table 1. Self-assessment composite score

Composite value	Composite Predicate	Composite rank
< 1.5	Very Good	1
1.5 < 2.5	Good	2
2.5 < 3.5	Good Enough	3
3.5 < 4.5	Less Good	4
4.5 < 5	Not Good	5

Source: Bank of Indonesia

Firm value can be evaluated using different metrics, one of which is the Price to Book Value (PBV). The PBV allows a comparison between the closing market price of a company's shares and its book value.

$$PBV = \frac{Market\ Price}{Book\ value}$$

The research implemented descriptive statistics, classical assumption tests, multiple linear regression analysis as analytical methods and hypothesis tests. The second method consists of four components : normality, multicollinearity, heteroscedasticity and autocorrelation. The third method is to conduct multiple linear regression analysis using a specific formula.

$$Y = \alpha + \beta 1X1 + \beta 2X2 + e$$

Y = Firm Value
α = Constant
X1 = CSR
X2 = GCG
β = regression coefficient
e = error

RESULT AND DISCUSSION

Descriptive statistical analysis

Table 2. Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
CSR	72	-2.04	-.47	-.9599	.43881
GCG	72	.00	1.10	.6466	.20746
FIRM VALUE	72	-2.55	1.75	.0191	.85329
Valid N (listwise)	72				

Source: SPSS 25 Processed Data (2023)

The test results indicate that both the CSR and firm value variables have a standard deviation that surpasses the mean value. A higher standard deviation value compared to the mean suggests suboptimal outcomes as it can introduce bias. Conversely, the GCG variable exhibits a standard deviation value that is below the mean. A reduced standard deviation value relative to the average value suggests favorable outcomes and does not introduce any bias.

Results of the Classical Assumption Test

Normality test

Table 3. Normality Test Results

	Unstandarized Residual
N	72
Test Statistic	.117
Monte Carlo Sig.	.254

Source: SPSS 25 Processed Data (2023)

Based on the One-Sample Kolmogorov-Smirnov test, the resulting Sig value. 0.254 > 0.05 Therefore, it can be concluded that the data is in accordance with the normal distribution.

Multicollinearity Test

Table 4. Multicollirity Test Results

Variable	Tolerance	VIF
CSR	.948	1.044
GCG	.948	1.044

Source: SPSS 25 Processed Data (2023)

Based on the Tolerance and VIF values, it can be seen that no factor has a tolerance value ≤ 0.10 or the same as VIF ≥ 10. Therefore, it can be inferred that the regression model does not exhibit any multicollinearity relationship between the CSR and GCG components.

Heteroscedasticity Test

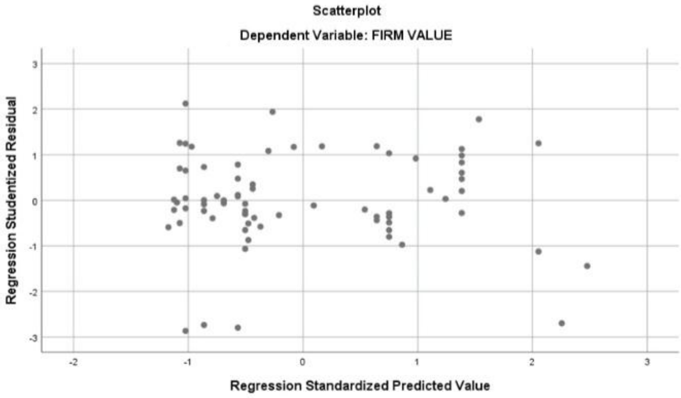

Figure 1. Heteroscedasticity Test Result

Based on the graph, there is no clear pattern evident in the spread of points, indicating the absence of heteroscedasticity.

Autocorrelation Test

Table 5. Autocorrelation Test Results

Model	R	R Square	Adjusted Square	RStd. Error of the Estimate	Durbin-Watson
1	.200[a]	.040	.012	.84824	2.006

Source: SPSS 25 Processed Data (2023)

The resulting Durbin-Watson (DW) value is 2.006 with a significant level of 0.05 or α = 5% and 4 independent variables (k = 4) and the number of samples n = 42. It is known in the Durbin Watson table (attached) that the DU value is 1.6751. So, based on the decision making DU < DW < 4-DU is 1.6751 < 2.006 < 2.3249, it can be concluded that there is no positive or negative autocorrelation in this study.

Analysis of Multiple Linear Regression Models

Table 6. Regression Analysis Test Results

Variable	B	Tstatistic	Sig.
Constant	1.007	2.048	.044
CSR	-.650	-2.061	.043
GCG	-.362	-.543	.589

Source: SPSS 25 Processed Data (2023)

The regression equation can be determined from column B of the table, where the regression coefficient for each variable is displayed. So the regression equation is Y = 1,007 - 0,650X1 - 0,362X2 + e

Hypothesis test

The test is conducted with a significance threshold of 0.05 (α = 5%). The test criteria involve accepting the hypothesis if the likelihood of significance is less than 0.05. If the p-value is greater than 0.05, then the null hypothesis is rejected. (1) The CSR variable has a statistically significant value of 0.043 < 0.05, indicating that CSR has a discernible impact on company value. (2) The GCG variable has a significance value of 0.589 > 0.05, this indicates that GCG does not have a significant impact on company value. In summary, the study of the hypothesis led to the following results :

Table 7. Testing Results

Hypothesis	Result
CSR Affects Firm Value	Accepted
GCG Affects Firm Value	Rejected

Source: SPSS 25 Processed Data (2023)

Discussion

The effect of CSR on firm value

The effect of Corporate Social Responsibility (CSR) on firm value has been extensively explored in various studies, including those conducted by (Lestari et al., 2021), (Fana & Prena, 2022), and (Nugroho et al., 2021). These studies collectively underscore the substantial influence of CSR disclosure on a company's value. Investors highly regard CSR disclosures as pivotal factors guiding their investment decisions. Surprisingly, both high and low levels of CSR disclosure convey significant information to investors, affecting the perceived value of an investment and the expected returns. However, despite societal expectations of CSR implementation, there seems to be a disconnect between CSR strategies and the value creation process in banking companies. Investors primarily base their stock transactions on market conditions, financial indicators, and current news, with CSR practices holding less weight in their decisions. Moreover, the discrepancy between societal expectations and banking companies' value creation through CSR initiatives becomes evident when considering the financial burdens these companies face in executing CSR programs. The substantial costs associated with social endeavors, such as charitable contributions, environmental projects, or community welfare programs, so the mismatch between public expectations and the financial realities faced by banking companies in implementing CSR programmes value often impact a company's profits negatively. Despite these challenges, CSR remains a pivotal strategic approach for firms in ensuring long-term business sustainability. Therefore, companies must devise cost-effective CSR programs that enhance public trust and bolster investor confidence without excessively affecting their bottom line. The efficient execution of such initiatives holds the potential to significantly elevate firm value due to their substantial impact, notwithstanding the challenges faced in balancing societal expectations and financial realities.

The effect of GCG on firm value

Research shows that GCG has no considerable impact on firm value. Similar conclusions were drawn from studies by (Lestari et al., 2021), (Susanti et al., 2019) and (Hapsari, 2018) which demonstrate that GCG does not significantly affect the firm value. Similar findings underscore that GCG evaluations, which sometimes rely on internal company assessments, do not always match up with market values. Prior to engaging in the self-assessment process, companies are likely to have practiced solid corporate governance. This likely reduces the direct influence of the self-assessment process on the perceived value of the company in the market. One reason for this finding may be related to the banking industry's focus on meeting GCG standards imposed by regulators. In addition, continuity in implementing quality corporate governance practice remains necessary, especially since GCG self-assessment is regulated in POJK No.55/POJK.03/2016 and BI Circular Letter No. 15/15/DPNP dated April 29th 2013, especially for commercial banks to uphold good banking governance. Thus, self-assessment is often considered as an obligation to fulfia government regulations. GCG implementation aims to ensure that the company functions properly and is supervised in accordance with applicable regulations.

CONCLUSION

The results of the research that has been done show that CSR has an effect on firm value. Therefore, it is imperative for organizations to prioritize strategy and assess their current CSR initiatives. Identify programs that have a more significant impact on the long-term interests of the company and society as a whole. It is also necessary to revise a good GCG strategy, because the application of self-assessment in companies is expected not only to fulfill obligations but also as a way to improve in managing the company in order to enhance the company's valuation. So that existing GCG practices can maximally demonstrate their effectiveness. Companies must strengthen internal controls, maintain management integrity, and increase transparency in financial reporting. It is expected that CSR programs are also integrated into GCG implementation efforts so as not to overlap between interests and maximize the results.

This study presents several limitations to be acknowledged. Firstly, it exclusively focuses on banking entities enlisted in the IDX between 2019-2021. Therefore, the outputs may not be broadly applied to financial institutions in different sectors or countries. Other factors that may affect firm value, such as macroeconomic factors, government policies, or industry characteristics, are not considered. So further research is needed for a more comprehensive understanding. Lastly, this study only noted the relationship between CSR, GCG, and firm value without looking at moderating factors. Therefore, further research with an experimental approach or other research methods is needed for a deeper understanding.

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