

## CORPORATE CHARACTERISTICS ON FIRM VALUES WITH MODERATION OF GOOD CORPORATE GOVERNANCE

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**Abstract:** This study aims to analyze the moderating role of good corporate governance with the interaction of earning management, corporate social responsibility and debt policy on firm value in the perspective of agency theory and signaling theory. This study used a purposive sampling method with a total sample of 65 go public companies registered with The Indonesian Institute of Corporate Governance in the form of the corporate governance perception index (CGPI) for the period 2019 - 2021. The hypothesis test used is multiple regression analysis with an interaction moderation model. The results of the study prove that earning management has no effect on firm value, CSR has a positive effect on firm value, debt policy has a negative effect on change values, good corporate governance has not been proven to strengthen the effect of earning management on firm value, good corporate governance has been shown to strengthen the effect of CSR on firm value. company. On the other hand, good corporate governance is proven to weaken debt policy on firm value.

**Keywords:** earning management, corporate social responsibility, debt policy, firm value, good corporate governance

### INTRODUCTION

One of the considerations for investors to invest is to obtain firm value. Firm value is a long-term goal which is reflected in stock price movements. The process of maximizing firm value is vulnerable to conflicts of interest between managers and shareholders which is called the agency problem. This condition occurs when the agent has goals and other interests that conflict with the main goals of the shareholders. This difference in interests between managers and shareholders results in conflict. This happens because managers prioritize personal interests, whereas shareholders are not in harmony with the interests of managers because these actions increase costs, causing a decrease in company profits and affecting value impairment (Adiyanto, 2008).

The existence of such conditions requires the arrangement of good corporate governance by implementing good corporate governance (GCG) so that it is beneficial to increase and maximize the value of the company. GCG is expected to be able to balance various interests that can provide benefits for the company as a whole (Heally and Wahlen, 1999). Managers view agency problems as having flexibility in choosing alternatives to increase firm value. This flexibility makes it possible to be able to adapt to the economic situation faced by the company. This will benefit stakeholders and signal investors

by manipulating the available options and making the right choices to achieve the expected profit level (Dyah, 2010). This action leads to earnings management. Earning management can reduce the credibility of financial reports when used for decision making, because it is a form of manipulation of financial statements which is a means of communication between managers and external parties of the company. In general, studies on earning management are stated in an opportunistic perspective compared to an efficiency perspective (Scott, 2006).

All company decisions have consequences with social responsibility and obligations to society. This attitude of responsibility costs money and lowers profits. The form of corporate social responsibility (CSR) is an action in repairing social inequalities and environmental damage that occurs as a result of the company's operational activities. The more forms of accountability a company takes towards its environment, the firm's value will increase (Reny 2012). This also increases consumer loyalty so that in the long run sales increase and profitability also increases and ultimately the value of the company will increase.

The value of the company can be known if it is above or below the book value. Therefore, managers need to find alternatives to determine strategies so that stock prices continue to rise and make investors believe in the company's future prospects (Wijaya, 2008). One policy that is very sensitive is the debt policy. Debt policy is an instrument that is very sensitive to changes in company value. Modigliani and Miller (1976) and Subari (2012) say that firm value is determined by capital structure, the higher the proportion of debt, the higher the stock price. The desire of investors as company owners is for companies that have high value and can show prosperity to shareholders (Rustiarini, 2010).

Crutchley and Hansen (1989) and Harahap (2010) say that the use of debt is expected to reduce agency conflicts. The addition of debt in the capital structure can reduce share prices thereby reducing the agency costs of equity. On the other hand, the company has the obligation to return the loan and pay interest expense periodically. Jensen (1986) and Subari (2012) see the agency problem of free cash flow, namely the availability of money that managers can use for activities after all investment projects that generate positive net present value are implemented.

An increase in debt can reduce the free cash flow that these funds are diverted to pay debt interest and debt principal. In addition, there is an increase in debt, so the company's funding needs do not need additional shares (outside equity). Control mechanisms with the presence of creditors in the company's capital structure can certainly increase supervision and limit the space for management. But the greater the debt, the greater the possibility of inability to pay interest and principal obligations. This will raise the risk of bankruptcy even higher because the interest will increase higher than the tax savings (Ludwinda, 2011). On the other opinion, Ludwina (2012) also stated that companies that carry out debt policies will increase the value of the company because they get additional funds from external parties. Therefore, companies must be very careful in determining debt policies because increased use of debt will reduce the value of the company (Fitri 2010).

Research related to the role of GCG conducted by Dyah and Priantinah (2012) found that CRS disclosure has a positive effect on the value of companies registered with the Indonesian Institute of Corporate Governance (IICG). Effective GCG implementation and CSR disclosure can improve the company's reputation. In contrast, Subari's research (2012) shows that (CSR) has no effect on corporate value and GCG has not been shown to play a moderating role. Herawaty (2008) found that earnings management has a significant effect on firm value. GCG is not fully consistent with the predictions that are expected to increase the value of the company. The CG mechanism referred to in the form of managerial ownership is not proven to moderate the effect of earning management on firm value in minimizing earnings management actions. In contrast, Sutrisno (2010) found that earnings management has no effect on firm value, but the GCG mechanism has a positive effect on earnings management and firm value.

Research results support that the GCG mechanism has a significant relationship to earnings management such as Midiastuty and Machfoedz (2003); Wedari (2004); Boediono (2005); and Sutrisno (2010). Earning management practices by managers will affect the level of profit which in turn affects the value of the company. While GCG will affect the relationship between earning management and firm value. These results are supported by Ayu (2010). In contrast, Subari (2012) and Sutrisno (2010) found that earnings management does not affect firm value moderated by GCG.

Harahap and Wardhani (2010) found that GCG was not proven to play a role in moderating the effect of debt policy on firm value. There are several findings from previous researchers that are still diverse, making this issue still an interesting topic for research. The existence of good GCG implementation is expected to minimize agency conflicts between principals and agents so as to increase the value of the company.

This study uses an agency theory approach in analyzing the role of GCG as a moderator in influencing earnings management, CSR, debt policy on firm value. The results of this study are expected to broaden insight and knowledge about the implementation of good corporate governance which is based on agency theory. So that you get a real picture of the theory in practice. Through the arrangement of good and healthy governance is expected to increase the value of the company.

The agency theory approach in understanding corporate governance is expected to be able to explain the agency relationship in a contract between investors and agents (Jensen and Meckling, 1976; Fama and Jensen, 1983; and Darmawati et al, 2004). Setyapurnama and Norpratiwi (2010) state that agency relationships can cause problems when the parties concerned have different goals. The owner of capital wants increased wealth and prosperity, while the manager also wants the welfare of the managers to increase.

The agency relationship perspective is the basis used to understand corporate governance. Subari (2012) states that agency theory uses the assumption of human nature as humans will act opportunistically, namely prioritizing their personal interests to get bonuses. The manager as the manager of the company knows more about internal information and future prospects of the company than the owner.

This causes the emergence of a conflict of interest between the investor (principal) and the manager (agent). Owners are more interested in maximizing the return and price of securities as an investment, while managers have broad psychological and economic needs, including maximizing their compensation. Contracts made between owners and managers are expected to minimize conflicts between the two interests (Herlina, 2009). Alijoyo and Zaini (2004) argue that the separation of executive and supervisory functions in agency theory creates checks and balances, resulting in healthy independence for managers to produce maximum company performance and adequate returns for shareholders.

Good corporate governance, which is a concept based on agency theory, is expected to function as a tool to provide confidence to investors that they will receive a return on the funds they have invested. GCG relates to how investors believe that managers will benefit them, confidently that managers will not steal or embezzle or invest in unprofitable projects related to funds/capital invested by investors, and relates to how investors control managers (Shleifer and Vishny, 1997) and Subari (2012). Concretely, in other words, good corporate governance is expected to function to suppress or reduce agency costs.

The essence of the agency relationship is the need to improve contracts that are able to explain what specifications managers must carry out in managing investors' funds, and specifications regarding the distribution of returns between managers and shareholders (Shleifer and Vishny, 1997; and Subari, 2012). Ideally, investors and managers should sign a complete contract, which specifies exactly what the manager will do, and how company profits will be allocated. However, managers do not always act in accordance with the contracts agreed between investors and managers, which will cause agency problems.

## Hypothesis

Managers know more about internal information and future company prospects than owners, causing information asymmetry. The existence of asymmetry between management and owners will lead to conflict, for that managers do earning management to increase firm value and reduce conflict. Sloan (1996) and Herawati (2008) examined the nature of the information content of the accrual component and cash flow component whether it was reflected in stock prices. It is proven that the earnings performance derived from the accrual component as a earning management activity has a lower persistence than cash flow. Reported profit is greater than operating cash flow which can increase the current value of the company. Ayu (2010) found that earnings management has a significant positive effect on firm value, meaning that earnings management can increase firm value.

### *H1: Earning management has a positive effect on firm value*

Corporate social responsibility, including the company's involvement in various social activities, is a positive value for long-term development and business continuity. Companies that carry out social responsibility activities will be assessed by the community as positive actions. Disclosure of social responsibility will improve the company's image. The bigger the company carries out CSR activities, the more the company's existence will be accepted by the community, this shows a high sense of responsibility or empathy. This condition proves that the company has good performance and is able to manage its business through social responsibility. This situation will attract investors to invest in the company so that the stock price will increase and the company's value will also increase. Nahda (2011), carrying out social responsibility properly will increase employee goodwill so that labor problems will be reduced, and consumers will be more loyal and loyal to the company's products and have an impact on increasing the company's positive image. CSR can improve relations between companies and important constituencies such as banks, investors and governments that provide economic guidance. Rustiarini (2010) found that CSR disclosure has an effect on firm value.

### *H2: Corporate Social Responsibility has a positive effect on firm value*

The addition of debt will increase the risk level of the company's income stream, where revenue is influenced by external factors while debt creates a fixed burden regardless of the amount of income. The greater the debt, the greater the possibility that the company will be unable to pay its fixed obligations in the form of interest and principal. Bankruptcy risk will be higher because the interest will increase higher than the tax savings. The results of research conducted by Mulianti (2010) show that increasing debt will increase obligations that must be borne by companies such as interest expenses. The debt interest increases more than the tax savings which can increase the probability of bankruptcy, causing negative perceptions of investors. This will reduce the market price of the stock which will ultimately reduce the value of the company.

### *H3: Debt policy has a negative effect on firm value.*

Management takes opportunistic actions through earning management practices, with the aim of increasing corporate value. The existence of a GCG mechanism will limit earnings management because of the control mechanism within the company. Herawaty (2008) explains that companies that implement a GCG system are believed to limit opportunistic earnings management. Therefore, the higher the GCG, the greater the proportion of independent commissioners, managerial ownership, the less likely earnings management is carried out, so that the negative relationship between GCG and earnings management can weaken the influence between earnings management and firm value. Subari (2012) found that the GCG variable has a significant effect on the relationship between earning management and firm value.

### *H4: Good corporate governance weakens the effect of earning management to firm value*

Nahda (2011) states that CSR practices and disclosures are a logical consequence of the implementation of the GCG concept. The implementation of CSR is one illustration of management performance in managing the company. The better the corporate governance, the higher the social disclosure so that the impact on the achieved corporate value will be higher. GCG mechanisms and structures can be used as supporting infrastructure for CSR practices and disclosures because they can reduce information asymmetry which, if it occurs, can lead to moral hazard. The existence of a GCG mechanism will be useful in managing and controlling the company so as to create added value for all stakeholders. Denies (2012); and Subari (2012) found that GCG strengthens CSR disclosure on firm value. These results indicate that good GCG implementation and and high CSR disclosure can improve the company's reputation.

### *H5: Good corporate governance strengthens the effect of corporate social responsibility on firm value*

GCG provides assurance that investors will obtain adequate returns on the funds invested in the company. GCG will increase the efficiency and credibility of the capital market as an investment alternative, so that in general the implementation of GCG is believed to increase the

performance or firm value (Siallagan, 2006). GCG is expected to function to suppress or reduce agency costs, to provide confidence to investors that they will receive returns and make investors believe that managers will provide benefits, and will not invest in unprofitable projects. This situation shows GCG as a means of controlling investors on management.

GCG implementation in the company will have an impact on decision making on company policies such as leverage, dividends, compensation and others. The manager (agent) will try to be loyal to the principal goal, namely the prosperity of shareholders. In setting a debt policy, it will trigger an agency conflict. Opportunistic behavior of agents has the potential to direct policies that only benefit themselves. However, this can be minimized by implementing GCG. This will reduce the opportunities for managers to behave deviantly and enrich themselves so that the value of the company and the prosperity of the shareholders will increase. Harahap (2011) found that GCG has proven to play a role in weakening debt policy on firm value.

*H6: Good corporate governance weakening the effect of debt policy on firm value*

## RESEARCH METHODS

The population in this study are all companies registered with The Indonesian Institute of Corporate Governance during 2019 - 2021. The selected sample uses a purposive sampling technique by setting the following criteria:

1. Included in the ranking conducted by The Indonesian Institute of Corporate Governance (IICG) in the form of the Corporate Governance Perception Index (CGPI) published by SWA media.
2. Publish an annual report (annual report) ending December 31 during the year of observation.
3. Include a social responsibility report in the annual report and sustainability report during the observation period

The research uses secondary data obtained from the annual reports of companies going public on the IDX, the website [www.idx.co.id](http://www.idx.co.id), and the survey results of The Indonesian Institute of Corporate Governance in the form of the Corporate governance perception index published by SWA media. Information on social disclosure is obtained from the sustainability report obtained through bloomberg. The research was conducted from 2019 to 2021 because researchers wanted to find out to what extent companies comply with issuing sustainability reports because they have been required by the OJK where previously it was still voluntary.

## Operational and Variable Measurement Earning Management

Earning Management is an act of intervention by management in the process of determining company profits to fulfill personal gains/interests, that this activity is an indication of earnings manipulation to show information that is happening in the company. Earnings management is proxied by discretionary accruals using the modified Jones model (Dechow et al 1995) and (Herawaty: 2008).

$$TAC = NI_{it} - CFO_{it}$$

The total accrual value (TA) is estimated with the OLS regression equation as follows:

$$\frac{TA_{it}}{A_{it-1}} = \beta_1 \left( \frac{1}{A_{it-1}} \right) + \beta_2 \left( \frac{\Delta Rev_{it}}{A_{it-1}} \right) + \beta_3 \left( \frac{PPE_{it}}{A_{it-1}} \right) + e$$

Using the regression coefficient above, the value of non-discretionary accruals (NDA) can be calculated using the following formula:

$$DA_{it} = \beta_1 \left( \frac{1}{A_{it-1}} \right) + \beta_2 \left( \frac{\Delta Rev_{it}}{A_{it-1}} - \frac{\Delta Rec_{it}}{A_{it-1}} \right) + \beta_3 \left( \frac{PPE_{it}}{A_{it-1}} \right) + e$$

$$DA_{it} = \frac{TA_{it}}{A_{it-1}} - NDA_{it-1}$$

Where:

- NDA<sub>it</sub> = Non-Discretionary accruals of company i in year t  
 DA<sub>it</sub> = Discretionary accruals of company i in year t

TAit	=	Total accruals (total accruals) of company i in year t
At-1	=	Total assets (total assets) 1 year before t
ΔREVit	=	Revenue of Company I in period t
ΔRECit	=	Net Receivables I in period t
PPEit	=	Total gross fixed assets of company i in period t
β1, β2, β3	=	Regression coefficient
e	=	Error

### Corporate Social Responsibility (CSR)

Corporate Social Responsibility (CSR) is a business commitment to contribute to sustainable economic development, through collaboration with employees and their representatives, their families, the local community and the general public to improve the quality of life. CSR measurement proxy using social score. Herlina & Sarwanti's research (2009); and Subari (2012), adjusted Hacston and Milne's 90 disclosure items to 78 disclosure items based on Bapepam-LK regulation no.VIII.G.2 to be applied in Indonesia into 7 categories:

1. Environmental themes as many as 13 items
2. Energy theme as many as 7 items
3. The theme of labor health and safety is 8 items
4. Other themes regarding workforce as many as 39 items
5. Product themes as many as 10 items
6. The theme of community involvement is 9 items
7. The general theme is 2 items.

### Debt Policy

The debt policy includes the company's external funding policy. Debt policy through the Debt Equity Ratio (DER) is one measure of solvency that shows the ability of the company's own capital to fulfill all of its obligations. This ratio shows the ability of the company's own capital to fulfill all of its obligations. Ludwinda (2010), uses a proxy debt policy by dividing total debt by total equity. Measurement in this study uses: Debt to Equity Ratio (DER), namely total debt divided by total equity. DER is used to measure the level of use of debt to the total shareholder's equity the company.

$$DER = \frac{\text{Total Hutang}}{\text{Total Ekuitas}}$$

### Good Corporate Governance (GCG)

Good Corporate governance are the principles applied by companies to maximize corporate value, improve company performance and contribution, and maintain the company's sustainability in the long term. GCG consists of the board of directors, managers, shareholders and other stakeholders. GCG is measured using an instrument that has been developed by The Indonesian Institute of Corporate Governance (IICG) in the form of the Corporate Governance Perception Index (CGPI) which contains survey scores regarding the implementation of GCG in companies that have been listed on the IDX.

### Firm Value

Firm value is a value that reflects the price that investors are able to pay for a company which is reflected in the stock market price (Nurainun and Sinta, 2009). An increase in company value is usually marked by an increase in stock prices on the market. The proxy for calculating firm value uses Tobin's Q which was developed by James Tobin (1967) and Darmawati et al. (2004). Firm value proxied by Tobin's Q is calculated by the following formula:

$$\text{Tobin's } Q = \frac{\text{MVE} + \text{DEBT}}{\text{TA}}$$

Information:

MVE	=	closing price x shares
DEBT	=	Total Company Debt
TA	=	Total Assets

Furthermore, testing H1, H2 and H3 uses regression analysis by using the variable regression equation earning management, CSR, debt policy and GCG on firm value. Whereas to test H4a, H4b and H4c also use regression analysis with interaction variables through the absolute difference value test, namely finding the absolute value of the moderating variable and the independent variable. To test H4a, namely by regressing the results of the absolute value of the absolute difference in the interaction between GCG and CSR variables on firm value. Whereas to test H4b, that is by regressing the results of the absolute value of the absolute difference in the interaction between the relationship between GCG and earnings management on firm value. As well as to test H4c, namely by regressing the results of the absolute value of the absolute difference in the interaction between GCG variables and debt policy on firm value.

**ANALYSIS AND DISCUSSION**

Table 1 describes the magnitude of the central tendency of each of the following research variables.

Table 1 Descriptive Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
EM	65	-1.60	.21	-.07743	.060640
CSR	65	.28	.70	.63071	.127635
KH	65	.22	.91	.69402	.235527
CG	65	.69	.91	.82359	.063566
NP	65	.38	7.96	5.49422	1.287028
Valid N (listwise)	65				

Source: Secondary data processed, 2022

Table 1 shows the lowest EM value of the 65 companies are -1.6, namely PT Adhi Karya (Persero) Tbk and the maximum value is shown at 0.21, namely PT Bank ICB Bumiputera Tbk, while the average value disclosed shows -0.07 with a standard deviation value of 0.06. So that companies that practice earnings management are relatively small.

CSR shows that out of 65 companies the lowest score was 0.28, namely PT Jasa Marga (Persero) Tbk and the highest value indicated was 0.7, namely PT Bank Mandiri (Persero) Tbk. While the average value shows 0.53 with a standard deviation of 0.13. This shows that there are relatively many companies that disclose Corporate Social Responsibility.

Testing debt policy data shows that out of 65 companies there are companies that have a minimum value, namely PT Aneka Tambang (Persero) Tbk with a value of 0.22 and companies that have a maximum value of PT Bank Tabungan Negara (Persero) Tbk with a maximum value of 0,91. While the average value of the debt policy is 0.69 while the standard deviation is 0.23. So that the company's debt policy is relatively high.

Corporate governance shows that the 65 companies tested show the lowest score, namely 0.69, namely PT Bakrie Telecom Tbk and the highest score is 0.91 in the company PT Mandiri (Persero) Tbk. Meanwhile, the average value shows 0.82 with a standard deviation, thus proving that the implementation of corporate governance is relatively high.

Firm value data shows that the lowest value is 0.38, namely in the company PT Bakrieland Development Tbk and the highest value with a total of 7.96, namely in the company PT Astra Otoparts Tbk. The table shows the average value of the company's value is 5.49 with a standard deviation value of 1.28. So the company value is relatively high.

The normality test requirements need to be fulfilled to show that the data is normally distributed, with Skewness and Kurtosis values of 1.07 and 0.3. The results of ZSkewness and ZKurtosis calculations are far below the table values, namely <2.58 (significant 1%) and <1.96 (significant 5%) so that the skewness and kurtosis tests can clarify that the residual data is normally distributed.

Furthermore, the multicollinearity test to determine the correlation between independent variables can be detected by comparing the tolerance value and variance inflation factor (VIF). These two measures show which independent variables are explained by other independent variables. the regression model will detect multicollinearity if Tolerance < 0.10 and VIF > 10. If this is the case, it is certain that the regression model does not have a correlation between the independent variables. The results of the multicollinearity test show that the correlation between

independent variables shows the value of CSR, EM, KH, CG, AbsEM\_CG, AbsCSR\_CG, and AbsKH\_CG shows a tolerance value > 0.10 and VIF value < 10, so it has been ascertained that the independent variables in this study do not have multicollinearity problems because there is no correlation between the independent variables.

The model suitability test can be seen in the coefficient of determination shown in the Adjusted R Square in table 2 below.

Table 2 Determination Coefficient Test

Model	R	R Square	Adjusted RSquare	Std. Error of the Estimate
1	.665a	.442	.310	.35972

a. Predictors: (Constant), ABSKH\_GCG, Zscore(KH), ABSEM\_GCG, Zscore(EM), Zscore(GCG), ABSCSR\_GCG, Zscore(CSR)

b. Dependent Variable: NP

Source: Secondary data processed, 2022

Table 2 shows the Adjusted R Square of 0.310, meaning that the firm value proxied by NP can be explained by the seven variances of 31.0% and the remaining 69.0% is explained by other variables not included in the regression model. The results of the model suitability test also measure the goodness of fit, it is concluded that the regression model is feasible or fit, shown in table 3 below.

Table 3 F Test Results

Model	Sum of Squares	Df	Mean Square	F	Sig.
1 Regression	2.183	7	.321	3.410	.034a
Residual	4.658	49	.138		
Total	6.841	56			

a. Predictors: (Constant), ABSKH\_GCG, Zscore(KH), ABSEM\_GCG, Zscore(EM), Zscore(GCG), ABSCSR\_GCG, Zscore(CSR)

b. Dependent Variable: NP

Source: Secondary data processed, 2022

The results of the F test show that the calculated F value is 3,410 and is significant at 0034. This means that the variables CSR, EM, KH, CG, AbsEM\_CG, AbsCSR\_CG, and AbsKH\_CG simultaneously affect firm value. So it can be concluded that the overall research model is declared feasible or fit because the significant value is 0.034 < 0.05

The results of multiple regression analysis as a result of hypothesis testing are shown in Table 4 below.

Table 4 Hypotesis Test

Model	Unstandardized Coefficients				
	B	Std. Error	t	Sig.	
1	(Constant)	.742	.135	6.968	.000
	EM	.057	.061	.944	.351
	CSR	.167	.072	2.341	.035
	KH	-.272	.068	-2.529	.016
	CG	.122	.060	2.188	.047
	EM_CG	-.074	.064	-1.146	.259
	CSR_CG	.141	.088	2.235	.040
	KH_CG	.132	.089	-2.209	.046

a. Dependent Variable: NP

Source: Secondary data processed, 2022

Referring to table 4, the regression equation can be formulated as follows:

$$NP = 0,742 + 0,057 EM + 0,167 CSR - 0,272 KH + 0,122 CG - 0,074 EM\_CG + 0,141 CSR\_CG + 0,132 KH\_CG + e$$

The earning management variable in table 4 shows a t count of 0.944 with a significant positive direction of 0.351. So it can be concluded that earnings management has no effect on firm



value, so that **H1 is rejected**. Corporate social responsibility has a t count of 2.341 and a significant positive direction of 0.035. So it can be concluded that corporate social responsibility has an effect on firm value, so that **H2 is accepted**. The debt policy has a t count of -2.529 and a significant value of 0.016. It is concluded that the debt policy has a significant negative effect on firm value, then **H3 is accepted**. The AbsEM\_CG interaction has a tcount of -1.146 and a significance of 0.259. It is concluded that moderating the EM\_CG interaction is not proven to weaken earnings management on firm value, so **H4 is rejected**. The AbsCSR\_CG interaction has a tcount of 2,335 with a significance of 0.040. Tests prove that moderating the AbsCSR\_CG interaction strengthens the effect of CSR on firm value, so that **H5 is accepted**. Finally, the KH\_CG interaction has a tcount of -2.209 with a significance of 0.046. This test also proves that the moderation of the KH\_CG interaction is proven to weaken the effect of debt policy on firm value, so that H6 is accepted.

The first hypothesis (H1) shows that if managers practice earning management, there will be a decrease in the value of the company on stock prices. Earning management can generate agency costs which are triggered by differences in interests between shareholders and company management. Management has more information than shareholders, resulting in information asymmetry that allows management to practice profit-oriented accounting to achieve certain performance. Agency conflict resulting in opportunistic management which will result in all reported earnings being incorrect, which will cause the company's value to decrease. This finding does not support the agency theory that the existence of earnings management creates misleading information between management and owners which can trigger conflict. Managers have the flexibility to choose the method of recording transactions and freely because they understand more about the company's prospects and internal conditions than the owner. This finding is supported by Herawati (2008) and Sutrisno (2010) who stated that earning management has no significant effect on firm value, meaning that the use of earning management will reduce firm value and the use of earning management is not a strategy to increase firm value.

The second hypothesis (H2) shows that CSR information as social responsibility to company value gets a good response from the community. Communities feel the benefits of social activities carried out by corporations. This is able to improve the image and trust of the public ultimately increase the value of the company. These findings support the agency theory that managers and shareholders have the same access to information. Social activities will provide information signals to outsiders, so as to increase the value of the company. This finding is in line with Yuniasih & Wirakusuma (2009); and Rustiarini (2010) that investors in Indonesia have considered socially responsible information in investment decisions.

The third hypothesis (H3) shows that debt policy reduces the value of the company because this action increases the risk of bankruptcy for the company and ultimately reduces the value of the company as a result of reducing the market value of debt or bonds that have not yet matured. These findings support the agency theory that the use of large external funds will increase the risk of bankruptcy costs. This condition also causes shareholders and debt holders and agents to have different attitudes of principals towards business risk. So that the debt policy has the effect of reducing the value of the company. This finding is in line with Mulianti (2010) that increasing debt will increase interest expense obligations. Debt interest increases more than tax savings which can lead to potential bankruptcy. This lowers the market price of the stock which in turn reduces the value of the company

The fourth hypothesis (H4) proves that good corporate governance does not play a role in strengthening the effect of earning management on firm value. This proves that good corporate governance can improve the company's system, but it turns out that management is able to take advantage of existing regulatory loopholes to carry out earnings management so that financial performance is seen as good. Such conditions indicate that the implementation of GCG has not been fully implemented. This finding does not support the agency theory that management cannot act in the best way for the public interest in general and shareholders in particular. The results of the study are in line with Herawaty (2009) and Sutrisno (2010) that the role of good corporate governance is not able to prevent fraud caused by earning management actions. As a result, the practice of good corporate governance can show the actual situation so that the practice of earning management is easier to find out about problems that will occur and management will look for

other ways to manage earnings.

The fifth hypothesis (H5) shows that good corporate governance strengthens the influence of CSR on firm value. This explains that one of the objectives of implementing GCG is to direct corporate responsibility to society and the environment. This activity aims to optimize the value of the company while taking into account other stakeholders. Effective implementation of GCG will encourage companies to carry out CSR to improve and enhance the company's reputation. These findings support the agency theory that social activities are carried out with the hope of improving communication, awareness, and maintaining the company's existence in the community, thereby giving a signal to outsiders thereby increasing the company's reputation and value. The findings are supported by Reny (2006) and Rustiarini (2010) that GCG strengthens the influence of CSR on company value, and proves to restore/enhance image in society, the company's internal and external environment.

The sixth hypothesis (H6) proves that the role of GCG weakens the relationship between debt policy and firm value. Good corporate governance will reduce excessive debt policies, and is beneficial for increasing the value of the company because the cost of paying interest on debt can be allocated to other activities that are more useful for increasing the value of the company. Ownership of assets that are greater than debt, investors will be more trusted to invest their funds in the company. These findings support the agency theory that the implementation of GCG has an impact on decision making on corporate debt policy. Managers try to increase the value of the company through debt, whereas the principal tries to minimize debt so that excessive interest installment payments do not occur because it can reduce shareholder prosperity. These results are supported by Harahap's research (2011) that effective GCG practices can help reduce company value when debt loans are on a large scale. The same support is also provided by Fitri (2010) explaining that increasing debt policy will reduce the value of the company in ineffective governance.

## CONCLUSION

This study aims to analyze the role of GCG in influencing earnings management, CSR, and debt policy on firm value. It can be concluded that earning management has no effect on firm value. On the other hand, CSR has a positive effect, while debt policy has a negative effect on firm value. The role of GCG is not proven to moderate the effect of earning management on firm value. While GCG is proven to strengthen the effect of CSR on firm value, conversely GCG is proven to weaken the effect of debt policy on firm value.

Weaknesses or deficiencies found after analysis and interpretation are limitations to research results, including the limited number of samples of go public companies registered at The Indonesian Institute of Corporate Governance (IICG) using the Corporate Governance Perception Index (CGPI) published by SWA media. Furthermore, each CSR disclosure item has the same weight value. The results of this study have a low coefficient of determination, meaning that the model's ability to explain is still limited.

The research implications of providing information to investors in investing in companies that adhere to responsible and quality GCG implementation so that investors feel safe. These findings also serve as input for capital market regulators to determine company compliance in implementing quality governance and financial reports. The company will be more open and more communicative with the community to increase the role of GCG in carrying out CSR activities that lead to an increase in firm value.

Based on the results of the analysis as well as some conclusions and limitations in the research, the recommendations are considered so that future research can get better results, namely the need to increase the number of samples by looking for complete data according to research needs. It is necessary to extend the observation to five years. Furthermore, adding other variables such as investment decisions and the need to develop financial performance proxies such as SROI.

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