

# GOOD CORPORATE GOVERNANCE AND FIRM VALUE: THE ROLE OF CORPORATE SOCIAL RESPONSIBILITY

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## Abstract

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This study aims to extend the relationship of Good Corporate Governance with Firm Value, throughout propose and fill the Corporate Social Responsibility as mediate variable at the banks of Indonesia government, listed in Indonesia Stock Exchange in 2012. The Structural Equation Modeling used to analysis the 120 data observed from the financial statement and other documents of five banks, six branches per bank, for four years, These findings are consistent with the expectation that applying of Corporate Social Responsibility, where the Good Corporate Governance directly has no significant effect on the increase of firm value, but has a significant effect on the implementation of Corporate Social Responsibility, so by applying the Corporate Social Responsibility, the firm value becomes significantly increased, it proves that Corporate Social Responsibility acts perfectly as a mediating variable over Good Corporate Governance and firm Value.

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

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## 1. INTRODUCTION

This decade, the science of accounting is no longer seen from a corporation's perspective, but also from a societal perspective. The development of accounting theory has encouraged the existence of social accounting theory, which suggests that business entities cannot be separated from their social environment, so that the interaction between the company goals with the social needs is accommodated in accounting techniques and methods. Hendriksen, (1994) argues that the purpose of social accounting is to provide information according to the effect that enables the company's activities on the community to be evaluated and monitored, so that information about the management of a company becomes cleaner and transparent. Meanwhile, according to Kast and Rosenzweig (1985) states the corporation as an organization is an engineering sub-system, a psychosocial sub-system and a wider environmental

management sub-system where there are a set of people with the same objectives.

Because of globalization issues that cannot be avoided by every human being, where the issue will continue to spread throughout the world, therefore in the global competition situation, the implementation of Good Corporate Governance (GCG) is an obligation for companies to create conditions and environments that support Companies to grow sustainably. GCG is a growing concept that can guide companies to be more careful and always consider the balance of interests of all stakeholders, so that by implementing GCG, the management of resources and assets of the company will be Economist, Efficient and Effective.

In general, the meaning of corporate governance is about how companies make decisions, how they manage themselves and how they communicate with shareholders and stakeholders, while corporate governance always deals with issues of how the executive board is chosen, what

responsibilities and The authority of the board of commissioners and executives, whether shareholders have the right to participate in any company decision and on voting.

Not only companies and policymakers focus on the importance of good corporate governance practices but also for institutional investors, because they also have certain requirements or standards for corporate governance, and their investments in other companies must meet those standards. Therefore, the focus on corporate governance issues is an important part of investment decisions.

These issues are important to investors and potential investors, as they will promote that companies have good and accountable business practices, while on the other hand the investor can find out whether their investment are safe, so they can make quicker investment decisions or take other business opportunities. Because these issues are important to developing a good business environment, for both management and policy-makers, the company is keen to ensure that good corporate governance is widely adopted and institutionalized effectively, because GCG implementation will have implications for the implementation of social responsibility (CSR) in the corporate environment. Currently, CSR has become a phenomenon and a serious discussion by stakeholders as well as state-owned or private companies, because CSR is a form of corporate responsibility to the social environment. Jackie (2008) recommends that companies implement CSR programs because CSR helps improve financial performance, improve brand image and improve corporate proficiency, while (Said, 2009) states that Corporate Social reporting is an approach to how companies disclose Social Responsibility activities from their companies And efforts to maintain the best working environment, thus contributing to the firm value.

Many companies around the world do not meet some of the basic requirements and benchmarks for what investors require in making their investment decisions. In some cases, companies have very few policies and practices on corporate governance and, even if they do, there is little transparency or disclose about what those policies are. These corporate governance problems can be exacerbated in those countries where the legal environment provides very few corporate governance practices, few disclosure requirements and few shareholder rights. Together, these policies and practices create an environment where investors are unable or unwilling to invest in the firms and countries with inadequate corporate governance laws and policies. It is not only potential investors that are constrained in their investment choices when corporations and countries have inadequate corporate governance laws and practices, the opportunities for partnerships and mergers and acquisitions are also limited.

In fact, emerging market businesses have the potential to be leaders in promoting and implementing good corporate governance practices. For that purpose, it is important to identify; Specific requirements and policies on how corporate governance can flourish, how best practices and policies will be adopted, and the benefits and

challenges of implementing best corporate governance practices, especially for government-owned companies.

The Government's banks as part of the public sector, besides having the purpose of obtaining profit, also has a role in empowering the community. This is according to a study conducted by Fox et al. (2002), states that the public sector has the power to implement CSR and furthermore impacted to firm value.

Research on the relationship between GCG with firm value mostly done by the researchers, such as; Silveira and Barros (2007), which examines the quality of corporate governance and firm value in Brazil and found that the quality of GCG has positive and significantly correlated to the value of the company.

In contrast to previous researchers, Rahman, and Mahenthiran (2008) which concluded that GCG indicated by the independence of the board of commissioners, cross directorship board, managerial ownership does not significantly and negatively correlated to the value of the company. Also Mouselli and Khaled (2014) found no significant effect of both CG quality and the number of analysts following on firm value.

The existence of gap research that mention above, motivated the researcher try to extend the relationship between GCG with Firm value by to fill the Corporate Social Responsibility as mediating variable in the form of empowerment, community volunteering and Corporate Philanthropy.

This research is different from the proxy of GCG conducted by (KNKG, 2006) namely: Shareholder Rights, Boards of Directors, Outside Directors, Audit Committee and Internal Auditor, Disclosure to Investors, also Rahman and Mahenthiran (2008) stated that the proxy of GCG are; Independence Commissioners, cross directorship board, managerial ownership, while in this research the proxy of GCG are; board of commissioner, independence of commissioner, and the board of Audit. Meanwhile Kotler and Nancy (2004) mentioned some form of Corporate Social Responsibility programs are; Cause Promotions, Cause Related Marketing, Corporate Social Marketing, Corporate Philanthropy, Community Volunteering and Socially Responsible Business Practices.

According to the background, the phenomenon in the banking business and the research gap that mention above, so the authors' objectives of this research are;

- 1) to analyse and find out the influence of GCG to Firm Value;
- 2) to analyse and find out the influence of CSR to Firm Value;
- 3) to analyse and find out mediated effect of CSR on the influence of GCG to Firm Value.

This article consists of introductions that explain the background of research, research objectives and novelty research, literature review related to the variables discussed in this article, methods used, analysis, discussion and finding of the interrelationship between variables, as well as conclusions and suggestions for the development of theory And empirical research in the future.

## 2. LITERATURE

### 2.1. Good Corporate Governance (GCG)

Corporate governance is becoming more complicated, sophisticated and is providing both greater opportunities and expectations for businesses. To understand how corporate governance is evolving and changing, there are a few important ideas that are critical for businesses.

Companies must not only implement general corporate governance practice but must focus on best practices in good corporate governance. A key element of good corporate governance is good. Another key element of good corporate governance is managing a company's reputation and how it is perceived in the global and local community.

What is Good Corporate Governance? Most companies have structures, policies and processes that create a governance process. Whether required by law or by the necessity to create a decision-making process, companies have created boards, committees of board, management, and reporting processes. Some companies have gone beyond these basic governance requirements and have focused on types of techniques and processes that allow them to improve the quality of their boards, management team, and relationship with shareholders. In some countries, some of these governance techniques are required by law. In other countries, these techniques are chosen and implemented by companies not because they are required to do so by law but rather because companies believe that they add value and make good business sense.

World Bank defined GCG is a collection of laws, regulations and rules that must be met to encourage the performance of company resources work efficiently, generate economic value of sustainable long-term shareholder and the communities as a whole. While the Forum for Corporate Governance in Indonesia (FCGI, 2006) defines Corporate Governance are: A set of rules governing the relationship between shareholders, trustees (managers) of the company, the creditors, the government, employees and internal stakeholders and external relating to the rights and their obligations or in other words a system that controls the company. Corporate Governance goal is to create added value for stakeholders.

The term of corporate governance, for the first time introduced by the Cadbury Committee in 1992 that uses the term. In their report, known as the Cadbury Report, this report is seen as a turning point (turning point) that are critical to the practice of corporate governance around the world. Cadbury Report defines corporate governance are: "A system that serves to direct and control an organization". Another definition of the Cadbury Report looked at corporate governance as managers, creditors, government, employees and interested parties others both internally and externally in relation to the rights and responsibilities they replied.

The Organization for Economic Corporation and Development (OECD) defines corporate governance as follows: "Corporate governance is the system by roommates business corporations are directed and control. The corporate governance structure specifies the distribution of rights and responsibilities among different participant in the

corporation, such as the board, the managers, shareholders and other stakeholder, and spells out the rules and procedures for decision making on corporate affairs. By doing this, it also provides the structure through roommates the company objectives are set, and the means of attaining those objectives and monitoring performance, banks as intermediary and trust institutions, in carrying out bank business activities must adhere to the principle of openness or transparency, it has a range of performance measures of all banks based measures consistent with Firm Values, business objectives and strategy of the bank as a reflection of the bank accountability, adhering to prudential banking practices and ensure the implementation of the provisions in force as a form of bank accountability, objective or free from any side pressure in decision making (independency), and always consider the interests of all stakeholders based on the principles of equality and fairness. In relation to the principle of a bank should consider the following:

1) Transparency, the Bank shall disclose information in a timely, adequate, clear, accurate and comparable and accessible to stakeholders in accordance with their rights;

2) Accountability, the Bank shall establish clear responsibilities of each organ are aligned with the organization's vision, mission, business objectives and strategy of the company. Banks should ensure the presence of a check and balance system in the management of the bank. Banks should have a measure of performance of all ranks based bank agreed measurements consistent with the Firm Values, business objectives and strategy of the bank and has a rewards and punishment system;

3) Responsibility, to maintain the continuity of its business, the bank must adhere to the principle of prudence and ensure the implementation of the regulations. Bank should act as a good company, including care for the environment and social responsibilities;

4) Independence, banks should avoid undue dominance by any stakeholder and is not affected by the unilateral interests and free of conflicts of interest. Bank's decision-making should be objective and free from any pressure from any side. 5). Fairness, Bank must always consider the interests of all stakeholders based on the principles of equality and fairness. Bank should provide the opportunity for all stakeholders to provide input and express opinions in the interest the bank as well as having access to information in accordance with the principle of openness.

FCGI, (2006) stated that, the implementation of good corporate governance by using principles internationally accepted principles, namely:

1) The rights of the holders of shares, which must be properly informed and timely manner regarding companies, can participate in the decision making of the company, and participate in the profits of the company;

2) Equal treatment for shareholders, especially the minority shareholders and foreign shareholders with important disclosure information, and to prohibit the distribution of its own party and stock trading by insiders;

3) The role of shareholders should be recognized as established by law and active

cooperation between enterprises and stakeholders in creating wealth, jobs and healthy companies of financial aspects;

4) Disclosure of accurate and precise in time as well as transparency about all the things that is important to the performance of the company, ownership, as well as stakeholders;

5) The responsibility of the board in the management, control and accountability to corporate management and the shareholders.

In line with FCGI (2006), the National Committee on Corporate Governance (KNKG, 2006) found in Indonesian companies has a responsibility to implement corporate governance standards that have been implemented at the international level. However, although aware of the importance of good corporate governance, many parties still lack firm reported that applying these principles. There are many companies apply the principles of good corporate governance and regulation as encouragement to avoid existing sanctions than those who regard the principle as part of the company culture. In addition, the application of the principles of good corporate governance obligations should have a positive influence on the quality of published financial statements.

## 2.2. Corporate Social Responsibility (CSR)

Corporate Social Responsibility ( CSR ) contains the same meaning as individuals, the company has a moral duty to be honest, obey the law, uphold the integrity of, and not corrupt CSR emphasizes that companies should develop ethical business practices, and the sustainable economic, social and environment, Paul (2007).

Kotler and Nancy (2004) in the book "Corporate Social Responsibility: Doing the Most Good for Your Company ", mentions some form of Corporate Social Responsibility programs to choose from, namely:

1) *Cause Promotions*. In this cause promotions company seeks to increase awareness community about a particular issue, where this issue should not be related to or relating to the company's business lines, and then the company invites the public to donate time, funds or their property to help solve or prevent these problems. In cause these promotions, the company could implement programs individually or in collaboration with other institutions, for example: non-government organization. Cause Promotions can be done in form; Increase public awareness and concern for one particular issue, Invites the public to find out in depth on particular issue in society, Invites the public to donate money, time or goods belonging them to help resolve and prevent a particular problem, Inviting people to participate in the administration of a particular event, for example: following the path of motion, signed petitions, etc.

2) *Cause Related Marketing*. In cause related marketing, the company will invite the public to buy or use the product, be it goods or services, in which a portion of the profits will be donated to help the company overcome or prevent a particular problem. Cause related marketing can be: Any item that is sold, a percentage will be donated. Each opening accounts or new accounts, then a few dollars will be donated.

3) *Corporate Social Marketing*. Corporate social marketing is done by the company with the aim to change people's behaviour (behavioural changes) in a particular issue. Usually corporate social marketing focuses on areas such as health sector, field safety, and environmental areas of society.

4) *Corporate Philanthropy*. Corporate philanthropy may be a form of Corporate Social Responsibility of the oldest. Corporate philanthropy is done by the company by contributing / direct contributions in the form of funds, services or equipment to those in needs both institutions, individuals or certain groups.

5) *Community Volunteering*. Community Volunteering is a form of Corporate Social Responsibility in which encourage or invite company employees involved in the program Corporate Social Responsibility is being run by the contributing time and energy.

6) *Socially Responsible Business Practices*. Practices in socially responsible business, the company made changes to one or the whole system works in order to reduce adverse impacts on the environment and society. Socially responsible business practices can be done in the form of: Improve the production process, Discontinue products that are considered dangerous but not illegal, Make the age limit in doing the sale, such as certain goods will not be sold to children who have not turned 18 years old.

Furthermore, Kotler and Nancy (2004) stated that the company's participation in various forms of social responsibility can provide many benefits for companies, among others: increase sales and market share, strengthen brand positioning, improve the company's image and influence, improve the ability to captivate, motivate and retain, lower operating costs, and increase the desire for investors to invest.

## 2.3. Firm Value

Weston and Brigham (1996), states that price stock is defined as: "The price at roommates stock sells in the market." Meanwhile, the stock market price is the market value securities which may be obtained by investors if investors sell or buy shares, which is determined based on the price closing or closing price on the exchange on the day in question. So, the price closing or closing price is the last time the stock price at the time changed hands in late trade. High stock prices create value Companies are also high. The value of the company high will make the market believe not only on the company's performance this time but also on the company's prospects in the future.

Market share reflects the company's strength in market competition. Firms capable of dominating the market are well perceived by investors because the company is able to earn a larger total of sales when compared to other companies in similar industries. This will be responded by investors who will be able to increase the value of the company, because the company with higher market share, it will have a larger market value as well. (Blundell, Griffith, and Reenen, 2009).

### 3. METHOD

#### 3.1. Research Design

The design of this study used study document. This research is an approach to economic and management, especially with the main study accounting banking finance and banking management science, management control systems and strategic management, learning process and behaviour. In particular, using contingency theory and agency theory regarding the external business environment uncertainties and other variables, namely strategic planning, internal control systems, social empowerment and marketing approach.

#### 3.2. Population and Research Sample

The population in this study is all financial report of Indonesian local banks in Jakarta. The choice of banks because the banks have audited by external auditor beside have a bigger performance problem than other business.

Based on a preliminary study, the data obtained on the number of national banks listed on the Stock Exchange until the year 2011 amounted to 32 banks with over 5000 branches across Indonesia (Viva news, 2011). Bearing in mind that it is not possible to take the whole unit population, taking into account the ability of researchers in terms of money, time and facilities and other support, it is also possible to do the census. Therefore, the sampling we conducted in this study for each branch can represent all population units.

Sampling method that used by the author is purposive sampling method (Ferdinand Augusty, 2006). The reasoning for choosing purposive sampling method is to consider all information related to the research problem can be extracted from reporting and document which directly give to the author a describe about implementing CSR and it's affect to the ability of bank to collect the third party's deposit. Therefore, the samples in this study are financial reports and other document like company profile from 5(five) banks, where every bank was represented by 4(four) years from 2008 until 2011 and six branches, so data observed equal 120.

#### 3.3. Operationalization of Variables

Basically the necessary data in this study can be grouped into 3 (three) groups of variables, namely: Independent Variable, Dependent Variable, Variable Mediation (intervening), Tuckman (2013).

All the variables used in this study are:

1) The first variable (X1) is the Good Corporate Governance. This variable is an independent variable indicated by the existence of Board Commissioners, Independence Commissioners, and the board of Audit;

2) The second variable (X2) is Corporate Social Responsibility. This variable is a mediating variable which indicated by social empowerment, community volunteering, Corporate Philanthropy.;

3) The Third variable (Y) is the Firm value. This

variable is the dependent variable and the results achieved in the form of the ability of bank to collect public fund as measured by collect deposit, saving account, their debt, to grow up equity.

#### 3.4. Measurement Scale

The measurement that used in this study is numerical data and interval data with Likert scale (Likert, 1963). This results in a measurement scale that allows the calculation of average, standard deviation, statistical parameters, correlation and so forth. (Summated rating methods, C. Bird, 1988 developed by Tsui, Anne S., Lyman W. Porter (1997) in measuring the effect of investment in manpower to employee performance, with scoring from agree to strongly agree (score of 1 to 10).

#### 3.5. Data Collection Techniques

The data required in this study consisted of primary data and secondary data. Primary data required in this study was collected by conducting field research that is, directly to the bank listed on the Stock Exchange. Secondary data was collected through library research.

1) *Field Research*. Primary data required in this study relates to the identity of the bank which is the first group. The second group of data used to measure variables control environment, information systems, control activities as well as bank loan performance variables. To obtain primary data, used field research (field research) with the following data collection techniques are; study document, observation and interview.

2) *Research Bibliography*. Library research is needed to collect the data needed to support the secondary as well, complement, and to complete primary data. Secondary data collection technique is to learn from the journals, reports from relevant agencies as well as other writings that had to do with this research, such as; the financial statements of the banks listed on the Stock Exchange in 2008-2011 in Indonesia Stock issued in the Indonesian book Capital Market Directory.

#### 3.6. Research Procedures

1) *Phase Trials Research*. Once the indicators developed from the concept (construct) a theoretical variable, first discussed with the other party (second opinion), especially with the knowledge and competence relevant to the research topic. Further trials to target populations in relatively small quantities are supposed to represent the actual characteristics of the target population.

2) *Testing Data*. Given the data collection using questionnaires, the seriousness of the respondents in answering these questions is very important in research. Legality or validity of the results of social research is determined by the measuring instruments used. If the measure is not used or is not valid and can be trusted, the results of research do not describe the real situation. Necessary to tackle these two kinds of testing such as; test of validity and test of reliability.

### 3.7. Method of Analysis

In this study, the authors used a technique of analysis by the method of Structural Equation Modelling (SEM). SEM is a method of analysis in addition to providing information about the simultaneous causal relationship between the variables; it also provides information about the load factors and measurement errors. Measurement errors that usually arise in the multiple linear regression because of the use of latent variables, overcome by SEM through equations that exist in the measurement model. SEM was able to analyse the relationship between latent variables with indicator variables, the relationship between latent variables with one another, as well as knowing the size of the measurement error. (Ghozali, 2005). To be able to use analysis techniques, it can be used Structural Equation Modelling software. In this study, the authors use the software of Amos.

## 4. DISCUSSION AND FINDING

### 4.1. Feasibility Testing Research Model

The SEM assumptions that must be met are as follows:

1. *Sample Size*. Sample size that must be met in the modelling of SEM is the minimum amount to 100 then use the comparison of 5 observations for each parameter to be estimated. Therefore, when developing a model with 20 parameters used then minimum 100 samples. In this study, the number of samples selected 120 data observed, so that the number of eligible sample (Tabachic & Fidel in Augusty Ferdinand, 2006).

2. *Normality and Linearity*. Distribution of data must be analyzed to see if the assumptions of normality are met so that data can be processed further with SEM modeling. Normality test is done by using the skewness test that showed almost all normal variables at the 0.01 level (1%). This is reflected in the value of skewness CR under  $\pm 2.58$  (Arbuckle, in Augusty Ferdinand, 2006). Multivariate value in testing multivariate normality is kurtosis coefficient, if the results are still below the limit of  $\pm 2.58$ , this means that there is data used multivariate normal distribution.

3. *Extreme numbers (Outliers)*. Outliers are observations that appear extreme values both univariate and multivariate namely that arise due to the combination of its unique characteristics and look very much different from the other observations. This full model proves no Outliers.

4. *Multicollinearity*. Multicollinearity is a condition in which there is a high correlation between some or all of the independent variables in a multiple regression (Cooper and Emory, 1996:324). Multicollinearity can be detected from the determinant of the covariance matrix. Covariance matrix determinant value is very small gives an indication of multicollinearity problem. In Table visible correlation between the independent variable value is less than 1 ( $r < 1$ ), meaning the independent variable no symptoms of multicollinearity.

According to Arbuckle (1997:85) AMOS is also used to identify the proposed model meets the

criteria of a good structural equation models. The criteria are:

1) Degrees of freedom (Degree of Freedom) must be positive. Output results, degree of freedom are 7, which means that the model is being developed to meet the criteria as a good model;

2)  $\chi^2$  (chi square statistic) and probability. Fundamental test equipment to measure the overall fit is the likelihood ratio chi-square statistic. Significant level of acceptance is recommended if  $p \geq 0.05$  (Hair et al., 1998:389). Besides ratio chi-square equal 7,2339, according to Hair et al. (1998:340) recommended value of conformity to accept a model is the value of CMIN / DF is less than or equal to 2.0 or 3.0. while the value of CMIN / DF = 1.0334 or  $< 2.0$ , meaning this model well and can be used;

3) Goodness of fit index (GFI). GFI is used to calculate the weighted proportion of the variance in the sample covariance matrix is described by the covariance matrix can estimated population. Amos 16.00, output results demonstrate GFI coefficient of 0.979 or 97,9%. This index reflects the overall suitability of the model is calculated from the residual quadratic model that predicted compared with the actual data. Goodness of Fit Index value is usually from 0 to 1. The larger the sample size the study the greater the value of GFI. Better value close to 1 indicates that the tested models have good agreement (Hair et al., 1998:387) is said to be good value  $GFI \geq 0.90$ ;

4) Adjusted GFI (AGFI). AGFI states is an analogue of  $R^2$  (R-square) in a multiple regression. Fit Index can be adjusted to the degree of freedom available to test whether the model is accepted estimated. Amos 16.00 output results show AGFI coefficient of 0.937 or 93, 7%. Acceptance rate is recommended if has a value equal to or greater than 0.9;

5) Tucker-Lewis Index (TLI). TLI is an alternative incremental fit index that compares a model was tested against a baseline models. Amos 16.00 output results show TLI coefficient of 0.998 or 98, 8%. Acceptance rate is recommended if has a value equal to or greater than 0.9;

6) CFI (Comparative Fit Index). CFI is also known as the Bentler Comparative Index. CFI is an incremental suitability indices are also compared with the null model tested and estimated models. Amos 16.00 output results show the CFI coefficient of 0.999 or 99, 9% was said to be a good index to measure the suitability of a model because it is not affected by sample size (Hair et al., 1998:289). Index indicating suitability models tested had a good is if the  $CFI \geq 0.90$ ;

7) RMSEA (Root Mean Square Error of Approximation). RMSEA values indicate the goodness of fit is expected when the model is estimated in the population. Amos output results show RMSEA index of 0.016 or 1,6%. RMSEA value is less than or equal to 0.08 (8%) is an index to the acceptability of the model showed a close fit of the model was based on degree of freedom. RMSEA is an index of measurement that is not influenced by the size of the sample so that the index is usually used to measure the fit model on large sample numbers. The indices are used to test the feasibility of a model can be summarized in the table below.

**Table 1.** Fit Model Good Corporate Governance and Firm Value: The Role of Corporate Social Responsibility

Goodness of Fit Index	Cut off Value	Result	Evaluation Model
$\chi^2$ Chi square	< 985	7	Good
Hoelter ( 0.05 )	>120	232	Good
Significance Probability	$\geq 0,05$	0,404	Good
GFI	$\geq 0,90$	0,979	Good
AGFI	$\geq 0,90$	0,937	Good
CMIN/DF	$\leq 2,00$	1,033	Good
TLI	$\geq 0,90$	0,998	Good
CFI	$\geq 0,90$	0,999	Good
RMSEA	$\leq 0,08$	0,016	Good

Sources: Output of Amos 16.00

## 4.2. Hypothesis Testing

*Hypothesis 1: Good Corporate Governance has positive effect to Firm Value.*

Statistical tests of this hypothesis (Table 2), shows that variable Good Corporate Governance has coefficient of negative 0.1469 but not significant on influencing of Firm value, where the value of  $P = 0.272 > 0.05$ , meaning hypothesis "1" is not acceptable, or Good Corporate Governance directly gives not significantly negative influence to Firm Value.

**Table 2.** Coefficient estimate the influence of Good Corporate Governance and Corporate Social Responsibility toward Firm Value

	Estimate	S.E.	C.R.	P	Label
GCG - CSR	,5128	,7451	5,6008	***	par_3
CSR - VAL	,1318	,0029	1,1393	***	par_5
GCG - VAL	-,1469	,0241	-1,2614	,2072	par_6
GCG - DA	,7180				
GCG - KI	,8910	,1018	9,9760	***	par_1
GCG - DK	1,0022	,1886	10,0166	***	par_2
VAL - VL	,9159				
VAL - VE	,4728	,7180	,7833	,4335	par_4

Sources: Output of Amos 16.00

Notes: GCG = Good Corporate Governance  
 CSR = Corporate Social Responsibility  
 VAL = Firm Value  
 VL = The Growth of Liability  
 VE = The Growth of Equity  
 KI = Commissioner Independence  
 DA = Board of Audit  
 DK = Board of Commissioner

This study support to Rahman, and Mahenthiran (2008) which concluded that GCG indicated by the independence of the board of commissioners, cross directorship board, managerial ownership does not significantly and negatively correlated to the value of the company.

This evidence also agrees with Wardoyo and Veronica (2013) states that the committee audit as a proxy of GCG does not affect the value of company and also supports Shahwan, (2015) proves the results do not support the positive association between CG practices and financial performance.

This study is different from Silveira and Barros (2007), which examines the quality of corporate governance and firm value in Brazil and found that the quality of GCG significantly positively correlated to the value of the company and also different from Fici and Aybar (2012) who state that there is a

significant correlation between corporate governance structures with their market values and/or performances.

*Hypothesis 2: Good Corporate Governance has positive effect to Corporate Social Responsibility.*

Statistical tests of this hypothesis (Table 2), shows that variable Good Corporate Governance has coefficient of positive 0.5128 and significant on influencing of Corporate Social Responsibility, where the value of  $P = 0,0000 < 0.05$ , meaning hypothesis "1" is acceptable, or Good Corporate Governance directly gives significantly positive influence to Corporate Social Responsibility.

This study support to Belkaoui (2004) who said that the company demanded to inform public about social activity, and the argument of Said et al. (2009) who argued that the role of Good Corporate Governance has positive effect to disclosure and implementing Corporate Social Responsibility with evidence the Indonesian Government's Corporate.

This results also agree with Htay et al. (2012) that found the GCG indicated by independency of board is influenced CSR disclosure and significant in 5%, also Supports Lone et al. (2016), the results prove that corporate governance proxied by independent directors, women directors and board size positively affect the extent of CSR disclosure.

*Hypothesis 3: Corporate Social Responsibility has positive effect to Firm Value.*

Statistical tests of this hypothesis (Table 2), shows that variable Corporate Social Responsibility has coefficient of positive 0.1318 and significant on influencing of , where the value of  $P = 0,0000 < 0.05$ , meaning hypothesis "3" is acceptable, or Corporate Social Responsibility directly gives significantly positive influence to Firm Value.

This statistical testing prove that the mediate effect of Corporate Social Responsibility has coefficient equal positive 0,07 (0,5128 multiply 0,1318), this coefficient more strong than direct effect of Good Corporate Governance to Firm Value.

This study support to Kotler and Nancy (2004) states that the company's participation in various forms of social responsibility can provide many benefits for companies such as; increase sales and market share, strengthen brand positioning, improve the company's image and impacted to firm's value, also supports to Said et al. (2009) who argued that CSR helps improve financial performance, enhance brand image and increases the ability to attract and retain the best workplace, contributing to the market value of the company.

This evidence support to Esen (2013) that found CSR activities affect the consequences that have a positive impact on corporate reputation, findings show that CSR enables firms to improve reputation with a broad range of stakeholders including employees (internal customers), customers (external customers), suppliers, competitors, bankers, and investors, and also supports Emami et al (2014) state that Social Responsibility of firms are significantly and positively correlated with firms' values, and also supports Bozzolan et al. (2015) state that CSR orientation acts contributes to the creation of value for all stakeholders.

## 5. CONCLUSION AND IMPLICATION

### 5.1. Conclusion

Based on the results of research and discussion, several conclusions can be derived and it can be concluded as follows:

1) Good Corporate Governance that indicated by the existence of Board Commissioners, Independence Commissioners, and the board of Audit has negative coefficient equal 0.1469 but not significant on influencing of Firm Value, where the value of  $P = 0.272 > 0.05$ , meaning hypothesis "1" is not acceptable, or Good Corporate Governance directly has negative and no significant effect to Firm Value. This support to Rahman, and Mahenthiran (2008), Wardoyo and Veronica (2013),

2) Good Corporate Governance has positive coefficient equal 0.5128 and significant on influencing of Corporate Social Responsibility, where the value of  $P = 0,0000 < 0,05$ , meaning hypothesis "2" is acceptable, or Good Corporate Governance directly has positive and significant effect to Corporate Social Responsibility. This support to Belkaoui (2004), Said et al. (2009), Htay et al. (2012)

3) Corporate Social Responsibility has positive coefficient equal 0.1318 and significant on influencing of, where the value of  $P = 0,0000 < 0,05$ , meaning hypothesis "3" is acceptable, or Corporate Social Responsibility directly has positive and significant effect to Firm Value. This statistical testing prove that the mediate effect of Corporate Social Responsibility has coefficient equal positive 0,07 (0,5128 x 0,1318), this coefficient is stronger than direct effect of Good Corporate Governance to Firm Value. Models and other forms of social responsibility applied by banks in Indonesia are; empowerment, community volunteering and Corporate Philanthropy. This supports the findings of Said et al. (2009), Esen (2013).

### 5.2. Implication

#### 5.2.1. Academic Recommendation

The results of this study contribute to the academic form of suggestion that can fill the gap on the previous study about the influence of Good Corporate Governance to grow up Firm Value. This study has implications for academic research by providing support for the development of social accounting theory (Hendriksen, 1994) and the theory of organization, Kast and Rosenzweig (1985) that look from a wider perspective, namely:

1.1) Suggests Good Corporate Governance directly has no significant effect to Firm Value or directly Good Corporate Governance cannot increase Firm Value, so this variable must be mediated by other variable in order affected and more strengthen to increase Firm Value;

1.2) Proposes that by using an indirect effect of Good Corporate Governance to Firm Value mediated by the disclosure of Corporate Social Responsibility could be strength, caused by it has coefficient positive and more strength than direct effect.

#### 5.2.2. Practical Recommendations

Policy implications of these results for practitioner of banks provide guidance in improving the Firm Value when operating their business. Corporate Social Responsibility must be implemented by Organization as well as adequate, besides the practitioner must implementing organizational learning to build and developed organizational capacity. This study has implications for practitioner such as

2.1) The Importance of implementing Corporate Social Responsibility like; social empowerment, community volunteering, Corporate Philanthropy;

2.2) To Implement Corporate Social Responsibility, the Organization must be building organization capacity, a positive and conducive environment, transparency and independency.

## 6. LIMITATIONS OF RESEARCH AND AGENDA

Several limitation of this research that should be noted for future research are: to obtain Data and information about Good Corporate Governance, Corporate Social Responsibility and Firm Value is relatively more difficult because it is limited by bank secrecy laws, so that the researchers could not obtain the documents, data and information from the bank as quickly, and the researchers cannot interview the respondents. In the future research it is suggested that the object of research not only banks but also involve the other Financial Institution.

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