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The moderating effect of corporate governance to the relationship of corporate social responsibility and product market competition to company value

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Abstract. The objective of this research is to find out the moderating effect of corporate governance on the relationship of corporate social responsibility and product market competition to company value. The control variable in this study is company size. The sample of this study was 216 observations consisting of 54 manufacturing companies listed in the Indonesia Stock Exchange from 2016 until 2019. Moreover, the simple random sampling method is employed to grab them. To analyze the data, we use the multiple regression model with polling data. The findings of this research are product market competition negatively affects company value. In opposition, corporate social responsibility and corporate governance positively affect company value. Meanwhile, corporate governance only moderates the effect of product market competition on the company value. The implication of this study is that good corporate governance practices can reduce the negative effects of PMC on company value.

Keywords. company value, corporate governance, corporate social responsibility, product market competition.

1. Introduction

The Indonesia position tends to be better based on the ASEAN firm governance scorecard rank, reflected by the score from 62.88 in 2015 to 70.59 in 2017 (1). If compared with the Southeast Asia countries, the application of good governance in Indonesia is moderately left-behind. Therefore, the Indonesian financial service authority encourages the companies to manage their business well to sustain, as declared by Wimboh Santoso, the Financial Service Authority president commissioner (2). The company's failure to govern its business leads to low performance and liquidation, as the worst impact. This situation occurs in *PT Asuransi Jiwasraya (Persero)*, for illustration, failing to implement the governance principles, i.e., accountability, transparency, and responsibility, causing a financial scandal (3).

To support their sustainability, companies have to be responsible for their society (4). In Indonesia, this responsibility can be imperative or voluntary depends on the type of firm. According to Law No. 40/2007, the involuntary duty is for the companies managing natural

resources; however, the voluntary one is for the other firms. (5) explain the social responsibility actions should be documented in the company annual report to give more excellent value for the firm shareholders: reputation and relational improvement with society. Having this information is helpful to increase company value in the capital market.

Some studies are already done to investigate the impact of corporate social responsibility (CSR) on company value, for instances, (6); (7); (8); (9); (10); (11); (12); (13); (14). Unfortunately, their result is still inconsistent, as displayed along these lines.

- a. (6); (7); (9); (10); (11); (12); (13); (14); (15) find a positive impact of CSR on company value;
- b. (8); (13) show no influence CSR to company value.

Besides corporate social responsibility, another factor affecting company value is the product market competition (PMC), as displayed in the research of (16); (17); (18); (19); (20). Unfortunately, their result is still different, as exhibited along these lines.

- a. A positive impact is located by (17); (18); (19).
- b. A negative influence is found by (16); (20).

The research utilizing corporate governance (CG) to moderate the effect of corporate social responsibility (CSR) on the company value is done by (6); (13); (21). Unfortunately, their results are inconsistent. In her study, (13) cannot prove it, but (6); (21) can do it. Differently, the research employing corporate governance (CG) to moderate the impact of product market competition (PMC) on company value is rare [see (20), for example]. Fortunately, (20) can provide this effect.

Based on the unreliable facts mentioned and the rare finding of the moderating impact of CG on the influence of PMC on company value, this study appears to prove the inconsistent effect of corporate social responsibility and PMC on company value with corporate governance as a moderating variable.

2. Literature Review and Hypothesis Development

Corporate social responsibility (CSR) is the source for a company to get a competitive benefit (13) and a strategy to enhance its image (10). By this corporate social responsibility (CSR), according to the study of (6); (7); (9); (10); (11); (12); (14); (15) the company can get gratitude from the market, i.e., the increasing market price. Thus, the first hypothesis by referring to these explanations is as follows.

H₁: Corporate social responsibility has a positive effect on company value.

The tight competition in the product market causes the company to have high expenses. This situation will lead to unprofitable and affects its performance negatively (22). As a result, according to (16); (20), the market price will decrease. Thus, the second hypothesis by referring to these explanations is as follows.

H₂: Product market competition negatively influences company value.

By governing well, the company will increasingly monitor manager actions. This condition will create a low agency cost (23). As a consequence, according to (24); (25); (26) the market price will rise. By referring to these explanations; thus, the third hypothesis is as follows.

H₃: Corporate governance positively influences company value.

One of the excellent governance executions is corporate social responsibility. Indeed, when applying it, the company is more responsible to society; therefore, its total activities can increase its value. These statements are confirmed by (21); (6). Their study finds that corporate governance can moderate the influence of corporate social responsibility on company value. By referring to these explanations; thus, the fifth hypothesis is as follows.

H4: Corporate governance moderates the impact of corporate social responsibility on company value.

According to (20), corporate governance practices are the driver to create efficiency in a company. When implementing them well, the company can reduce high expenses from product competition in the marketplace. By referring to these explanations; thus, the fourth hypothesis is as follows.

H5: Corporate governance moderates the impact of product market competition on company value.

3. Research Method

This section contains some descriptions, i.e., measurement of the variable (see point 3.1), population and sample (see point 3.2), the method to collect data (see point 3.3), and to analyze data (see point 3.4).

3.1 Measurement of the variable

In this study, Tobin's Q measures the company value and becomes the explained variable. This measurement refers to the study of (27). Furthermore, we treat corporate social responsibility, product market competition, corporate governance, and company size to explain variables based on the following information.

- a. By mentioning (28), we use the percentage of the disclosed to required items based on the Guideline Content Index Standard of corporate social responsibility to measure the company responsibility activity.
- b. By denoting (20), we use the Herfindahl-Hirschman index to measure the product market competition (PMC).
- c. By indicating (29), we use the ASEAN Scorecard to measure corporate governance (CG).
- d. By indicating (20), we use total assets to measure company size as the control variable.

3.2 Population and Sample

The manufacturing companies in the Indonesian capital market from 2014 until 2016 become the population. The sample of this research is 54 companies with 216 units of analysis.

3.3 The method to collect data

The study uses secondary data; therefore, the archival method becomes appropriate (see (30)). The secondary data intended are:

- a. IDX Fact Books 2014, 2015, 2016, and 2017. Furthermore, they are utilized to determine the name and of the consistent companies between 2014 and 2016.
- b. The company sustainability reports from 2014-2016. Furthermore, they are used to measure corporate governance (CG) and corporate social responsibility (CSR).
- c. The company annual reports from 2014 to 2016. Furthermore, they are employed to know corporate governance (CG), corporate social responsibility (CSR) disclosure, and total assets.

3.4 The method to analyze data

In this study, we use the regression model with pooling data. This model can be seen in the following second and third equations. The second equation is helpful to facilitate the testing of hypotheses one, two, three. Meanwhile, the third is beneficial to facilitate the testing of hypotheses four and five.

$$\text{LOG(QTOBIN)}_{it} = \beta_0 + \beta_1 \text{PMC}_{it} + \beta_2 \text{CSR}_{it} + \beta_3 \text{CG}_{it} + \beta_4 \text{LOG(TA)}_{it} + \varepsilon_{lit} \dots \dots \dots \text{ (Equation 1)}$$

$$\text{LOG(QTOBIN)}_{it} = \lambda_0 + \lambda_1\text{PMC}_{it} + \lambda_2\text{CSR}_{it} + \lambda_3\text{CG}_{it} + \lambda_4\text{LOG(TA)}_{it} + \lambda_5(\text{CG*PMC})_{it} + \lambda_6(\text{CG*CSR})_{it} + \varepsilon_{2it} \dots\dots\dots(\text{Equation 2})$$

4. Result

Table 1 presents the regression model estimation result to test hypotheses one, two, and three.

- a. The probability of the t-statistic for CSR is 0.00000, and the sign of CSR is positive. Because this probability is less than 5%, the first hypothesis is acknowledged. Hence, corporate social responsibility positively affects company value.
- b. The probability of the t-statistic for PMC is 0.00000, and the sign of PMC is negative. Because this probability is less than 5%, the second hypothesis is acknowledged. Hence, product market competition negatively affects company value.
- c. The probability of the t-statistic for CG is 0.00000, and the sign of CG is positive. Because this probability is less than 5%, the third hypothesis is acknowledged. Hence, corporate governance positively affects company value.

**Table 1. The estimation result of regression model:
LOG(QTOBIN) = f (PMC, CSR, CG, LOG_TA)**

Variable	Coefficient	Std. Error	t-Statistic	Probability
C	-7.008837	1.459303	-4.802866	0.0000
CSR	2.703596	0.386683	6.991756	0.0000*
PMC	-1.715997	0.379554	-4.521083	0.0000*
CG	4.310765	0.729486	5.909315	0.0000*
LOG_TA	0.328368	0.118402	2.773334	0.0062*

Notes: PMC, CSR, CG, and LOG_TA are significant at 5%

Source: The Output of E-Views 6

Table 2 presents the regression model estimation result to investigate hypotheses four and five.

- a. The probability of the t-statistic for CG*CSR is 0.2902, and the sign of CG*CSR is positive. Because this probability is more than 5%, the fourth hypothesis is not acknowledged. Hence, corporate governance does not moderate the effect of corporate social responsibility on company value.
- b. The probability of the t-statistic for CG*PMC is 0.0147, and the sign of CG*PMC is positive. Because this probability is less than 5%, the fifth hypothesis is acknowledged. Hence, corporate governance can moderate the effect of product market competition on company value.

**Table 2. The estimation result of regression model:
LOG(QTOBIN) = f (PMC, CSR, CG, LOG_TA, CG*PMC, CG*CSR)**

Variable	<i>Restricted Model</i>		<i>Unrestricted Model</i>	
	Coefficient	Probability	Coefficient	Probability
C	-7.008837	0.0000	-3.832782	0.0376
CSR	2.703596	0.0000	0.013364	0.9957
PMC	-1.715997	0.0000	-8.154105	0.0024
CG	4.310765	0.0000	0.300608	0.0115
LOG(TA)	0.328368	0.0062	-1.200702	0.5636
CG*CSR	n.a.	n.a.	4.911584	0.2902
CG*PMC	n.a.	n.a.	12.62570	0.0147*
Adjusted R-squared	0.450660		0.470919	
Test of additional variables: CG*CSR, CG*PMC				
F-statistic	4.005924			

Source: The Output of E-Views 6**5. Discussion**

The first hypothesis is accepted: corporate social responsibility positively affects company value (see Table 1). Therefore, this study affirms (6) (7) (9) (10) (11) (12) (14) (15). It means corporate social responsibility can increase the firm value. In other words, the more items disclosed, the more satisfied the shareholders. The pleased shareholders will buy the stocks so that the company value in the capital market goes up.

Also, the second hypothesis is accepted: product market competition negatively affects company value (see Table 1). Therefore, this study confirms (16); (20). It means that many companies with high production costs in the market so that cannot compete. This situation causes the market value to go down.

Furthermore, the third hypothesis is accepted: corporate governance positively affects company value (see Table 1). Therefore, this study confirms (24); (25); (26). It means that by governing well, reflected by effectively monitoring managers, the company gets a positive market response from public shareholders.

Additionally, the fourth hypothesis is rejected, but the fifth hypothesis is accepted (see Table 2). It means corporate governance does not moderate the effect of corporate social responsibility on company value but can moderate the product market competition on company value. CG cannot moderate the influence of CSR on firm value because there are still companies that are sampled in this study that have not implemented the aspect of external responsibility. By refusing the fourth hypothesis that corporate governance moderates the impact of corporate social responsibility on company value corporate, this study is in line with (13). However, this study is in line with (20) by accepting the fifth hypothesis. This situation means when corporate governance is applied correctly; the competition can increase company value. By this good corporate governance, the managers are supervised by the commissioner board. Indeed, with knowledgeable supervisory board assistance, the managers get advice to run the company to solve the competition-related issues. Therefore, the company can go up the value in the capital market.

6. Conclusion

Once examining and conferring the hypotheses, this study deduces that corporate social responsibility and corporate governance positively affect company value. However, product-market competition negatively affects company value. The moderating effect of corporate governance only exists on the influence of product-market competition on company value.

The limitation of this study is the measurement of corporate social responsibility (CSR) and corporate governance (CG) which may result in bias-related to subjective considerations on CSR and CG items. The suggestion in this research is for further researchers who will examine CSR to use companies with the green industry category as research samples. Further researchers can also conduct research using company size as a moderating variable of the influence of PMC and CSR on company value.

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