The Effect of Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) and Financial Distress on Companies' Value with Financial Performance

(Case Study at Manufacturing Companies Which Enlist in Indonesia Stock Exchange (BEI) in The Period Of 2017-2021)

Ida Nurlaelah
{Idanurlaelah745@gmail.com}

Master of Management, Universitas Pancasakti Tegal, Indonesia

Abstract. This study aims to determine the effect of good corporate governance (GCG) corporate social responsibility (CSR) and financial distress on companies' value Study At Manufacturing Companies Which Enlist In Indonesia Stock Exchange (BEI) In The Period Of 2017-2021. This research's object is 19 selected companies in various industrial sectors, The population in this study was 143 Manufacturing companies listed on the BEI. The method used is the classical assumption method, multiple linear regression, path analysis method using SPSS version 25. The direct effect study results, GCG, an agency composed of management ownership, institutional ownership, and the board of directors, will not significantly impact the value of the company. GCG, which is proxied by the audit committee CSR and Financial distress affects firm value and financial performance (ROA) and ROA, affecting firm value. The indirect effect research shows that ROA has not been able to mediate the effect of GCG, which is proxied by managerial ownership, institutional ownership, and commissioners' board.ROA and ROE is only able to mediate the effect of CSR and Financial distress on firm value.

Keywords: Corporate Social Responsibility (CSR) And Financial Distress, Financial Performance, Firm Value, Good Corporate Governance,

1. Introduction

One aspect that affects the value of a GCG corporation (GCG). The company's purpose is to maximize value. The corporation aims to maximize shareholder wealth, not just profit. Short-term enterprises put profits over social responsibility and risks. CSR is no longer a choice, but a trendy management philosophy (Türker, 2015).At the company one to improve welfare for shareholders, namely performance improvement companies but managers too as a company manager has different goals. then, important for the company will do supervision is one of Good Corporate Governance mechanism (GCG) (Listyawati & Kristiana, 2019). The implementation of GCG is able to improve company value, where company expected to have good performance so good to be able to create benefits for managers or employees shareholders (Prastuti & Budiasih, 2015). In Indonesia, the implementation of GCG still not meet the expectations of all party. Therefore, the implementation of GCG to the attention of investors as decision making

MALAPY 2022, May 28, Tegal, Indonesia
Copyright © 2022 EAI
DOI 10.4108/eai.28-5-2022.2320423

considerations because the implementation of GCG can be convincing investors that the company has been managed well (Karina & Setiadi, 2020).
The association between Good Corporate Governance (GCG), Corporate Social Responsibility (CSR), and Financial Distress is explained using the agency theory. This is evident if the business is managed effectively through solid corporate governance, enabling it to fulfill its objectives, namely maximum profit. In order to maximize the company's profitability, which is the primary objective of the business and the principle, the agent must manage the business correctly in accordance with the regulations established by the regulator. Bank profitability is anticipated to be positively correlated with the use of strong corporate governance, which is founded on five fundamental principles in accordance with BI BI No. 15/15/DPNP, namely openness, accountability, accountability, independence, and fairness..

Realizing the company's aims demands a new knowledge that it has economic, social, and environmental responsibilities. CSR developed from a community's social environment. Exploiting natural resources undermines raw material and energy sustainability (Iwuji et al., 2016) and causes social disharmony with the environment community and significant labor conflicts. CSR is vital to sustainable development. (Behringer and Szegedi, 2016).

Good corporate management helps prevent financial misery during global crises. Good Corporate Governance (GCG) governs and supervises a firm to create benefit for all stakeholders. According to Almilia and Herdiningtyas (2005), financial hardship is when a company fails or is unable to meet debtor commitments due to shortages and insufficient cash, and cannot realize its economic goals.

Financial performance shows a company's financial health. Media performance measures a company's health. Management's continual decisions affect the company's financial performance.The financial performance of the banking industry plays a very important role because: bank is directly related to trust. Besides performance This banking finance will be able to increase the selling value and good name of the company. To make an investment decision, this financial performance will always be needed by customers and investors, where the role of financial performance is able and very big on the decision.

In this study, board size and board independence were used as corporate governance indicators. Research on the impact of corporate governance on financial performance has been conducted to the same extent as Zabri's (2015) study, which looked at the impact of corporate governance on financial performance. Indicators of financial performance used in Malaysian research include return on assets (ROA) and return on equity (ROE). The usage of ROA and ROE as a financial performance indicator because it is thought that the ratio accurately depicts the company's success over the course of a year and is particularly beneficial to stakeholders.

The relationship between GCG and CSR is predicted to be influenced by other factors.
The majority of investors are interested in companies that share data on financial performance reported in the annual report. Therefore, In this study, financial performance variables are used for intermediary variables which are predicted to be able to mediate on this influence.

2 Method

The Method of collecting data This research uses data secondary in the form of annual financial reports which has obtained an audit opinion. Data secondary in this study is the report banking company annual finance listed on the IDX in 2017-2021 which obtained from the official website of the Stock Exchange Indonesia (IDX) and the official website listed company.

The population in this Study at Manufacturing Companies Which Enlist In Indonesia Stock Exchange (BEI) In The Period Of 2017-2021. The method used is the classical assumption method, multiple linear regression, path analysis method using SPSS version 25.

3 Discussion

3.1 Agency Theory

The agency theory serves as the cornerstone for understanding excellent corporate governance in the corporate world. Monitor and oversee company management to reduce asymmetric information and to verify that management is carried out in complete accordance with various rules and regulations.

3.2 Firm Value

A company's assets may be evaluated even if it is about to go public, combine, or acquire another business. In studies (Jallo et al., 2017; Mulyono et al., 2018; Pandelaki and Farida, 2017), firm value is commonly measured using the business's stock price, which represents the greater share price means the higher the value of the company. However, the market price to book value (PBV) technique developed by Dagilien (2013), Hadiwijaya et al. (2016), and Hafez (2016), as well as the industry-adjusted Tobin's Q method [1] and an approximation Tobin's Q [2,3] can also be used to determine a company's worth. Tobin's Q and PBV were employed in a study by [4] to estimate firm value. Equity market value, long-term debt, and total assets are all used to calculate Tobin's Q. An organization's value in Hafez (2016) can be gauged by comparing its current stock market price to its book value.

3.3 Good Corporate Governance (GCG)

Governance of an organization as a whole is a complex set of systems, rules, structures, and processes that aims to strike a balance between the interests of the company and its stakeholders [5]. Corporate governance, according to [6], increases long-term value for both shareholders and enterprises. Corporate governance is not something that can be defined in a single way. For the sake of putting GCG principles into action and producing results that live up to stakeholder expectations, a bank's governance structure and infrastructure are assessed as part of the GCG process. The profitability of banks is expected to improve with the implementation of good corporate governance based on the BI BI No. 15/15/DPNP five core principles of transparency, accountability, accountability, independence, and fairness. High profitability of a bank can represent good corporate governance, whereas low profitability can demonstrate weak corporate governance. [7,8]

3.4 Corporate Social Responsibility (CSR)

In Indonesia, CSR is a mandate that must be followed through on, but in practice, the corporation has not yet done so entirely. Only companies dedicated to improving the well-being of all stakeholders and the environment may claim ownership of CSR awareness. CSR as a business model is required to combine the spirit of sustainable development, according to [9]. Companies must offer the construction of balance between economic interests, environmental needs and social expectations. CSR's effect on stock market value was studied using six CSR characteristics based on international CSR indices, such as the Dow Jones corporate sustainability index and the FTSE4Good index. CSR practices that focus on community investment, workplace quality, CSR and reporting strategies, stakeholder agreements, environmental performance, and supply chains are all included in these dimensions. Many studies have examined the impact of corporate social responsibility (CSR) on the value of a

company. The outcomes of each study are different. According to a number of studies, the relationship between CSR and firm value is either favorable, partially negative, or neutral.

3.5 Financial Distress

[10] defines financial hardship as a company's failure to meet its debts, which is to say that it is insolvent. According to [11], financial distress occurs when a firm's overall liabilities exceed its total assets and the company is unable to realize its economic goals, resulting in the failure or inability of the corporation to fulfill its commitments to the debtor. "Z" is a value that indicates the health of the firm, whether it is in a healthy state or not, and reveals the company's performance as well as its future prospects. Financial difficulty can be predicted up to three years in advance using the Altman Z-Score model.

3.6 Financial performance

The study's primary goal is to discover links between the Audit Committee's qualities and the company's performance as assessed by ROA and return on equity (ROE). In terms of research methodology, quantitative approaches were utilized to design statistical regression models relevant to the examined phenomenon in order to systemize the essential information about the selected sample of organizations and test the stated hypotheses. The link between a dependent variable and one or more independent variables can be studied using the multiple linear regression model. We hope to find out how ownership and management, as well as independent commissioners and the audit committee's role, affect a banking company's financial performance as measured by the ROA and the ROE in 2020. It has been shown in studies that the success of a corporation is not greatly influenced by managerial ownership, ownership institutionalization, independent commissioners, or auditors. According to [12], the bigger a manager's share of a company, the lower its performance will be. Managerial ownership has no substantial impact on performance.

4. Conclusion

Based on the data analysis elaborated in the previous chapters, provided by several ground theories and previous studies, we can conclude that: Based on hypothesis testing and data analysis that has been carried out in this research can conclusions were reached regarding influence of GCG, CSR and Financial Distress to Company Value with the company's performance as intervention variable. GCG, CSR no significant effect to the value of the company. Financial Distress has no significant effect to the value of the company. Performance Significantly influential company to the value of the company. Based on hypothesis testing the results obtained that the performance the company is unable to mediate the relationship of GCG, CSR to the value of company. Based on testing the hypothesis is obtained that the performance company is able to mediate relationship of financial distress to the value of the company.

Acknowledgements

Appreciation and thanks to the Ministry of Religion Kab. Community Service Brebes participated in the 2022 UPS Tegal Master of Management Program and the Pancasakti University Tegal Master of Management which assisted in research activities and supporting data from the Indonesia Stock Exchange.

References

[1] Almaqoushi W, Powell R. Audit Committee Indices, Firm Value, and Accounting Outcomes. SSRN Electronic Journal 2017. https://doi.org/10.2139/SSRN.2959718.

[2] Chan KC, Li J. Audit Committee and Firm Value: Evidence on Outside Top Executives as Expert-Independent Directors. Corporate Governance: An International Review 2008;16:16–31. https://doi.org/10.1111/J.1467-8683.2008.00662.X.

[3] Kurniasari W, Wibowo BJ, Wijaya YA. The Mediating Effect of Corporate Social Responsibility and Corporate Governance on the Company's Firm Value. Research Journal of Social Sciences 2017;10:1–7.

[4] Sugiarti DI, Iskandar R. Pengaruh Consumer Review Terhadap Keputusan Pembeli Terhadap Toko Online Shopee. Jurnal Sosial Dan Teknologi 2021;1.

[5] Razi A, Ramzan M, Atif Ali S, Khan H, Hassan Z, Amir Razi B. Labor Management Relations. Type: Double Blind Peer Reviewed International Research Journal Publisher: Global Journals Inc 2012;12.

[6] Branson DM. Corporate Governance. Virginia: The Michie Company; 1993.

[7] Anugerah R. Peranan Good Corporate Governance Dalam Pencegahan Fraud. Jurnal Akuntansi 2014;3:101–13.

[8] Nasution B. Penerapan Good Corporate Governance Dalam Penyalahgunaan Kredit. Seminar Hukum Perkreditan, Medan: PT.Bank Rakyat Indonesia; 2002.

[9] Behringer K, Szegedi K, Professor A. The Role Of CSR In Achieving Sustainable Development – Theoretical Approach. European Scientific Journal, ESJ 2016;12:10–10. https://doi.org/10.19044/ESJ.2016.V12N22P10.

[10] Blum-Ross A, Kumpulainen K, Marsh J. Enhancing digital literacy and creativity: Makerspaces in the early years. books.google.com; 2019.

[11] Dobers P, Halme M. Corporate social responsibility and developing countries. Corporate Social Responsibility and Environmental Management 2009;16:237–49. https://doi.org/10.1002/CSR.212.

[12] Cahyandito MF, Pau ON. The Importance of Considering GCG and CSR While Pursuing Corporate Share Value. Jurnal Bisnis & Manajemen 2017;XVIII:21–33.