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Disclosure of corporate social responsibility (CSR) and its implications on company value as a result of the impact of corporate governance and profitability

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Abstract

Purpose – The purpose of this study is to examine the effect of corporate governance and corporate profitability on firm value with corporate social responsibility (CSR) disclosure as the intervening variable.

Design/methodology/approach – The population of this study was all companies listed in the LQ 45 Index group in the Indonesia Stock Exchange in 2013-2014. The inferential statistics used in this study applied the partial least square (PLS) based structural equation model (SEM) method with the assistance of SmartPLS 2.0. The PLS method was selected based on the consideration that there was a construct formed with reflective indicators in this study.

Findings – From the results of this study, it can be concluded that corporate governance does not have any effect on CSR disclosure, profitability of company has an effect on CSR disclosure, CSR disclosure has an effect on firm value. In addition, CSR disclosure does not mediate the effect of on firm value. These results showed that corporate governance can have an effect on firm value directly, and there is no role of CSR disclosure in mediating the effect of corporate governance on firm value, and profitability of company has an effect on firm value through CSR disclosure.

Originality/value – The originality of this research is on the reason that many studies that have been conducted still indicated the inconsistency in the results and diversity of the indicators, so that a similar research was conducted by involving the indicators used for measuring the corporate governance variable, which were the proportion of independent commissioners and audit committee. Meanwhile, for the profitability variable, return on assets and return on equity were used as the indicators.

Keywords Corporate governance, Profitability, CSR, Partial least square

Paper type Research paper

1. Introduction

One of the main objectives of the company is to increase the prosperity of the shareholders. The way to measure the level of prosperity of shareholders is through the company value. High increase in company value is a long-term goal that should be achieved by the company which will be reflected in the market price of its shares because investors' valuation of the company can be observed through the movement of stock prices of companies that are traded on the stock exchange for companies that have gone public. Samuel (2000) in Nurlela (2008) explained that firm value (EV) or also known as firm value is an important concept for investors, because it is an indicator for the market to assess the company as a whole. Therefore, a company has a responsibility in planning how to maximize the firm value, so that the company can remain trusted and in the interest of the shareholders.

Firm value is defined as the value required by investors to take investment decisions that are reflected in the company's market price (Husnan, 2007, p. 34) in Adhitya *et al.* (2016).

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Company value is investors' perception of the company's success rate which is closely related to its share price (Sujoko and Soebiantoro, 2007). The value of a company is basically measured from several aspects, one of which is the market price of a company's stock. As according to Nurlela and Islahudin (2008) which defines company value as market value. Because the value of the company can provide maximum prosperity for shareholders if the company's stock price increases. The higher the stock price, the higher the shareholder prosperity.

CSR is the commitment of a company to improve the welfare of communities through good business practices and to give contribution through some of its resources (Kotler and Nancy, 2005). In line with the rising *corporate governance* practices in the last ten years, *CSR* has become one of the growing *corporate trends*. Nevertheless, CSR is still debated, whether the investment in CSR is *value-enhancing*, *value-destroying* or perhaps *value-irrelevant* (William, 2012). However, not all companies listed in the Indonesia Stock Exchange disclose their CSR. An empirical research shows that CSR disclosure is influenced by several factors including *corporate governance* and profitability (Anggraini, 2006; Munawaroh, 2014; Pramana and Mustanda, 2016; Jizi *et al.*, 2014; Abriyani *et al.*, 2012).

According to OECD (2004), *corporate governance* is a system of control and supervision on a business entity that has a goal to achieve maximum performance without disserving its *stakeholders*. *Corporate governance* helps creating a conducive and accountable relationship between the board of commissioners, the board of directors and shareholders (Hutapea, 2013). The implementation of *corporate governance* in a company will determine the management and decision-making practices of the company, including those related to the CSR disclosure.

Profitability is the final result of a series of policies and decisions of the management, where these policies and decisions are related to the source and use of funds in carrying out the operation of the company which are summarized in the balance sheet and are the elements in the balance sheet (Brigham, 2001 in Agustina, 2013). Profitability is a factor that makes management free and flexible to disclose CSR to the shareholders [Heinze (1976) in Hackston and Milne (1996)]. Thus, the higher the level of corporate profitability, the greater the disclosure of social information [Bowman and Haire (1976) and Preston (1978) in Hackston and Milne (1996)].

In addition, companies that have a concern on the environment are considered to have more attention to the performance prospects of the company in the future, so that they will gain postive assessment by the investors. Therefore, a company with a high level of profitability will always strive to increase the disclosure of social activities conducted by the company as an attempt to convince the investors that the company does not only pay attention to the short-term goal (profit), but also to the long-term goal of increasing its firm value (Yuniasih and Wirakusuma, 2007) in Pramana and Mustanda (2016).

The purpose of this study is to examine the effect of *corporate governance* and corporate profitability on firm value with CSR disclosure as the intervening variable. There have been some previous researches conducted on the influencing factors of CSR disclosure (Anggraini, 2006; Munawaroh, 2014; Pramana and Mustanda, 2016; Jizi *et al.*, 2014; Abriyani *et al.*, 2012), as based on the previous research which showed that the CSR disclosure is influenced by several factors, such as *corporate governance* and profitability. Most of the previous researcher on CSR disclosure were more limited to find out the influencing factors of CSR disclosure and the effect of CSR disclosure on firm value (Agustine, 2014; Edmawati, 2012; Hartoyo, 2016; Pramana and Mustanda, 2016; Retno *et al.*, 2012; Rosiana *et al.*, 2013; Saedah, 2015; Agustina, 2013; Hadiyanti, 2016; Kurniasari and Warastuti, 2015).

The originality of this research is on the reason that many studies that have been conducted still indicated the inconsistency in the results and diversity of the indicators, so that a similar research was conducted by involving the indicators used for measuring the *corporate governance* variable, which were the proportion of independent commissioners and audit committee. Meanwhile, for the profitability variable, return on assets (ROA) and return on equity (ROE) were used as the indicators.

2. Literature review

2.1 Firm value

Firm value is the value needed by the investors in order to make decisions regarding their investment as reflected in the market price of the company (Husnan, 2007: 34) in Adhitya *et al.* (2016). Firm value is the perception of the investors towards the success rate of the company that is closely related to the stock price (Sujoko and Soebiantoro, 2007). The company aims to increase the firm value by increasing the wealth of the owners or shareholders. Firm value is basically measured from several aspects, one of the aspects is the market price of the stock of the company. According to Nurlela (2008), Firm value is defined as a market value, because the firm value of a company can provide maximum wealth to the shareholders if the stock price of the company increases. The higher the stock price, the higher the wealth of the shareholders.

There are several ratios used in measuring the market value of a company, such as *price-earnings ratio* (PER), *market-to-book ratio*, *market-to-sales ratio*, *Tobin's Q* and *price/cash flow ratio*. Each ratio provides information for both management and investors about different things. One of the assessed ratios to provide the best information is *Tobin's Q* or *Q ratio*, as it can explain various phenomena in the company's activities, such as the occurrence of *cross-sectional* differences in investment decision making and diversification (Claessens and Fan, 2003); the relationship between the stock ownership of management and firm value (Onwioduokit, 2002); the relationship between management performance and gain on acquisition (Gompers, 2003) and funding, dividend, and compensation policies (Imala, 2002).

2.1.1 Corporate social responsibility. CSR is a mechanism for an organization to voluntarily integrate environmental and social concerns into its operations and interaction with stakeholders, which exceeds the legal and organizational responsibilities (Darwin, 2004 in Anggraini, 2006). *The World Business Council for Sustainable Development* defines *CSR* as a business commitment to contribute to sustainable economic development, through collaboration with employees and their representatives, their families, local communities and public to improve the quality of life that is beneficial for both business and development. Another opinion by Kotler and Nancy (2005) in Hadiyanti (2016) stated that *CSR* is the commitment of a company to improve the welfare of communities through good business practices and to give contribution through some of its resources.

CSR is stated in a report called *Sustainability reporting*. *Sustainability reporting* is the reporting of economic, environmental and social policies, the effect and performance of the organization and its products in the context of *sustainable development*. *Sustainability reporting* includes reporting on economic, environmental and social effect on organizational performance (ACCA, 2004 in Anggraini, 2006). *Sustainability report* should be a high-level strategic document that places the issues, challenges and opportunities of *Sustainability development* that bring it into its core business and industrial sector.

2.2 Profitability

Profitability is the final result of a series of policies and decisions of the management, where these policies and decisions are related to the source and use of funds in carrying out the operation of the company which are summarized in the balance sheet and are the elements in the balance sheet (Brigham, 2001 in Agustina, 2013). The purpose of the establishment of a company is to make *profit*, then it is reasonable if profitability is a major concern of the analysts and investors. A consistent profitability rate will be able to survive in business by obtaining adequate returns compared to the risks Toto (2008) in Agustina (2013).

According to Petronila (2003) in Wahidahwati (2002) profitability is a description of the performance of management in managing the company. The size of profitability can be various such as: operating profit, net profit, return on investment/asset, and rate of return on equity. Ang (1997) in Wahidahwati (2002) stated that the ratio of profitability or rentability ratio shows the success of a company in generating profits. The profits which are worth to share to the shareholders are the profits after interest and taxes. The greater the profits, the greater the ability of the company to pay its dividends. The managers do not only earn dividends but will also gain greater *power* in making a company policy. Thus, the greater the *dividend pay out* the more the savings on capital, and on the other hand the more increasing the *power* of the managers (*insiders*) or even the more the increase in their ownership since the high dividend resulted from the high profit. Thus, profitability becomes an important consideration for investors in making any decision regarding their investments.

2.2.1 Corporate governance. Corporate governance is a process that is influenced by a set of legislations, regulations, legal, market mechanisms, standard listing, best practices and efforts of all organs of corporate governance, including corporate directors, officers, auditors, legal and financial advisors, which create a system of *checks and balances* which aimed at creating and enhancing the shareholder value, as well as protecting the interests of other *stakeholders* (Rezaee, 2009). According to Arifin (2005), there are many definitions of *corporate governance* which are influenced by the underlying theory. Company/corporation can be viewed from two theories as follows:

(1) shareholding theory; and
(2) stake holding theory.

Shareholding theory states that a company is established and operated for the purpose of maximizing the welfare of the owner/shareholder as a result of the investment performed. *Shareholding theory* is often referred to the classical corporation theory which was introduced by Adam Smith in 1776. The definition of *corporate governance* based on the *shareholding theory* proposed by Monks and Minow (1995) in Arifin (2005) is the relationship between various participants (owner/investor and management) In determining the direction and performance of the corporation. Another definition is proposed by Shleifer and Vishny (1997) in Arifin (2005) which states that *corporate governance* as a way or mechanism to convince the capital owners in obtaining results.

3. Methodology

The population of this study was all companies listed in the LQ 45 Index group in the Indonesia Stock Exchange in 2013-2014. The population was selected by the author, because in Indonesia, one of the indexes trusted by the investors is the LQ 45 Index which lists 45 most active companies in IDX that have the best ratings in terms of frequency of stock trading and financial performance. Thus, these companies will surely try to keep their reputations through CSR reporting. Therefore, the authors took the companies listed in LQ 45 index group in the Indonesia Stock Exchange as the object of study.

The inferential statistics used in this study applied the partial least square (PLS)-based structural equation modelling (SEM) method with the assistance of SmartPLS 2.0 (Solimun, *et al.*, 2017). The PLS method was selected based on the consideration that there was a construct formed with reflective indicators in this study. The variable or construct with reflective indicator assumes that the covariance between the model measurements is explained by the variant which is the manifest of the construct domain. The direction of the indicator is from the construct to indicator (Latan and Ghozali, 2012, p. 60). In this study, the construct of corporate governance was formed with two indicators, profitability was formed with two indicators and firm value was formed with two indicators.

4. Results and discussion

4.1 Descriptive statistics

The descriptive statistics analysis used in this study was to give an illustration or description of the research variables in the form of frequency distribution table which shows the minimum, maximum, *mean* and standard deviation values. The results of the descriptive statistical analysis are shown in Table I below.

From the descriptive statistics table above, it can be seen that the mean value of Tobin's Q is 2,70 with a minimum value of 0.37, a maximum value of 27.72 and a standard deviation of 3.98. While the mean value of PBV is 5.77 with a minimum value of 1.54, a maximum value of 34.15 and a standard deviation of 7.36. The mean value of CSR is 0.65 with minimum value of 0.6, a maximum value of 0.72 and a standard deviation of 0.04. Meanwhile, the mean value of the proportion of independent board of commissioners compared to the board of commissioners is 0.42 with a minimum value of 0.29, a maximum value of 0.8 and a standard deviation of 0.1. The mean value for the number of members of audit committee is 4 with a minimum value of 3, a maximum value of 8 and a standard deviation of 1.13. Then, the mean value of ROA is 10.53 with a minimum value of −1.40, a maximum value of 71.51 and a standard deviation of 10.51. The mean value of ROE is 20.65, with a minimum value of −6.38, a maximum value of 125.81 and a standard deviation of 20.51.

4.2 Results of data analysis

4.2.1 Measurement model (outer model). The measurement model or *outer model* shows the validity and reliability of the model. The *outer model* with reflective indicators was assessed through *convergent validity* and *discriminant validity* from the latent construct indicators and *composite reliability* for the indicators block (Chin, 1998 in Latan and Ghozali, 2012, p. 70).

4.2.1.1 Convergent validity. *Convergent validity* was assessed based on the result of the *loading factor* value. For *confirmatory* research, the *loading factor* value should be more than 0.7, while for *exploratory* research, the *loading factor* value between 0.6 – 0.7 is still acceptable. However, for the early stage study on the development of scale of the

Variables	*N*	Minimum	Maximum	Mean	SD
Tobin's Q	62	0.37	27.72	2.70	3.98
PBV	62	1.54	34.15	5.77	7.36
CSR	62	0.60	0.72	0.65	0.04
CG_Indp_Com	62	0.29	0.80	0.42	0.10
CG_Aud_Com	62	3.00	8.00	4.00	1.13
Proftb_ROA	62	−1.40	71.51	10.53	10.51
Proftb_ROE	62	−6.38	125.81	20.65	20.51

Table I.
Descriptive statistics

measurement, according to Chin (1998) in Latan and Ghozali (78, 2012), the *loading factor* value of 0.5 – 0.6 is still considered sufficient. The results of convergent validity test are presented in Table IV.

Based on the results of data processing using SmartPLS 2.0 M3 presented in Table II above, the result of *loading factor* has shown a value above 0.5. Thus, the indicators for *corporate governance*, profitability and firm value variables are not eliminated from the model. The indicators of each variable include, among others; the *corporate governance* variable composed by two indicators, namely, the proportion of independent commissioners and audit committee (Hartoto, 2016; Abriyani *et al.*, 2012; Jizi *et al.*, 2016); the profitability variable composed by two indicators, namely, ROA and ROE (Adhitya *et al.*, 2016; Anggraini, 2006; Hartoyo, 2016; Pramana *et al.*, 2016); furthermore, the firm value variable composed by two indicators, namely, PBV and Tobin's Q (Hadiyanti, 2016; Bidhari *et al.*, 2013).

4.2.1.2 Discriminant validity. For the reflective indicators, the *discriminant validity* was assessed by comparing the *square root AVE* for each construct with correlation value between the constructs in the model. If the value of the square root AVE for each construct is greater than the *latent variable correlations* in the model, then the model has a good *discriminant validity* value (Fornell and Larcker, 1981 in Latan and Ghozali: 79, 2012). The recommended AVE value must be greater than 0.5. This value means that 50 per cent or more variances of the indicators can be explained. The results of *discriminant validity* test are presented in Tables III and IV below.

From Table III above it can be seen that the AVE value for each construct has a value greater than 005. Meanwhile, for the value of *square root* AVE of each construct is 0.8085, 0.9674, 1 and 0.9022. Furthermore, based on the square root AVE values and the results of correlation between the constructs in the model shown in Table IV, the results show the followings:

- In CG variable, the value of square root AVE (0.8085) is greater than the correlation between CG and PROFTB (0.504), CSR (0.1146) and NILAIPERSH (0.5199) variables.

Variables	CG	PROFTB	CSR	FV
Audit_Com	*0.6434*	0.1666	0.1899	0.1982
Indpe_Com	*0.9451*	0.5417	0.0587	0.5496
ROA	0.3505	*0.9671*	0.4516	0.8135
ROE	0.6202	*0.9678*	0.3859	0.8569
CSR	0.1146	0.4327	*1*	0.6025
PBV	0.413	0.5721	0.6513	*0.8742*
TOBINSQ	0.5148	0.9413	0.4655	*0.9295*

Source: The results of PLS data processing

Table II.
Results of *loading factor*

Variables	AVE	Square root AVE
CG	0.6536	0.8085
PROFTB	0.9359	0.9674
CSR	1	1
FV	0.8141	0.9022

Source: The results of PLS data processing

Table III.
Results of AVE and *square root* AVE

- In PROFTB variable, the value of square root AVE (0.9674) is greater than the correlation between PROFTB and CG (0.504), CSR (0) and NILAIPERSH (0.8634) variables.
- In CSR variable, the value of square root AVE (1) is greater than the correlation between CSR and CG (0.1146), PROFTB (0.4327) and NILAIPERSH (0.6025) variables.
- In VALUEPERSH variable, the value of square root AVE (0.9022) is greater than the correlation between VALUEPERSH and CG (0), PROFTB (0.8634) and CSR (0.6025) variables.

The results above show that each construct has a good *discriminant validity* because it has an AVE value greater than 0.5 and the value of square root AVE is greater than the correlation between the constructs in the model.

4.2.1.3 Composite reliability. The reliability of a construct with the reflective indicators was assessed based on the results of *Composite Reliability*. According to Latan and Ghozali (79-80, 2012), the *rule of thumb* which is usually used for assessing the reliability of the constructs is that the value of *Composite Reliability* must be greater than 0.7 for *confirmatory* research and should be in a range 0.6 - 0.7 to be acceptable for *exploratory* research. The results of *composite reliability* are presented in Table VI below.

Based on Table V above, the *composite reliability* for each construct has shown a value above 0.7. It shows that each research construct is *reliable*.

4.2.2 Structural model (inner model). The structural model (*inner model*) was assessed by looking at the *R-Square* value for each endogenous latent variable as the predictor of the structural model. The *R-Square* value of 0.75 indicates that the model is strong, the *R-Square* value of 0.50 indicates that the model is moderate and the *R-Square* value of 0.25 indicates that the model is weak. The results of the PLS *R-Square* represent the number of variance of the constructs described by the model (Latan and Ghozali: 82, 2012). The results of *R-Square* using SmartPLS 2.0 M3 are presented in Table IV.6 below:

Variables	CG	PROFTB	CSR	NILAIPERSH
CG	1	0	0	0
PROFTB	0.5024	1	0.4327	0.8634
CSR	0.1146	0	1	0
FV	0.5199	0	0.6025	1

Source: The results of PLS data processing

Table IV. Results of *latent variable correlations*

Variables	Composite reliability
CG	0.7679
PROFTB	0.9667
CSR	1
FV	0.8966

Source: The results of PLS data processing

Table V. Results of *composite reliability*

Based on Table VI above, the *R-Square* value for CSR disclosure variable is 0.1934. This result shows that 19.34 per cent of CSR disclosure variable can be influenced by *corporate governance* and company profitability variables, while the rest 80.66 per cent are influenced by other variables. Furthermore, for firm value variable, it obtained *R-Square* value of 0.4007. This result indicates that 40.07 per cent of firm value variable can be affected by CSR disclosure variable, while the rest 59.93 per cent are influenced by other variables than the CSR disclosure.

The model in this research is said to be fit if supported by empirical data. As known, structural model's Goodness of Fit on PLS analysis in the form of predictive value-relevance (Q^2), computed based on the R^2 value of each endogenous variables. The value of Predictive-relevance (Q2) is $1 - (1 - 0.1934)(1 - 0.4007) = 0.5166$ or 51.66 per cent. That is, the model can explain the CSR and Firm Value at 51.66 per cent, while the remaining 48.34 per cent is explained by other variables outside the model. Based on Hair *et al.* (2011), show that the Q2 > 50 per cent indicate the model is moderate-fit and suitable for further analysis.

The basis used in testing the hypotheses is the value found in the output of *Path Coefficients (Mean, STDEV, T-Values)*. In order to see whether the proposed hypotheses are accepted or rejected, it can be seen from the result of *t*-statistics. The limit to reject or accept the proposed hypotheses is ±1.96 (*significance level* = 5 per cent) where if *t* statistics > *t* table [>1.96 (*two tailed)*], H_a is accepted and H_0 is rejected, but if *t* statistics < *t* table [> 1.96 (*two tailed)*], then H_0 is accepted and H_a is rejected. The results of *t*-statistics can be seen in *Path Coefficients (Mean, STDEV, T-Values)* Table below:

Meanwhile, the results of the illustration of *full structural equation model* in the data processing can be seen in the following Figure 1.

From Table VII above, it can be seen that: *first*, the value of *t* statistics for the effect of *corporate governance* on CSR disclosure is 1.*1989*. This value was then compared to the value of *t* table. The *t* statistics value is smaller than *t* table of 1.96 at the significance level 5

Table VI.
Results of *R-Square*

Variables	*R* square
CSR	0.1934
FV	0.4007

Source: The results of PLS data processing

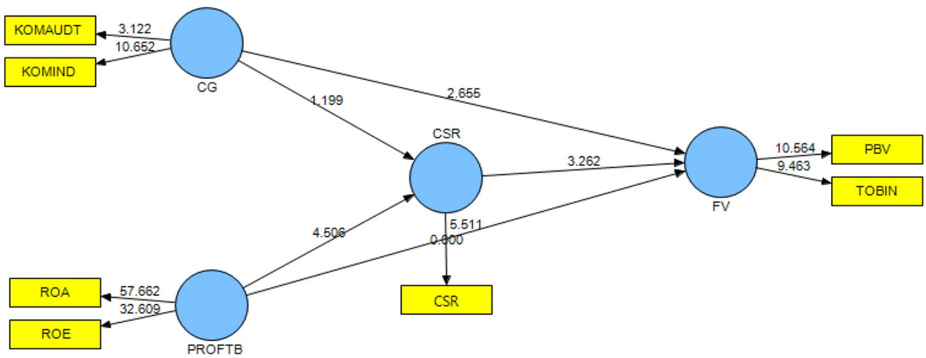

Figure 1.
Full structural equation model

per cent. Thus, based on the acceptance and rejection criteria of the hypothesis above, the results of this study rejected the first hypothesis which states that *corporate governance* has an effect on CSR disclosure.

Second, the value of t statistics for the effect of corporate profitability on CSR disclosure is 4.5059. This value was then compared to the value of t table. The t statistics is greater than t table of 1.96 at the significance level of 5 per cent. Thus, based on the acceptance and rejection criteria of the hypothesis above, the results of this study accepted the second hypothesis which states that the profitability of company has an effect on CSR disclosure.

Third, the value of t statistics for the effect of CSR disclosure on firm value is 3.262. This value was then compared to the value of t table. The t statistics is greater than t table of 1.96 at the significance level of 5 per cent. Thus, based on the acceptance and rejection criteria of the hypothesis above, the results of this study accepted the third hypothesis which states that CSR disclosure has an effect on firm value.

Fourth, what is proposed in this study is to examine the effect of *corporate governance* on firm value through CSR disclosure. The results of the test on the fourth hypothesis by using SmartPLS 2.0 M3 are presented in Table VIII below.

Based on Table VIII above, by using Sobel formula then the *standard error* of the indirect effect of *corporate governance* variable on firm value can be calculated as follows:

$$
\begin{aligned}
\mathrm{Sab} &= \surd\, \mathrm{b}^2 \cdot \mathrm{Sa}^2 + \mathrm{a}^2 \cdot \mathrm{Sb}^2 + \mathrm{Sa}^2 \cdot \mathrm{Sb}^2 \\
&= \surd\, (0,3015)^2 \cdot (0,1147)^2 + (-0,1375)^2 \cdot (0,0924)^2 + (0,1147)^2 \cdot (0,0924)^2 \\
&= \surd\, 0.0011959181822025 + 0.000161417025 + 0.0001123235389584 \\
&= \surd\, 0.0014696587461609 \\
&= 0,039
\end{aligned}
$$

Based on both calculations above, the *t-values* is:

Variables	Original sample (O)	Sample mean (M)	SD (STDEV)	Standard error (STERR)	T statistics (|O/STERR|)
CG → FV	0.1567	0.1571	0.059	0.059	2.6545
CG → CSR	−0.1375	−0.1374	0.1147	0.1147	1.1989
PROFTB → FV	0.6542	0.6379	0.1187	0.1187	5.511
PROFTB → CSR	0.5018	0.4932	0.1114	0.1114	4.5059
CSR → FV	0.3015	0.3108	0.0924	0.0924	3.262

Source: The results of PLS data processing

Table VII. Results of *path coefficients (mean, STDEV, T-Values)*

Variables	Original sample	Standard error	T statistics	T table	Conclusion
CG → CSR	−0.1375	0.1147	1.1989	1.96	Rejected
CSR → NILAIPERSH	0.3015	0.0924	3.262	1.96	Accepted
CG → NILAIPERSH	0.1567	0.059	2.6545	1.96	Accepted

Source: The results of PLS data processing

Table VIII. Results of the fourth hypothesis (H_4) test

$$t = \frac{ab}{Sab} = \frac{0,41}{0,039} = 1.052$$

From the calculation above, the *t-values* obtained is 1.052. The *t-values* lower than the value of *t* table of 1.96 at the significance level of 5 per cent. This indicates that the mediating parameter is not significant. Thus, based on the acceptance and rejection criteria of the hypothesis above, the results of this study rejected the fourth hypothesis which states that *corporate governance* has an effect on the performance of the company through CSR disclosure.

Fifth, what is proposed in this study is to examine the effect of characteristics of the company on firm value through CSR disclosure. The results of the test on the fifth hypothesis by using SmartPLS 2.0 M3 are presented in Table IV. 12 below:

Based on Table IX above, by using Sobel formula, the indirect *standard error* of profitability variable on firm value can be calculated as follows:

$$\begin{aligned} Sab &= \sqrt{b^2 \cdot Sa^2 + a^2 \cdot Sb^2 + Sa^2 \cdot Sb^2} \\ &= \sqrt{(0,3015)^2 \cdot (0,114)^2 + (0,5018)^2 \cdot (0,0924)^2 + (0,114)^2 \cdot (0,0924)^2} \\ &= \sqrt{0,00196 + 0,00215 + 0,000112} \\ &= \sqrt{0,003458} \\ &= 0,059 \end{aligned}$$

Based on both calculations above, the *t-values* is as given:

$$t = \frac{ab}{Sab} = \frac{0,15}{0,59} = 2,54$$

From the calculation above, the *t-values* obtained is 2.54, greater than the *t* table of 1.96 at the significance level of 5 per cent. It shows that the mediating parameters are significant. Thus, based on the acceptance criteria and the rejection of the hypothesis above, the results of this study accept the fifth hypothesis which states that the profitability of the company has an effect on the firm value through CSR disclosure.

Discussion

First, this study rejected the first hypothesis that *corporate governance* has an effect on CSR disclosure. There were two indicators used for measuring *corporate governance*, namely, the proportion of independent board of commissioners and audit committee. The proportion of independent commissioners and audit committee in the companies listed in LQ 45 may have

Table IX.
Results of the fifth hypothesis (H_5) test

Variables	Original sample	Standard error	*T* statistics	*T* table	Conclusion
PROFTB → CSR	0.5018	0.114	4.5059	1.96	Accepted
CSR → NILAIPERSH	0.3015	0.0924	3.262	1.96	Accepted
PROFTB → NILAIPERSH	0.6542	0.1187	5.511	1.96	Accepted

Source: The results of PLS data processing less effect on the CSR disclosure policy. CSR disclosure policy is mostly affected by the management of the companies, namely, the board of directors and board of commissioners, and supported by other *stakeholders*.

In addition, in Indonesia, there are many companies listed in the Indonesia Stock Exchange including those are listed in the LQ 45 index group of which shares are owned by family or are family companies, which results in high concentration of ownership. It may have an effect on *corporate governance*, where the functions of the independent board of commissioners and audit committee are limited to formality, not directly involved in corporate control and supervision. Thus, the *corporate governance* as measured by indicators of the proportion of independent commissioners and audit committee does not have any effect on CSR disclosure. The results of this study are in line with the results of the study conducted by Abriyani *et al.* (2012).

Second, the results of this study accepted the second hypothesis which states that the profitability of the company has an effect on CSR disclosure. There were two indicators used for measuring the profitability of the company, namely, ROA and ROE. ROA is referred to *Earning Power* because this ratio illustrates the profit of every rupiah of assets used. Through this ratio, it will be able to know whether the company has been efficient in utilizing its assets in the operational activities or not. Thus, the higher the value of this ratio, the better the condition of a company. A company that has a good financial performance will have more resources and funds to invest in social activities. It shows that the higher the profit obtained by the company and disclosed through ROA ratio, the more the CSR activities and disclosures conducted by the company.

In addition to ROA, ROE is the financial ratio used for measuring the level of profitability from the equity side. The higher the value of ROE, the better the performance of the company, since the increased ratio means a good management performance in managing the sources of operational financing effectively to generate net income. The better ROE value will reflect a good financial performance of the company to its stakeholders, and later, the stakeholders will encourage companies to make more positive contributions and report all of its social activities transparently into a more detailed and completed CSR disclosure. It shows that the higher the profit obtained by the company through ROE proxy, the more the CSR disclosure conducted by the company.

Thus, the profitability of a company measured by ROA and ROE indicators has an effect on CSR disclosure. The results of this study support the results of the studies conducted by Yuniasih *et al.* (2007) in Pramana *et al.* (2016), Hartono (2011), Mulyadi *et al.* (2012); and Haryanto *et al.* (2013).

Third, the results of this study accepted a third hypothesis that CSR disclosure has an effect on the firm value. CSR, as an idea of the company, is no longer confronted with the responsibility that is based on the *single bottom line*, which is the *firm value* reflected in the *financial* condition only, but also on the *triple bottom lines*. Here, the other *bottom lines* in addition to finance are the social and environment. Financial condition is not enough to guarantee the *sustainable* growth of the firm value. The firm value will be guaranteed to grow sustainably if the company takes into account the economic, social and environmental dimensions, since sustainability is a balance between economic, environmental and community interests. These dimensions are available in the implementation of CSR by the company as a form of responsibility and concern for the surrounding environment of the company.

The company will disclose an information if the information can increase its firm value, one of which is the CSR disclosure. CSR disclosure is the process of communicating the social and environmental impacts of the economic activities of the company on society. A company that has good environmental and social performances will get positive responses from the investors through the increasing stock price. If the company has poor environmental and social performances, it will raise the doubts from investors, so that it will get negative responses through the decline in stock prices. Thus, the implementation of CSR will increase the firm value, as can be seen from the stock price and profit of the company. There have been several studies conducted which also showed that CSR disclosure has an effect on firm value.

Thus, CSR disclosure will increase the firm value through the disclosure in terms of community welfare and environmental awareness that will improve the image of the company, so that finally will also increase the firm value. The results of this study support the results of the studies conducted by Adhitya *et al.* (2016), Edmawati (2012); Hartoyo (2012); Rosiana *et al.* (2013) and Hadiyanti (2016).

Fourth, the results of this study rejected the fourth hypothesis which states that *corporate governance* has an effect on the performance of the company through CSR disclosure. Firm value is the value needed by the investors in order to make a decision regarding their investments as reflected by market price of the company that is closely related to the stock price. The firm value can provide maximum shareholder wealth if the stock price of the company increases. The high stock price indicates a high firm value. In order to improve and retain the firm value, the management of the company needs to pay attention to the influencing factors of the firm value. Based on the results of this study, firm value can be directly influenced by *corporate governance* without CSR disclosure.

Corporate governance is a system of control and supervision on a business entity that has a goal to achieve maximum performance without disserving its *stakeholders*. *corporate governance* helps creating a conducive and accountable relationship between the board of commissioners, the board of directors and shareholders (Hutapea, 2013). The implementation of *corporate governance* in a company as indicated by the proportion of independent commissioners and audit committee will determine the supervision and control in the company that will have an effect on the management practices of the company by the management of the company. The management practices will determine the success of the company that will ultimately show the firm value. Thus, the *corporate governance* proxied by the proportion of independent commissioners and audit committee can have a direct effect on the firm value without CSR disclosure. It means that CSR disclosure is not able to mediate the effect of *corporate governance* on firm value.

Fifth, the results of this study accepted the fifth hypothesis which states that the profitability of the company has an effect on firm value through CSR disclosure. Profitability is a factor that makes management free and flexible to disclose CSR to the shareholders. Thus, the higher the level of corporate profitability, the greater the disclosure of social information. The higher the level of disclosure, the higher the level of corporate awareness on society that will encourage the management to make the company become *profitable* as indicated by ROA and ROE.

ROA is referred to *Earning Power* because this ratio illustrates the profit of every rupiah of assets used. Through this ratio, it will be able to know whether the company has been efficient in utilizing its assets in the operational activities or not. Thus, the higher the value of this ratio, the better the condition of a company. A company that has a good financial performance will have more resources and funds to invest in social activities. This shows that the higher the profit value obtained by the company and expressed through the ROA ratio will be more and more disclosure of CSR conducted by the company. It shows that the higher the profit obtained by the company and disclosed through ROA ratio, the more the CSR activities and disclosures conducted by the company.

In addition to ROA, profitability of a company is also indicated by its ROE. ROE is a ratio which indicates the ability of a company in generating net profit for the return on equity of the shareholders. ROE is the financial ratio used for measuring the level of profitability from the equity side. According to Helfert (2000), ROE always get attention from the shareholders since through this ratio, the shareholders will know how much the profit they will gain based on the stocks/shares invested to the management. Theoretically, the better ROE value will reflect a good financial performance of the company to its stakeholders, and later, the stakeholders will encourage companies to make more positive contributions and report all of its social activities transparently into a more detailed and completed CSR disclosure. Thus, profitability can increase the firm value through CSR disclosure.

5. Conclusions and suggestions

5.1 Conclusions

From the results of this study, it can be concluded that *Corporate Governance* does not have any effect on CSR disclosure, profitability of company has an effect on CSR disclosure, CSR disclosure has an effect on firm value. In addition, CSR disclosure does not mediate the effect of on firm value. These results showed that *Corporate Governance* can have an effect on firm value directly, and there is no role of CSR disclosure in mediating the effect of *Corporate Governance* on firm value, and profitability of company has an effect on firm value through CSR disclosure. These results showed that there is a role of CSR disclosure in mediating the effect of profitability of company on firm value.

5.2 Suggestions

The variables tested in this study were only limited to Corporate Governance, profitability of the company, and CSR disclosure, although there are still many other variables which are assumed to have some effect on firm value, Therefore, for further study, it is expected to increase or expand the variables which are assumed to have some effect on firm value, both as the mediator or have direct effect. on those listed in the LQ 45 index group in the period of 2013-2016, so that the results are still unable to generate for all companies, therefore, for further study, it is expected to expand the object of study to all companies listed in Indonesia Stock Exchange.

5.3 Implication

This study is expected to be able to provide empirical evidences and support the theory concerning the effect of *corporate governance* and Profitability of Company on CSR Disclosure as well as on the effect of CSR Disclosure on firm value. On side of the practitioners, this study is also expected to be able to provide recommendations for the management of company regarding the importance of CSR disclosure in increasing the firm value .

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