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# Board of Directors Trumps Corporate Social Responsibility: Impact on Firm Value in Indonesian Manufacturing Firms

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**Abstract:** This study aimed to investigate the relationship between good corporate governance (GCG) and firm value (FV) among manufacturing firms listed on the Indonesian Stock Exchange (IDX) before 2018. Using institutional ownership (INST), the board of directors (BDRC), independent commissioners (CMSI), and corporate social responsibility (CSR) as proxies for GCG, the study employed multiple regression analysis on fixed effect model (FEM) panel data according to the Hausman test. The results showed that BDRC had a positive effect on FV, while CMSI had a negative effect, and INST and CSR did not significantly affect FV. The study's implication is that firms should prioritize effective board of directors and independent commissioners in their corporate governance practices to enhance their firm value.

**Key words:** Good corporate governance, institutional ownership, board of directors, independent commissioners, firm value.

To compete with other businesses, a company must keep up with technological advancements and identify business opportunities. The company must do it to remain viable and raise its value. Firm value (FV) is an essential factor, and management must pay attention to it since it relates to stock prices on the stock exchange (Hanafi, 2017). FV itself can be characterized as the response of the company's investors to its success in managing its resources, which can be observed in stock prices on the stock exchange (Sujoko, 2018).

FV is influenced by various factors: board diversity, corporate social responsibility, good corporate governance, insider ownership, debt policy, dividend policy, investment decisions, funding decisions, profitability, company scale, and company age. These factors can be summarized into a single entity in implementing good corporate governance (GCG) through its mechanisms, i.e., managerial ownership, institutional ownership, independent commissioners, and audit committees.



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The GCG mechanism holds the highest authority in determining company policies or decisions (Purbopangestu & Subowo, 2014). According to Velnampy (2013), GCG is a system of many structures, processes, and mechanisms for managing a company using accountability principles and can provide added value to the company in the long term.

The GCG mechanism can be related to the agency theory by Jensen & Meckling (1976). This theory elucidates that one party, the owner, gives authority to another party, the management, to manage the company. For management to manage the company well, internal and external supervision is required. The commissioners, the board of directors (BDRC), and independent commissioners (ICMS) carry internal supervision. On the other hand, external supervision is conducted by institutional ownership (INST). The bigger the INST, the greater the oversight of management. It leads to improved business performance, which raises the FV. For this reason, the GCG mechanism used INST, BDRC, and ICMS proxies in this study.

The GCG mechanism also correlates to the company's corporate social responsibility (CSR) policies (Purbopangestu & Subowo, 2014). Article 74 (paragraph 1) of Law No. 40 of 2007 concerning Limited Liability Companies states that companies that carry out their business activities in the field of and/or related to natural resources are required to conduct social and environmental responsibility. Gossling & Vocht (2007) also explained that CSR could be seen as an obligation that must exist in the company as a form of accountability to stakeholders since companies need support from stakeholders.

Moreover, research on FV remains worth doing because, in 2019, there was an outbreak of COVID-19, and its impact on companies is still being felt today. The impact is in the form of a decrease in profits, which causes the share price to drop and fluctuate, affecting FV. In addition, the results of studies linking GCG with CSR in influencing FV have not been consistent. Some demonstrate that INST positively affected FV (Arfazil et al., 2021; Malini et al., 2021; Oktaviani & Harahap, 2022; Setyabudi, 2021; Yanti & Patrisia, 2019). Meanwhile, it was also reported that INST did not affect FV (Nanda & Damayanti, 2021; Samasta et al., 2018; Uddin et al., 2021; Astuti et al., 2022; Doloksaribu & Hutapea, 2022; Mukhtarudin et al., 2014). In fact, several studies have revealed that INST had a negative effect on FV (Rusnaeni et al., 2022; Umam and Halimah, 2021; Setyawati et al., 2017).

Research inconsistencies have also shown that BDRC positively affected FV (Nanda & Damayanti, 2021; Nhan & Quy, 2013; Uddin et al., 2021). However, BDRC also did not affect FV (Malini et al., 2021; Ruhiyat & Murwaningsari, 2019; Samasta et al., 2018; Widiatmoko, 2020; Muhtarudin et al., 2014). Besides, ICMS positively affected FV (Adam et al., 2016; Fitri & Suryandari, 2022; Setiadi et al., 2017; Yanti & Patrisia, 2019; Setyawati et al., 2017). On the other hand, ICMS did not affect FV (Umam & Halimah, 2021; Widiatmoko, 2020; Astuti et al., 2022; Doloksaribu & Hutapea, 2022; Mukhtarudin et al., 2014). Even ICMS negatively affected FV (Nanda & Damayanti, 2021; Oktaviani & Harahap, 2022).

Furthermore, CSR has been indicated to positively affect FV (Adiputra & Hermawan, 2020; Arfazil et al., 2021; Fitri & Suryandari, 2022; Setiadi et al., 2017). Nevertheless, CSR also did not affect FV (Adam et al., 2016; Bawai & Kusumadewi, 2021; Ilmi et al., 2017; Jallo et al., 2017; Natalia et al., 2019; Ruhiyat & Murwaningsari, 2019; Widiatmoko, 2020; Mukhtarudin et al., 2014). Conversely, CSR negatively influenced FV (Oktaviani & Harahap, 2022). Based on this description, this study aims to analyze the impact of INST, BDRC, ICMS, and CSR on FV.

## Literature Review and Hypothesis Development

### *Agency Theory*

Agency theory proposes that a company is a legal, contractual relationship between shareholders (principal) and management (agent) (Smulowitz et al., 2019). Based on this theory, agency relationships develop whenever there is a contract between shareholders acting as owners and agents acting as management or



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those in charge of running the business. This contract entails providing services for the benefit of shareholders, including the delegation of authority to make decisions to maximize shareholder prosperity (Hanafi, 2017).

### *Firm Value (FV)*

Firm value is a certain state that the company has attained as evidence of investor confidence in the company after engaging in the activity process for several years, beginning with the company's foundation and continuing to the present (Hery, 2018). For companies that have gone public, firm value can be determined based on the stock price on the stock exchange (Hanafi, 2017) or using Tobin's Q (Umam & Halimah, 2021; Astuti et al., 2022; Oktaviani & Harahap, 2022).

### *Good Corporate Governance (GCG)*

GCG is a procedure and framework applied by corporate bodies, such as shareholders or capital owners, commissioners, and directors, to improve business performance and accountability to realize an increase in shareholder value over the long term while still taking other stakeholders' interests into account and based on laws and ethical principles (Sutedi, 2011). From this description, GCG seeks to offer value for internal and external stakeholders, including the board of commissioners, directors, and employees, as well as the government, the community, and other interested parties. In this regard, the INST, BDRC, and ICMS are only a few components that comprise the GCG system.

### *The effect of GCG using the INST proxy on FV*

The proportion of shares owned by institutions is known as INST. The management of INST can be divided into two categories: dedicated institutional investors and transient institutional investors, depending on its involvement in the oversight of BDRC (Cornet et al., 2007; Connelly et al., 2010). The following traits characterize dedicated institutional investors: first, they possess a sizable number of shares to oversee and influence management, impacting GCG. They also give the company's development priority. Third, because they possess more information than general investors, they are seen as key actors in the capital market. In carrying out supervision, while dedicated institutional investors who strictly supervise management are called pressure intensive, those who do not strictly supervise management are termed pressure sensitive. Transient institutional investors, on the other hand, typically own modest shares and have a short-term outlook since they favor capital gains.

Moreover, INST, which owns many shares and carries out pressure-intensive supervision, can supervise BDRC and management to increase the company's performance. This increase in performance results in increased share prices on the stock exchange so that the firm value increases. The results of previous studies found that INST had a positive effect on FV (Arfazil et al., 2021; Malini et al, 2021; Oktaviani & Harahap, 2022; Setyabudi, 2021; Yanti & Patrisia, 2019). Based on the description, the hypothesis could be arranged as follows.

H1: INST has a positive effect on FV.

### *The effect of GCG using BDRC proxy on FV*

When deciding on short- and long-term firm policies or strategies, the BDRC has collegial tasks and responsibilities. The BDRC ensures that management complies with all the rules and legislation mentioned in the Articles of Association. It implies that management does not act opportunistically. In other words,



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the performance of the BDRC determines whether a company succeeds or fails. Further, one of the principles that must be fulfilled for the BDRC to perform its tasks efficiently is that the board of directors' composition must be in such a way as to enable decision-making in an efficient, accurate, quick, and independent manner.

Additionally, the size of the BDRC is the number of board directors in the company. Coles et al. (2008) have uncovered evidence that large companies with diversified businesses, which use large sources of debt financing, need close supervision by the BDRC. For the BDRC to oversee management, more members are needed. The results of previous studies revealed that BDRC had a positive effect on FV (Nanda & Damayanti, 2021; Nhan & Quy, 2013; Uddin et al., 2021). Based on these descriptions, the following hypothesis is proposed.

H2: BDRC has a positive effect on FV.

### *The Effect of GCG using ICMS proxy on FV*

According to Law No. 40 of 2007 concerning Limited Liability Companies, ICMS is in charge of general supervision following the Articles of Association and can provide input to the board of directors. However, the board of commissioners may not interfere in making operational decisions. An independent commissioner is also not a member of management, a majority shareholder, a higher-up, or those directly or indirectly related to the majority shareholder of the company, whose job is to ensure the company's strategy, supervise managers in managing the company, and requires accountability.

Furthermore, a higher proportion of ICMS is anticipated to have stronger management and BDRC supervision. It has implications for enhancing business performance so that investor confidence rises and stock prices rise along with the firm value. The results of previous studies reported that ICMS had a favorable impact on FV (Adam et al., 2016; Fitri & Suryandari, 2022; Setiadi et al., 2017; Yanti & Patrisia, 2019; Setyawati et al., 2017). The following hypothesis could be put up based on the description.

H3: CMSI has a positive effect on FV.

### The effect of CSR on FV

Corporate social responsibility (CSR) is a program that works to benefit society and the environment. In the short and long term, this program may benefit stakeholders, business performance, and value creation. To boost productivity, enhance corporate and brand image, and foster public trust so businesses can compete with one another, which in turn can increase firm value, CSR initiatives, according to Chen & Lee (2017), involve preserving employee wellbeing. Joyner & Raiborn (2005) also argued that companies should take into account not only the interests of the owners but also those of society and the environment.

Since companies have a broad influence on society, the environment, and the company's reputation, companies must carry out CSR disclosures to gain support from the government, attract investors, improve performance, and increase company value. The previous research results found that CSR positively affected FV (Adiputra & Hermawan, 2020; Arfazil et al., 2021; Fitri & Suryandari, 2022; Setiadi et al., 2017). Based on the description, the hypothesis put forward is as follows.

H4: CSR has a positive effect on FV.



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## Research Method

### *Population and Sample*

The manufacturing companies listed on the Indonesia Stock Exchange (IDX) before 2018 made up the study's population, and the research period ran from 2018 to 2021. During the research period, companies that submitted financial and sustainable responsibility reports integrated with the fourth generation of the Global Reporting Initiative (GRI-G4) were selected using a purposive sample method. As a result, 40 companies with a 4-year study period were the samples used in the hypothesis test, totaling 160 observations (Table 1).

**Table 1. Number of Samples**

| | Number |
|---|---|
| Manufacturing companies listed on the IDX before 2018 | 171 |
| Companies that did not submit financial reports | (26) |
| Companies that did not issue sustainable responsibility reports integrated into the fourth-generation Global Reporting Initiative (GRI-G4) | (96) |
| Data outliers | (9) |
| Number of companies | 40 |

### Variables and Measurements

This study had a dependent variable, FV, measured using Tobin's Q with the formula: book debt plus market equity divided by total assets (Umam and Halimah, 2021; Astuti et al., 2022; Oktaviani & Harahap, 2022). Then, the independent variables consisted of INST, BDRC, ICMS, and CSR. INST was calculated using the formula for the number of shares owned by the institution divided by the number of shares outstanding (Umam & Halimah, 2021; Nanda & Damayanti, 2021; Astuti et al., 2022; Oktaviani & Harahap, 2022). BDRC was determined using the natural logarithm formula for the number of directors (Cornet et al., 2007). In addition, ICMS was gauged using the formula for the number of independent commissioners divided by the number of commissioners (Umam & Halimah, 2021; Nanda & Damayanti, 2021; Astuti et al., 2022). Lastly, CSR was quantified using 91 question items taken from the Global Reporting Initiative (GRI) version of G-4. The 91 indicator items were divided into nine economic indicator items, 34 environmental indicator items, and 48 social indicator items. If the company issued the reports, it was given a value of 1, and if it did not report, it was given a value of 0. The sum of the value one was then divided by 91 (Ladina et al., 2016; Adiputra & Hermansah, 2020).

## Analysis and Discussion

### Multiple Regression Analysis

This study used multiple linear regression analysis of panel data. The regression equation is as follows.

$$FV = b_0 + b_1 INST + b_2 BDRE + b_3 ICMS + b_4 CSR + e$$

Since the regression analysis employed panel data, there were three estimation models: the common effect model (CEM), the fixed effect model (FEM), and the random effect model (REM). The analytical tool for determining the appropriate regression model utilized the Chow and the Hausman tests.

The Chow test was used to select CEM or FEM. Meanwhile, the Hausman test was employed to choose FEM or REM. If the chosen method is FEM, it is necessary to carry out the classical assumption test, covering heteroscedasticity and autocorrelation tests (Widaryono, 2009).

The Chow test results are presented in Table 2, where a probability value of 0.0000 <0.05 was obtained. It can be concluded that the model chosen was FEM. Next, the Hausman test was carried out, as presented in



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Table 3, obtaining a probability value of 0.0267 < 0.05. It can be concluded that the model selected was FEM, so the classical assumption test was then carried out.

**Table 3. Chow Test Results**

| | **Statistic** | **Probability** |
|---|---|---|
| Redundant Fixed Effects -Chow Test | 220.6184 | 0.0000 |

**Table 4. Hausman Test Results**

| | Statistic | Probability |
|---|---|---|
| Correlated Random Effects – Hausman Test | 10.9912 | 0.0267 |

### Classical Assumption Test

The classical assumption test covers multicollinearity, heteroscedasticity, and autocorrelation tests. Since there was autocorrelation, the data were transformed using the Theil Nagar method so that the data used to test the hypothesis were those after the transformation. The multicollinearity test results (Table 7) obtained a VIF (variance inflation factor) value of <5, indicating no multicollinearity. Moreover, the heteroscedasticity test (Table 5) attained an F-value of 1.5919 and prob. 0.0879, signifying no heteroscedasticity. In addition, the autocorrelation test (Table 8) yielded a DW value of 2.045, denoting no autocorrelation.

**Table 5. Heteroscedasticity Test Results**

| | F-statistic | Prob. |
|---|---|---|
| Heteroskedasticity Test White | 1.5919 | 0.0879 |

### Descriptive Statistics

Table 6, presenting descriptive statistics, displays that the mean value of FV was 1.7312, while the standard deviation was 1.4132. It indicates that, although the value tended to fluctuate, the firm value was higher than the book value. In 2018, a company with the stock code HMSP had the greatest firm value, 9.5014, while in 2021, a company with the stock code KIAS had the lowest firm value.

Then, INST had a mean value of 0.7559 and a standard deviation of 0.2503. It indicates that the owner of the institution had a share of 75.59%. Institutional ownership was at most 99.86% in a company with stock code AMFG in 2020, while the least was 0.23% in a company with stock code CAMP in 2021.

Since BDRC had a mean value of 1.5933 and a standard deviation of 0.4061, each company had more than one director. While the highest number of directors was in a company with the AMFG stock code in 2021 of 2.3979, the least was in a company with the AISA stock code in 2018 of 0.6931.

Additionally, ICMS showed that the proportion of independent commissioners was nearly half that of commissioners, with a mean value of 0.4218 and a standard deviation of 0.1124. In this instance, a firm with the BIMA stock code for 2018–2021 of 0.6667 had the most commissioners, and a company with the FASW stock code for 2021 of 0.2222 had the fewest.



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Finally, with CSR having a mean value of 0.2663 and a standard deviation of 0.1034, the CSR disclosure level by companies was still low. While the highest level of CSR disclosure was 0.6484 for a company with an ICBP stock code in 2019, the lowest was 0.1099 for a company with a LION stock code in 2018.

**Table 6: Descriptive Statistics**

| | FV | INST | BDRC | ICMS | CSR |
|---|---|---|---|---|---|
| Mean | 1.7313 | 0.7559 | 1.5933 | 0.4218 | 0.2663 |
| Std. dev. | 1.4133 | 0.2504 | 0.4062 | 0.1124 | 0.1035 |
| Maximum | 9.5014 | 0.9986 | 2.3979 | 0.6667 | 0.6484 |
| Minimum | 0.1748 | 0.0023 | 0.6931 | 0.2222 | 0.1099 |
| N | 160 | 160 | 160 | 160 | 160 |

### Regression Analysis Results

In the regression analysis results (Table 8), the INST coefficient was -0.0665, and the prob. was equal to 0.2686. These findings indicate that INST did not affect FV (Nanda & Damayanti, 2021; Samasta et al., 2018; Uddin et al., 2021; Astuti et al., 2022; Doloksaribu & Hutapea, 2022; Mukhtarudin et al., 2014). It signifies that H1 was not supported.

Furthermore, the BDRC coefficient was 0.2460, and the prob. was 0.0014. The findings demonstrate that BDRC positively impacts FV (Nanda & Damayanti, 2021; Nhan & Quy, 2013; Uddin et al., 2021). In other words, H2 was supported.

For ICMS, the coefficient value was -0.5320, and the prob. was 0.0066. This finding is consistent with the previous research results by Nanda & Damayanti (2021) and Oktaviani & Harahap (2022). Because the coefficient value was negative, which was contrary to the hypothesis proposed, H3 was not supported. Based on these results, ICMS did not affect FV (Umam & Halimah, 2021; Widiatmoko, 2020; Astuti et al., 2022; Doloksaribu & Hutapea, 2022; Mukhtarudin et al., 2014).

Lastly, CSR had a coefficient value of -1.8090 and a prob. value of 0.0523. These findings denote that INST did not affect FV (Adam et al., 2016; Bawai & Kusumadewi, 2021; Ilmi et al., 2017; Jallo et al., 2017; Natalia et al., 2019; Ruhiyat & Murwaningsari, 2019; Widiatmoko, 2020; Mukhtarudin et al., 2014). Therefore, H4 was not supported.

**Table: 7 Regression Analysis Results**

| Variable | Coeff. | Std. Error | Prob. | VIF |
|---|---|---|---|---|
| C | 2.1112 | 0.3000 | 0.000 | |
| INST | -0.0665 | 0.0598 | 0.2686 | 1.0615 |
| BDRC | 0.2460 | 0.0749 | 0.0014 | 1.1168 |
| ICMS | -0.5320 | 0.1923 | 0.0066 | 1.0557 |
| CSR | -1.8090 | 0.9223 | 0.0523 | 1.0632 |
| R-square | 0.1059 | | | |
| F-Statistic | 4.5893 | | | |
| Prob. | 0.0016 | | | |
| Durbin-Watson stat | 2.0448 | | | |

### Discussion



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***The effect of GCG using the INST proxy on FV***

INST, which was quite large with a mean of 75.59%, was the majority owner. If strict supervision is carried out, it will greatly influence the company since it has sufficiently strong control. In practice, however, INST frequently lacked management control and disregarded public investors (minority shareholders) (Cornet et al., 2007; Conelly et al., 2010). It resulted in public investors (retail investors) negatively perceiving the partnership between institutional investors and management so that the stock price on the stock exchange was low, and the company value was also low. Therefore, public investors in choosing a company are more concerned with the company's performance, not the number of INST proportions in the company. In addition, INST has more than one company; if one company is subjected to stringent inspection, it may affect the other companies.

***The effect of GCG using BDRC proxy on FV***

Aside from supervising management, the BRDC within the company also has the authority to determine the direction of policies and strategies to be implemented by management in the short and long term. The existence of BDRC can also increase firm value; it shows that the company's GCG mechanism has been carried out (Veronica & Wardoyo, 2013). According to Putri & Suprasto (2016), supervision performed by the BDRC can prevent management from taking actions that can harm the company. Besides, the number of BDRCs in a company varies according to the company's conditions, but the more BDRCs there are, the more supervision over management will increase.

***The effect of GCG using ICMS proxy on FV***

ICMS has not been effective in conducting supervision as it comes from outside the company, so it does not understand the company's real condition, does not have expertise in the business the company runs, and does not have expertise in accounting and finance, giving rise to doubts from investors.

Since there are many ICMS, it can occasionally lead to disagreements. Supposedly, ICMS can become a bridge between managers and shareholders to reduce information asymmetry and act as an intermediary in the event of a conflict of interest between BDRC and management. Therefore, a company's ICMS proportion cannot ensure that there will be no financial reporting fraud or that the company's performance will improve (Veronica & Wardoyo, 2013). A large number of ICMSs, according to Prastuti & Budiasih (2015), have been unable to oversee every BDRC policy.

***The effect of CSR on FV***

CSR did not affect firm value because the company's CSR disclosure quality was still far from expectations. It can be seen in the appendix of the company's financial statements, where many CSR indicator items were not reported. The company also did not disclose CSR since there were no strict sanctions from the authorities, and investors felt there was no need to consider CSR disclosure; what is considered is financial performance.

Under Law No. 40 of 2007 concerning Limited Liability Companies, companies disclose CSR only to fulfill obligations so that it has not been carried out seriously and is more concerned with financial performance per the wishes of investors. In their CSR disclosures, several companies also exhibit a lack of concern for environmental and social factors, which are one of the elements in CSR disclosure. It can be seen from the attached financial statements, showing that companies did not disclose CSR consistently every year because CSR requires large funds and is not enjoyed directly by the company.



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## CONCLUSIONS AND RECOMMENDATIONS

The roles of INST and ICMS in supervising management have not been fully realized. Since INST has multiple companies, it frequently complies with management's wishes. When INST closely monitors one company, it may impact other companies. Meanwhile, because ICMS was an outsider to the corporation, they were unaware of the true state of the organization and did not have sufficient capacity to supervise. So that the company can advance, the functions of INST and ICMS, which have not been fully utilized, can be replaced by the role of BDRC. It implies that BDRC plays a crucial part in overseeing management within a corporation.

This research has limitations in using a sample of companies successively submitting CSR disclosures during the research period, resulting in fewer samples overall. For this reason, future research can use a sample of companies that submit non-consecutive CSR disclosures during the study period. Moreover, the BDRC variable can be separated into male and female BDRC to analyze whether there is a difference between male and female BDRC.

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