Corporate Social Responsibility Policies and Value Creation: Does Corporate Governance and Profitability Mediate That Relationship? (Revised)

by Josua Tarigan

Submission date: 26-Mar-2019 06:59AM (UTC+0700)
Submission ID: 1099758262
File name: GCG_CSR_VC_Rev5.docx (1.27M)
Word count: 5841
Character count: 33832

Corporate Social Responsibility Policies and Value Creation: Does Corporate Governance and Profitability Mediate That Relationship?

ABSTRACT

With a purpose to give a deep understanding relating to the manifestation of social responsibilities practices among Indonesian companies, this paper reflects the relationship of corporate social responsibility (CSR), corporate profitability (CP), value creation (VC) and good corporate governance (GCG). Kinder, Lydenberg, and Domini's (KLD) measurement approach is used in this study to measure the social responsibility practices as this gives cross-border analysis of social responsibility. Corporate Profitability captures return on assets which is accounting-based measurement, whereas value creation explains the economic value added which is shareholder-based measurement. Structural Equation Model (SEM) analysis is conducted for Indonesian listed companies which appeared in Corporate Governance Perception Index (CGPI). The empirical result suggests that CSR serves as a tool in assisting shareholders value and performance. Accordingly, firms should incorporate CSR practices to enhanced its strategic investment and sustain a strong relationship with its stakeholders. Subsequently, management should also take concern of having good corporate governance in order to improve company's performance by supervising and monitoring of the company's operation, ensure the fulfillment to the stakeholder's interest.

Keywords *Kinder Lydenberg and Domini's, Economic Value Added, Return on Assets, Corporate Governance Perception Index.*

JEL Classification: M4, Q5, G3

1. Introduction

In the traditional perspective, it is believed that business objective is to maximize the shareholder's wealth. However, as business grows, society come up with different perspective on how organization should operates. In this case, companies should shift from the mindset of enriching only shareholders to focusing on all the stakeholders, including environmental sustainability and community welfare. It is also becoming more important for companies to fulfill the environmental expectation in order to gain its reputation which further influence the firm's performance (Vargas, 2016).

Corporate social responsibility is considered to relate to corporate governance as governance is positively associated with the environmental strength of a firm (Stuebs and Sun, 2010). Not only that, previous study describes that good corporate governance could not able to increase reputation and performance of the company without also doing social responsibility practices (Chalise, 2014). Recent studies have also analysed the relationship of CSR and corporate governance from environmental performance perspective. The result shows a positive correlation on the study (Stuebs and Sun, 2010). This is because Corporate governance highlights the framework to form an environment which are transparent, accountable and trusted. It also refers to how companies are being directed and controlled to avoid disputes between agents and investors and ensure that funds managed by agents are used accordingly (Detthamrong, Chancharat & Vithessonthi, 2017).

However, looking at the enforcement of CSR in Indonesia, this has been just a voluntary disclosure for many years. Meanwhile, starting from July 2007, Indonesian government has enforced a new regulation regarding CSR practices disclosure for natural resources companies. Thus, CSR practices has not been engaged by a number of companies in Indonesia. Therefore, based on the importance of the variables, this study is the aims to analyse the relationship of CSR policies and company's performance using corporate governance (CG) as intervening variable. Hereinafter, this is the first study that attempts to give a deeper analyses regarding implementation of CSR practices. Insights obtained from this study may contribute to both theories and real practices of CSR policies. It could be done to improve the CSR understanding and management literature, as well as answering questions by different individuals or corporates regarding CSR, CG and firm's performance.

2 Literature review and hypothesis

2.1 *Corporate social responsibility and corporate profitability*

Many studies have been done to analyse the effect of CSR, including towards company's profitability. Corporates' profitability refers to the analysis of the ability of company to generate income. In this study, return on assets (ROA) is used to analyze the overall effectiveness of company's ability to generate profit with its assets (Gitman & Zutter, 2012). Since customers may have different perspectives on the implementation of CSR policies, CSR becomes an important element to build and maintain corporate's reputation and profitability, as well to increase competitive advantage of the company (Park, 2017; Devie et al, 2019). Hence, companies that intend to enhance their reputation should focus on providing products with better quality that is able to satisfy their customers (Park et al, 2014). Therefore, good social reputation will lead to increase of sales, especially to customers that are sensitive to social and environmental issues, thus increase corporate profits (Khojastehpour & Johns, 2014). Profitable and large firms are also found to have a higher CSR disclosure in their reports (Muttakin, Khan & Subramaniam, 2015). Moreover, there have been several studies done worldwide to analyse the impact of CSR on different company's outcome including profitability. Yet, many have questioned as to whether the CSR implemented that incurred costs has created more benefits to it. However, this relationship between CSR and CP still creates confusion and different results especially inconsistency between develop and developing countries. Among all the previous studies explained in the summary table of previous researches, the positive relationship between CSR and corporate profitability can be mostly seen and found (LaGore, Mahoney & Thorne, 2013; Yu and Choi, 2014; Cheung, 2010). Thus, this research study comes up with the following hypothesis.

H1: CSR policies has a positive impact on corporate profitability

2.2 *Good Corporate Governance to corporate's profitability*

The practice of companies' corporate governance creates a system for managing, monitoring and overseeing the whole resources of the company cost-effectively and functionally (Jackling and Johl, 2009). Corporate governance is established to preserve the different interests of company's stakeholders that could give advantages for the company. A company with a highly elevated Corporate Governance Perception Index (CGPI) indicates that it is managed with lucidity, responsibility, accountability, equity and independency. Consequently, the impact can be seen on the results of good corporate performance, such as ROE, ROA and EPS (Gompers et al, 2003). Some previous studies using similar governance index, discovered that companies with more powerful stakeholder rights are likely to produce higher profits. Sheikh et al. (2013) also discovered a positive association between company performance and board size.

H2: GCG has a positive impact on corporate profitability.

2.3 *Corporate social responsibility and Good Corporate Governance*

Corporate social responsibility (CSR) is recently a critical component of companies and their stakeholders and persists to gain attention on the top of the corporate strategy. Previous study discloses that stronger commitments to CSR significantly and positively explain the prerequisites and provisions of directors, boards that put forth strong stewardship and strategic leadership roles, and the management of capital market hassles, and that these different features combined compose the distinguishing characteristics of good corporate governance (Lock & Seele, 2015). Hence, CSR actively searches for a larger equilibrium or consistency between profit and ethics, which is consistent with corporate governance mechanism. Besides, corporate social responsibility is considered related to corporate governance as governance is positively related to environmental strengths of a firm (Stuebs and Sun, 2010). Moreover previous study shows that good corporate governance could not increase reputation of the company without social responsibility practices (Chalise, 2014). Recent studies have also analysed the relationship between CSR and corporate governance from environmental performance perspective. The result showed a positive correlation between CSR and corporate governance (Stuebs and Sun, 2010). In this case the documentation of CSR performance of a firm has given benefits to support the corporate governance improvement effort of a company.

H3: CSR policies has a positive impact on good corporate governance.

2.4 Corporate profitability and value creation

In the recent years, the influence of profitability or performance on firm value has gained much attention in many studies. In the competitive environment, companies are trying their best to sustain in the industry by optimizing their cost in order to gain more profit for their operations. Besides, management starts to concern about its investment plans to maximize shareholder's wealth and firm value (Chen, 2011). Understanding the relationship of profitability and value creation is also important to financial decision making of the firm. Some researches have also proven the positive correlation between profitability and firm value (AlNajjar & Belkaoui, 1999; Crisóstomo et al, 2011; Osazuwa & Che-Ahmad, 2016). It was proven that as the firm profit got greater, more earnings would be distributable to shareholders. This is also in line with the agency theory about the management ability in managing assets in order to maximize profit, creating shareholder's trust to company's quality of management. Thus, the higher the financial performance, the higher the value of the company.

H4: CP has a positive impact on Value creation

2.5 Corporate social responsibility and value creation

A new method to measure firm's performance through value creation, is known as economic value added (EVA). EVA is relevant for measuring the firm's performance as this tells us how much the companies have created wealth for the stakeholders and how efficient the management has utilized the capital from the stakeholders. It is also known as economic profit, which is believed to be a special way of measuring profit. This is because EVA is measured taking account into all the opportunity or cost of the capital invested in the business (Steward, 2014). Relating to CSR, CSR strategies need to be developed in order to have a proper CSR policy that is essential to satisfy the firm's goals. It is crucial to pay more attention to actives that may add scores to company's value. If the company is showing a positive VC, this also means that the company is working align with the corporate social responsibility. Besides, CSR creates value to the firm as the firm could be able to differentiate them from the competitors and also to reduce its costs. As the firm is having adequate management, this creates also value for the business and society. This shows the positive correlation between the company investment in CSR and the value creation of the firm (Green & Peloza, 2011). Likewise, there was also found to be a positive relationship between CSR and share price among companies in UK, especially those with an environmentally sensitive industry such as electricity, mining, and gas. Accordingly, the second hypothesis made for this research study is:

H5: CSR policies has a positive impact on value creation.

2.6 Good Corporate Governance and Value Creation

Corporate governance includes making sure that shareholders wealth as well as the other stakeholders are being taken into account in the management operation. This is also to prevent the corporate fraud and illegal accounting measure. Thus, value creation should be considered as to have a good corporate governance. Previous studies have found that significant corporate governance effect the greater shareholder's rights which by higher profit, sales growth and firm value (Gompers, Ishii, & Metrick, 2003). Some other researches are also showing different result for companies that implement good corporate governance in developed, developing and underdeveloped countries. Positive relations are found between good corporate governance practices with company's value (Klapper and Love, 2002; Black, Jang, and Kim, 2006).

H6: GCG has a positive impact on value creation.

2.7 Corporate social responsibility, good corporate governance and corporate profitability

The stakeholder theory defines that companies should do CSR practices as to fulfil their responsibility to stakeholders and able to maximize financial strength of the company. Supporting this, the corporate governance is describing as the intervening variable, strengthening the relationship of CSR and Corporate Profitability (CP). Besides, companies should have good corporate governance in addition to implementation of CSR practices, in order to give positive impact to the performance. This is because the importance of corporate governance take concern the welfare of all stakeholders, not only shareholder. Previous researchers also found positive relationship between CSR and performance (Salama, Anderson and Toms, 2018; El Ghoul et al., 2011; Lourenco et al., 2011). In addition to this, some also did research on the potential impact on CSR practices on firm's sustainability and resulted in corporate governance positively effecting CSR disclosure (Li et al., 2010)

H7: GCG could mediate the relationship between CSR policies and corporate profitability

2.8 Corporate social responsibility, good corporate governance and value creation

CSR could be considered as activities that create values for improving the firm's reputation, which further lead to improvement of economic performance of the company. CSR not only creates financial benefit to the company, but also strategic advantage. By engaging in social responsibility practices, firms can gain trust and goodwill from stakeholders, which is also a competitive advantage (Kolk and Pinkse, 2010). Research suggested that CSR activities would enhanced firm's image and reputation (Vanhamme et al., 2012). CSR policies help in increasing the company's value and satisfy its goals. Companies doing CSR practices creates positive Value Creation (VC) for the company. EVA which is a measurement of value created or lost is used to measure the performance and value creation made within the company. There is no previous research done regarding the relationship of CSR policies and value creation through GCG as intervening variable.

H8: GCG could mediate the relationship between CSR policies and value creation.

3. Research methodology

3.1 Sample

For the analysis of this study, as Structural Equation Model (SEM) is used. This model analysis covers gathering of secondary data, testing of hypothesis and evaluation of variable correlations. The sample of the study involves firms that are consistently listed as having good corporate governance by SWA-Magazine and Indonesia Institute for Corporate Governance (IICG) in 2016 and 2017. This study makes use of secondary data, including annual report, Bloomberg terminal and company's website.

Table I Summary of the sample observed

Sampling Criteria	*No. of Companies*
Companies listed in CGPI in the year 2016 and 2017 by SWA Magazine and IICG	39
Companies that were not consistently listed as having GCG in year 2016 and 2017	(13)
Companies that do not publish complete annual report in the required period	(10)
Number of companies which fulfill the criteria	16
Total sample used in the research (16 x 2)	32 firm-year

From the population of 39 companies included in the Corporate Governance Perception Index (CGPI) in 2016 and 2017, there are 23 companies that were not included for this research as the companies did not fulfilled the requirement of the research. It was those companies not consistently listed in CGPI and not publishing a complete annual report in the required period. Hence, there are 16 companies which fulfil the criteria and was the number of the companies observed. All samples that is used in the research are 32 reports derived from 16 companies multiplied by 2 years of observation.

3.2 Measures

Corporate Social Responsibility (CSR)

CSR policies is measured using Kinder, Lydenberg, and Domini's (KLD) method, chosen as a basic of CSR level. This measurement has been widely used in previous leading management journals (Nguyen and Nguyen, 2015; Li et al, 2010; Jo and Na, 2012; Devie et al, 2019). KLD provides benchmarking in 5 areas of CSR issue relevant to Indonesian companies, including diversity, community, environment, employee relation and products. In each of the KLD measurement, there are strengths and concerns. The strengths are considered to be positive CSR policies implemented, while concerns are as negative CSR policies implemented. If a company has a strength or even a concern, this would be given a "1" or "-1" On the other hand, companies without any would be indicated with a "0". After scoring the 5 qualitative areas, the total score of strength and concerns should be calculated in order to get Net CSR.

Value Creation

EVA spread is used as the mesurement of value creation. EVA is a performance measurement to calculates the residual income from subtraction of additional charge from net operating profit after tax (Steward, 2014), which take into account cost of capital and cost of equity. EVA aims to figure out the economic profit of a company.

Corporate Profitability

Return on Asset (ROA) is used as the measurement of profitability. This is calculated by dividing net income by average total assets. ROA is also known as the overall effectiveness of company's management in generating profits with its assets (Gitman & Zutter, 2012). ROA is widely used measurement of profitability in environmental studies (Nguyen & Nguyen, 2015; Park, 2017; Devie et al, 2019)

Good Corporate Governance

This research has been using GCG as the intervening variables. The GCG was measured using the measurement of Corporate Governance Perception Index (CGPI) that was published by IICG and SWA Magazine. This then had a scale of 0-100 values. CGPI score with the predicate "very trusted" for companies with scores of 85-100, "trusted" for companies with scores 70-84, and "quite reliable" for companies with a score of 55-69. The higher the score a company can get, the better the application of corporate governance is considered to be.

Table II Variable definitions and data source

Variable(s)	*Definitions*	*Data Source*
CSR Policies	Difference between total strengths score and total concerns score	Annual and Company' Websites
Corporate Profitability (ROA)	Percentage of net income over total assets	Annual Report and Bloomberg terminal
Value Creation (EVA)	Total of Net Operating Profit After Tax divided by the invested capital deducted by the weighted average of cost of capital	Bloomberg
Good Corporate Governance	Score of good corporate governance by SWA Magazine and IICG	SWA Magazine

3.3. Model

This study helps to analyze the relationship of CSR to Firm's performance in a positive, negative or neutral way as well as the role of corporate governance (CG) as intervening variable that alters financial performance. A multivariate statistical model is used through validity, reliability, and collinearity tests (Kock, 2015). Validity test consists of convergent validity and discriminant validity test for each of the indicator.

Table III Combined loadings and cross-loadings

Indicator	CSR	GCG	CP	VC	P value
CSR	1.00	0.00	0.00	0.00	<0.001
CG	0.00	1.00	0.00	0.00	<0.001
ROA	0.00	0.00	1.00	0.00	<0.001
EVA	0.00	0.00	0.00	1.00	<0.001

The table above shows that all the factor loading value of each indicators are all above 0.5. These value means that all indicators of CSR, CG, ROA and EVA which were used to measure all the variables have fulfilled the convergent validity test.

The following table shows discriminant validity. The discriminant validity is to compare the square root of average variance extracted (AVE) of each latent variable with the correlation between latent variables. If the square root of AVE of one indicator is larger than the other coefficient correlations in one parallel row of column, then the validity is fulfilled. The result of the discriminant validity is explained in the table below.

Table IV AVE table

Indicator	CSR	GCG	CP	VC
CSR	1.00	0.010	0.717	-0.061
CG	0.010	1.00	0.157	-0.149
ROA	0.717	0.157	1.00	-0.642
EVA	-0.061	-0.149	-0.642	1.00

From the table above, the square root AVE shows a figure of 1.00 for all results. These are also bigger than the coefficient correlation of the other variables.

Composite Reliability, Cronbach's Alpha and Collinearity

From the composite reliability test, all the variables have the value of 1.00, therefore composite reliability criteria are fulfilled. Not only that, result also has the Cronbach's Alpha value of more than 0.6, which is 1.00 for all the variables. Thus, all the variables have been fulfilled the criteria of reliability.

Table V Collinearity table

	CSR	GCG	CP	CV
R^2		0.099	0.817	0.864
Adj. R^2		0.069	0.805	0.850
Full collinearity VIFs	3.24	1.054	3.149	3.188

In order to fulfill the collinearity test, VIFs must be lesser than 3.3 or 10 in a more relaxed criterion (Kock, 2015). According in Table V, all variables have passed the multicollinearity tests.

4 Research results and analysis

4.1 Descriptive analysis

Descriptive analysis is done through looking at the statistics of coefficients which combined up as the data set, either in form of population as a whole or a sample as a part of the population. This explains the overview of the research data as a whole, which includes the total number of data used, minimum and maximum value, mean and standard deviation.

Table VI Descriptive Statistics

Indicators	Minimum	Maximum	Mean	STDEV
CSR	6.00	13.00	8.78	1.81
CG	72.68	93.32	84.92	5.32
ROA	-45.60	22.07	1.30	10.51

EVA	-7.17	94.57	5.31	17.67

Comparing the range to the CSR policies mean result in this research, the companies that are listed in Corporate Governance Perception Index (CGPI) and used in this research, are presumably quite well. Besides, the profile GCG for its weighted average of 2016 and 2017 shows that GCG has one indicator with minimum and maximum value of 72.68 and 93.32. The samples in this research are those companies consistently listed as having a good corporate governance. It means that the companies show good performance and are considered as trusted companies, which lies within the range of 70-84. Besides, the mean value of the GCG score is 84.92 which categorized as "most trusted companies", lies within 85-100. Thus, it indicates that companies begin to be concerned about their corporate governance.

4.2 Hypothesis Test (Direct, Intervening and Total effects)

The hypothesis test done by using the T-test and re-sampling. The hypothesis test divided into 3 parts of direct effect, mediation variable and the total effect of the variables in this research.

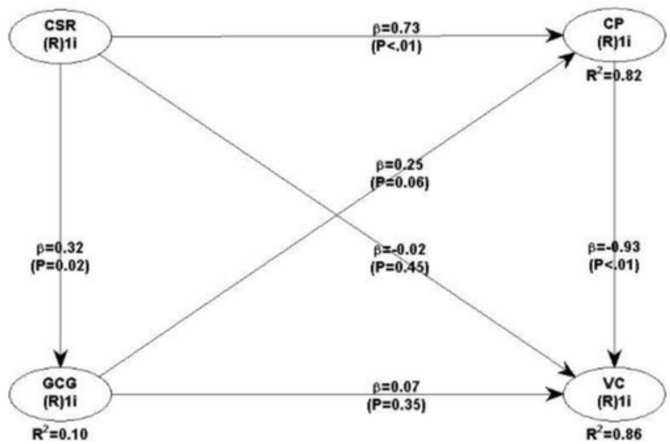

Figure I Structural model result

4.2.1 Direct Effect

Table VII Path Coefficient and P values

Independent / Control variable	Dependent Variable	Path Coefficient	P-value	Note
CSR	CP	0.73	<0.01	Highly significant
CSR	Value creation	-0.02	0.45	Insignificant
CSR	GCG	0.32	0.02	Significant
GCG	CP	0.25	0.06	Weakly significant
GCG	Value creation	0.07	0.35	Insignificant
Profitability	Value creation	-0.93	<0.01	Highly significant

27

Figure 1 and table VII show that corporate social responsibility policies affect corporate governance with the coefficient value of 0.32 and p value 0.02, and it also gives effect on corporate profitability with 0.73 coefficient value and p<0.01. In other words, the higher score of CSR policies will increase the profitability of the company (ROA), supported by the p value of lower than 5% significant level of both. This also means that **hypothesis 1** is accepted since the relationship between CSR policies and profitability shows a positive and highly significant direct relationship, hence **hypothesis 3** is also accepted as the CSR has a direct positive relationship with good corporate governance. The first hypothesis result is in line with the stakeholder theory that when firms put CSR practices into consideration, they will read a better performance (Yu and Choi, 2014). On the other hand, the acceptance of the hypothesis 3 is in line with the believe that higher commitments of CSR could strongly impact on the qualifications of directors and other members of the company which combined into a good corporate governance hallmark. Besides, good corporate governance may not able to increase reputation of the company without also taking care of the socially responsibility practices in the company (Chalise, 2014). Moreover, good corporate governance is showing a positive correlation of 0.25 and p=0.06, which is deemed to be weakly significant. Thus, **hypothesis 2** explains the relationship between GCG and profitability that is positive but weakly significant, and acceptable. This means that when companies are directed and controlled properly, the company could be more efficient in the work and operation which then result in better performance. In this case, an increase on efficiency of the work will impact the profit of the company (Sheikh et al, 2013).

Furthermore, the relationship of CSR Policies to value creation shows a value of -0.02 with p=0.45, which means that a higher score of CSR policies, the value of the firm will decrease and this is insignificant. Therefore, the **hypothesis 5** is rejected. This is supported by the theory that CSR practices could create long-term value for the company's financial performance, instead of giving short-term impact (Gregory, Tharyan & Christidis, 2011). Moreover, the data also describes there is an insignificant effect of good corporate governance on value creation of 0.07 and p=0.35. This means that there is an insignificant positive relationship between the two variables, so **hypothesis 6** is rejected. It possibly happens because corporate governance implementation in a company can not directly influence the firm's value, but it takes some time. Likewise, the relationship between profitability and value creation shows a negative 0.93 with p<0.01. This means that profitability doesn't give a rise to value creation as it increases. Thus, **hypothesis 4** is also rejected. If profit does not provide an increase on funding of the company, the firm still has to decrease its dividends or choose to increase its debt level for the funding. Both of them give negative impact to the markets and usually result in a decrease of share price and destroy the shareholder's value.

4.3.2. Intervening Effect

The table below shows the indirect effect and P values of intervening variables.

Table VIII Indirect Effect and P values

Independent variable	Intervening variable	Dependent variable	Path coefficient	P value
CSR	CP GCG	VC	-0.657	<0.001
CSR	GCG	CP	0.079	0.258
GCG	CP	VC	-0.233	0.023

Looking at the table above, the p value of CSR towards corporate's profitability with good corporate governance as the mediating variable is 0.258. This figure shows a big percentage which is more than 5% significance, thus this is considered to be insignificant. It can be concluded that good corporate governance fails to act as a mediating variable, therefore **hypothesis 7 is rejected.** Additionaly, **hypothesis 8 is also rejected**, since the mediating variables shows a significant value of 0.023 (<0.05) with path coefficient for this is at -0.233. Hence, corporate profitability mediates the good corporate governance and value creation but negatively.

4.3.3. Total Effect

The total effect refers to the p values for all variables included in the research. This includes all the direct and indirect effect and being discussed further below:

Table IX Total Effect and P Values

	CSR	GCG	CP	VC
CSR	-	-	-	-

GCG	0.32 (=0.023)	-	-	-
CP	0.807 (<0.001)	0.25 (=0.06)	-	-
VC	-0.752 (<0.001)	-0.167 (=0.158)	-0.93 (<0.001)	-

The detailed calculation of the absolute contribution between variables is discussed below:

CSR to GCG $= (0.32)^2 \text{ X } 100\% = 10.24\%$

CSR to CP $= (0.807)^2 \text{ X } 100\% = 65.12\%$

CSR to VC $= (-0.752)^2 \text{ X } 100\% = 56.55\%$

GCG to CP $= (0.25)^2 \text{ X } 100\% = 6.25\%$

GCG to VC $= (-0.167)^2 \text{ X } 100\% = 2.79\%$

CP to VC $= (-0.93)^2 \text{ X } 100\% = 86.49\%$

The calculation of the overall total effect is taking account into both direct and indirect variables. As concluded in the results, the strongest absolute effect is the relationship between corporate profitability and value creation, which is 86.49% as compared to other variables. Meanwhile, the relationship between corporate governance and value creation holds the weakest effect as compared to other variables of only 2.79%. The correlation between CSR to profitability is 65.12% which is higher than if corporate governance acts as the mediating variable. This result is found when adding the result of CSR to corporate governance of 10.24% and corporate governance to profitability 6.25%, which comes out with 16.49% value. Thus, it can be concluded that the indirect effect does not exist between those two variables and corporate governance does not mediate the relationship between CSR and profitability. In addition, looking at the corporate governance as the mediating variable for CSR and VC relationship, there is also no indirect effect. This is concluded from the value of CSR to value creation of 56.55%. The value is higher than the sum of CSR to corporate governance 10.24% and corporate governance to value creation 2.79%, summed up to 13.03%. Thus, indirect effect does not exist when corporate governance mediates the second the relationship. In conclusion corporate governance does not have indirect effect for both of the relationship when it mediates the relationship between CSR to profitability and CSR to value creation.

5. Conclusion, Contribution and Implication

The objective of doing this research paper is to analyze the impact of corporate social responsibility (CSR) policies towards profitability and value creation, as well as whether the corporate governance (CG) is able to become the mediation variable to the relationship. The analysis shows a significantly positive relationship between CSR and profitability. Our contribution to this study is that higher CSR practices and corporate governance is associated with higher profitability obtained by the company as proposed in H1 and H2. This result indicates that consumers are not only concerned about the products they consume but also the manufacturers. Thus, companies with higher CSR practices could lead to increase in sales and profit. Besides, good corporate governance makes the company work more efficiently and effectively, which reduces cost or increasing margin and increases profitability. Companies with good corporate governance ensure a socially responsible way of how the companies are run and a lucidly ethical basis for complying with the accepted norms of the society where they operate. Hence, CSR actively searches for a larger equilibrium or consistency between profit and ethics, which is consistent with corporate governance mechanism as proven in H3.

However, profitability has negative effect on the value creation measured. Unless profits provide the increased funding, the firm has to lower the dividends or raise the debt level. The market perceives them negatively and generally leads to price drop, finally damaging shareholder value. It means that for some Indonesian companies listed in Corporate Governance Perception Index (CGPI), the CSR practice level still can not create long-term performance in terms of EVA.

References

AlNajjar, F.K. and Belkaoui, A.R. (1999) "Multinationality, profitability and firm value", *Managerial Finance*, Vol. 25, No. 12, pp.31-41. https://doi.org/10.1108/03074359910766325

Black, B., Jang, H., & and Kim, W. (2006), "Does Corporate Governance Predict Firms' Market Values? Evidence from Korea", *Journal of Law, Economics, & Organization,* Vol. 22, No. 2, pp. 366-413. https://doi.org/10.1093/jleo/ewj018

Crisóstomo, V.L., Freire, F.d. and Vasconcellos, F.C. (2011) 'Corporate Social Responsibility, Firm Value, and Financial Performance in Brazil', Social responsibility journal, Vol. 7, No. 2, pp.295-309. https://doi.org/10.1108/17471111111141549

Chalise, M. (2014). "Impact of Corporate Social Responsibility on Corporate Governance and Reputation in Nepalese Commercial Banks", *Nepal Journals* Online, Vol. 22, No. 11, pp. 1-2. https://doi.org/10.3126/jodas.v22i1-2.13462

Chen, S. (2011), "Capital structure determinants: An empirical study in Taiwan", *African Journal of Business Management*, Vol. 5, No. 2, pp.10974-10983. https://doi.org/10.5897/AJBM10.1334

Cheung, Y. (2010), "Does corporate social responsibility matter in Asian emerging markets?". *Journal of Business Ethics*, Vol. 92 No. 3, pp. 401-413. https://doi.org/10.1007A10551-009-0164-3

Detthamrong, U., Chancharat, N., & Vithessonthi, C. (2017). "Corporate governance, capital structure and firm performance: Evidence from Thailand", *Research In International Business And Finance*, Vol. 42, No. 31, pp. 689-709. https://doi.org/10.1016/j.ribaf.2017.07.011

Devie, D., Liman, L. P., Tarigan, J. & Jie, F. (2019) "Corporate social responsibility, financial performance and risk in Indonesian natural resources industry", *Social Responsibility Journal*. https://doi.org/10.1108/SRJ-06-2018-0155

El Ghoul, S., Guedhami, O., Kwok, C. & Mishra, D. (2011), "Does Corporate Social Responsibility Affect the Cost of Capital?", *Journal of Banking & FInance*, Vol. 35, No. 9, pp. 2388-2406. https://doi.org/10.1016/j.jbankfin.2011.02.007

Gitman, L., & Zutter, C. (2012), "Principles of Managerial Finance", *Harlow: Pearson Education Limited.*

Gregory, A., Tharyan, R., & A. Christidis. (2011), "Constructing and testing alternative versions of the Fama–French and Carhart models in the UK", *SSRN Journal,* Vol. 20, No. 3. Pp. 97-107. https://doi.org/10.1111/jbfa.12006

Green, T., & Peloza, J. (2011), "How does corporate social responsibility create value for consumers?", Journal of Consumer Marketing, Vol. 28 No. 1, pp.48-56. https://doi.org/10.1108/07363761111101949

Gompers, P., Ishii, J., & Metrick, A. (2003), "Corporate Governance and Equity Prices", *Quarterly Journal of Economics*, Vol. 118, No. 1, pp. 107-155. http://dx.doi.org/10.2139/ssrn.27892

Jackling, B., & Johl, S. (2009). "Board structure and firm performance: Evidence from India's top companies", *Corporate Governance: An International Review*, Vol. 17, pp. 492-505. http://dx.doi.org/10.1111/j.1467-8683.2009.00760.x

Jo, H., and Na, H. (2012), "Does CSR Reduce Firm Risk? Evidence from Controversial Industry Sectors", *Journal of Business Ethics*, Vol. 110 No. 4, pp. 441-456. https://DOI.org/10.1007/s10551-012-1492-2

Klapper, L. F., & Love, I. (2002), "Corporate Governance, Investor Protection and Performance in Emerging Markets", *World Bank Policy Research Working Paper,* No. 2818. http://dx.doi.org/10.2139/ssrn.303979

Khojastehpour, M. and Johns, R. (2014), "The effect of environmental CSR issues on corporate/brand reputation and corporate profitability", *European Business Review*, Vol. 26, No. 4, pp.330-339. https://doi.org/10.1108/EBR-03-2014-0029

Kock, N. (2015), "WarpPLS 5.0 User Manual", *ScriptWarp Systems*, Laredo, Texas, pp. 1-108.

Kolk, A. and Pinkse, J. (2010), "The integration of corporate governance in corporate social responsibility disclosures", *Corporate Social Responsibility and Environmental Management*, Vol. 17, No. 1, pp. 15-26. https://doi.org/10.1002/csr.196

LaGore, W, Mahoney, L. S. and Thorne, L. (2013). "A research note on standalone corporate social responsibility reports: Signaling or greenwashing?" *Critical Perspectives on Accounting*. Vol. 24, No 4–5. Pp. 350–359. https://doi.org/10.1016/j.cpa.2012.09.008

Li, S., Fetscherin, M., Alon, I., Lattemann, C. and Yeh, K. (2010), "Corporate Social Responsibility in Emerging Markets", Management International Review, Vol. 50, No. 5, pp. 635-654. https://doi.org/10.1007/s11575-010-0049-9

Lourenco, I., Branco, M., Curto, J. and Eugénio, T. (2011), "How Does the Market Value Corporate Sustainability Performance?", *Journal of Business Ethics*, Vol. 108, No. 4, pp. 417-428. https://doi.org/10.1007/s10551-011-1102-8

Lock, I,. & Seele, P. (2016), "CSR governance and departmental organization: a typology of best practices", *Corporate Governance: The International Journal of Business in Society*, Vol. 16, No. 1, pp.211-230. https://doi.org/10.1108/CG-01-2015-0010

Muttakin, M. B., Khan, A., Subramaniam, N. (2015), "Firm Characteristics, Board Diversity and Corporate Social Responsibility: Evidence from Bangladesh", *Pacific Accounting Review*, Vol. 27, No. 3, pp. 353-372. https://doi.org/10.1108/PAR-01-2013-0007

Nguyen, P. & Nguyen, A. (2015), "The effect of corporate social responsibility on firm risk", *Social Responsibility Journal*, Vol. 11 No. 2, pp. 324-339. https://doi.org/10.1108/SRJ-08-2013-0093

Osazuwa, N.P., & Che-Ahmad, A. (2016) "The moderating effect of profitability and leverage on the relationship between eco-efficiency and firm value in publicly traded Malaysian firms", *Social Responsibility Journal*, Vol. 12 No. 2, pp.295-306. https://doi.org/10.1108/SRJ-03-2015-0034

Park, S. (2017), "Corporate social responsibility, visibility, reputation and financial performance: empirical analysis on the moderating and mediating variables from Korea", *Social Responsibility Journal*, Vol. 13 No. 4, pp. 856-871. https://doi.org/10.1108/SRJ-01-2017-0012

Park, J., Lee, H. and Kim, C. (2014), "Corporate social responsibilities, consumer trust and corporate reputation: South Korean consumers' perspectives", *Journal of Business Research*, Vol. 67, No. 3, pp. 295-302. https://doi.org/10.1016/j.jbusres.2013.05.016

Salama, A., Anderson, K. and Toms, J. (2018), "Does community and environmental responsibility affect firm risk? Evidence from UK panel data 1994-2006", *Abacus*, Vol. 17, No. 4, pp. 57-60. https://doi.org/10.1111/j.1467-8608.2011.01617.x

Sheikh, A., Wang, Z., Khan, S. (2013) "The impact of internal attributes of corporate governance on firm performance: Evidence from Pakistan", International Journal of Commerce and Management, Vol. 23, No. 1, pp. 38-55. https://doi.org/10.1108/10569211311301420

Steward, B. (2014). "The Role of the Cost of Capital in EVA and in Corporate Value-Based Management", *John Wiley & Sons*, https://doi.org/10.1002/9781118846780.ch33

Stuebs, M. and Sun, L. (2010), "Business Reputation and Labor Efficiency, Productivity and Cost", *Journal of Business Ethics*, Vol. 96, No. 2, pp. 265-283. https://doi.org/10.1007/s10551-010-0464-7

Vargas, L. (2016), "Corporate Social Responsibility and Financial Performance: GIC's Share Price Value Impact", *Corporate Responsibility and Stakeholding*, Vol. 10, pp. 165-177. Retrieved from: https://www.emeraldinsight.com/doi/full/10.1108/S2043-052320160000010012

Vanhamme, J., Lindgreen, A., Reast, J. D., & Popering, N. (2012), "To Do Well by Doing Good: Improving Corporate Image Through Cause-Related Marketing", *Journal of Business Ethics*, Vol. 109, No. 3, pp. 259-274. https://doi.org/10.1007/s10551-011-1134-0

Yu, Y., and Choi, Y. (2014), "Corporate social responsibility and firm performance through the mediating effect of organizational trust in Chinese firms", *Chinese Management Studies*, Vol. 8 No. 4, pp. 577-592. https://doi.org/10.1108/CMS-10-2013-0196

Corporate Social Responsibility Policies and Value Creation: Does Corporate Governance and Profitability Mediate That Relationship? (Revised)

ORIGINALITY REPORT

12%	10%	8%	2%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	www.emeraldinsight.com Internet Source	4%
2	usir.salford.ac.uk Internet Source	1%
3	www.researchonline.mq.edu.au Internet Source	<1%
4	Submitted to Midlands State University Student Paper	<1%
5	onlinelibrary.wiley.com Internet Source	<1%
6	www.coursehero.com Internet Source	<1%
7	Vasconcelos, Ana Maria Cardoso Ribeiro Perestrello de(Di Giuli, Alberta). "Companies' Reputation : the impact of CSR", Veritati - Repositório Institucional da Universidade Católica Portuguesa, 2013.	<1%

Publication

8	Corporate Governance, Volume 13, Issue 2 (2013-05-27) Publication	<1%
9	Pascal Nguyen, Anna Nguyen. "The effect of corporate social responsibility on firm risk", Social Responsibility Journal, 2015 Publication	<1%
10	Peerayuth Charoensukmongkol. "The role of mindfulness on employee psychological reactions to mergers and acquisitions", Journal of Organizational Change Management, 2016 Publication	<1%
11	clok.uclan.ac.uk Internet Source	<1%
12	Xuemei Xie, Yaoyang Jia, Xiaohua Meng, Chao Li. "Corporate social responsibility, customer satisfaction, and financial performance: The moderating effect of the institutional environment in two transition economies", Journal of Cleaner Production, 2017 Publication	<1%
13	Submitted to South Bank University Student Paper	<1%
14	digilib.k.utb.cz Internet Source	<1%

15	Mia Mahmudur Rahim. "Legal Regulation of Corporate Social Responsibility", Springer Nature America, Inc, 2013 Publication	<1 %
16	www.gkpublication.in Internet Source	<1 %
17	daffodilvarsity.edu.bd Internet Source	<1 %
18	www.inderscience.com Internet Source	<1 %
19	Lin Lin, Pi-Hsia Hung, De-Wai Chou, Christine W. Lai. "Financial performance and corporate social responsibility: Empirical evidence from Taiwan", Asia Pacific Management Review, 2019 Publication	<1 %
20	www.econstor.eu Internet Source	<1 %
21	capitalism.wfu.edu Internet Source	<1 %
22	www.virtusinterpress.org Internet Source	<1 %
23	ibimapublishing.com Internet Source	<1 %

24	academicjournals.org Internet Source	<1%
25	studylib.net Internet Source	<1%
26	www.cogentoa.com Internet Source	<1%
27	cprenet.com Internet Source	<1%
28	es.scribd.com Internet Source	<1%
29	link.springer.com Internet Source	<1%
30	psasir.upm.edu.my Internet Source	<1%
31	bib.irb.hr Internet Source	<1%
32	Kevin C. H. Chiang, Gregory J. Wachtel, Xiyu Zhou. "Corporate Social Responsibility and Growth Opportunity: The Case of Real Estate Investment Trusts", Journal of Business Ethics, 2017 Publication	<1%
33	pure.au.dk Internet Source	<1%

34	eprints.unife.it Internet Source	<1%
35	Mei Yu, Dongmei Cao, Juh Yan Tan. "CSR-consumption paradox: examination of UK apparel companies", Journal of Fashion Marketing and Management: An International Journal, 2019 Publication	<1%
36	dro.dur.ac.uk Internet Source	<1%
37	SeHyun Park. "Corporate social responsibility, visibility, reputation and financial performance: empirical analysis on the moderating and mediating variables from Korea", Social Responsibility Journal, 2017 Publication	<1%
38	"Corporate Social Responsibility in Europe", Springer Nature America, Inc, 2015 Publication	<1%
39	Morteza Khojastehpour, Raechel Johns. "The effect of environmental CSR issues on corporate/brand reputation and corporate profitability", European Business Review, 2014 Publication	<1%
40	Rezaul Kabir, Hanh Minh Thai. "Does corporate governance shape the relationship between	<1%

corporate social responsibility and financial performance?", Pacific Accounting Review, 2017

Publication

41	Trong Tuan Luu. "CSR and Customer Value Co-creation Behavior: The Moderation Mechanisms of Servant Leadership and Relationship Marketing Orientation", Journal of Business Ethics, 2017 Publication	<1%

Exclude quotes	On	Exclude matches	< 5 words
Exclude bibliography	On		