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The Influence of Good Corporate Governance and Corporate Social Responsibility towards the Financial Performance that has Implications for Firm Value of Banking Companies Listed in Indonesia Stock Exchange

Anhar Firdaus[1], Fazli Syam BZ[2], Yossi Diantimala[3]
[1] Student in Master of Accounting, Faculty of Economics and Business, Syiah Kuala University, Banda Aceh, Aceh, Indonesia, [2,3] Lecture in Master of Accounting, Faculty of Economics and Business, Syiah Kuala University, Banda Aceh, Aceh, Indonesia

Abstract: The purpose of this research is to examine the Good Corporate Governance and Corporate Social Responsibility both simultaneously and partially to Financial Performance and their Implications for Firm Value on Indonesian Banks in the period of 2011-2015. The type used in this research is causality, using purposive sampling method and unbalanced panel data. The object of this research consists of 11 banks with 38 observational data. The method of analysis used in this research is path analysis. The results show that (1) Good Corporate Governance and Corporate Social Responsibility simultaneously influence towards the financial performance; (2) Good Corporate Governance has influence toward the financial performance; (3) Corporate Social Responsibility has influence toward the financial performance; (4) Good Corporate Governance, Corporate Social Responsibility, and financial performance simultaneously influence towards firm value; (5) Good Corporate Governance has no influence toward firm value; (6) Corporate Social Responsibility has no influence toward firm value; (7) The financial performance has influence toward firm value; (8) The financial performance fully mediated the influence of Good Corporate Governance toward firm value; and (9) The financial performance fully mediated the influence of Corporate Social Responsibility toward firm value.
Keywords: Good Corporate Governance, Corporate Social Responsibility, Financial Performance, Firm Value, ROA

Introduction

Establishment of a company has the main goal is to get the maximum profit by earning profit and to maximize the value of the company. In the current era of globalization, the company's management is designated as extending the owners of capital to conduct and manage business activities so that the company is able to survive (sustainability) in facing all competition situations and economic conditions as it is today. Increased firm value can be affected by the results of company performance. Financial performance becomes one of the aspects of valuation owned by the company based on the financial statements of publications. Financial performance information will affect in decision-making behavior. The company will disclose an information if the information will increase the value of the company.

Information presented not only in financial information but also nonfinancial information. In the rapid development of information and high accountability demands, the company is also expected to provide nonfinancial information. One of information may be the disclosure of GCG (Good Corporate Governance) report and CSR (Corporate Social Responsibility) report . The process of maximizing the value of the firm will lead to conflict that is often called agency problem . These conflicts arise because of differences in interests between managers and shareholders, the occurrence of it because the manager prioritizes personal interests, otherwise shareholders do not like it because it will increase the cost for the company so that the decline in corporate profits/financial performance occurs and the effect on stock prices impacting company value decreased (Jensen & Meckling 1976). The concept of GCG arises in order to minimize the potential for fraud due to agency problems and to ensure that management acts best for the benefit of the company.

POJK (Regulation of the Financial Services Authority) No. 55/POJK.03/2016 requires banks to carry out their business activities in accordance with the principles of good governance in order to improve bank performance, protect the interests of stakeholders, and improve compliance with laws and ethics (code of conduct) prevailing in the banking industry. Learned from the experiences of the global financial crisis of 1998 and 2008, where the implementation of weak corporate governance practices has been identified as one of the main causes of the global financial crisis (Zhuang, Edwards, Webb & Capulong, 2000, p.1) . In this regard, improving the implementation of corporate governance practices is very important and a top priority in Indonesia. The survey results of Corporate Governance Watch survey issued by CLSA Asia-Pacific Markets shown that of the 12 Asian markets, the lowest position is occupied by Indonesia. That is, the practice of implementation of corporate governance implementation in Indonesia is still very low (Credit Lyonnais Securities Asia, 2016, p.14).

Other nonfinancial information that is also a regulatory and ethical boost is the CSR report. The CSR report is one of the reports that should be listed in the company's annual report as stipulated in the Law of the Republic of Indonesia No. 40, 2007 on social and environmental responsibility which requires companies whose business activities in the field and/or related to natural resources are obliged to carry out social and environmental responsibility. It’s given the firm legal foundation the company is required to report CSR activities.

Literature Review and Hypothesis Development

Agency Theory

Agency theory developed by Michel Johnson considers that the management of the firm as an "agent" for shareholders, who will act with full awareness for its own interests, not as a wise and fair and fair shareholders. There is a separation of ownership structure between the owner and the manager in a company. The emergence of relationship problems between agents and principal-agency problems- occurs when managers do not always act in the interests of shareholders. GCG concepts arise in order to minimize the potential for fraud due to the agency problems and to ensure that management acts in the best interest of the company.

Stewardship Theory

Stewardship theory is built on philosophical assumptions about human nature that human beings are essentially trustworthy, capable of acting with responsibility, having integrity and honesty toward others. This is what is implied in the fiduciary relationships desired by shareholders. In this theory, management is deemed to be credible to act best for the interest of stakeholders and the public interest.

GCG is a system that regulates and controls the company to create value added for all stakeholders. There are two things that are emphasized in this concept, namely: (1) the importance of the right of shareholders to obtain information correctly and timely, and (2) the company’s obligation to disclosure is accurate, timely, transparent to all performance information companies, ownership, and stakeholders.

Stakeholder Theory

According to Ghozali & Chariri (2007, p.409), Stakeholder Theory is a theory which states that a company is not an entity that only operates for its own sake, but must provide benefits to all its stakeholders (shareholders, creditors, consumers, suppliers, government, analysts, and others). This stakeholder group is a consideration for the company's management in disclosing or not an information in the company's report.

Ullmann and Roberts RW put forward stakeholder theory with the assumption that the existence of the company is determined by the stakeholders. The company will seek justification from the stakeholders in running the company's operations. The stronger the stakeholder position, the greater the tendency of the company to adapt itself to the desire of stakeholders that ultimately management will seek to improve the information that can have an impact on the company.

Legitimacy Theory

Legitimacy theory is built on the principle that the company has a contract with the public to conduct its business activities based on the value of justice, and how the company responds to various interest groups around the company. One of the reports that support the legitimacy of the company is the disclosure of CSR in the annual report which is expected to help the company to obtain social legitimacy and maximize the value of the company in the long term, as well as the balance between the firm’s value system with the value of society in the company environment.

Firm Value (FV)

The firm value according to Martono & Harjito (2006, p.13) for companies that have gone public is the value of the company which is reflected in the value of the stock market, while for companies that have not go public interpreted as the value that occurs when the company is sold. In accordance with the statement of Husnan (2008, p.5) means the value of the company that has gone public is reflected in the value of existing stocks in the capital market, while for those who have not gone public, the value of the company is a number of costs willing to be issued by prospective buyers if the company is sold . The firm's value calculation method refers to Smithers & Wright (2007, p.37) using Tobin's Q developed by Klapper and Love.

Financial Performance (FP)

According to Anwar, Haerani, & Pagalung (2010) financial performance is the result of decisions made continuously by the management company to achieve the company's goals effectively and efficiently. There are various ways that can be used in assessing a firm's performance, depending on which profit and which assets or capital will be compared. The existence of various ways in assessing the performance, not surprising if there are several different companies in the calculation. One of the ratios that can be used to measure financial performance results is to use the ROA (Return on Assets) ratio.

ROA measures the business's return on all existing assets. In other words, "this ratio describes the efficiency of the funds used in the company. High ROA means the company is increasingly able to utilize assets well to gain profits" (Sugiyono, 2009, p.80). The formula/ratio of rentability valuation for ROA pursuant to SE OJK No. 14/SEOJK/2017.

Good Corporate Governance (GCG)

Governance according to ISO FDIS 26000:2010 (2010) –International Organization for Standardization, Final Draft International Standart– as system by which an organization makes and implements decisions in the pursuit of its objectives. The essence of corporate governance is the improvement of company performance through supervision or monitoring of management performance and the existence of management accountability to other stakeholders, based on the applicable rules and regulation framework.

World Bank defines the meaning of corporate governance (Good Corporate Governance) as:

> "... a combination of laws, legislation and practices by the private sector on a voluntary basis that allows companies to attract financial and labor capital, performs efficiently, and with it all can continually generate long-term economic values for its shareholders, while at the same time taking into account the interests of the stakeholders and the community as a whole "(Maassen, 2000).

In this study, GCG is measured by the CGPI (Corporate Governance Perception Index). Suprayitno (2009, p.5) states that CGPI organized by IICG (Indonesian Institute for Corporate Governance) is a research program and rating GCG implementation in companies in Indonesia followed by public companies, BUMN –state-owned enterprises-, banking and other private companies.

Corporate Social Responsibility (CSR)

The concept of CSR (Corporate Social Responsibility) was first put forward by Howard R. Bowen in 1953. The implementation of CSR in the company became increasingly important with the emergence of the concept of sustainable development by WBCSD (The World Business Council for Sustainable Development). WBCSD (1998, p.3) mentions CSR " is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community and society at large". In this study, CSR is calculated referring to the Sustainability Reporting Guidelines published by GRI (Global Reporting Initiative) by observing whether or not an item of information is specified in the report presented.

The influence of GCG and CSR on Financial Performance

Dewi & Suardana (2015) argue that GCG proxied with managerial ownership shows that the union of interests between shareholders and managers is aided by managerial ownership of shares. Increased proportion of managerial share ownership indicates better corporate performance. Increased managerial share ownership will align the shareholder's position with the manager so that the manager motivates to improve the company's performance.

Disclosure of CSR can be another consideration in assessing financial performance. Companies that submit CSR reports are considered to have long-term prospects that mean having good financial performance. For investors, CSR disclosure reports are important so that the company's sustainability is more secure. The results of this study explain that there is a significant relationship between GCG and CSR with financial performance in this study using the ratio of ROA, so the hypothesis proposed in this study are:

H_{a1} : GCG and CSR simultaneously influence towards financial performance.
H_{a2} : GCG has influence toward financial performance.
H_{a3} : CSR has influence toward financial performance.

The influence of GCG, CSR, and Financial Performance on Firm Value

The purpose of establishment of a company is to earn a profit. Profit generated from the company's operational activities will reflect the performance of the company that will ultimately affect the value of the company in the perspective of investors. In addition to the impulse liabilities that have been regulated by the regulator, the company will disclose an information that can increase the value of the company. Disclosure of GCG, CSR, and financial performance is expected to provide a positive value for the company both for financial and nonfinancial information.

Investors overview a company by looking at financial ratios as a performance evaluation tool. Financial ratios reflect the high low value of the company. This means that the higher level of corporate profitability, the greater the disclosure of information made by the company. The results of this study explain that there is a significant relationship between GCG, CSR, and financial performance with firm value, so the hypothesis proposed in this study are:

H_{a4} : GCG, CSR, and financial performance simultaneously influence towards firm value.
H_{a5} : GCG has influence toward firm value.
H_{a6} : CSR has influence toward firm value.
H_{a7} : Financial performance has influence toward firm value.

The Financial Performance mediated the Influence of GCG and CSR towards Firm Value

Related research results have been conducted by Pertiwi & Pratama (2012) shows that GCG which proxied with managerial ownership indirectly affect the firm value through financial performance. Wardhani (2013) that CSR affects the value of the company through financial performance and going concern value . The GCG and CSR disclosure reports are also expected to provide feedback to its stakeholders. The profit from the company's operational activities is a social and environmental sensitive issue. With the implementation of CSR, the company is expected to sustainable and compete with other companies. The results of this study explain that there is a significant relationship between GCG, CSR, and financial performance with firm value, so the hypothesis proposed in this study are:

H_{a8} : The financial performance mediated GCG toward the firm value.

H_{a9} : The financial performance mediated CSR toward the firm value.

Research Methods

Population in this research is the banking companies listed on the Indonesia Stock Exchange. This study uses the sample. Sample selection in this research with purposive sampling method, so obtained 11 banking companies that become research samples with the amount of 38 observation data during the period 2011-2015.

The analytical method used in this research is path analysis. Before that, the first analysis is classical assumption test. In this research, calculation with SmartPLS™ program for analysis with significance level is 5%. The structure model obtained is formulated by the equation:

$Y = \rho_1X_1 + \rho_2X_2 + e_1$

$Z = \rho_3X_1 + \rho_4X_2 + \rho_5Y + e_2$

Where X_1 = GCG; X_2 = CSR; Y = Financial Performance; Z = Corporate Value; ρ_1, ρ_2, ρ_3, ρ_4, ρ_5 = Path Coefficient; e_1, e_2 = Error Terms

Results and Discussion

Classic Assumption Test

Testing the classical assumption that the normality test by using statistical test non parametrick One-Sample Kolmogorov-Smirnov Test. Results of data processing show normal distributed data with significance level >0,05. The multicolonierity test is performed with a correlation matrix by looking at the magnitude of the VIF (*Variance Inflation Factor*) value and the tolerance value. It can be concluded that in the regression model freed from multikolonieiritas between independent variables. The heteroscedasticity test is performed by looking at the scatterplot chart. The result of the heteroscedasticity test shows the spreading of points randomly which does not form a particular pattern such that it can be collected that the model does not occur heteroscedasticity. The autogeneration test by observing Durbin Watson's value indicates no autocorrelation. Mediation test by looking at the coefficient value contained in regression III is smaller than regression II. The results show that financial performance is perfect as a variable of mediation.

Hypothesis Testing

Based on testing done using SmartPLS™ program, the influence of each variable in detail can be seen in Table 1.1.

Table 1.1
Path Coefficients

	Original Sample (O)	Sample Mean (M)	T Statistics (|O/STERR|)	P Values
CSR -> FP	0.3164	0.3047	1.8665	0.0626
CSR -> FV	-0.1049	-0,0882	0.8302	0.4068
GCG -> FP	0.4584	0.4639	5.1811	0.0000
GCG -> FV	-0.0868	-0.0910	0.6805	0.4965
FP -> FV	0.7982	0.8181	7.9810	0.0000

Source: SmartPLS™ Output

Based on Tabe 1.1, concluded about hypothesis test among variables as follows:

The influence GCG and CSR towards Financial Performance

The test results indicate that the first hypothesis testing that is GCG and CSR both influence towards financial performance is acceptable (H_{01} rejected; H_{a1} accepted). Criteria for the determination based on the value of GCG and CSR path coefficients $\rho_i \neq 0$, i = 1, 2, ie 0.4639 and 0.3047. Companies should be able to give attention to the disclosure of GCG and CSR information as a predictor to determine the performance of the company, especially in terms of profitability.

The influence of GCG toward Financial Performance

Referring the results of SmartPLS™ Output in Table 1.1, the results of the second hypothesis test show that the relationship of GCG variables with financial performance shows the value of ur coefficientof 0.4639 with a statistical t value of 5.1811. The value is greater than t table (2.024) with value of P Value <0.05. This result means that GCG has a positive and significant relationship to financial performance so that H_{02} rejected; H_{a2} accepted. Thus, it can be said that GCG has influence toward financial performance. According to Jansen and Meckling (1976) states that companies with good governance will have a more efficient operational performance. Thus, the company’s financial performance can increase.

The influence of CSR toward Financial Performance

Based on the hypothesis test of CSR on financial performance which has been shown in Table 1.1 that the relationship of CSR variables with financial performance shows the coefficient value of the path of 0.3047 with a statistical t value of 1.8665. When referring to P Value <0.05, so that the results are not significant. But, if we changes significance level to 10%, the result shown that CSR has a positive and significant relationship to financial performance, so that H_{03} rejected; H_{a3} accepted specially on 10% significance level. Thus, it can be said that CSR has influence toward financial performance.

Disclosure of CSR can be another consideration in assessing financial performance. Companies submitting CSR reports are considered to have long-term prospects that mean having good financial performance. For investors, CSR disclosure reports become important so that sustainability that company is more assured.

The Influence of GCG, CSR, and Financial Performance towards Firm Value

The test results indicate that the fourth hypothesis testing of GCG, CSR, and financial performance together affect the acceptable firm value (H_{04} rejected; H_{a4} accepted). Criteria for the determination of the path coefficients based on the value of GCG, CSR and financial performance $\rho_i \neq 0$, i = 3, 4, 5 it is -0.0910, -0.0882, and 0.8181. Based on this result, banking banks, especially bank directors, should be aware that GCG, CSR, and financial performance can be used as predictions for determining firm value.

The influence of GCG toward Firm Value

Based on GCG hypotesis to company value seen in Table 1.1 that correlation of GCG variable to company value show coefficient value equal to -0,0910 with value of t statistic equal to 0,6805.The value is smaller than t table (2.024) with the value of P Value <0.05. This result means that GCG is insignificant to firm value so that H_{a5} rejected; H_{05} accepted. Thus, it can be said that GCG has no influence toward firm value. The positive perception of the CGPI rating released by IICG makes investors react positively to the company's stock so that the company's stock price will increase which will improve the firm value. It's just that good GCG implementation alone is not enough to make investors take investment decisions, but the results of financial performance is a big share in determining investment decisions made by investors.

The influence of CSR toward Firm Value

The test of CSR variable to firm value can be concluded by looking at Table 1.1 that the coefficient value lane of -0.0882 with a statistical t value of 0.8302. The value is smaller than t table (2.024) with the value of P Value >0.05. This result means that CSR is not significant to firm value so that H_{a6} rejected; H_{05} accepted. Thus, it can be said that CSR has no influence toward firm value.

Guidance on CSR disclosure and the possible method of switching CSR disclosure guidelines whereby a reporting organization using G3 or G3.1 Guidelines may make one of the lower factors of CSR disclosure by some firms than firms that have directly implemented G4 Guidelines.

The influence of Financial Performance toward Firm Value

Table 1.1 also shows the relationship between financial performance variable with firm value. Based on the test results obtained by the coefficient value of 0.8181 with a statistical t value of 7.980. The value is greater than t table (2.024) with the value of P Value <0,05. This result means that financial performance has a positive and significant relation to firm value so that H_{07} rejected; H_{a7} accepted. Thus, it can be said that the financial performance has influence toward firm value. An overview by an investor to a company by looking at financial ratios as a tool of corporate performance evaluation that reflects the firm value.

The influence of GCG toward Firm Value through Financial Performance

Table 1.1 also shows the relationship of GCG variable to firm value through financial performance. Coefficient value path with a mediation effect is shown at -0.1220 with a statistical t value of 0.3517. The value is smaller than t table (2.024). Value $\rho_1 \times \rho_5 > \rho_3$ = (0.4639 × 0.8181) > -0.0910 = 0.3795> -0.910, the financial performance fully mediated the influence of GCG toward firm value. So that H_{08} rejected; H_{a8} accepted. Thus, it can be argued that the financial performance mediates the influence of GCG on corporate value. Therefore, to increase the firm value, the company must also convey the practice of GCG which will then affect the financial performance, which in the perspective of management investors are considered capable and competent in managing the company.

The influence of CSR toward Firm Value through Financial Performance

Based on Table 1.1 shows the relationship of CSR variables to firm value through financial performance. The value of the path coefficient with the mediation effect is shown at -0.1005 with a statistical t value of 0.6117. The value is smaller than t table (2.024). Value $\rho_2 \times \rho_5 > \rho_4$ (0,3047 × 0,8181) > -0,0882 = 0,2492 > -0,0882, then the financial performance fully mediated the influence of CSR toward firm value. So that H_{09} rejected; H_{a9} accepted. Thus, it can be argued that financial performance mediates the influence of CSR on corporate value. Profits from the company's operational activities become social and environmental issues around the company. With the implementation of CSR, the company is expected to be able to sustain in operate its business. It is considered important for investors for investments that have or will be done can produce better value. Ultimately, the company is considered capable to survive and can provide profit.

Coefficient of determination test (Adjusted R^2)

Inner model or structural model testing to see the relationship between construct, significance value and R square of the research model. Table 1.2 shows the value of R square for the influence between variables in this study.

Table 1.2
R Square Value

	Original Sample (O)	Sample Mean (M)
FP	**0.2 564**	**0.2 844**
FV	**0, 5709**	**0.63 10**

Source: SmartPLS^{TM} Output

Based on Table 1.2 can be seen that the value of R Square for financial performance variables obtained for 0.2844 or 28.44%. Thus it can be said that 28.44% of financial performance variation can be explained by both the independent variable in this study is the GCG and CSR, while 71.56% ($1-R^2$) the rest is explained by other variables that are not mentioned in this research model. The variable of company value in Table 1.2 also shows the value of 0.6310 or equal to 63.10%. It can be said that 63,10% of company value variation can be explained by independent variable in this research that is GCG and CSR as well as financial performance as mediator, while 36,90% (1-R^2) the remainder is explained by other variables not mentioned in this research model.

Conclusion and Recommendation

The results of this study indicate evidence that not only in additional disclosure of financial information (financial performance), but also non-financial information (GCG and CSR) may have an effect firm value of banking companies listed on the Indonesia Stock Exchange. In accordance with the results of this study has been applied full disclosure principle that can help all stakeholders exactly for investors or potential investors for decision-making. The companies must to increase both information to make positive effect to firm value.

Limitations

a. This study only examines on the banking companies that have CGPI value in Indonesia and listed on the IDX period 2011-2015, so the result can not be generalized to banking in Indonesia in general.
b. This research also uses only ROA indicator in assessing banking financial performance level, so the result can not be the main reference in measuring performance level of banking keunagn overall.
c. The CSR disclosure calculation indicators still use two guidelines, GRI 3.1 and GRI G4.
d. The observation period is relatively short for 5 years, ie from 2011 to 2015.
e. Still very limited reference resources about the variables in this study.

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Corresponding Author

Anhar Firdaus
Student in Magister of Accounting, Faculty of Economics and Business, Syiah Kuala University, Banda Aceh, Aceh, Indonesia
Corresponding Author: the.anhar@gmail.com

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