



Analysis of Impact Implementation of Corporate Governance and Corporate Social Responsibility on Corporate Value in Banking Sector with Net Profit Margin and Management Quality as Moderating Variables

Andre Prasetya Willim¹; Andreas Lako²; Wendy³

¹ Management Department, Tanjungpura University, and Widya Dharma University, Indonesia

² Soegijapranata Chatolic University, Indonesia

³ Management Department, Tanjungpura University, Indonesia

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Abstract

This study aims to determine the impact of the disclosure of the implementation of corporate governance and corporate social responsibility to the value of the company with net profit and management quality variables as moderating variables in the banking sector on the Indonesia Stock Exchange. The value of the company in this study using Tobin's Q. Samples in this study amounted to 29 companies in the banking sector on the Indonesia Stock Exchange using annual financial reports and annual reports from 2009 to 2018. Based on the samples in this study, data processing is done by analysis Multiple regression to measure the impact of independent variables consisting of disclosure of the implementation of corporate governance and corporate social responsibility on the dependent variable, Tobin's Q, with moderating variables, namely net income and management quality. The results of the study note that the impact of corporate governance disclosure has a positive and significant effect on company value, while the disclosure of corporate social responsibility implementation has no significant effect on firm value. However, the existence of moderating variables net income and management quality can strengthen the effect of corporate social responsibility disclosure on firm value. In disclosing the implementation of Corporate Governance, the moderating variable of net income experiences the opposite, namely, net income weakens the influence of corporate governance on firm value, whereas management quality as measured by Return on Assets cannot moderate the effect of Corporate Governance on firm value.

Keywords: *Corporate Governance Indeks; Corporate Social Responsibility Indeks; Net Profit Margin; Return on Assets*

Introduction

The issue of corporate governance is an interesting problem to study because in several Asian countries affected by the financial crisis that began around 1997, including in Indonesia, many experts argue that weaknesses in corporate governance are one of the main sources of economic insecurity which

causes a deterioration in the country's economy - the country in 1997 (Hinuri, 2002). According to the Financial and Development Supervisory Agency (BPKP), bad corporate governance was allegedly one of the causes of the political economy crisis in Indonesia which began in 1997, the effect of which is still felt today, the financial crisis that occurred in the United States was also suspected because the principle was not applied - principles of good corporate governance, some cases of financial scandals such as Enron Corp, Worldcom, Xerox and others involving the company's top executives illustrate not applying the principles of good corporate governance. According to Solomon & Solomon (2006) corporate governance tends to improve performance and not hamper company development. This study aims to determine the impact of the disclosure of the implementation of corporate governance and corporate social responsibility to the value of the company with net profit and management quality variables as moderating variables in the banking sector on the Indonesia Stock Exchange.

Literature Review

Agency Theory treats relationships between companies consisting of shareholders and managers or agents in a contract to carry out several activities on behalf of the shareholders, and usually the principal will delegate decision making authority to the manager or agent (Jensen & Meckling, 1976; Wu et al., 2014). In this agency relationship, disharmony and conflicts of interest occur between shareholders and managers, so it is necessary to create a separation of ownership and control (Berle & Means, 1932; Fama & Jensen, 1983). This agency problem is also known as the problem between principal and agent. Thus appears to be a widespread phenomenon in modern companies throughout the world (McGee, 2009; Romano, 1993; Steyn & Stainbank, 2013).

The main principles of corporate governance (Kaen, 2003; Shaw, 2003) which are put forward are accountability, responsibility, transparency, and fairness. The application of this principle in the company will prohibit insulting practices carried out by insiders that harm others. Each member of the board of directors must conduct disclosure if they find transactions that contain conflicts of interest.

The Corporate Governance Index is calculated using a dichotomous approach, where each item of corporate governance in the research instrument is given a value of 1 if disclosed, and a value of 0 if not disclosed. Next, the ratings for each item are summed to obtain an overall rating for each disclosure. The formula for calculating the Corporate Governance Index is:

$$CGI_j = \frac{\sum X_{ij}}{n_j}$$

In a global context, the term CSR began to be used since the 1970s and is increasingly popular, especially after the presence of *Cannibals With Forks: The Triple Bottom Line in 21st Century Business* (1998), by John Elkington. The three important components that constitute sustainable development, namely economic growth, environmental protection, and social equity, were initiated by the World Commission on Environment and Development (WCED) in the Brundtland Report (1987). Viewed from a broader development perspective, CSR refers to the company's contribution to the concept of sustainable development, namely development that is in line with the needs of the current generation without ignoring the needs of future generations. With the understanding that the business world plays a key role in job creation and community welfare, CSR is generally interpreted as a way for companies to try to achieve a balance between the economic, environmental and social objectives of the community, while still responding to the expectations of shareholders and stakeholders.

Much of the literature suggests that the disclosure of Corporate Social Responsibility activities influences and has a positive relationship with company performance. In empirical research, several

researchers have tried to express this in a variety of different perspectives. These researchers include Balabanis, Phillips, and Lyall (1998), Heal and Garret (2004), Siegel and Paul (2006), Fiori, Donato, and Izzo (2005), and Finch (2005). The research uses certain proxies to measure CSR and get mixed results.

Balabanis, Phillips, and Lyall (1998) suggested that disclosure of Corporate Social Responsibility is positively related to corporate financial performance (gross profit to sales ratio / GPS), but negatively related to return on capital employed (ROCE). Another more contrasting result is that capital market reactions to corporate financial performance (GPS) that do good Corporate Social Responsibility disclosure are negative, so disclosure of Corporate Social Responsibility is considered more beneficial for other stakeholders.

Research Heal and Garret (2004), suggested that Corporate Social Responsibility activities can be a beneficial element as a corporate strategy, contribute to risk management, and maintain relationships that can provide long-term benefits for the company. While research conducted by Siegel and Paul (2006), shows that Corporate Social Responsibility activities have a significant productive impact on efficiency, technical change, and the economies of scale of the company.

Calculation of the Area of CSR Disclosure Index (CSRI) is formulated as follows:

$$\text{CSRI} = \frac{\text{Number of Items Revealed}}{79}$$

The measurement of the Corporate Social Responsibility disclosure index is carried out by a content analysis method, namely the method of codifying text with the same characteristics written in various groups or categories based on the specified performance (Weber, 1988 in Sembiring, 2005).

CSR is a key corporate strategy so this raises questions about the impact of CSR information on investor behavior. (Ducassy & Jeannicot, 2008). CSR will become a business strategy that cannot be separated within the company. Disclosure of CSR in an annual report is one way for companies to build, maintain, and legitimize the company's contribution from an economic and political perspective (Guthrie and Parker, 1990).

Company value is the investor's perception of the company, which is associated with stock prices (Sujoko & Soebiantoro, 2007). High stock prices indicate high company value. According to Sartono (2008), the value of a company is defined as the price a prospective investor is willing to pay if a company is to be sold. Company value can reflect the value of assets owned by the company such as securities. Stock is one of the securities issued by the company, the high and low price of shares is much influenced by the condition of the issuer. The value of the company is very important because of the high value of the company will be followed by the prosperity of shareholders (Brigham & Gapenski, 1996). The higher the stock price, the higher the value of the company. According to Husnan (2000) the value of a company is the price that prospective buyers are willing to pay if the company is sold. Brigham and Erdhardt (2005) define the corporate value "corporate value which is the present value of expected free cash flow, discounted at a weighted average cost of capital. Gitman (2006) stated that the actual amount per share of common stock that would be received if all the firm's assets were sold for their market value. Furthermore, Gitman (2006) Profitability ratio enables the analysis to evaluate the firm profits with respect to a given level of sales, a certain level of assets, or the owner investment. Gitman (2012) stated that the profit margin measures the percentage of each sales dollar remaining after all cost and expenses, including interest, taxes, and preferred stock dividends, have been deducted. According to Brigham and Houston (2010), Net Profit Margin is measuring the size of a company's net profit compared to its sales. Weston and Copeland (1998) The higher the Net Profit Margin means the more efficient the company is in issuing costs in connection with its operations.

According to Gibson (2001) Return On assets measures the firm's ability to utilize its assets to create profits by comparing profit with the assets that generate the profits". Tandelilin (2001) Return On Assets illustrates the extent of the ability of assets owned by the company to be able to generate profits, the Return On Assets Ratio is obtained by dividing profits before interest and taxes by the number of company assets. According to Munawir (2002), Return on Assets (ROA) reflects how much the company has obtained the results of financial resources invested in the company. Based on the description of the theory put forward, then the hypothesis testing model can be developed as follows:

H1: Disclosure of the implementation of corporate governance and corporate social responsibility has a positive impact on the value of the company with net profit and management quality as a moderating variable in 58 Financial Sector Companies on the Indonesia Stock Exchange in 2009 s.d. 2018.

Methodology

The population of this study is the financial sector companies listed on the Indonesia Stock Exchange (IDX), with the following sample withdrawal criteria (1) Public companies that publish annual reports (financial reports) that have been audited in full from 2009 sd 2018. (2) During the research period the public companies which became the research sample were never suspended from trading activities by the Indonesia Stock Exchange. (3) During the research period, the public companies that became the study sample never experienced delisting or relisting.

The secondary data in the study are financial data obtained from annual financial reports that have been audited and published on the Indonesia Stock Exchange's website. The secondary data that form the basis of this research are financial data obtained from the income statement consisting of net income after tax, total assets obtained from the financial position report, and corporate social responsibility data and good corporate governance obtained from the annual report.

Results and Discussion

This study aims to explore the implications of implementing corporate governance and corporate social responsibility for corporate value by combining net income and management quality variables as moderating variables. The independent variables in this study consisted of corporate governance variables by using the preparation of the Corporate Governance Disclosure index compiled based on the elements of determining good governance. The Index will use information about the Corporate Social Disclosure Index (CSDI) based on voluntary disclosure that refers to the research of Zu et al (2013). The research variable for measuring company value is to use Tobin's Q, while earnings quality is measured by Net Profit Margin and Management Quality using Return on Assets. The linear regression equations of this study are:

$$Tobin's'Q = \alpha - \beta_1CSR_{it} + \beta_2GCG_{it} + \beta_3NPM_{it} + \beta_4ROA_{it} + \beta_5CSR*NPM_{it} + \beta_6CSR*ROA_{it} + \beta_7GCG*NPM_{it} + \beta_8GCG*ROA_{it} + e_{it}$$

The results of panel data processing using multiple regression analysis produce the Descriptive Statistics table as follows:

Table 1 Descriptive statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
CSR	290	0.595	0.101	0.397	0.857
GCG	290	0.711	0.105	0.494	0.933
NPM	290	11.083	18.217	-84.950	47.680
ROA	290	1.054	5.242	-67.070	38.600
TOBINS_Q	290	1.817	1.723	-1.639	18.097

Based on the results of the descriptive analysis in Table 1, the analysis shows that the value of CSR variables in 29 banking companies during the period of observation 2009 to 2018 has the lowest value of 0.397 and the highest of 0.857 with a mean of 0.595 and a standard deviation of 0.101. The standard deviation value of the CSR variable is still below the mean value indicating that the CSR variable data is spread fairly well and is normally distributed so that it will produce unbiased analysis results.

Furthermore on the GCG variable, the results of the descriptive analysis in table 4.1 show that the GCG variable has the lowest value of 0.494 and the highest of 0.933 with an average of 0.711 and a standard deviation of 0.105. The standard deviation value of the GCG variable is still below the mean value indicating that the GCG variable data is spread fairly well and is normally distributed so that it will produce unbiased analysis results.

In the NPM variable, the results of the analysis show that the NPM variable has the lowest value of -84,950 and the highest of 47,690 with an average of 11,083 and a standard deviation of 18,217. Based on the results of the analysis, the results show that the standard deviation value of the NPM variable exceeds the mean value, which indicates deviations that cause the distribution of data on these variables is not good and not normally distributed so that the subsequent analysis can produce biased analysis results.

On the ROA variable, the results of the analysis show that the ROA variable has the lowest value of -67.070 and the highest of 38.600 with an average of 1.054 and a standard deviation of 5.242. Based on the results of the analysis, the results show that the standard deviation value of the ROA variable exceeds the mean value, which indicates deviations that cause the distribution of data on these variables is not good and not normally distributed so that the subsequent analysis can produce biased analysis results.

Furthermore, the TOBINS Q variable, the results of the analysis showed that the TOBINS Q variable had the lowest value of -1,639 and the highest of 18,097 with an average of 1,817 and a standard deviation of 1,723. Based on the results of the analysis, the standard deviation value of the TobinsQ variable is still below the mean value indicating that the TobinsQ variable data is spread fairly well and is normally distributed so that it will produce an unbiased analysis results.

Panel Data Regression Analysis

In this study, testing on the impact of CSR and GCG on Tobins Q by being moderated by ROA and NPM variables in 29 banking companies during the period 2009 to 2018 will be analyzed using panel data regression analysis techniques. In the panel regression analysis, there are 3 regression methods namely the Common Effect (CE) method, the Fixed Effect Method (FE), and the Random Effect (RE) method. To determine the best method for estimating the regression model of the impact of CSR and GCG testing on Tobins Q by being moderated by the ROA and NPM variables, then before panel

regression analysis is performed, the panel regression model selection test is done in the form of Chow test and Hausman test.

Table 2 Panel Regression Model Selection Test Results

Testing	Prob	Result	Conclusion
Chow Test	0,000	FE better compared to CE	The best model chosen is the Fixed Effect (FE) model
Hauman Test	0,000	FE better compared to RE	

Based on the results of the panel regression model selection test in Table 2, the analysis shows that the best model that can be used to estimate the regression model of the impact of CSR and GCG testing on Tobins Q is moderated by ROA and NPM variables in 29 banking companies during the period 2009 to 2018 is a Fixed Effect (FE) model. Because the best model chosen is the fixed-effect model, the regression model must meet 3 classic assumptions namely the absence of heteroscedasticity, the absence of autocorrelation, and the absence of multicollinearity in the regression model.

Table 3 Panel Regression Assumption Test Results

Assumption Test	Result	Conclusion
Heteroscedasticity	Prob > chi2 = 0,000	Heteroscedasticity occurs
Autocorrelation	Prob > F = 0,0275	Autocorrelation occurs
Multicollinearity	The highest correlation coefficient = 0,9743	Multicollinearity occurs

Based on the results of the regression model test in Table 3, the test results show that there are multicollinearity, heteroscedasticity, and autocorrelation in the regression model. Violation of the assumption of the absence of multicollinearity in this regression model is ignored, this is because the multicollinearity occurs between NPM independent variables and moderating factors, so it is not multicollinearity between independent variables, because this is natural in the moderating regression model, then in this study, there is multicollinearity between independent variables with interactions between free variables and moderating will be ignored, while violations of the assumption of heteroscedasticity and autocorrelation will be overcome by using the Driscoll-Kraay estimator, so testing the hypothesis in this stage will be tested using the Fixed Effect model modified with the Driscoll-Kraay estimator.

Based on the results of the descriptive analysis in the above table, the following results are obtained: (1) The p-value of the influence of CSR variables on Tobins Q is 0.002 with a regression coefficient of the negative sign of -2,395. Because the p-value obtained <0.05 and the regression coefficient is negative, Ho is rejected and concluded that CSR has a negative and significant effect on firm value (Tobins Q). This shows that the higher the CSR of a banking company, the lower the value of the company, and vice versa. Banking companies that do too much CSR can risk decreasing company value. (2) The p-value of the influence of the GCG variable on Tobins Q is 0,000 with a positive marked regression coefficient. Because the p-value obtained <0.05 and the regression coefficient is positive then Ho is rejected and concluded that GCG has a positive and significant effect on firm value (Tobins Q). This shows that the higher the corporate GCG, the higher the company's value, and vice versa. Banking

companies that have high GCG tend to increase the value of their companies. (3) The value of the p-value of the role of NPM in moderating the effect of CSR variables on Tobins Q is 0.146 with a regression coefficient marked negative. Because the p-value obtained > 0.05, Ho is not rejected and it is concluded that NPM cannot moderate the influence of CSR on the value of banking companies. (4) The p-value of the ROA role in moderating the influence of CSR variables on Tobins Q is 0.414 with a regression coefficient that is positive. Because the value of p-value obtained > 0.05 then Ho is not rejected and concluded that ROA cannot moderate (strengthen) the influence of CSR on firm value. (5) The value of the p-value of the role of NPM in moderating the effect of GCG variables on Tobins Q is 0,000 with a regression coefficient that is positive. Because the p-value obtained < 0.05 and the regression coefficient is positive then Ho is not rejected and it is concluded that NPM can moderate (strengthen) the influence of GCG on the value of banking companies. Banking companies with high GCG if supported by high earnings quality tend to have higher company values compared to banking companies that are not so high in NPM values. (6) The p-value of ROA's role in moderating the influence of GCG variables on Tobins Q is 0.645 with a coefficient regression marked positive. Because the p-value obtained > 0.05, Ho is not rejected and it is concluded that ROA cannot moderate the effect of GCG on firm value.

Based on the constant values and regression coefficients for each of the above variables, the right regression equation to describe the impact of CSR and GCG on Tobins Q is moderated by ROA and NPM variables in banking companies during the period 2009 to 2018 will be shaped as follows:

$$\text{Tobins'Q} = -5,135 - 2,395 \text{ CSR} + 11,083 \text{ GCG} - 0,060 \text{ NPM} - 0,078 \text{ ROA} - 0,044 \text{ CSR} * \text{NPM} + 0,094 \text{ CSR} * \text{ROA} + 0,119 \text{ GCG} * \text{NPM} - 0,033 \text{ GCG} * \text{ROA}$$

With:

Tobins' Q = proxy of firm value variables

CSR = Corporate Social Responsibility

GCG = Good Corporate Government

NPM = Net Profit Margin as a proxy of earnings quality

ROA = Return on Assets as a proxy of profitability

CSR_NPM = result of interaction between CSR and moderating variables (NPM)

CSR_ROA = result of interaction between CSR and moderating variables (ROA)

GCG_NPM = result of interaction between GCG variables and moderating (NPM)

GCG_ROA = result of interaction between CSR and moderating variables (NPM)

Conclusion

From the data processing that has been done, the following data processing results can be described as follows: the results of the simultaneous influence test (F test), the p-value obtained is 0,000 with an F statistic of 3077.74. Because of the value of p-value < 0.05, it is concluded that simultaneously (together) the variables of CSR, GCG, NPM, ROA, and its moderating effect significantly influence the firm's value. Based on the calculation of the R square model, the R Square value of the regression model obtained is 0.5549, this shows that the contribution made by CSR, GCG, NPM, ROA and its moderating effect on the value of banking companies is 55.49% while the remaining 44.51% variance in firm value is influenced by other factors outside of CSR, GCG, NPM, ROA, and the moderating effect.

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