

The Effect of Corporate Governance and Profitability on Firm Value Mediated by *Corporate Social Responsibility* (CSR) Disclosure in Infrastructure, Utility, and Transportation Sector Companies Listed on the Indonesia Stock Exchange (IDX)

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Abstract

This study examines the corporate governance and profitability effect on firm value with Corporate Social Responsibility (CSR) disclosure as mediation in infrastructure, utilities, and transportation sector companies listed on the Indonesia Stock Exchange (IDX) for 2018-2022. To test the direct and indirect effects of factors affecting firm value, SEM-PLS analysis was used. The study discovered that corporate governance and CSR positively impact firm value. However, profitability does not have a significant effect on firm value. Additionally, corporate governance and profitability both have a positive influence on CSR. CSR can partially mediate the effect of corporate governance on firm value, and fully mediate the effect of profitability on firm value. The most commonly implemented aspects of CSR, based on Global Reporting Initiative (GRI) disclosure, are social, environmental, and economic, in that order. The findings suggest that companies that prioritize CSR, particularly environmental aspects, are more attractive to investors.

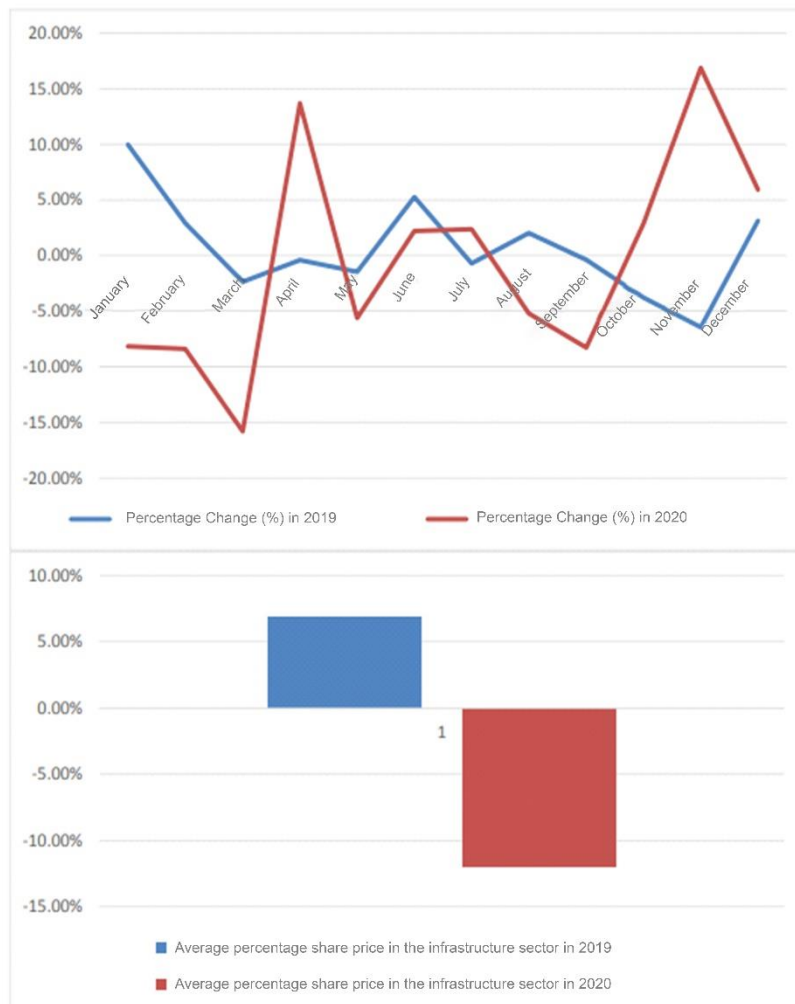
Keywords : Corporate Governance, Profitability, CSR, Firm Value, Infrastructure, Utilities, and Transportation Company

1. Introduction

A company has one of the most important achievements, namely optimizing shareholder wealth. Firm value serves as a proxy for the level of shareholder welfare. Firm value is an investor response to the level of organizational success that is closely related to its share price (Sutama & Lisa, 2018). The value of a company is evaluated based on some factors, an example of which is the stock market price of a company. When the stock price of a company increases, it will provide considerable prosperity for shareholders. Companies that carry out CSR activities regularly, will benefit the company in the long run. CSR is the dedication of a business to improve the glory that exists in the community by applying good norms and providing benefits through some of its resources (Nayenggita, Raharjo, & Resnawaty, 2019). However, not all organizations listed on the IDX disclose their CSR. To increase firm value, a supervisory system is needed, which is often said to be corporate governance. Responsible and adequate cooperation between directors, the board of commissioners, and shareholders is facilitated by corporate governance. Having centralized governance is one sign of real corporate governance because it gives power to the owner to control managers in the decision-making process (Puspita & Harto, 2014).

Another factor in maximizing firm value is profitability. Profitability can be interpreted as the final calculation of management decisions and strategies related to capital and utilization of funds in company activities which are reflected on the balance sheet, and are an important part of the balance sheet (Kamaliah, 2020). CSR is a mediating factor that can be a link between company profitability and firm value. This is because the government is focusing on the important issue of environmental damage, and the law also requires companies to implement CSR. Stakeholder theory means that companies not only operate for their benefit but must provide benefits for stakeholders. The term theory was first proposed by (Freeman & Reed, 1983) to describe corporate activities and social performance (Borghai-Ghomi & Leung, 2013). Stakeholder theory states that the sustainability of the company depends on the support of the parties involved who can

influence or be influenced by the company's activities (Sukasih & Sugiyanto, 2017). Researchers chose to examine companies in the infrastructure, utilities, and transportation sectors because one of the most affected due to the COVID-19 pandemic since March 2020, has had a significant impact on the profitability of these companies with many experiencing a decrease in profitability. This is the impetus to investigate all companies in the infrastructure, utilities, and transportation sectors that fall under the sample selection criteria in 2018-2022. The performance of infrastructure companies in 2019 compared to 2020 during the pandemic is shown in Figure 1.



Source: www.investing.com (*Stock Market Quotes & Financial News*)

Figure 1
Presentation of IDX Infrastructure (JKINFRA) Share Price
in 2019 (Before the Covid-19 Pandemic) and 2020 (During the Covid-19 Pandemic)

In Figure 1 before the COVID-19 pandemic in 2019, it can be seen that the highest percentage was in January with a value of 9.97% and the lowest was in November with a value of 6.46% so the average percentage of this sector's share price still looks quite good, namely 6.88%. In 2020 (during the COVID-19 pandemic) the infrastructure sector had the lowest percentage share price in March, which is -15.82%, and the highest in November at 16.87%, so the average looks less good, namely -12.00%. It can be seen that there is a very significant difference in the average of 2019 and 2020, proving a very significant decrease of -18.88%. An increase or decrease in the company's financial performance is one of the considerations for investment decisions from *shareholders*. The company's financial performance can be observed from several indicators such as profitability, *corporate governance*, and firm value. Based on this phenomenon, the theory used in this study is *Stakeholder Theory* which argues that a company cannot be an entity that acts

only in its best interest; instead, it must benefit its *stakeholders*. Therefore, the inconsistency of previous research results inspired this study.

2. Literature Review

Firm Value

Firm Value is the response of investors to the company related to its share price. One of the reasons companies decide to go public in the capital market is to increase firm value because the high value will provide great benefits for shareholders (Liswatin & Sumarata, 2022). According to (Santoso, 2015) organizational assessment can be influenced by many aspects. The basic concept of business valuation, among others, is that the value is determined within a certain period and the value needs to be measured at a reasonable cost, and the evaluation does not depend on special interest organizations. The indicator or proxy used in this variable is Tobin's Q.

Corporate Governance

Corporate Governance is a control method used to supervise and run a business to foster prosperity and business accountability with the ultimate aim of demonstrating shareholder value. A system consisting of several structures, protocols, and processes created to manage business following the principle of accountability and capable of achieving long-term value growth (Ardianto & Rivandi, 2018). The corporate governance system leads to a collection of rules and motivations that management uses to guide and supervise the running of the company's activities. Corporate governance is a regulatory system for managing companies with the desire to increase the prosperity and accountability of the company which will generate value for shareholders. The indicators or proxies used in this variable are Independent Commissioner, Audit Committee, and Institutional Ownership.

Profitability

Profitability is an organization's ability to gain profits. The rate of return on investment is positively correlated with profitability. Conversely, a negative correlation indicates a lower rate of return. Prospective investors will certainly look at the profitability of a company before investing so they can know how much they will generate from the investment. The higher the profits obtained, the better the business will be able to pay dividends, and the share price will rise (Sriyaumi & Pirmaningsih, 2022). Profitability is a reflection of a company's ability to get profit or revenue earned. Profitability is the end of a series of provisions from company management (Sriyaumi & Pirmaningsih, 2022). Profitability is measured by ROE, ROA, and NPM.

Corporate Social Responsibility (CSR)

The realm of social responsibility (Corporate Social Responsibility) has very intelligent and broad proportions. CSR responsibility also has a very different meaning, especially when it concerns the interests of stakeholders. To increase understanding, some professionals also try to emphasize the fundamental ideas included in CSR tasks through simplicity (Crowther & Aras, 2008) CSR is a special obligation for every company to assume responsibility for the environment and surrounding communities. In other words, CSR has a duty for companies to formulate policies, make decisions, and take actions that are beneficial to society. The implementation of CSR is regulated in the Company Law Number 40 of 2007 Article 74 which regulates CSR for companies. CSR is measured by the calculation ratio between the value of the disclosed items divided by the value of the items for the company.

3. Research Method

Population and Sample

The research was conducted on infrastructure, utilities, and transportation companies on the Indonesia Stock Exchange (IDX) during 2018-2022. Purposive sampling is a sample withdrawal method in this study, with the condition that companies listed on the IDX in the infrastructure, utilities, and transportation sectors, have complete data related to research variables, and the availability of financial reports in rupiah currency. There are 35 companies and 175 observations.

Data Collection Technique

The data used is panel data derived from secondary data sources, obtained from the company's official website, IDN Financials, and the IDX.

Analysis Method

Using the SEM-PLS analysis method and the calculation process using the SmartPLS 3 software application program. The analysis stages begin with testing the *measurement* model, namely testing validity and reliability. Then conduct a *structural* model test which aims to test the hypothesis in the study. The following is a research structural model:

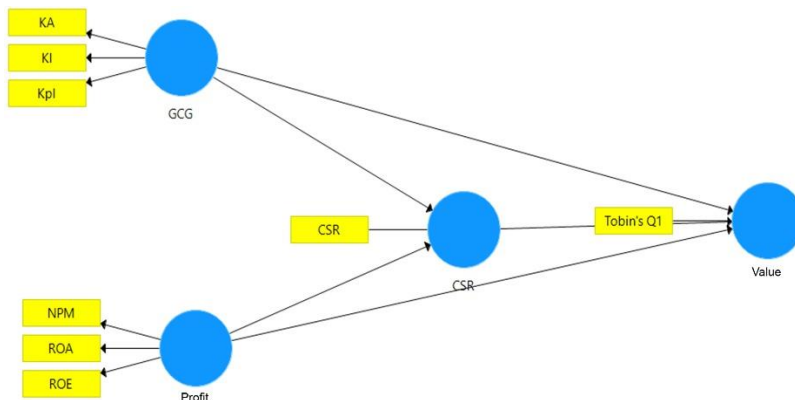


Figure 2: SEM-PLS Modelling

Operational Variables

- The dependent variable, namely Firm value (Y), is measured by Tobin's Q. It is the ratio between the share price plus debt divided by the company's total assets (Sriyaumi & Pirmaningsih, 2022).

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

- Independent variable
 - Corporate Governance (X). Using three indicators, namely:

$$\text{Independent Commissioner} = \frac{\text{Number of Independent Commissioner}}{\text{Total Board of Commissioners}}$$

$$\text{Audit Committee} = \frac{\text{Total Audit Committee}}{\text{Total Board of Commissioners}}$$

$$\text{Institutional Ownership} = \frac{\text{Amount of Institutional Ownership}}{\text{Total Share Outstanding}}$$

(Hariati & Widya, 2014)

- Profitability (X2). In this study, profitability uses three indicators, namely:

$$ROE = \frac{\text{Net Profit}}{\text{Equity}} \times 100\% \quad (\text{Hasbi, 2015})$$

$$ROA = \frac{\text{Net Profit After Tax}}{\text{Assets}} \times 100\% \quad (\text{Defni \& Rahayu, 2021})$$

$$NPM = \frac{\text{Income}}{\text{Net Profit}} \quad (\text{Gibson, 2012})$$

- The intervening variable, namely CSR (Z), used the calculation ratio between the value of the disclosed items divided by the value of the items for the company (Nurwahidah, 2016).

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

So, the hypothesis determined in this research is as follows:

- H1 : corporate governance affects firm value
- H2 : profitability affects firm value
- H3 : CSR affects firm value
- H4 : corporate governance affects CSR
- H5 : corporate governance affects CSR
- H6 : Profitability affects CSR
- H7 : CSR acts as a mediator on governance impact on firm value
- H8 : CSR acts as a mediator on profitability impact on firm value

4. Result And Discussion

Result

The following is a research structural model:

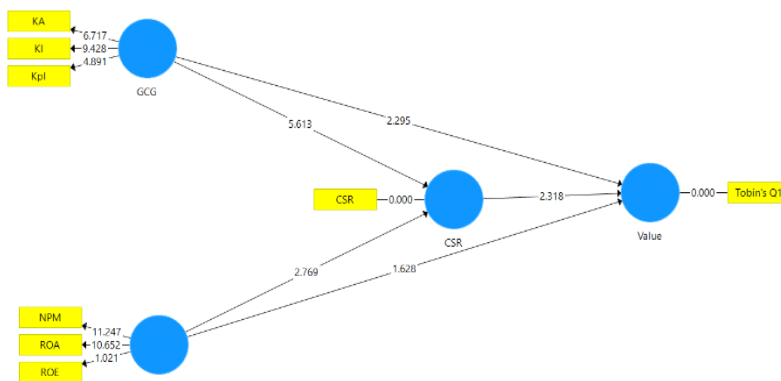


Figure 3. PLS Bootstrapping Result

Hypothesis testing is done by referring to bootstrapping and using the SmartPLS application. In testing, this study refers to the results of the T-statistics P-value on each variable relationship. A hypothesis is declared significant if the t-statistic value > 1.96 and the significance p-value is 0.05 (5%). Then the original sample value is also evaluated to see whether the relationship between constructs is positive or negative by looking at the original sample value showing positive or negative numbers. The model test produces the following results.

Table 2. Testing Result

Description	T Statistics (O/STDEV)	P Values
CSR -> Firm value	2.497	0.013
Governance -> CSR	5.798	0.000
Governance -> Firm Value	2.239	0.026
Profitability -> CSR	2.910	0.004
Profitability -> Firm Value	1.826	0.068

Source: data processed, 2023

Table 3. Indirect Testing Results

Description	T Statistics	P Values
Governance -> CSR -> Firm Value	2.156	0.032
Profitability -> CSR -> Firm Value	2.024	0.044

Source: data processed, 2023

Discussion

Table 2, shows the impact of corporate governance on firm value shows a significance level of $p = 0.026 < 0.05$ and $t\text{-statistic} = 2.239 > t\text{-table} = 1.96$, which means H_{a1} is accepted and H_{o1} is rejected. So governance significantly influences firm value, supporting hypothesis H1. These findings indicate a relationship between

corporate governance through independent commissioners, audit committees, and institutional ownership. These results follow the research of (Prabantama & Parasetya, 2022) and (Mufidah & Purnamasari, 2018) which state that there is a significant relationship between corporate governance and firm value. This illustrates that if corporate governance is done well, it will increase firm value.

On the contrary, the impact of profitability on firm value statistically gives a p-value of $0.068 >$ significance level of 0.05 , and a t-statistic of $1.826 <$ critical t-value of 1.96 . This implies that it accepts H_0 and rejects H_2 . Therefore, profitability does not have a significant effect on firm value, leading to the rejection of hypothesis H_2 . The use of ROE, ROA, and NPM in this study is to measure company profitability. This illustrates that investors are not interested in profitability described from the capital side. Investors are not interested because when the profit earned is high and the capital used is also high, the profit earned by investors is low (Bagaskara, Titisari, & Dewi, 2021). The level of sales determines the profitability of a company; if the value of sales changes, its profitability also changes. A high level of sales does not affect the firm value (Kusumawati & Harijono, 2021).

Furthermore, this study also found that CSR has a statistically significant effect on firm value as indicated by a t-value of $2.497 >$ the critical t-value of 1.96 , with a p-value of $0.013 <$ the significance level of 0.05 . This result leads to the H_3 acceptance and H_0 rejection. Therefore, it concludes that CSR has a significant impact on firm value, and the third hypothesis (H_3) is supported. The results of this test state that CSR has a relationship with firm value due to an increase in firm value due to the high CSR disclosure made by the company. Following the opinion of (Al-Shammari, Alshammrei, Nawaz, & Tayyab, 2022) who said that companies involved in CSR activities show better market performance. The existence of a significant positive effect in the relationship between CSR and firm value illustrates that firm value will increase when the company implements CSR activities and publicizes CSR activities.

The statistical t-value for corporate governance on CSR is $5.798 >$ the t-table value of 1.96 , and the p-value is 0.000 , indicating significance < 0.05 level. Therefore, it accepts H_4 and rejects H_0 , showing that governance has a significant positive effect on CSR. This results in the acceptance of the fourth hypothesis (H_4). This reveals that CSR disclosure can increase with appropriate corporate governance management. An effective governance system can support CSR because both have a strong relationship and form an objective function to deal with corporate constraints because governance can minimize agenda costs and CSR can overcome the burden of illegitimacy from stakeholders.

Profitability on CSR demonstrates a t-statistic of $2.910 >$ the t-table value of 1.96 , with a p-value of 0.004 , indicating statistical significance. Therefore, H_5 is accepted, and H_0 is rejected, showing that profitability significantly impacts firm value. Profitable companies can afford the costs associated with CSR, such as paying more dividends to shareholders, investing more funds in research and development, and donating more to society.

CSR that acts as a mediator between governance and firm value shows a t-statistic of $2.156 >$ t-table 1.96 and a p $0.032 < 0.05$, which means accepting H_6 and rejecting H_0 . So corporate governance on value through CSR has a significant effect and results in the sixth hypothesis (H_6) being accepted and *partially mediating*, whereby involving CSR directly or not, governance still affects firm value.

CSR that acts as a mediator between profitability and firm value shows a t-statistic of $2.024 >$ t-table 1.96 and a p $0.044 < 0.05$, which means accepting H_7 and rejecting H_0 . So profitability on value through a significant effect and resulting in the seventh hypothesis (H_7) is accepted and is *fully mediating*, where profitability is not able to firm value without involving CSR.

5. Conclusion

Findings illustrate that corporate governance, as measured by independent commissioners, audit committees, and institutional ownership, is good. The profitability indicators, such as ROA, ROE, and NPM, show that the company's profitability is in very good condition, despite fluctuations caused by the Covid-19 pandemic. The company has been able to maintain its stability. Moreover, the firm value variable indicates a very good performance, as the average firm value exceeds one. CSR is represented by economic, environmental, and social aspects, and the company is performing well in these areas. The company prioritizes the social aspect, followed by the environmental aspect, and lastly the economic aspect in its CSR activities. This study also found that corporate governance and CSR have a positive and significant influence on firm value. On the other hand, profitability has no significant effect on firm value. Then corporate governance and profitability have a positive and significant influence on CSR. Furthermore, corporate governance and profitability are

mediated by CSR in increasing firm value, where CSR partially mediates the corporate governance effect on firm value, and CSR fully mediates the profitability effect on firm value. These findings are all premises that confirm previous theories and can be used for further research related to firm value. The limitations of this research are the research variables and the subject. These findings are also useful for stakeholders involved in research issues. Here are some key suggestions based on the research conducted.

1. For investors, governance and CSR can be used as measurement tools for decision-making. Investors need to consider other financial ratios to make accurate and profitable decisions in the future, considering that profitability does not affect firm value.
2. Companies should focus on CSR disclosure to support the increase in firm value. Regulators should re-evaluate their focus on measuring company performance and value, considering non-financial factors.
3. Future researchers can explore deeper interactions between these variables.
4. Further research should focus on understanding how corporate governance practices can influence CSR strategy and implementation, and how these factors influence firm value.
5. All interested parties should work to strengthen the integration between corporate governance, CSR, and profitability strategies to increase overall firm value, contributing to a more sustainable and long-term business ecosystem.

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