Asian Journal of Social Science and Management Technology
ISSN: 2313-7410
Volume 5, Issue 4, July-August, 2023
Available at www.ajssmt.com

Corporate Governance Mechanism, Profitability, Corporate Social Responsibility Disclosure and Firm Value in Indonesia Mining and Energy Industry

Dwi Septa Mulyani[1], Lia Uzliawati[2]

[1,2]*(Sultan Ageng Tirtayasa University, Indonesia)*

ABSTRACT: This study aims to examine the influence of corporate governance mechanism, return on equity and disclosure of Corporate Social Responsibility with firm value in Indonesia mining and energy industry. The corporate governance mechanism on this study is proxy by the board of commissioners and managerial ownership. Profitability on this study is proxy by return on equity. The research sample consists of 27 mining and energy companies listed on the Indonesia Stock Exchange for the 2017-2021 period. Data analysis was performed using multiple regression analysis. The results showed that managerial ownership and ROE have a positive influence on firm value. but independent commissioner and CSR disclosure have a negative influence to firm value.

Keywords - independent commissioners, managerial ownership and profitability, corporate social responsibility disclosure and firm value.

---

1. INTRODUCTION

Competition is getting tougher in today's business world, requiring companies to increase firm value. Companies do not only have economic and legal obligations to shareholders, but companies also have obligations to other interested parties which cannot be separated from the fact that a company cannot live, operate and survive and earn profits without the help of various parties. The company is not only faced with the responsibility of obtaining profit alone, but also must pay attention to the responsibility to shareholders, therefore in paying attention to its responsibilities the company must maintain the value of the company.

The Price Book Value (PBV) ratio is a benchmark that is widely used to measure firm value. This ratio is a comparison between the market value of a share to the book value per share. It is stated that a high PBV is an indication of the high value of the company (Brigham et al., 2019). Brigham et al. (2019) explained that one indication of a high value company is a company with a high share value. This is in line with the assumption that the company's goal is to increase the value of the company as part of increasing the prosperity of owners and investors or shareholders.

One of the factors that can affect the value of the company is Corporate Governance. Efforts to increase company value require good cooperation between company management and other parties such as shareholders and stakeholders in making financial decisions with the aim of maximizing the company's capital. In fact, the unification of the interests of the two parties often creates conflicts or conflicts of interest. This conflict of interest between managers and shareholders is associated with agency conflict.

Thus, it is necessary to have a party that performs controls that function to monitor or supervise optimally in directing the company to the proper goals. Corporate Governance is a principle applied by a company to direct and control the company in order to create added value for shareholders and stakeholders.

There are several indicators supporting the corporate governance mechanism, including managerial ownership, and an independent board of commissioners. This mechanism helps to control the company to stay within the limits that should be. Managerial ownership is the percentage of share ownership owned by managerial parties involved in the decision-making process including directors and commissioners or all the capital in the company (Syafitri et al. 2018). Managerial ownership is seen as being able to align potential conflicts of interest that occur between management and outsiders such as shareholders and stakeholders.

The board of independent commissioners can also overcome agency conflicts, where the independent commissioner can act as a mediator or mediator in conflicts that occur between managers and as supervisors in supervising the running of the company. Independent commissioners have the goal of ensuring that a company has properly implemented the principles of Corporate Governance in accordance with the applicable regulations. Thus, independent commissioners are considered capable of minimizing agency conflicts so that companies can focus on increasing firm value (Uzliawati, 2015).

Another factor used to increase the value of the company is profitability. Profitability is an indicator that is often seen and considered very important by investors when assessing a company, because profitability shows the company's ability to generate profits and the rate of return that investors will receive. The higher the profit that the company gets, the more feasible the company is to be an investment choice because it will benefit its shareholders in the future (Wiguna and Yusuf, 2019).

Previous research stated that CSR disclosure has no significant effect on company value (Silviana & Krisnawati, 2020). Meanwhile, Saputra's research, (2017) states that disclosure of corporate social responsibility affects firm value. Likewise in Fajriana's research, (2016) states that corporate social responsibility has an insignificant positive effect on firm value.

Furthermore, research by Purbopangestu & Subowo, (2014) shows that independent commissioners and CSR disclosure have a positive effect on firm value, while other factors have no effect on firm value. Manaj ownership

2. Literature Review

1.1. Agency Theory

This conflict of interest between the principal and the agent occurs due to the inability of the agent to always act in accordance with the interests of the principal, which in turn triggers agency costs (Jensen and Meckling, 1976). The incomplete information possessed by the principal compared to the agent or called asymmetrical information (information imbalance) also makes the agent have the potential to carry out an interest outside the interests of the principal, in particular the agent takes action in his own interest. Based on these agency problems, companies need a corporate governance mechanism to monitor management behavior and reduce asymmetrical information conditions and encourage increased company profitability.

1.2. Firm Value

Firm value (value of the firm) is reflected in the present value of all expected future company profits. The value of the company can be seen through the market value or the company's book value of its equity. Market value is the share price that occurs on the stock market and is determined by market participants at a certain time. Stock prices always change every day, even every second, stock prices can change. Therefore, market participants must be able to pay attention to the factors that affect stock prices (Bringham et al., 2019). Firm value is an investor's view of the company's level of success in managing company resources. The company's main goal is to maximize wealth (Kadek & Suardhika, 2016). Firm value is a certain condition that has been achieved by a company as an illustration of public trust in the company after going through a process of activity for several years, namely since the company was founded until now. Firm value can be measured using valuation ratios or market ratios. Rating ratio or market ratio, the ratio to measure market recognition of the financial condition achieved by the company.

1.3. Independent board of Commissioners

The independent board of commissioners is a supervisory board that comes from outside the company. The independent commissioner functions in order to ensure that the supervisory process is running effectively and in accordance with applicable regulations. As one of the corporate governance mechanisms, an independent board of commissioners must have better oversight of managers and be able to prevent possible irregularities by managers. In Indonesia, the Financial Services Authority (OJK) has regulated provisions regarding independent commissioners.

1.4. Profitability (Return On Equity)

Profitability is the most comprehensive ratio of all existing ratios and this ratio illustrates the company's ability to survive and be stable in continuing its operations in the future. This ratio is also used to assess the company's efficiency in using its assets and the company's efficiency in managing its operations. The profitability ratio shows the company's ability to earn profits by using the company's assets or capital. In general, profitability is a ratio or indicator for measuring and assessing a company's ability to generate profits in a certain period through managing its various resources, such as assets and capital in an effective and efficient manner. In research, the company's ability to manage assets and equity to generate profits is measured using Return on Equity (ROE).

ROE is an indicator of the returns available to company owners, namely common and preferred shareholders, for the capital invested in the company (Putra and Nuzula, 2017). The higher the ROE value, the better the performance of the company's management in managing the company's capital to obtain returns for shareholders.

1.5. Corporate Social Responsibility Disclosure

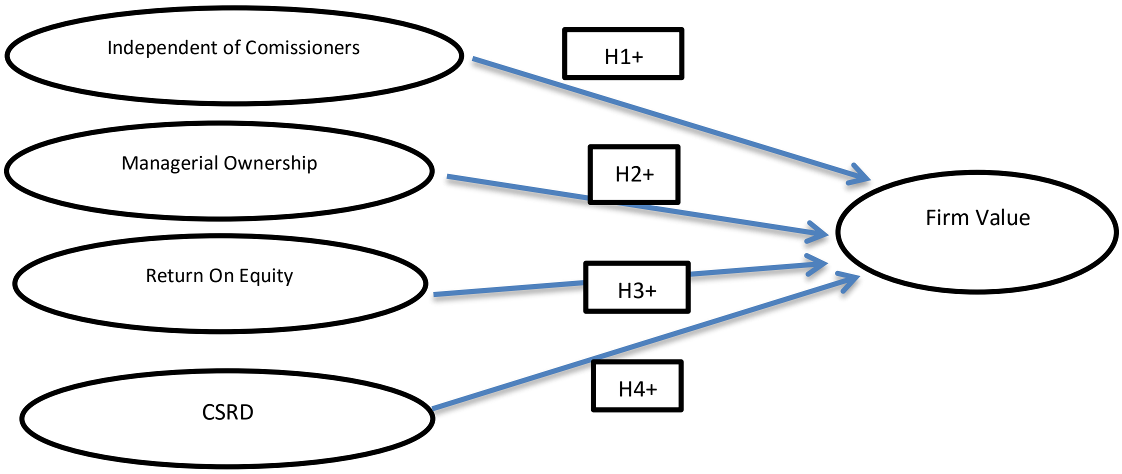
Disclosure of Corporate Social Responsibility (CSR) or what is often called social disclosure is the process of communicating the social and environmental impacts of an organization's economic activities to specific interest groups and to society as a whole. Disclosure is the release of information intended for interested parties. The purpose of disclosing corporate social responsibility is so that the company can convey the responsibilities that have been carried out by the company in a certain period.

Disclosure of Corporate Social Responsibility (CSR) can be disclosed by companies in the company's annual report media which contains reports on corporate social responsibility for the period of one year. In the annual report, the disclosure of Corporate Social Responsibility (CSR) is one of the company's ways to build, maintain, and legitimize the company's contribution from an economic and political perspective, as evidenced by the results of research in various countries which prove that reports (annual reports) are the right media for convey corporate social responsibility (Guthrie and Parker, 1990).

The government has issued regulations for companies to be able to disclose Corporate Social Responsibility in an annual report or sustainability report. This regulation is contained in Law No. 40 of 2007 concerning Limited Liability Companies (UU PT).

Based on the description above, the research model is as follows:

Figure 1. Research Model



3. Research Methods

The type of research used in this research is quantitative research. The population of this study are mining and energy sector companies listed on the Indonesia Stock Exchange (IDX) for the 2017-2021 period. The research sample is the entire population with a total of 135 observations. The type of data in this research is secondary data. Data analysis used in research testing is Multiple Regression Analysis by using SPSS as a tools.

4. Result and Discussion

4.1 Descriptive Statistics

The results of processing descriptive statistical data in this study are shown in the table below:Tabel 1 **Descriptive Statistics**

	N	Min	Max	Mean	Std. Deviation
Independen Commissioners	135	.16	1.54	.6561	.25317
Managerial Ownership	135	.00	.93	.1162	.17370
ROE	135	-.95	.85	.1164	.25220
CSRD	135	.44	1.17	.7962	.11653
Valid N (listwise)	135				

Sumber: Data diolah penulis. 2023

Table 1 shows the results of each variable. Based on Table 1, it is known that the number of samples (N) in this study was 135 samples. The Board of Commissioners has the lowest score of 0.16 and the highest score of 1.54 with an average value of 0.6561 and a standard deviation (level of data distribution) of 0.25317. Managerial Ownership has the lowest value of 0.00 and the highest value of 0.93 with an average value of 0.1162 and a standard deviation (level of data distribution) of 0.17370. Profitability as measured by ROE as an independent variable has the lowest value of -0.95 and the highest value of 0.85 with an average value of 0.1164 and a standard deviation (level of data distribution) of 0.25220. CSRD has the lowest value of 0.44 and the highest value of 1.77 with an average value of 0.7962 and a standard deviation (level of data distribution) of 0.11653.

4.2. Multiple Resression Analysis

Based on the results of processing the test data using Multiple Regression Analysis, the following results are obtained:

Tabel 2. *Moderated Regression Analysis*

$Y = \propto_0 + \propto_1 X_1 + \propto_2 X_2 + \propto_3 X_3 + \propto_4 X4 + e$

	Coeff.	Sig.	Keterangan
Cons.	.668	.000***	
Komisaris Independen	-.019	.004**	Hipotesis ditolak
Kepemilikan Manajerial	.121	.000***	Hipotesis diterima
ROE	.011	.060*	Hipotesis diterima
CSRD	-.584	.000***	Hipotesis ditolak
F	617.694	.000	
Adj R Square	.948		

Signifikansi : p < 0.01***, p< 0.05** dan p < 0.1*

Sumber: Data diolah penulis. 2023

H1. Independent Commisssioners on Firm Value

The results of multiple regression testing in the table above show a significance value of 0.04 <0.05 (alpha) with a negative coefficient value. This means that the Independent Commissioner has a negative influence on firm value. Thus the research hypothesis was rejected.

Based on the results of this study, it is stated that the existence of a large independent commissioner does not guarantee that the level of supervision and control of the company will be better and increased so that it does not have an impact on increasing the value of the company. In addition, the existence of an independent commissioner within the company is only limited to fulfilling regulations. The results of this study are in line with research (Poluan & Wicaksono, 2019) which shows that an independent board of commissioners has no effect on company value. However, the results of this study are in contrast to research (Astrinika & Sulistyanto, 2018) which shows that the independent board of commissioners has an effect on firm value.

H2. Managerial Ownership on Firm Value

The results of multiple regression testing in the table above show a significance value of 0.00 <0.01 (alpha) with a positive coefficient value. This means that managerial ownership has a positive influence on firm value. Thus the research hypothesis is accepted.

The number of shares owned by managers in the majority of companies has increased. The increase in management shares and outstanding shares makes decisions taken by managerial parties affect the value of the company. This research is not in line with research (Syafitri, Nuzula, & Ferina, 2018) which shows that managerial ownership has no effect on firm value. However, this research is in line with research (Astrinika & Sulistyanto, 2018) which shows that managerial ownership affects firm value.

H3. Profitability on Firm Value

Based on table 2, it is known that the results of multiple regression testing show a significance value of 0.060 <0.1 (alpha) with a positive coefficient value. This means that profitability as measured using ROE has a significant positive effect on firm value. Thus, the research hypothesis is accepted.

Thus a high return on own capital will have an impact on the company's high corporate value or the share value will increase. This result is in line with Lumoly et al. (2018) and Prasetyorini (2013) found a positive and significant relationship between ROE and firm value.

H4. Corporate Social Responsibility on Firm Value

Based on table 2, it is known that the results of multiple regression testing show a significance value of 0.060 <0.00 (alpha) with a negative coefficient value. This means that CSRD has a significant negative effect on firm value. Thus the research hypothesis was rejected.

CSRD has a negative influence on firm value, this can be due to the fact that disclosure of corporate social responsibility functions only to provide information to investors and enhance the company's image, which means that if a company provides disclosure of corporate social responsibility it does not guarantee that stock prices will be high and will affect the value of the company. This research is in contrast to research (Farida, Ramadhan, & Wijayanti, 2019) which shows that corporate social responsibility disclosure affects firm value.

5. Conclusion

This study aims to examine the factors that can affect company value in the mining and energy industries in Indonesia. The results of the analysis conclude that of the four factors used including independent commissioners, managerial ownership, profitability (ROE) and CSRD, only managerial ownership and profitability (ROE) have a positive and significant influence on firm value. However, independent commissioners and CSRD have shown results to have a negative influence on firm value.

Based on the results of the study, independent commissioners have a negative influence on firm value. The existence of a large independent commissioner does not guarantee the level of supervision that has an impact on increasing the value of the company. Therefore, the existence of an independent commissioner is only limited to fulfilling regulations.

Managerial ownership has a significant positive effect on firm value. This means that large management share ownership and outstanding shares make managerial decisions have an impact on firm value.

Profitability proxied by return on equity affects firm value. This shows that high profits will have a positive impact on firm value.

Corporate Social Responsibility disclosure has no positive effect on firm value. Thus, the lower the CSRD carried out by the company, the higher the value of the company will actually be. This shows that CSRD carried out by companies is only limited to fulfilling regulations that have been determined by Law on Limited Liability Companies No. 40 of 2007 only.

The implication of the results of this study is that companies need to pay attention to profitability (ROE) as a factor that can increase firm value, where ROE is a profitability ratio which is the rate of return from investment on all invested capital so that when ROE increases, investors will be interested in investing in company so that it will increase the market price of shares desired by investors.

6. References

1. Astrinika, R. Dan Sulistyanto, HS. (2018). Pengaruh Corporate Social Responsibility dan Mekanisme Corporate Governance terhadap Nilai Perusahaan. *Jurnal Ekonomi, Manajemen, Akuntansi dan Perpajakan*, Vol. 1(2).
2. Bringham, E.F dan J.F. Houston. (2019). Fundamental of Financial Management, 14th Edition. Salemba Empat. Jakarta.
3. Farida, F., Ramadhan, A., dan Wijayanti, R. (2019). The Influence of Good Corporate Governance and Corporate Social Responsibility on Firm Value: Evidence from Indonesia. International Journal of Economics and Financial Research. 177-183.
4. Guthrie, J., and Parker, L. (1990). Corporate Social Responsibility Disclosure practice: A comparative international analysis.
5. Harningsih, S., Agustin, H., & Setiawan, M. A. (2019). Pengaruh kinerja keuangan terhadap nilai perusahaan dengan pengungkapan csr dan kebijakan dividen sebagai variabel moderasi. *Ranah Research: Journal of Multidisciplinary Research and Development*, *1*(2), 199-209.
6. Indy, LA., Uzliawati, Lia. (2023). Managerial Ownership, Intellectual capital, Profitability and Firm Value: evidence in Banking Sector. *Asian Journal of Social Science and Management Technology*. Vol. 5 (1). 171-179.
7. Indy, LA., Uzliawati, Lia. (2023). Managerial Ownership, Profitability and Firm Value Agency Theory Perspective. *Enrichment Journal Of Management*. Vol. 13 (1). 619-626.

8. Innayah, S., Uzliawati, L., AS Yulianto. (2023). Intellectual Capital Disclosure and Profitability on Company Value in Banking. Enrichment: *Journal of Management*. Vol 13 (2), 1588-1594.
9. Jensen and Meckling. (1976). Theory of The Firm: Managerial Behavior, Agency and Ownership Structure. *Journal of Financial Economics*: 305-360.
10. Kadek, A., dan Suardhika, M.S. (2016). Pengaruh Struktur Kepemilikan Saham, Struktur Modal dan Proitabilitas pada Nilai Perusahaan. *E-Jurnal Ekonomi dan Bisnis* Universitas Udayana, Vol. 5(2). 201-218.
11. Mukhtaruddin, M., Ubaidillah, U., Dewi, K., Hakiki, A., & Nopriyanto, N. (2019). Good corporate governance, corporate social responsibility, firm value, and financial performance as moderating variable. *Indonesian Journal of Sustainability Accounting and Management*, *3*(1), 55â-64.
12. Poluan, SJ., dan Wicaksono, A.A. (2019). Pengaruh Pengungkapan Corporate Governance terhadap Nilai Perusahaan pada BUMN yang terdaftar di BEI periode 2013-2017. JIM UPB, Vol. 7(2).
13. Purbopangestu,H.W., & Subowo. (2014). Pengaruh Corporate Governance Terhadap Nilai Perusahaan dengan Corporate Social Responsibility sebagai Variabel Intervening. *Accounting analysis Journal.*
14. Putra, A.S. Dan Nuzula, N.F. (2017). Pengaruh Corporate Governance terhadap Profitabilitas. Jurnal Administrasi Bisnis. Vol 47(1), 103-112.
15. Saputra, W.S (2017). Pengaruh Corporate Social Responsibility dan Nilai Perusahaan. Jurnal Akuntansi Bisnis, Vol 10 (1).
16. Silviana, I., dan Krisnawati, A. (2020). Pengaruh Corporate Social Responsibility Disclosure terhadap Nilai Perusahaan pada perusahaan SUB sekctor Bank yang terdaftar di BEI tahun 2014-2018. *Jurnal Mitra Manajemen*, 102-113.
17. Syafitri, T.N.F. Nuzula dan F. Nurlaily. (2018) Pengaruh Corporate Governance Terhadap Nilai Perusahaan. *Jurnal Administrasi Bisnis*. Vol. 56 91). 118-126.
18. Uzliawati, Lia. (2015). Dewan Komisaris dan Intellectual Capital Disclosure pada perbankan di Indonesia. Jurnal Keuangan dan Perbankan. Vol 19 (2). 226-234.
19. Wiguna RA., and Yusuf, M. (2019) Pengaruh Profitabilitas dan Good Corporate Governance Terhadap Nilai perusahaan. Econbank: Journal of Economics and Banking, 1(2), 158-173.

INFO

Corresponding Author: Lia Uzliawati, Sultan Ageng Tirtayasa University, Indonesia.

How to cite this article: Lia Uzliawati, Dwi Septa Mulyani, "Corporate Governance Mechanism, Profitability, Corporate Social Responsibility Disclosure and Firm Value in Indonesia Mining and Energy Industry", Asian. Jour. Social. Scie. Mgmt. Tech.2023; 5(4): 186-192.