FINAL RESEARCH REPORT

RESEARCH TITLE

IMPLEMENTATION OF INVESMENT BASE SOCIAL COMITMENT (IBASOC) IN AN EFFORT TO STRENGTHENGREEN MANAGEMENT TO IMPROVE THE COMPANY'S REPUTATION IN INDONESIA

TEAM OF RESEARCH

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DESEMBER 2020

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CHAPTER I

1.1 Background

Corporate Governance or translated as governance is basically a process of managing activities used to provide guidance in managing the firm business and operations, the goal is clearly to generate profit and increase corporate accountability so that in the long run will be able to increase the value of the company while paying attention to the interests of stakeholders as a whole. From the point of view of the study of the firm financial theory, the implementation of good governance will support the realization of the firm value through improving the firm performance. It can also be said that good governance will be able to be used as a behavioral controller for managers because with good governance is signaled to reduce the possibility of injustice in the division of corporate profits not only for stockholders but also the interests of stakeholders.

The issue of governance is not new and the time lag considered as a turning point is the economic crisis experienced by most countries in the world including Indonesia in mid-1997. Several factors such as weak institutional supervision, business practices, especially in the banking sector that have not been able to seek appropriate risk management, funding decisions and investments that are less relevant because they are more dominated by other interests disguised as mirrors of poor governance. These factors give an idea that at that time in Indonesia the implementation of good governance principles had not been fully implemented by management. Baird (2000) produced the finding that the weak application of good governance to government-owned or private companies is the main cause of the crisis in several Asian countries.

The existence of governance is considered increasingly important, especially in the event of a financial crisis. This is because in times of crisis the interests of minority

shareholders will be further neglected due to the dominance of the interests of majority shareholders. In other words, even if one vote one share, the existence of minority shareholders has a low composition of share ownership so that it is less accommodated at the General Meeting of Shareholders. Investors as potential investors are also increasingly focused on paying more attention to how the firm operations have been carried out so far, especially whether the company organizes its companies with good governance or not. This is not only the case in Indonesia but in some studies have shown that the implementation of good governance in the company is a global need, so that the application and results also vary between one country and another. Companies with weak governance are said to be vulnerable to economic downturn. Because the firm internal condition is also affected by the overall economic condition. Yeh (2004) stated that companies with good governance and internal conditions may experience financial difficulties if economic conditions deteriorate. However, companies with poor governance and internal conditions will have a greater chance of experiencing financial difficulties and declining performance.

Weak implementation of governance in the company has interconnected impacts, if in the short term the company can not generate optimal profit then the opportunity to develop the company in business competition will be smaller, so *some stakeholders' interests* may not be met. In the long run, if this condition is not *fixed,* it will lead to financial distress which will ultimately lead to worsening of the firm performance potentially in bankruptcy. In its implementation the key word of the implementation of good governance in the company depends on who (*who)*and why (*why) should*be carried out control of thefirm operational activities. The meaning of the word refers to the existence of shareholders and to the pattern of relationship between shareholders and various parties concerned with the company both directly and indirectly (Kaen 2003).

The implementation of good governance is believed to be able to improve the firm performance because with good governance the business practices carried out will further put forward the principles of openness, accountability, trustworthy, responsible and fair. If that is the case then the company will be able to synergize and produce fundamental excellence and competitiveness. Such a typical company will be more interested in investors and furthermore overall will encourage the achievement of an atmosphere that supports investment. In the firm internal processes will further increase professionalism in its operations, realize efficiency and openness that can be accounted for, as well as improve the integrity of the implementation of functions and independence of the board of commissioners and directors in the General Meeting of Shareholders. Indirectly, it will condition shareholders, members of the board of commissioners and members of the board of directors to be more careful in making decisions, by remaining guided by the prevailing laws and regulations and emphasizing more on a commitment that the company has a social responsibility for its operational activities that have a direct or indirect impact on the existence of *stakeholders,*including issues concerning togetherness and environmental sustainability and the implementation of good governance that will support the sustainability of the company in the future with theresults of growing corporate performance.

Agency theory is recognized by most researchers as one of the theories that can explain the implementation of governance in the company. In principle according to the agency theory model, the owners of the company are shareholders*(principals)*who appoint managers as an extension to conduct the firm operations (agents). The separation of ownership and management has the potential to cause differences in perception and Interests so that it can trigger conflict. In this case the manager as the manager has more information than the owner who has a basic desire that his company should give results.

In agency theory, this fact is referred to as*asymetric*information. Several mechanisms can be adapted to explain how to reduce this degree of asymmetry, one of which is through the application of corporate *governance.*

Governance regulations are believed to ensure that managers' behavior will be more consistent in carrying out their obligations and have high accountability for all business decision making. In addition, good governance will provide guidance on how the board of commissioners and directors, managers, shareholders, and other related parties *as stakeholders in pursuing the achievement* of the firm objectives while still based on the understanding, that only with good management can make the company have value in the community. The end result of a good governance process will give birth to a commitment to understand that every operational activity of the company always refers to the rules and procedures that if this is carried out will make it easier for the company to achieve its goals and carry out the control process so that the resulting performance indicators will be accountable.

Chronological discussion of the relationship between corporate governance and financial performance can be identified through the research of Michel, & Hambrick, (1992) which found that the dominance of strong top leaders (Chief*Executive Officers)*has thepossibility of better company performance when compared to top leaders who are not dominant. Other governance structures namely the composition of the board of directors, the leadership structure of the board of directors, as in the research (Daily, & Dalton,. 1994) provides an overview of the significant relationship between the composition of the board of directors and the leadership structure of the board of directors to the performance of the company.

The results of Joh's research (2003) conducted in the pre-crisis period in Korea, clearly give an overview of the ownership structure and potential conflicts of interest between shareholders in the poor governance system will affect the firm performance.

Similarly, the concentration of ownership has a relationship with the control of the company and the level of profitability. In short, it can be said that good governance will reduce the potential for companies to experience financial difficulties, and on the contrary bad governance will increase the potential for companies to experience financial difficulties. Jae-Seung Baek (2004) conducted research on the crisis period in Korea, the results of which were consistent with Joh's findings (2003),even moredetailed, chaebol companies with high concentrations of ownership experienced a greater decline in equity. The policy of adding debt taken turned out to have a negative effect on the *return* obtained. These two studies reinforce the opinion that poor governance in the company is one of the sources of the crisis and in times of crisis if the company continues not to make better management efforts the end result of the company will experience a decrease in performance.

The implementation *of corporate governance* is influenced by the internal and external environment in which the company is located. In this framework it can be said that companies with good governance have less chance of experiencing financial difficulties when compared to companies with poor governance. Using stock ownership indicators, the percentage of independent directors and control authorization systems carried out by the government in China, Hui, & Jing-Jing, (2008) found results that showed the benefits of good corporate governance would help the company to become financially healthy. Decades earlier Elloumi, & Gueyie, (2001). conducted research in Canada, found that the composition of the board of directors is significantly able to explain the financial difficulties faced by the company, beyond dependence on investors.

Financial indicators will worsen when many key company people or Chief Executive *Officers* opt out. Additional results show the other structure of corporate *governance,* namely ownership and independent directors also influence the firm financial performance. Similarly, khanna's findings(2008) in India; Hotchkiss, & Strickland, in 2002 in Sweden. Lai, *et al* , (2010) in Taiwan capital market; Franklin Allen (2011) in Europe ; Salloum, (2012) ; Tamimi, (2012) at the national bank of the United Arab Emirates; Yong *et al* (2013) ; Vintila and Duca (2014) on companies listed on the Bucharest Stock Exchange, in the Mediterranean Euro; Iwasaki (2014) in Russia ; Apadore and Zainol (2014) in Malaysia.

However, there are also research results that show that *the application of corporate governance* does not affect the possibility of companies experiencing financial difficulties, as wang, & Deng, (2006) found that the ownership of the company and the number of directors as a proxy *of corporate governance has* no meaningful impact on financial performance and has no effect on the firm potential financial difficulties. Joshua, & Tauhid, (2013), examines the application of corporate *governance* to banking companies in Nigeria. The results found that there was no significant relationship between the structure of the board of commissioners, the control and supervision mechanisms and the number of commissioners with the bank's financial performance leading to financial difficulties. In Malaysia's manufacturing industry, there is no relationship between the implementation of corporate *governance* and the firm performance (Rabi, 2010). This fact is supported by the research of Thomson, & Jain, (2006) in Australia; Larcker, *et al,* (2007), Braendle et al. (2013) and Nworji, et *al,* (2011)with sample companies in the Middle East.

Corporate governance implemented by Sharia banks provides an overview of the results that the performance of Islamic banks as a company based on Islamic values and

sharia principles, is influenced not only by fundamental varibael quantitative, but also by qualitative variables such as managerial ability. In Bahrain, banking practices must be complemented by a credible sharia council and uphold sharia. Proven cheating is found to be the right reason to replace the board of directors because it will have an impact on the firm performance, where the situation will increase the chances of the company experiencing financial difficulties (Ghayad, 2008). *Corporate governance is* signaled to be a regulation for interests of depositors with shareholders. It is also realized the importance of transparency, executive compensation, governance that governs the relationship between stakeholders so that the firm objectives will be easier to achieve, which will be visible in financial performance and potential financial difficulties. Tamimi, (2012) developed research to look at the performance of sharia and conventional companies, concluding that there are no significant differences between the two related to the impact of corporate *governance* implementation on financial performance. In other words, both sharia-based and conventional companies if *implementing corporate governance* will have a better financial profile.

1.2 Research Objectives

The objectives of this research are as follows:

1. Developing theoretical models as solutions to solve empirical research inconsistencies in the influence *of corporate governance* on *corporate performance* in Indonesia.
2. Empirically test and analyze the *influence of corporate governance* on *corporate performance and Invesment Base Social Comitment* (IBASOC)
3. Empirically test and analyze the *influence of Invesment Base Social Comitment* (IBASOC) on *corporate performance.*

4. Empirically test and analyze the mediation function *of the Invesment Base Social Comitment* (IBASOC) under the influence of *corporate governance* on *corporate performance.*

1.3 Benefits of Research

1.3.1 Theoretical Benefits

The theoretical benefits of this research are as follows:

1. This research is expected to provide academic contributions to the science of financial management, especially related *to corporate governance* and its application. This contribution is in the form of how the implementation of corporate *governance* so that it can certainly have a good impact on the firm performance.
2. This research also contributes to the development of funding concepts and theories which are representatives of *corporate governance and* are considered capable to improve the firm performance.
3. As a medium of theoretical and conceptual enrichment in management science, especially *regarding corporate governance, financing decisions, social capital* and its application.

1.3.2 Practical Benefits

The practical benefits of this research are as follows:

1. For managers, this research can be a consideration in designing and setting capital structure policies.
2. For investors, this research can be used as a supporting analysis to select the right company as an alternative to investing.

3. For researchers, this study can be a reference for more in-depth studies on *corporate governance, its relationship* to funding decision choices and its impact on company performance.

CHAPTER II

THEORY REVIEW

2.1 Agency Theory

In this study, the State of the Art corporate governance research was initiated by **First**, agency theory became famous after Jensen and Meckling (1976) published the results of research on corporate theory (theory of the firm) judging by managerial behavior. Teori agency (Jensen and Meckling, 1976) explained about the relationship between shareholders and management of business entities described in the relationship prinsipal and agents or hubungan agency (agency relationship). An agency relationship is defined as a contract in which one or more people (owner or prinsipal) bind another person (agent) to perform some services of his or her interest and involve delegation of some decision-making authority to the agent. Armstrong, et al., (2015) stated that the principal relationship of the agent is the relationship between one participant who acts as an agent and makes decisions that will affect the other participants namely the principal as the owner of the business entity. Thus, the agency relationship describes the relationship between prinsipal as the owner of the business entity that delegates authority to the agent to manage, make decisions and act in accordance with the interests of prinsipal. Aguilera & Crespi-Cladera, (2016). establish assumptions of differences of interest between principals and agents that cause agency problems. Jensen and Meckling (1976) elaborated that agency cost consists of 3 forms, namely (1) monitoring costs (monitoring cost) that is the cost incurred to monitor and control the behavior of agents, for example related to budget restrictions, compensation restrictions policy, and operating rules, (2) bonding cost, namely the cost to bind expenses by agents, for example audit costs, (3) residual loss, namely reduction of the owner's

wealth due to the difference between management decisions and decisions that should be taken to maximize the owner's wealth.

Agency problems may arise from separation of ownership and management (cy agentType I issues) (Berle and Means 1932; Jensen and Meckling 1976) or from conflicts of interest between controlling and non-controlling shareholders and (Type II agency issues) (La Porta et al. 1999; Gilson and Gordon 2003; Bebchuk and Weisbach 2010; Eklund et al. 2013). Type I problems can be described as opportunismwhere ger and Type II problems are known as opportunism manager (Abdullah et al. 2015). When one of the two concerns a manager acting in the best interests of shareholders (minority shareholders). For example, ownership can seek personal gain, such as building an empire or alimony or engaging in inside trading at the expense of shareholders (minorities) (Shleifer and Vishny 1997; Hope and Thomas 2008; Jagolinzer et al. , 2011). As a result, in such cases, shareholders punish the company, thereby reducing the firm performance. The agency's theory suggests that the company can reduce agency problems, and thus improve the firm performance, through the implementation of various corporate governance mechanisms (Sami et al., 2011). Whether this mechanism develops effectively and reduces the problem of Type I and Type II institutions to the same extent remains an open empirical research question. This is the question we addressed in this study.

The size of Type I and Type II conflicts varies cross-sectionally, depending on the ease with which directors can seek personal gain at the expense of shareholders (minorities), among other factors (Jensen and Meckling 1976). Thus, the demand for better governance, and better manager supervision, will likely depend on the size of the Type I and Type II agent issues. Thus, the quality of governance also varies across sections. This indicates that

hubungan antara tata kelola dan kinerja perusahaan juga harus berbeda lintas bagian. Gagal untuk memperhitungkan variasi penampang ini sebagian dapat menjelaskan bukti campuran dalam literatur tentang hubungan antara kinerja perusahaan secara keseluruhan dan pemerintahan (misalnya, Hermalin dan Weisbach 1991; Mehran 1995; Bhagat dan Black 2002; Bocatto *et al.* 2010).

Agency theory is a derivative of the neoclassical economic theory of Adam Smith (1776) which in principle gives the idea that managers are only representatives of the owners of the company, who work to realize the expectations of the owners of the company but sometimes do not work in accordance with expectations. The underlying relationship is a contractual relationship between two people who are economic rational man, which means that in carrying out their duties themanager is motivated by personal interests influenced by differences in preferences, beliefs and how much information is owned. Jensen & Meckling, (1976) developed the relationship in corporate theory judging by managerial behavior, known as agency theory.

Agency theory according to Jensen & Meckling, (1976) describes in detail the relationship between shareholders as owners of the company and managers as agents in the contractual relationship between the owner to the agent to run the company by authorizing the manager to manage the company in exchange for a number of remuneration. Eisenhardt, (1989) explained that the assumption of difference of interest between principal and agent is a contractual relationship, which reflects an effective and risk-based organization, behavior that leads to moral hazard and adverse selection and information owned by agents can be a commodity traded.

Agency theory describes the relationship between shareholders (stakeholders) as principals and management as agents. Management is a party contracted by shareholders to work for the benefit of shareholders. Since they are elected, the management must take responsibility for all their work to the shareholders.

Agency relationships asconveyed by (Meckling, 1976) "agency relationship as a contract under which one or more person(the principals) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent".

Agency relationship is a contract in which one or more principals command another person (agent) to perform a service on behalf of prinsipal and authorize the agent to make the best decision for prinsipal. If both parties have the same goal of maximize the value of the company, then it is believed that the agent will act in a manner that is in accordance with the interests of the prinsipal.

Agency conflicts occur because of the interest of prinsipal to earn a growing profit, while agents are interested in receiving growing satisfaction in the form of financial compensation. These differences of interest result in problems within the company such as agency fees, capital structure policies, and manager behavior to be individualistic, opportunistic, and self-interested.

Management may take actions that do not benefit the company as a whole which in the long run has the potential to harm the interests of the company. Even to achieve its own interests, management can act using accounting as a tool to perform engineering. The difference of interest between principals and agents is called the Agency Problem, one of which is caused by the existence of Asymmetric Information (Arifin, 2005). Management is assumed to often act on the basis of

personal interests (Self Interest) so that there is a conflict of interest between shareholders and management that ultimately harms shareholders. (Arifin, 2005) mentions that " difference interests between principals and agents is called agency problem which is one of them is caused by the existence of asymmetric information."

Asymmetric Information (AI), which is unbalanced information caused by the distribution of unequal information between principals and agents. In this case the principal should obtain the information needed in measuring the level of results obtained from the agent's efforts, but it turns out that the information about the measure of success obtained by the principal is not entirely presented by the agent. As a result the information obtained by the principal is incomplete so it remains unable to explain the agent's true performance in managing the principal's wealth that has been entrusted to the agent. As a result of this unbalanced information (asymmetry), it can cause 2 (two) problems caused by principal difficulties to monitor and control the actions of agents. (Meckling, 1976) stated the problem is:

1. *Moral Hazard*, which is a problem that arises if the agent does not carry out the things that have been mutually agreed in the employment contract.
2. *Adverse*selection, which is a situation where the principal cannot know whether a decision taken by the agent is really based on the information he has obtained, or occurs as a negligence in the task.

The *existence of agency* problems above, raise agency costs (agency*cost)*for companies consisting of:

1. *The monitoring expenditures by the*principle. Monitoring *costs are* incurred by principals to monitor the behavior of agents, including efforts tocontrol the*behavior*of agents through budget *restrictions, and compensation policies*

2. *The bonding expenditures by the*agent. *The bonding cost is incurred* by the agent to guarantee that the agent will not use certain actions that will harm the principal or to guarantee that the principal will be compensated if he does not take much action.
3. *The residual loss is* a decrease in the level of welfare of principals as well as agents after the existence of agency *relationships.*

2.2 Resources Dependence Theory

Stakeholder theory says that the company is not an entity that only operates for its own benefit but should be able to provide benefits to its stakeholders. Thus, the existence of a company is strongly influenced by the support provided by the firm stakeholders (Miles, 2017).

Stakeholders are community groups that have an interest in the activities of certain entities, such asorganizations, local communities, communities or certain social movements (Harjoto, et al., 2015; Martínez, et al., 2016; Helmig, et al., 2016; Shaukat, et al., 2016; Su, et al., 2016; Voegtlin & Greenwood, 2016; Zhu, et al., 2016). According to stakeholder theory, organizational survival and success depend on management's ability to create and maintain sufficient wealth, value, or satisfaction for all major stakeholder groups (Strand,etal., 2015; Voegtlin & Greenwood, 2016; Platonova, et al., 2018; De Roeck & Maon, 2018; Hasan, et al., 2018; Dias, et al., 2019) defines two stakeholder groups namely the environment (customers, owners, and communities) and processes (employees and suppliers). Larrán, et al., (2018) identified two types of stakeholders, namely primary stakeholders, which include the company itself, employees, shareholders, customers, and suppliers, and secondary stakeholders,which include media and various special interest groups. The general public, in many cases, is also considered as relevant

stakeholders (Benlemlih & Bitar, 2018; Kim, et al., 2018; Jahn & Brühl, 2018; Uddin, et al., 2018; Pérez, et al., 2018).

Stakeholders can basically control or have the ability to influence the use of economic resources used by companies. These capabilities can be the ability to limit the use of limited economic resources (capital and labor), access to influential media, the ability to regulate companies, or the ability to influence the consumption of goods and services produced by the company. Therefore, when stakeholders control economic resources that are important to the company, the company will react in ways that satisfy the wishes of stakeholders. Success in its business business depends on maintaining trust in important stakeholders (Bodhanwala & Bodhanwala, 2018).

2.3 Resource Dependency Theory

Resource Dependency Theory states that the influence of external factors on organizational behavior encourages managers to act to reduce environmental uncertainty and dependency. The focus of this theory is the concept of power where control over resources is important(Ong, et al., 2018). Organizations seek to reduce the power of other parties over them and seek to increase their own power over the other party.

Tashman, et al., (2019) provides basic arguments from the perspective of resource dependency and inter organized relationships as follows: 1) organizations are fundamental units for understanding relationships with society; 2) these organizations are notautonomous, but are limited by interdependent networks with other organizations; 3) interdependence i.e. when combined with uncertainty about the actions to be taken then leads to situations where survival and success are uncertain; 4) organizations take action to manage external interdependence, and

produce new patterns of dependency and interdependence, and 5) dependency patterns resulting in interorganizational as well as intra organisational power, where such forces have some effect on organizational behavior.

Resource dependency theory has the origin of open system theory. As such organizations have different levels of dependence on the external environment, especially for the resources needed to operate. This raises the issue of organizational uncertainty in the face of resource acquisition(Liao, et al., 2018; Muttakin, et al., 2018; Cordeiro, et al., 2018) and raises the issue of the firm dependence on the environment for critical resources (Lee, et al., 2018; Oh, et al., 2018; Chen, 2018; Hoang, et al., 2018).

Control of these external resources can often reduce managerial discretion that interferes with the achievement of organizational goals and ultimately threatens the existence of theorganization (Bull, et al., 2018).

In this perspective, organizations can manage increased dependency through adaptation with or avoid external demands, as well as implement resources dependence theory strategies among others as follows: 1) change interdependence through integration, merger anddiversification , 2) build a collective structure to form a negotiated environment, and 3) use legal,political or social actions to form an environment created(Mani, *et al.,* 2018). Understanding Resources Dependence Theory according to Chiu & Sharfman, (2018), that strength and dependency are closely related, thus Lin, et *al.,* (2018).

Based on the firm resources as input for the production process consisting of physical resources, human resources and organization, it will determine what capabilities the company has. Capabilities must be integrated as a whole, enabling companies to be better than their competitors. If the company currently has

resources and capabilities that cannot be replicated and cannot be replaced, the company will choose and implement strategies to earn above average profits. To make an investment the company needs an opportunity, a plan or project that can be chosen to realize its goal of making more money. Modigliani and Miller, (1958a) divided the value of the company based on the present value of the income generated by assets in place and the opportunity to make additional investments in real assets that would result in a rate of return that was more than the normal rate of return. Resource-based investment is actually a choice of investment options that may or may not be used by the company. Because at the time of investment, the company must pay attention to the resources owned to support the implementation of the investment, so that the company does not lose the option. Because when furthermore the investment opportunities of the company depend on many factors, first, Firm Specific and industry specific. Christie, (1989) found that the main factor determining investment success was industry factors such as bariier to entry and product life sycle Penrose, (1959) saw the company as a collection of productive resources. Then Penrose, (1959) defined resources as "the physical things companies buy, rent, or produce for their own use, and the human resources that companies employ. It is heterogeneity, not homogeneous , of such a productive service has the potential to give the company a unique character. The idea that companies achieve unique characters based on their heterogeneous resources is the basis of Resource Based View *(RBV).* Penrose also relates the interaction between materials and human resources to the firm performance. Such resource-performance relationships are an important issue in strategic management. Resource Based Viewpoint (RBV) Investment Concept (Teece, et al 1997; Barney, 2001a). According to Penrose, (1959) that the company as a combination of a set of

resources. This theory explains that the growth of the company is limited by the opportunities that exist as a function of a set of productive resources of the company. Bryant-Kutcher, et al (2012) used RBV's approach to gaining a competitive advantage, that internal resources are more important to the company than external factors, in order to achieve and maintain a competitive advantage. Prahalad and Bettis, (1986) showed the emergence of large companies because of the success in building the firm capability. Barney, (2001a) also argues that diversification can create economic scope by sharing activities and transferring core corporate competencies. At the heart of RBV is an action strategy to position the relationship between business units as the foundation for multi-business organizations, and emphasizes the firm ability to leverage potential synergies between resources, to produce higher performance. Michael A. Hitt, *et al,* (2009) describes resources as inputs for production processes, capital goods, worker capabilities, patents, finance and talented managers. In general, resources are classified into three categories: physical, human resources and organization.

2.4 Structure of Good Corporate Governance

Corporate governance is a concept based on agency theory, expected to serve as a tool to give confidence to investors that they will receive a return on the funds they have invested. Corporate governance relates to how investors are confident that managers will benefit them, is confident that managers will not steal or embezzle or invest into unprofitable projects related to funds that have been invested by investors, and relates to how investors control managers (Shleifer and Vishny, 1997). In line with that, Monks and Minow (2001) stated that corporate governance is corporate governance that explains the relationship between various participants in the company that determines the direction and performance of the company. A

survey conducted by Mc Kinsey and Co (2002) showed that corporate governance has been a major concern for investors, especially in emerging markets. Investors will tend to avoid companies that have poor corporate governance. Implementation corporate governance can be reflected in the value of the company as seen from the share price of the company concerned. According to Black et al. (2002), alternative explanation of the relationship between corporate governance practices and the value of the company according to the research is signaling and endogenity.

Bassen Alexander (2005) conducted research on efficient corporate governance has increased in Europe and Germany, where in the past decade, the increasing internationalization of capital markets and the increasing importance of institutional investors in Europe have also increased the pressure on corporate governance. The separation of ownership and control and asymmetry of information generated for investors explains the additional agency fees, for example, for contracts and monitoring. To reduce these costs, corporate governance efforts try to set good corporate governance standards in Germany for national and international investors. The current result of a different idea is the German Corporate Governance Code, which is a tool to monitor the company in terms of corporate governance, Scorecard for Germany Corporate Governance (CG Scorecard), developed to support institutional investors and financial analysts in implementing good corporate governance in the company. It is based on the German Corporate Governance code is the best GCG practice and is oriented towards capital market requirements.

Jensen and Meckling (1976) defined agency relationships as contracts, in which one or more principals hire others (agents) to perform multiple services for their benefit by delegating some authority to make decisions. Conflicts of interest will arise from the delegation of tasks given to the agent, i.e. the agent is not in the

interest of maximize the welfare of the owner, but has a tendency to pursue his own interests at the expense of the interests of the owner.

Agency theory is built on three assumptions (Eisenhardt, 1989), namely: assumptions of human nature (human assumptions), organizational assumptions, and information assumptions. The assumptions of human nature are grouped into three, namely: (1) self-interest, namely human nature to prioritize self-interest, (2) bounded-rationality, namely human nature that has limited rationality, and (3) risk aversion, namely human nature that prefers to avoid risk. Organizational assumptions are grouped into three, namely: (1) conflict of objectives between participants, (2) efficiency as a criterion of effectiveness, and (3) asymmetry of information between owners and agents. The assumption of information is an assumption that states that information is a commodity that can be purchased. Agency theory emphasizes more on determining efficient contractual arrangements in the owner's relationship with the agent. An efficient contract is a clear contract for each party that contains rights and obligations, so as to minimize agency conflicts. Ross (1973) asserts that principal-agent problems arise when there is asymmetric information from the agent to the principal. This asymmetrical information can occur in the form of activities as well as information. Problems related to activities are called hidden action, while problems related to information are called hidden information. Hidden action will give rise to moral hazard and hidden information will give rise to adverse selection. In line with the In line with that, Sung (2001) stated that there are many potential sources for corporate moral hazard problems, including: (1) managers may invest corporate profits in projects with low value to expand their empires; (2) managers may pay themselves too much and receive very high, expensive and squandered additional income; (3) managers may exercise

continuously in a way to pursue their personal goals rather than maximize the value of the company; (4) Managers may resist attempts to increase the strength of profitable operations, especially the rejection of takeovers that threaten their positions. Thus, there are two main conditions for a moral hazard problem to arise between principal and agent. The two main issues are: (1) conflict of interest, and (2) inability to write workable contracts covering all important elements of various transactions (Sung, 2001). Jensen and Meckling (1976) offered two ways that capital owners can reduce the risks caused by the actions of managers who are detrimental (moral hazard problem). Both ways are: the owner of the capital conducts monitoring and the manager himself does restrictions on his actions (bonding). Furthermore, Sung (2001) added explicit incentive contracts as the third way to prevent the emergence of moral hazard problems, in addition to monitoring and bonding.

Agency conflicts can be traced from several conditions, such as; use of free cash flow in unprofitable activities (Jensen, 1986). The use of free cash flow will increase the power of managers by over-investment and consume excessive perquisites (Bhatala et al., 1994). Differences in investment decisions between investors and managers where investors prefer high-risk projects and high returns but management prefers low-risk projects to protect their job positions (Crutchley and Hansen,1989).

2.5 Stakeholders Theory

Stakeholder theory says that the company is not an entity that only operates for its own benefit but should be able to provide benefits to its stakeholders. Thus, the existence of a company is strongly influenced by the support provided by the firm stakeholders (Ghozali and Chariri, 2007).

Stakeholders are community groups that have an interest in the activities of certain entities, suchas organizations, local communities, communities or certain social movements (Brenner and Cochran,1991; Freeman,1984; Hill and Jones,1992; Donaldson and Preston,1995; Donaldson,1990; Mitchell et al. , 1997; Thompson and Hood, 1993). According to stakeholder theory, organizational viability and success depend on management's ability to create and maintain sufficient wealth, value, or satisfaction for all major stakeholder groups (Clarkson, 1995; Frooman, 1999; Jones and Wicks,1999). Atkinson et al. (1997) defines two stakeholder groups namely the environment(customers, owners, and communities)and processes (employeesand suppliers). Clarkson (1995) identified two types of stakeholders- primary stakeholders, which include the company itself, employees, shareholders, customers and suppliers, and secondary stakeholders, which include media and various special interest groups. The generalpublic, in many cases, is also considered a relevant stakeholder(Brenner and Cochran,1991; Buchholz, 1993; Donaldson and Preston,1995; Freeman,1999; Hill and Jones,1992).

Stakeholders can basically control or have the ability to influence the use of economic resources used by companies. These capabilities can be the ability to limit the use of limited economic resources (capital and labor), access to influential media, the ability to regulate companies, or the ability to influence the consumption of goods and services produced by the company. Therefore, when stakeholders control economic resources that are important to the company, the company will react in ways that satisfy the wishes of stakeholders. Success in its business efforts depends on maintaining trust in important stakeholders (Lawrence et.al., 2005: 5-6).

Supporters of the firm stakeholder theory make three core arguments to positionthe importance of paying attention to stakeholders, namely descriptive, instrumental and normative arguments.

1. **Descriptive arguments** say that stakeholder views are a more realistic description of how the company actually works. Managers should pay close attention to quarterly and annual financial performance. The company maintains that the market is satisfied with the management of growth - thus attracting more investors and increasing the share price - is a core part of the work of every top manager. But management tasks are much more complex than this. To produce consistent results, managers must care about producing high quality and innovative products and services for their customers, attracting and retaining talented employees, and complying with a number of complex government regulations. Manajer directs their energy towards all stakeholders, notjust the owners.
2. **Instrumental arguments** say that stakeholder management is more effective as a corporate strategy. Companies that consider rights and attention to several important groups will perform better in the long run,compared to companies that do not care. For example, a recent study of 500 large companies found those who stated their commitment to their code of conduct and *stakeholders* in their annual reports performed better financially than those that did not (Curtis, 1998). This finding makes sense, because good relations with stakeholders are itself a source of value for the company.
3. **Normative arguments** say that stakeholder management is the right thing to do. The Company has great power and controls vast resources, this privilege brings with them the duty of all those affected by the actions of a corporation. In

addition, all *stakeholders,not* just owners, donate something valuable to the company.

2.6 Legitimacy Theory

Ghozali and Chariri (2007) express the definition of legitimacy theory as a condition or status, which exists when a firm value system is in line with the value system of the larger social system in which the company is a part. When a real or potential difference exists between the two value systems, there will be a threat to the legitimacy of the company. By making social disclosures, the company feels its existence and activities are legitimized. The organization strives to create harmony between the values inherent in its activities and the norms of behavior that exist in the social system of society in which the organization is part of the system. As long as the two things are aligned, it is called the legitimacy of the company. When there is a misalignment between the two systems, there will be a threat to the legitimacy of the company.

In a position as part of society, the firm operations often affect the surrounding community. The extension is acceptable as a member of the community, otherwise the extension can be threatened if the company does not conform to the prevailing norms in the community or even harm members of the community. Therefore, the company through its management tries to obtain conformity between the actions of the organization and the values in the general public and the relevant *public or*itsstakeholders. This harmony between the actions of the organization and the values of its people did not always go as expected. It is not uncommon for potential differences between organizations and social values that can threaten the legitimacy of companies that are often called *legitimacy gaps.* Even

when the *legitimacy gap occurs* it can destroy the legitimacy of the organization that leads to the end of corporate extension.

2.7 Resource Dependency Theory

Resource Dependency Theory states that the influence of external factors on organizational behavior encourages managers to act to reduce environmental uncertainty and dependency. The focus of this theory is the concept of power where control over resources is important (Ulrich & Barney, 1984). Organizations seek to reduce the power of other parties over them and seek to increase their own power over the other party.

Pfeffer and Salancik (1978: 26-27) provide basic arguments from the perspective of resource dependency and interorganized relationships as follows: 1) organizations are fundamental units for understanding relationships with society; 2) these organizations are notautonomous, but are limited by interdependent networks with other organizations; 3) interdependence i.e. when combined with uncertainty about the actions to be taken then leads to situations where survival and success are uncertain; 4) organizations take action to manage external interdependence, and produce new patterns of dependency and interdependence, and 5) dependency patterns resulting in interorganizational as well as intra organisational power, where such forces have some effect on organizational behavior.

Resource dependency theory has the origin of open system theory. As such organizations have different levels of dependence on the external environment, especially for the resources needed to operate. This raises the issue of organizational uncertainty in the face of resource acquisition (Aldrich, 1999; Ulrich and Barney, 1984) and raise the issue of the firm dependence on the environment for critical resources (Dwyer *et al.* , 1987; Grewal and Dharwadkar, 2002; Pfeffer and Salancik,

1978). This external resource control can often reduce managerial discretion that interferes with the achievement of the organization's goals and ultimately threatens the existence of the organization(Scott, 1998).

In this perspective, organizations can manage increased dependency through adaptation with or avoid external demands, as well as implement resources dependence theory strategies including the following: 1) changing interdependence through integration, mergers and diversification, 2) establishing a collective structure to form a negotiated environment, and 3) using legal, political or social action to form an environment created by (Pfeffer dan Salancik, 1978). Understanding Resources Dependence Theory according to Emerson(1962) that strength and dependency are closely related, thus Pfeffer and Salancik (1978) stated and argued to devise certain strategies in managing the external environment and discussing appropriate conditions.

The essence of this perspective is that financial performance results will excel primarily by managing dependencies and uncertainties. The company must developthe right strategy to proactively influence and thus control the environment with the advantages that should be taken into consideration in strategic decision making. It will further open up the option for companies to contribute or withhold important resources or inputs that can then be used as *leverage* in negotiations with partners or customers. Overall, this perspective relates to the management of a competitive environment.

2.8 SignalingTheory

Signalling theory emphasizes the importance of information released by the company to investment decisions of parties outside the company. Information is an important element for investors and businesses because information essentially

presents information, notes or descriptions both for past, current and future circumstances for the survival of a company. Complete, relevant, accurate and timely information is indispensable to investors in the capital market as an analytical tool for making investment decisions.

According to Jogiyanto (2000), the information published as an announcement will provide a signal for investors in investment decision making. If the announcement contains positive value, then it is expected that the market will react when the announcement is received by the market. When the information is announced and all market participants have received the information, market participants first interpret and analyze the information as a good news signal or bad news. If the announcement of the information as a good signal for investors, then there is a change in the volume of stock trading.

According to Sharpe (1997), the announcement of accounting information signals that the company has good prospects in the future (good news) so that investors are interested in trading stocks, thus the market will react reflected through changes in stock trading volume. Thus the relationship between the publication of information both financial statements, financial condition or socio-political to fluctuations in stock trading volume can be seen in market efficiency.

One type of information released by the company that can be a signal for parties outside the company, especially for investors is the annual report. Information disclosed in the annual report can be accounting information, namely information related to financial statements and non-accounting information that is information that is not related to financial statements.

Annual reports should contain relevant information and disclose information that is considered important for report users to know both inside and outside. All

investors need information to evaluate the relative risk of each company so that it can diversify its portfolio and combination investments with desired risk preferences. If a company wants its shares bought by investors then the company must disclose its financial statements openly and transparently.

2.9 Board Role Intensity (IPD)

The diversity of empirical research results on the influence of the board of directors from the attributes of independence of the board with the value of the company is one of them is because it uses only one attribute of the four attributes of the board namely the proportion of the independent board (board composition). The use of board attributes in a composite way needs to be considered in corporate governance mechanisms. For example the Joint Code of Conduct (2006) in england provides recommendations that emphasise council independence and duality as elements of corporate governance reform.

This research uses the Board Role Intensity variable which is the approach required by the board in carrying out its functions and roles. Board with its functions and roles for monitoring, service and strategic can not be optimal only by the proportion of the number of independent commissioners in the company, but requires activities in carrying out the role that is the process. The intensity of the board's role uses a composite way between composition attributes and process attributes. Process attributes use a proxy frequency of meetings between the board of commissioners, committees and directors (Zahra and Peace, 1989) and composition attributes that use board independence proxies. Furthermore the Intensity of Board Roles is used in this research as an attribute of the Board of Directors.

The board process can be measured by the frequency of board meetings between boards, with committees and board meetings. Vafeas (1999) stated that board activities are an important dimension and that the frequency of meetings conducted has a relationship with the firm operating performance. The more frequently the board of commissioners holds meetings, the access to information will also be more evenly distributed among fellow commissioners, so that the better the decisions that have an impact on the firm better performance. Board of Commissioners meeting is one of the sources of information that will be used to improve the effectiveness of the board of commissioners. The information disclosed through the meeting includes not only the firm vision, mission, business objectives and strategy, financial condition, internal control but also those with interests with the company.

Through research conducted by Vafeas (1999) found a positive relationship between the frequency of meetings and the performance of the company. This was also stated by Perry (1996), the activities of the board of commissioners to measure the quality of the monitoring role. The more active the board of commissioners, the more effective the firm performance will be. In addition, Vafeas (1999) concluded that board activities are an important dimension and that the frequency of meetings conducted has to do with the firm operating performance. It is in accordance with Conger et al. (1998) that the frequency of meetings is an important source to create the effectiveness of the board of commissioners.

Ntim and Osei (2011) examined the impact of company board meetings on the firm performance for samples from 169 companies listed from 2002 to 2007 in South Africa. The results show a significant and positive statistical relationship between the frequency of company boardmeetings and the firm performance,

implying that boards in South Africa with more frequent meeting frequencies tend to result in higher financial performance. The results of this study provide empirical support for agency theory, which shows that the boards of companies thatmeet more often have increased the capacity to effectively advise, monitor and discipline management, and thus improve the financial performance of the company.

The composition of the board is measured by the proportion of independent commissioners from the total number of commissioners. In managing the company according to the general methods of Good Corporate Governance (GCG), the role of an Independent Commissioner is indispensable. Independent Commissioners can serve to supervise the running of the company by ensuring that the company has conducted transparency, dislosur, independence, accountability and fairness practices according to the provisions applicable in an economic system. Independent commissioners who do their job well, will be able to increase the credibility of the company in the eyes of the market so that it is expected to increase the value of the company.

The independent board of commissioners demonstrates the presence of representatives of shareholders independently and also represents the interests of investors. Bank Indonesia Regulation no.8/ 4/ PBI/ 2006 article 4 concerning independent commissioners: "An Independent Commissioner is a member of the Board of Commissioners who has no financial relationship, management, share ownership and/or family relationship with other members of the Board of Commissioners, directors and/or controlling shareholders or other relationships that may affect their ability to to act independently." Independent commissioners are measured using the proportion of independent commissioners sitting on the board of commissioners (Sanda et al., 2005).

The theory suggests that board independence is non-executive directors (NEDs) who are generally expected to be free of top management, led by CEOs (Monks and Minnow, 2004). Fama and Jensen (1983) pointed out that the majority of boards should be non-executives (NEDs), who are regarded as independents and can act as the median in disputes between top executives and the search for an internal manager replacement. Hermalin and Weisbach (1998) suggested that the independence board improve the board's ability to monitor CEO upgrades. Therefore, the board must maintain independence in order to effectively monitor and replace the top management who have poor performance.

According to Gilson (1990) and Kaplan and Reishus (1990) raised the importance of commissioners from outside the company. This will reduce collusion with management. Van Berghe and De Ridder (1999), board of directors must be independent and have proper knowledge with regard to the company. This will be able to solve agency problems so that companies can use resources efficiently and have an impact on increasing the value of the company. Kren and Kerr (1997) stated that the supervisory board would be more effective if it consisted of independent outside directors.

It is also stated by Kroszner and Rajan, (1997) that the existence of independent directors adds value to the company that is in the credibility of financial markets. In addition, if the board is dominated by outsiders (outside the company) will lead to better and stronger governance than if the company is dominated by directors from within the company, this is because they act as an independent party. Companies that implement corporate governance well, the value created for investors will be higher, this can be reflected in high market prices. More independence of the board of commissioners, the firm performance will be higher.

An independent commissioner is a counterweight to the supervision of public companies

Cotter and Silvester (2003) examined the composition of theboard and the monitoring committee (audit and compensation) for major companies in Australia. Companies that use the committee structure in the board, many rely on the responsibility of oversight of the board to independent committee members. This study examined the impact of independence on the board and the effectiveness of the committee by referring to the value of the company. Agency theory shows a positive relationship between effective supervision of management andthe value of the company, because the cost reduces dysfunctional behavior (Jensen and Meckling, 1976).

Setia-Atmaja (2009) conducted research using data panels on samples of Australian public companies during the period 2000-2005 (1,530 companies year of observation). The study found that the concentration of ownership had a negative impact on the independence of the board, but had no impact on the independence of the audit committee. The results also show that the independence of the board increases the value of the company and the impact of the board's independence performance is stronger in concentrated companies and/or companies that have low dividend payments.

Shan and McIver (2012) provide empirical evidence of the influence of corporate governance characteristics and the concentration of corporate ownership on the financial performance of Chinesecompanies. The data used is panel data for the period 2001-2005. The characteristics *of the board of directors* used are the ratio of independent directors and professional supervisors of the company and the level of concentration and type of ownership of the company. The firm performance

metrics used are Tobin Q. The research findings that the concentration of ownership in general is an important factor in determining the firm performance. The level of independence of the board is significant, but it only seems to have a positive impact on performance at large companies.

2.10 Ownership Concentration (KKE)

According *to the World Bank* (1999) corporate governance control mechanisms are divided into two, namely external and internal mechanisms. External mechanisms include capital markets, funders, consumers, and regulators. Internal mechanisms include the board of commissioners including the committees under it, the board of directors, management, and shareholders. This is in line with Wals and Seward (1990) which stated that in general two control mechanisms are known external control mechanisms and internal control mechanisms. External control mechanism is the control of the company based on market mechanisms (market for corporate control) namely through the effectiveness of the capital market (Fama and Jensen, 1983), product and service markets (Grossman and Hart, 1980), as well as managerial labor market(Fama, 1980). The firm internal control mechanisms include controls carried out by the board of commissioners (Fama and Jensen, 1983) or through attractive and competitive incentive schemes for management (Fama, 1980).

Dennis and McConnell (2003) argued that to address problems in corporate governance, different mechanisms could be applied. This mechanism can be internal or external,where the internal mechanism operates through the board of directors and the ownership structure (managerial ownership). Gill et al. (2009) identifies three leading corporate governance mechanisms, namely board, disclosures and ownership structure.

2.11 Managerial Ownership (KMA)

The proportion of management ownership is seen *from the perspective of alignment theory* as a theory that is a development of agency theory view that the ownership structure can be used as a way to reduce agency problems. This means that at a time when share ownership is relatively spread to many investors with relatively small shareholdings by managers then the opportunistic nature of managers will tend to emerge. So that the problem does not occur then the ownership of the manager should be increased (Jensen and Mecking 1976). So if it refers *to alignment theory* then the ownership structure will reduce agency problems that make agency costs decrease then the ownership structure will potentially increase the value of the company.

In contrast to the alignment theory view, entrencment theory considers that the ownership structure will not have an impact on reducing agency problems. According to Entrencment theory *if* the ownership of shares in a handful of investors or concentrated makes the position of shareholders very strong, with a strong position it can benefit the position for its benefit and not pay attention to the interests of shareholders in general.

The results of several studies yielded different conclusions *between alignment* theory *and Entrencment theory.* Demsetz and Villalonga (2001)and from several previous studies it produced unequivocal evidence for the endogenousity of ownership structures. This follows that the coefficient of the single equation model of the influence of structural ownership on the firm performance results in a biased conclusion. Bias may also be the result of studies that fail to take into account the complexity of interests involved in ownership structures. The study examined the role played by two aspects of the ownership structure, the fraction of shares owned

by the five largest shareholders of interest and the fraction of shares owned by management, but not especially the so for management share ownership as endogenous. The results of this study are in line with Demsetz and Lehn (1985) that the ownership structure has no significant relationship. While research conducted by Shleifer and Vishny (1986)concluded that the increase in share ownership by large block shareholders proved to significantly increase the firm share price.

By looking at the differences in conclusions above, it shows that there are still differences in influence between ownership structures on the firm performance in accordance with the two theories underlying the ownership structure, namely alignment theory and Entrencment theory.

2.12 IBASOC

Social-based investment in this research is measured in two dimensions, namely the dimension of corporate financial performance and corporate social performance dimension. Measurement of the dimensions of the firm financial performance and social performance of the company can be explained as follows:

1. Corporate Financial performance is used to measure economic-oriented investment. The investment decision approach used in this research is asset-based investment which is the addition of assets used by the company to generate revenue. Asset-based investments can be seen from the growth of assets, the ability of assets to generate sales and investment expenditures.

   The asset-based investment approach used in this study is the ability of assets to generate sales or total asset turnover ratio. The firm financial performance to measure the ability of assets to generate sales or total asset turnover ratio and generate income or return using performance-based accounting with proxy Return On Asset (ROA) or Return On Investment (ROI). ROA and ROI have

the same formula. ROI refers to data from the Indonesian Capital Market Directory (ICMD). Empirical studies use the term ROA a lot. Empirical studies that use ROA to measure financial performance include Research McGuire et al. (1988); Waddock & Graves (1997); Preston & O'Banon (1997); Johnson & Greening (1999); Crisostomo et al. (2011); Wissink (2012). Return on Asset demonstrates the firm ability profit from the assets or assets used. ROA in Dupont equation (Brigham and Daves, 2002:233) is called earning power obtained from multiplication of asset turnover ratio (total assets turnover ratio) and profit margin. This ratio indicates the level of investment efficiency shown in the level of asset turnover. If asset turnover increases and profit margin remains then earning power continues to increase.

The turnover ratio of assets is used in the context of agent by Ang, et al. (2000) and Danielson and Scott (2007) to build an agency cost index. The asset turnover ratio is interpreted by the asset utilization ratio which shows how effective management is to spread the firm assets. A high asset turnover ratio indicates a good investment decision or effectively creates a high return (Florackis, 2009).

2. Corporate Social *Performance*in this study was used to measure social oriented investment. CSP is measured using a proxy ratio of the proportion of funds allocated to *Corporate Social Responsibility (CSR)* activities fromnet income. This proxy is the disclosure of CSR activities as measured by monetary units. The basis for choosing such measures are: (1) *based on content* adopted from Bhattacharyya and Nag's research (2012) with proxy mode of spending and CSR funds *(cash,* in the form of natura, volunteers and loans); (2) based on the context in Indonesia on the provision of *CSR* funds using the Law on State-Owned Enterprises (SOE Law) No. 19 of 2003 which is explained through the Regulation of the Minister of State-Owned Enterprises

(Per.Men BUMN) Number 05 / MBU / 2007, regulates the funds of the Partnership and Community Development Program (PKBL) of 4% of the net profit.

Data obtained from the annual report in the form of disclosure of CSR activities calculated in monetary units. CSR reporting or social disclosure is the firm strategic plan to demonstrate a firm social performance to stakeholders (Roberts,1992). Pelaporan *CSR as* part of the dialogue between the company and stakeholders (Gray et al., 1995). Therefore, stakeholder theory provides a useful framework for evaluating CSR through social reporting activities (Snider et al. , 2003). CSR disclosure is a form of corporate accountability to stakeholders. The form of accountability sosial company is submitted in the form of mechanisms in the form of company reports to interested parties in the form offinancial statements, annual reports and other types of reports. The report is a formof financialand non-financial information relating to the organization's interaction with the physical and social environment, as stated in the annual report or separate social reports (Hackston and Milne, 1996). Data obtained from the firm social disclosure includes details of the physical environment, energy, human resources, products and matters of community engagement and financing.

2.13 Firm Reputation (RPE)

Fombrun (1996) defines the firm reputation asfollows:

"A representation of perceptions of the firmpast actions and future prospects that illustrate the overall attractiveness of the company to all key elements when compared to other leadingcompetitors" (Fombrun, 1996)".

This definition emphasizes three key attributes: (1) reputation is based on perception, (2) aggregate perception of all stakeholders, and (3) comparative. The reputation of an organization affects an organization's competitive position, making

it important for researchers and practitioners to better understand how to examine and evaluate an organization's reputation, and how to build, maintain, and maintain a reputation (Hall, 1992).

Gotsi and Wilson (2001) define the firm reputation is the overall evaluation of stakeholders of a company over time. This evaluation is based on direct experience with corporate stakeholders, other forms of communication and symbolism that provide information about the firm actions and/or comparisons with the actions of other leading competitors. The reputation of the corporation reflects the perception of society. This perception was created by the firm history of past actions. The firm reputation is a representation of perceptions of the firm past actions and future prospects that illustrate the overall attractiveness of the company to all key elements when compared to other leading rivals (Fombrun, 1996). The latest theories and evidence suggest that companies with better reputations are more likely to experience superior sustainable financial performance. Inother words, a review ofthe literature clearly shows a positive relationship between the firm reputation and aspects of the firm performance (Roberts and Dowling, 2002). The benefits of having a good reputation can be attributed to improved financial performance include: providing product quality indicators when consumers are faced with a choice between competitor products (increased sales, premium prices and customer retention) (Shapiro, 1983); high capacity staff attractiveness and higher staff retention rates (reduced organizational costs) (Roberts and Dowling, 2002), reduced uncertainty of supplier and buyer exchanges (increased sales, reduced transaction costs) (Kotha et a.l, 2001), and provided goodwill reserves (strategic intangible assets) as an entry barrier to maintain sales (Michalisin et al., 2000).

The main factor affecting the firm reputation is financial performance although reputation may be heavily influenced by the ethical conduct of company members. At a time when a firm earnings and share price have outperformed other companies in the industry and the broadermarket, they tend to have a better reputation for business and consumers than if the firm financial performance had lagged the market. On the other hand, poor performance caused financial problems and the loss of employees and key customers (Vergin and Qoronfleh, 1998). Previous research supporting financial performance has affected the firm reputation, among others: McGuire and Branch (1990); Hammond and Slocum (1996); Dunbar and Schwalbach (2000); Roberts and Dowling (2002); Rose and Thomsen (2004); Sanchez and Sotorrio (2007) and Zhang and Rezaee (2009).

According to Neville et al. (2005),a firm financial performance will be directly and significantly related to the firm reputation. In addition, they suggest that the positive relationship between a firm reputation and a firm financial performance will streng then,such asincreasing competitive intensity. In terms of the relationship between stakeholder power, corporate social performance and the firm financial performance, they argue that the positive relationship between the firm reputation and the firm financial performance will strengthen as it increases the strength of stakeholders.

Reputation as an intangible valuable asset should largely be measured by qualitative measures. Reputation, as a valuable intangible asset, cannot be judged only by financial performance, although some researchers argue that financial performance has a positive influence on reputation; that is,it is found that financial performance affects reputation (Rose and Thomsen, 2004: 208). Reputation is a

much broader concept and worth estimating with qualitative and quantitative indicators (financial and non-financial).

For several years, most academics used the firm reputation annual Fortune Index, which is based on research conducted among about 10,000 senior executives in the United States who were asked to rate the ten largest companies in the industry. They found eight significant attributes (AMAC, 2008) the ability to attract and retain talented people, 2) quality management, 3) product or service quality, 4) innovation, 5) long-term investment value, 6) financial health, 7) prudent use of corporate assets, and 8) social responsibility to society and the environment. In addition to the eight attributes, Fortune WMAC (2010) added the ninth attribute which is effectiveness in running a global business.

The company reputation index does not exist in Indonesia so based on the latest literature mentioned above, and according to the behavior of the organization in Indonesia as well as the overall business situation, the reputation attributes were chosen for the purposes of this research. The seven most important attributes are: 1) product and service quality, 2) corporate vision and strategy, 3) quality management – leadership, 4) workforce strength, 5) financial performance, 6) social and environmental responsibility, and 7) corporate governance. The quality of products and services is certainly the most important attribute of reputation, especially from the customer's point of view. Being a good producer depends on the quality of management; that is, leadership, vision and strategy set up and especially on the workforce as the most important factor that has innovative knowledge, skills and ideas. Profitable performance is one of the first objectives and financial effectiveness is one of the factors that can stimulate and support the company in the implementation of social performance. Corporate governance is added as a broad

concept of a controlled organizational mechanism that helps to regulate management behavior in the direction of social responsibility performance. The proxy used to measure the reputation is the Corporate Reputation Index as measured by the dimensions of financial performance, corporate social responsibility and corporate governance with the indicators listed in table 2.2 below.

TABLE 2.2
Reputation Attribute Measurement based on Indicators and Their Significance

No	Attribute	Indicators and rankings
1	Quality of products and services	2 existence of product brand (brand) 3 amount of quality assurance 1 market share
2	Corporate vision and strategy	1 clear vision 2 existence of strategic plans and operations 3 existence of Balance Score Card
3	Quality of management-leadership	3 time spent in managerial positions 4 number of awards 1 positive financial result (number of years) 2 percentage fluctuations
4	Work force (Employees)	3 increase in the number of employees 1 wage increase 2 percent of resources intended for education 3 number of labor disputes 4 percent of resources for the purpose other (hot meal, on-site protection work)with regard to the total cost of
5	Financial performance	4 increase in the number of sales 1An increase in profitability (ROA, ROE) 2 value-added 3 increased investment 6 share price increase 5 operative cash-flow
6	Corporate Social Responsibility	2 number of indicators of ecological responsibility 3 number of social responsibility indicators 1 number of positive financial indicators
7	Corporate Govemance	2 existence of the Govemance Code of Conduct Company 3 Existence of Audit and Ethics Committee 1 transparencyin reporting(annual reports)

Sumber: Neda Vitezic (2011)

2.14 Development of Empirical Research Hypotheses and Models

2.14.1 Corporate Governance and Corporate Performance Relationships

According to agency theory, the separation between ownership has the potential to cause conflict. The conflict is caused by a difference of interest between the capital owner or principal and the manager as the representative appointed by the capital owner to run the business. This condition will affect the financial condition of the company. Therefore, a control mechanism is needed that can align the interests of capital owners and managers. Corporate Governance is able to be the controller of the actions of managers in order to focus on achieving goals because corporate governance will have value-added control behavior for the company. This added value will also have an impact on the decrease in agency costs and potentially improve the management's ability to manage the company, making financial decisions that support optimal profit making thereby reducing the possibility of financial distress so that it is possible for the firm performance to remain good.

Corporate governance is a framework within the organization that is able to become a pillar as a benchmark to regulate how the principles of openness, fairness and accountability should be carried out within the company. So that the existence of corporate governance in its operational dimension will be able to support the running of responsible and controlled corporate activities. So the most important thing in corporate governance is the existence of a firm separation between the party that makes the decision and the party that oversees the decision. Theoretically, the application of corporate governance will be able to improve the firm ability (in this case

represented by the manager) so that the financial performance will increase and the possibility of the company experiencing financial difficulties can be suppressed. The corporate governance mechanism will be a means of controlling selfish management behavior and a controlling tool to ensure the distribution of the firm wealth as well as thinking about the interests of other stakeholders.

Corporate governance is a mechanism that aims to convince investors to carry out corporate management activities that are in line with the interests of investors. As a corporate governance mechanism is expected to give confidence that investors will receive returns on funds that have been invested. Corporate governance is based on agency theory related to efforts to convince investors that managers will benefit by investing investors' money in profitable projects as well as how investors mechanism to perform the control functions of managers, (Shleifer & Vishny,1997).

In The Indonesian language, Corporate Governance is translated as corporate governance or governance, Monks & Minow, (2001) states that Corporate Governance explains the relationship between various participants in the company that determines the direction and performance of the company. Survey conducted by McConnell, et al. (2008). shows that Corporate Governance has been a major concern for investors, especially in emerging markets. Investors will tend to avoid companies that have poor corporate governance. The application of corporate governance can be reflected in the value of the company as seen from the share price of the company concerned. According to Black, at al. (2008) alternative explanation of the relationship between corporate governance practices and

the value of the company according to the study is signaling and endogenity. Dharmapala & Khanna, (2008) conducted research on research on efficient corporate governance has increased in Europe and Germany. The increasing internationalization of capital markets and the growing importance of institutional investors in Europe is also increasing pressure on the corporate governance system. The separation of ownership and control and asymmetry of information generated for investors explains the additional agency fees, for example, for contracts and monitoring.

To reduce these costs, corporate governance efforts try to set good corporate governance standards in Germany for national and international investors. The current result of a different idea is the German Corporate Governance Code, which is a tool to monitor companies in terms of corporate governance, Scorecard for German Corporate Governance (CG Scorecard), developed to support institutional investors and financial analysts in implementing good corporate governance in the company. It is based on the German Corporate Governance code is the best GCG practice and is oriented towards capital market requirements. Jensen & Meckling, (1976) defines agency relationships as contracts, in which one or more principals hire another person (agent) to perform some services for their benefit by delegating some authority to make decisions. Conflicts of interest will arise from the delegation of tasks given to the agent, i.e. the agent is not in the interest of maximize the welfare of the owner, but has a tendency to pursue his own interests at the expense of the interests of the owner.

According to Eisenhardt, (1989) there are three assumptions that build agency theory, those assumptions are: assumptions of human

assumptions, organizational assumptions and information assumptions. The assumptions of human nature are grouped into three, namely (1) self-interest, namely human nature to prioritize self-interest, (2) bounded-rationality, namely human nature that has limited rationality, and (3) risk aversion, namely human nature that prefers to avoid risk. Organizational assumptions are grouped into three, namely: (1) conflict of partial objectives between participants, (2) efficiency as a criterion of effectiveness, and (3) asymmetry of information between the owner and the agent. The assumption of information is an assumption that states that information is a commodity that can be purchased.

Agency theory emphasizes more on determining efficient contractual arrangements in the owner's relationship with the agent. An efficient contract is a clear contract for each party that contains rights and obligations, so as to minimize agency conflicts. Ross, (1977) confirmed that principal-agent problems arise when there is asymmetric information from the agent to the principal. This asymmetrical information can occur in the form of activities as well as information. Problems related to activities are called hidden action, while problems related to information are called hidden information. Hidden action will give rise to moral hazard and hidden information will give rise to adverse selection. In line with that, Sung, (2003) in Mai, (2010) stated that there are many potential sources for corporate moral hazard problems, including: (1) managers may invest corporate profits in low-value projects to expand their empires; (2) managers may pay themselves too much and receive very high, expensive and squandered additional income; (3) managers may exercise continuously in a way to

pursue their personal goals rather than maximize the value of the company; (4) Managers may resist attempts to increase the strength of profitable operations, especially the rejection of takeovers that threaten their positions. Thus, there are two main conditions for a moral hazard problem *to* arise between *principal* and *agent.* The two main issues are: (1) conflict of interest, and (2) inability to write workable contracts covering all important elements of various transactions(Joh, 2003; Jensen & Meckling, 1976) offers two ways that capital owners can reduce the risk caused by the actions of managers who are detrimental (moral hazard problem). Both ways are: the owner of the capital conducts monitoring and the manager himself does restrictions on his actions (bonding*).*Selanjutnya, Joh, (2003) adding explicit incentive contracts as a third way to prevent the emergence of moral hazard problems, in addition to monitoring and bonding.

Agency conflicts can be traced from several conditions, such as; use of free cash flow in unprofitable activities (Jensen, 1986). The use of free cash flow will increase the power of managers by over-investment and consume excessive perquisites. Differences in decisions investments between investors and managers where investors prefer high-risk projects and high returns but management prefers low-risk projects to protect their job positions (Hansen, et al. 2007).

2.14.2 Relationship of the board of commissioners with corporate performance

The board of commissioners in a company will determine what financial strategies will be taken either in the short or long term. A larger number of commissioners are signaled to be better able to monitor the reporting process more effectively than smaller numbers (Jensen, 1993).

Furthermore, the number of commissioners in financially sound companies is greater than the number of commissioners in companies that are in a state of financial crisis (Yarram, 2012; Yildiz, et al.2013 and Yang, et al, 2014). The size of the board of commissioners has a positive effect on the firm performance, so this means that, with the increasing number of commissioners, the monitoring mechanism will take place properly so that the resulting strategy products will focus more on achieving the firm goal of creating good performance. Conversely, with a small number of commissioners, monitoring will run poorly and will have an impact on achieving less optimal goals, the impact of the firm performance will also decrease. Independence of the Board of Commissioners will be a positive indicator for the implementation of monitoring in accordance with the agreed governance, as conveyed by (Stam, & Wennberg, 2009; Baù, et al.2013). With the increase of the board of commissioners, it is likely that the firm financial performance will improve because the monitoring mechanism runs transparently and accountable.

Mak & Kusnadi, (2005) found consistent evidence that there is an inverse relationship between the size of the board and Tobin's q at companies in Singapore and Malaysia. Schoubben, & Hulle, (2004). conducted a study on the Tokyo Stock Exchange and found evidence that the boards size reduction negatively and significantly affect the firm performance. The results of different studies have been shown by several other researchers, including Belkhir, (2008) found evidence that contradicts predictions of the theory that smaller boards of directors are more effective, but it turns out that the increase in the number of board members in banking companies does not

decrease performance. On the contrary, the evidence found is that there is a tendency for a positive relationship between board size and performance, as measured by Tobin's q and return on assets. The Mayur & Saravanan study, (2006) in India found evidence that there was no influence of the board size on the performance of banking companies. Consistent with the concept that corporate governance is as a mechanism of control over the tendency of managers to behave opportunistically, where board size variables are one of the proxies.

H1 : The number of commissioners will improve the firm performance.

2.14.3 Relationship of the number of independent commissioners with corporate performance

Commissioner independen is a member of the board of commissioners who is not affiliated with the boardof directors, other members of the board of commissioners and controlling shareholders, and is free from business relationships or other relationships that may affect his ability to actindependently or act solely for the benefit of the company. Independent commissioners are the main organ for the implementation of good corporate governance practices, by looking at their functions. Therefore, in accordance with the name carried out as an independent commissioner, it must have independence, carry out its function as a supervisory function, have professionalism and leadership which is the basic thing needed from its role.

Independent commissioners are required to create an objective and independent climate. Independent itself has the intention that the task is

solely for the benefit of the company and is not bound from the influence of parties who have interests that may be different from the interests of the company. The existence of an independent commissioner has the aim of realizing objectivity, independentness, fairness, and can be Relationship of the number of independent commissioners with corporate performance

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2.14.4 Institutional ownership relationship with corporate performance

Institutional ownership is the ownership of the number of shares of the company by other companies not banks. Other companies are institutions

that manage funds on behalf of others including mutual fund companies, pension fund companies, insurance companies, investment companies and large private endowments or foundations and manage other people's funds. In the context of agency theory the conflict of interest between managers and shareholders can be minimized with a supervisory mechanism that can align the relevant interests. But with the emergence of such a supervisory mechanism will incur a cost called agency cost. One of the ways that can be done to reduce agency costs is by enabling monitoring through institutional investors. The existence of ownership by institutional investors such as insurance companies, investment companies, and ownership of other institutions will encourage increased more optimal supervision of management performance, because share ownership represents a source of power that can be used to support or vice versa to the existence of management.

From the point of view of the ownership structure, adanya institutional shareholders have an important meaning in monitoring management activities. The existence of ownership by institutions such as insurance companies, banks, investment companies and ownership by other institutions will encourage more optimal supervision. The monitoring mechanism will ensure increased shareholder prosperity. The signification of institutional ownership as a supervisory agent is emphasized through their considerable investment in the capital market. If institutionals are dissatisfied with managerial performance, they will sell their shares to the market. From a behavioral point of view, changes in institutional ownership behavior from passive to active can increase managerial accountability so that managers

will act more carefully in decision making. The increase in institutional ownership activities in monitoring is due to the fact that the existence of significant share ownership by institutional ownership has increased their ability to act collectively. At the same time, the cost of exiting their investment becomes increasingly expensive due to the risk that the shares will be sold at a discounted price. This condition will motivate institutional ownership to *be* more serious in supervising and correcting all managers' behavior and extending the investment period. Final result what will be obtained is the increasingly controlled management behavior so that the policies to be taken related to the strategy of achieving the firm goals will be achieved from performance improvement.

H3 : The amount of institutional ownership will improve the firm performance.

Company.

2.14.5 Relationship of number of meeting frequencies with corporate performance

Bapepam-LK requires issuers and public companies to disclose the implementation of corporate governance in annual reports such as the frequency of meetings of the board of commissioners and directors, the frequency of attendance of members of the board of commissioners and directors in the meeting, the frequency of meetings and attendance of the audit committee, the implementation of duties and responsibilities of the board of commissioners and directors as well as the remuneration of the board of commissioners and directors (Bapepam-LK, 2010).

Xie'sresearch, *atal,* (2008)found that the more often the board of commissioners meets or holdsmeetings, the smaller the accrual of corporate management. This means that the more often the board of commissioners holds meetings, the more effective the supervisory function of management becomes. Sidney, *et al.* (2014). found that the negative relationship of the frequency of board of commissioners meetings on the performance of companies listed on the Nairobi Stock Exchange (NSE) in Kenya. This shows that companies that hold meetings often do not necessarily have the maximum performance in increasing the value of the company. According to Shahzad, & Jawad, (2015). also found strong empirical support that showed a positive relationship between the frequency of high number of board of commissioners meetings and corporate governance of *the* company.

Bouer, (2004). stated that the implementation of coordination and meetings conducted by the board of commissioners and board of directors will have an impact on better decision making, and support corporate strategies that focus on achieving goals. Billger & Hallack (2005) gives an idea that the more frequent the frequency of meetings as a form of coordination is carried out, will make the resulting strategy more accommodating for the benefit of stakeholders. This is possible because through hearing activities in recurring meetings and meetings, a mutual agreement will be made representing the interests of the company is not only the interests of a certain group that does not necessarily represent the firm objectives.

The frequency of board meetings also contributes to financial reporting supervision. Lipton & Lorsch (1992) and Yarram, S. R. (2012)

argued that the board of commissioners who frequently met would perform their obligations diligently and certainly benefit shareholders. The frequency of board of commissioners meetings can be used as a forum to obtain all information about the development of the company that can be used as material for further internal supervision of the company.

H4 : The frequency of meetings or meetings will improve the firm performance

2.14.6 Relationship of the board of commissioners with the Invesment Base Social Comitment (IBASOC)

The larger the number of board of directors, the *better the monitoring* mechanism will take place so that the resulting strategy products will focus more on achieving the firm goals. Conversely, with a small number of board of directors, *monitoring* will run poorly and will have an impact on achieving less optimal goals, the impact of the firm performance will also decrease. The independence of the board of commissioners will be a positive indicator for the implementation of *monitoring* in accordance with the agreed *governance,* as conveyed by Carter, *et al.* (2003). With the increase of the board of directors, it is likely that it will result in more transparent and accountable decisions. The board of directors in a company will determine what financial strategies will be taken either in the short or long term.

H5 : The number of commissioners will increase the Invesment Base Social Comitment (IBASOC)

2.14.7 Relationship of the number of independent *commissioners with the Invesment Base Social Comitment* (IBASOC)

Independent commissioners are required to create an objective and independent climate. Independent itself has the intention that the task is solely for the benefit of the company and is not bound from the influence of parties who have interests that may be different from the interests of the company. The existence of an independent commissioner aims to realize objectivity, independentness, *fairness,* and can provide a balance between the interests of majority shareholders and also protection of the interests of minority shareholders, even to the interests of *other* stakeholders. With the presence of an independent commissioner, all interested parties will get a huge benefit where there will be a situation that is suitable with the *basic* principles *of good corporate governance and improve* the ability and capability of the commissioner so that it is effective in working.

H7 : The number of independent commissioners will increase the Invesment Base Social Comitment (IBASOC)

2.14.8 Institutional ownership relationship with *Invesment Base Social Comitment* (IBASOC)

Institutional ownership has an impact on the efficiency of the utilization of company assets, so that the potential financial difficulties can be minimized and the firm performance can be maintained, because the company with a greater unconstitutional ownership (more than 5%) indicates its ability to monitor management. Institutional holdings such as banks, insurers and investment companies will encourage more optimal supervision of management performance. This is because share ownership represents a

source of power that can be used to support or otherwise not support the existence of management. So that with greater institutional ownership will be able to produce policy products that enable to improve financial performance.

H6 : The amount of institutional ownership will increase the Invesment Base Social Comitment (IBASOC)

2.14.9 Meeting frequency relationship with *Invesment Base Social Comitment* (IBASOC)

Coordination through meetings conducted by the board of commissioners and board of directors will have an impact on better decision making, and support corporate strategies that focus on achieving goals. Billger and Hallack (2005) give an idea that the more frequent the frequency of meetings as a form of coordination is carried out, will make the resulting strategy more accommodating for the benefit *of stakeholders.* This is possible because through hearing activities in recurring meetings and meetings, a mutual agreement will be produced that represents the interests of the company not only the interests of a certain group that does not necessarily represent the firm objectives

H8 : Meeting frequency will increase Invesment Base Social Comitment (IBASOC)

2.14.10 Invesment Base Social Comitment (IBASOC) as mediating the number of commissioners with corporate performance.

Bhaduri, (2002). stated that good governance will be able to reduce agency costs because in the atmosphere of companies that *implement corporate governance,* aspects *of monitoring* run well that will make

management more focused on achieving goals. One of them is with the ability of management to produce policy products that support the achievement of goals are also getting better. Social Capital Based Funding is a synchronization of funding decisions that accommodate social capital that enables the realization of good corporate performance. Allen, (2011) gives an idea that a company that is able to accommodate social aspects in its strategic decisions will have a higher performance than if it is not able to empower its social aspects.

H9 : Invesment Base Social Comitment (IBASOC) mediates the influence of the number of commissioners on corporate performance.

2.14.11 Invesment Base Social Comitment (IBASOC) as an independent commissioner mediation with corporate performance

Gill, et al. (2010). stated that the company operating in bankruptcy will have a very high pressure on its management resulting in a significant difference in terms of the level of management turnover between the company that reorganized due to bankruptcy and the company that did the restructuring not because of bankruptcy. Research conducted by Bert & Guariglia, (2015). stated that the company that is in financial trouble will conduct the dismissal including the dismissal of its CEO. Warusawitharana research results, (2011). stated that with the exit of the board of directors, the company will lose its board of directors and networking expertise. So that the performance will actually decrease and the possibility of the company experiencing financial pressures will increase which will end up having an impact on the decrease in performance. The board of directors announced in this study was a change of directors in the sense of the number of directors

who came out, excluding the change of position of The Study of Beiner. et al. (2003) on a group of companies listed on the Swiss Stock Exchange, with the aim of testing the impact of board size performance on the firm performance.

H10 : Invesment Base Social Comitment (IBASOC) mediates the influence of the number of independent commissioners on corporate performance.

2.14.12 Invesment Base Social Comitment (IBASOC) as the mediation of institutional ownership with corporate performance.

Institutional ownership has an impact on the efficiency of the utilization of company assets, so that the potential financial difficulties can be minimized and the firm performance can be maintained, because the company with a greater unconstitutional ownership (more than 5%) indicates its ability to monitor management. Institutional holdings such as banks, insurers and investment companies will encourage more optimal supervision of management performance. This is because share ownership represents a source of power that can be used to support or otherwise not support the existence of management. So that with greater institutional ownership will be able to produce policy products that enable to improve financial performance.

H11 : Invesment Base Social Comitment (IBASOC) mediates the influence of institutional ownership on corporate performance.

2.14.13 Invesment Base Social Comitment (IBASOC) as the mediation of meeting frequency with corporate performance.

Coordination through meetings conducted by the board of commissioners and board of directors will have an impact on better decision making, and support corporate strategies that focus on achieving goals. Bert & Guariglia (2015). provide an idea that the more frequent frequency of meetings as a form of coordination is carried out, will make the resulting strategy more accommodating for the benefit of stakeholders. This is possible because through hearing activities in meetings and recurring meetings, a mutual agreement will be produced that represents the interests of the company not only the interests of a certain group that does not necessarily represent the firm objectives.

H12 : Invesment Base Social Comitment (IBASOC) mediates the frequency of meetings to corporate performance.

2.14.14 Relationship of Invesment Base Social Comitment (IBASOC) with Financial Performance and Investment Innovation

In the firm financial management scheme the funding decision will have an impact on investment decisions, it means that the Social Capital Based Funding Fund will also affect the investment made. This makes sense, given that the result of the funding decision is to ensure the availability of sufficient funds and low cost to support the investment activities that will be carried out. Kacker, etal. (2015). states that companies that have attractive investment opportunities are usually supported by strong funding. How much debt and capital invested (Brigham, 2001)will be allocated into assets, the choice of current assets or fixed assets is an investment decision.

Expectations of higher returns on investment empirically are supported by funding decisions (Morrelec, 2010).

H13 : Invesment Base Social Comitment (IBASOC) will improve the firm performance

H14: Invesment Base Social Comitment (IBASOC) will improve the firm performance

2.14.15 Investment Innovation Relationship with Corporate Performance

Some studies give a positive picture between investment innovations made by companies and the performance of companies, meaning that companies that are able to make better investments will be able to generate profit so that it will make its financial performance improve. Rabi, et al, (2010) found that the large cost of research and development incurred by the company correlated with positive market acceptance. The investment costs incurred are a reaction to pushing the company to the desired level of sales which of course will have an impact on financial performance.

H15 : Investment innovation will improve the firm performance.

2.14.16 Investment Innovation as Mediation between *Invesment Base Social Comitment* (IBASOC) and Corporate Performance

Investment opportunity owned by the company is very important in determining how the company grows in the future. When the company has a number of potential investments that can be made in the future, the value of the company will also increase. Previous research on a set of investment opportunities (investment opoortunity set) conducted by Myers, (1976) explained that the value of the company (firm value) is a combination of the value of assets and growth opportunities (growth opoortunities) it has. The

growth opportunity can be estimated from the many opportunities that have to invest. Investment opportunities that have a positive NPV will increase the value of the company. So the value of the company is not only assessed from assets, but by the opportunities it has to generate cash flow in the future. The growth opportunities seen from the investment opportunities owned by the company will influence the decisions of the firm breeders.

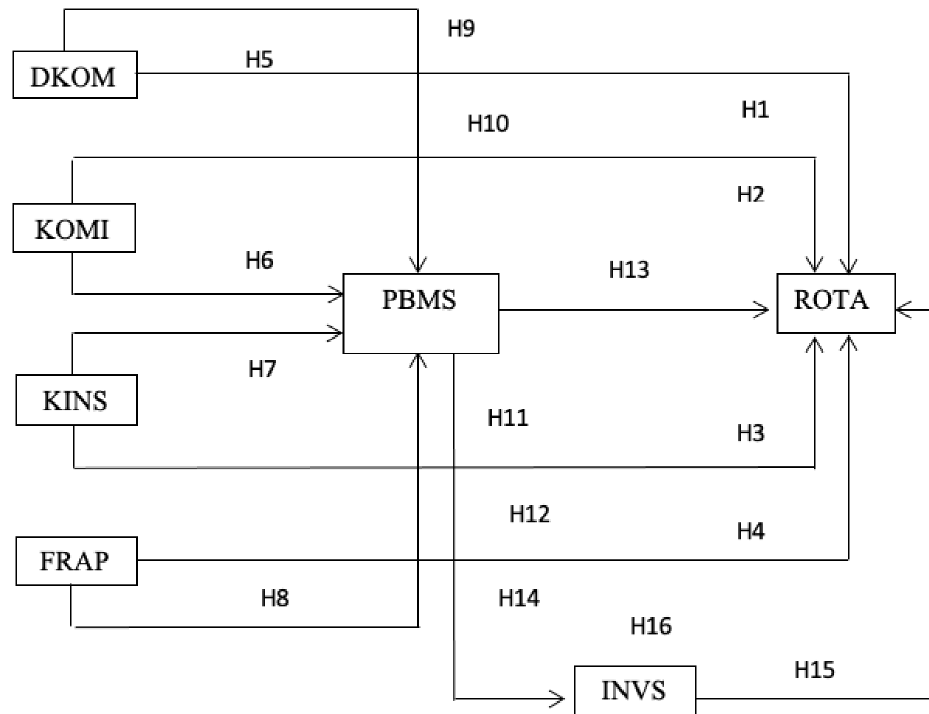
How much growth opportunity the company has affects the perspective of managers, investors and creditors on the value of the company. For investors who plan to invest in a company, the size of the growth opportunity will form a perspective on the amount of return on its investment.

Assets owned (asset-in-place) and growth opportunities in the future are the source of the firm value (value of the firm). The firm growth opportunities depend on the potential investment opportunities that can be utilized by the company, called the investment opportunity set.

Research conducted by Riahi-Belkaoui, (1999) shows that the growth opportunities of the company seen from the investment opportunities owned by a company depend on the advantages and limitations of the company. The advantages of the company include size, profitability, and corporate governance. The limitations of the company include financial structure factors related to the funding of potential projects and business risks faced in investment.

H16 : Investment innovation is able to mediate the decision of Invesment Base Social Comitment (IBASOC) to the firm performance.

Empirical Research Mod



Keterangan :

DKOM: Board of Commissioners
KOMI : Independent Commissioner
KINS : Institutional Ownership
FRAP : Meeting Frequency
IBASOC : Invesment Base Social Comitment
INVS : Investment Innovation
ROTA : Return on Total Asset

Research Hypothesis Summary

	Hypothesis
H1	Number board of commissioners will improve the firm performance.
H2	The number of independent commissioners will improve the firm performance.
H3	Aumlah institutional ownership will improve thefirm performance.
H4	The frequency of meetings will improve the firm performance.
H5	Aboard of commissioners will increase the Invesment Base Social Comitment (IBASOC)
H6	The number of independent commissioners will increase the Invesment Base Social Comitment (IBASOC)

H7	The amount of institutional ownership will increase the Invesment Base Social Comitment (IBASOC)
H8	The frequency of meetings will increase the Invesment Base Social Comitment (IBASOC)
H9	Invesment Base Social Comitment (IBASOC) mediates the influence of the number of commissioners on the firm performance
H10	Invesment Base Social Comitment (IBASOC) mediates the influence of the number of independent commissioners on the firm performance
H11	Invesment Base Social Comitment (IBASOC) mediates the influence of total institutional ownership on the firm performance
H12	Invesment Base Social Comitment (IBASOC) mediates the influence of meeting frequency on the firm performance
H13	Invesment Base Social Comitment (IBASOC) will improve the firm performance
H14	Invesment Base Social Comitment (IBASOC) will increase investment innovation
H15	Investment innovation will improve the firm performance
H16	Investment Innovation will mediate the influence of Invesment Base Social Comitment (IBASOC) on the firm performance

CHAPTER III

RESEARCH METHODS

The research model developed in this research was obtained from the synthesis of several theories and results of previous research that produced a basic theoretical model that is a model built on Agency Theory, Resources Dependence Theory and Stakeholders Theory.

The population in this study are all manufacturing sector companies listed on the Indonesia Stock Exchange (IDX), with observation periods ranging from 2011 to 2020.

The sampling method used in this study was purposivesampling. The sample criteria used in this study are as follows: (1) the company published its financial statements as of December 31, 2011 to the 2020 financial year; (2) The company has information relating to various variable measurements, such as: Research variables namely the intensity of board roles, ownership concentration, managerial ownership, green management,IBASOC, the firm reputation. More Table 1 describes the Operational Definitions and Measurements of these Applied Research Variables.

Tabel 1

Definisi Operasional dan Pengukuran Variabel Penelitian terapan ini.

Variabel	Dimensi / Konsep Variabel	Pengukuran Variabel	Referensi
Board of Commissioners	Is the Sum of all members of the board of commissioners owned by Company.	Σ all board members commissioners owned by the company.	Xie, *et al,* 2005 ; Tang, 2007; Garg, 2007 ; Iqbal, Asif, 2015; Samad, 2008.
Independent Commissioner	Is the number of Independent Board of Commissioners owned by the company	Σ all board members independent commissioners owned by the company.	Xie, et al, 2005 ; Tang, 2007; Garg, 2007 ; Iqbal, Asif, 2015; Samad, 2008.
Institutional Ownership	Represents a percentage of ownership by institutional investors towards the entire number of		Monks &Minow, 2001; Bonazzi & Islam, 2007; Clay, 2002;

	shares outstanding.	$KI = \frac{\Sigma\, saham\ institusi}{\Sigma\, saham\ beredar}$ x 100%	Fernandez & Goniez-Anson, 2006
Meeting Frequency	It is a coordination conducted with a meeting to discuss the company conducted by the board of directors, the board of commissioners with the audit committee, remuneration committee, risk management and GCG.	Σ joint meetings conducted by the board of directors, board of commissioners, independent commissioners and committees under the board of commissioners.	Ali *et al*, (2011) Ardestani *et al*. (2013) Valta, (2012) Deshmukh, (2005) Yao *et al*. (2011) Tang *et al*, (2012)
Performance Company (ROTA)	It is a percentage measure of the amount of return resulting from the use of all wealth to generate profit after tax.	$ROTA = \frac{EAT}{TA}$ x 100% *ROTA = Return on Total Asset* *EAT = Earning After Tax* *TA = Total Asset*	Lasfer dan Faccio, (1999) Kowalewski, *et al* (2007) Amidu, (2007) Imam & Malik, (2007)
Ibasoc	It is the ratio of total debt to total capital as a proxy for funding decisions multiplied by the ratio of debt to privileged parties to total debt as a proxy of social capital.	*Ibasoc = DER x Social Capital*	Aygun, *et al.* (2014) Chen, & Jun, (2014) Ruan, (2014) Lai, & Chen,. (2014). Clarideg (2004)
Investment Innovation	It is the ability of the company to choose profitable investment opportunities, judging by the growth of assets from year to year.	$INVS = \frac{TA0 - TA1}{TA0} \times 100\%$	Din & Qian (2014) Deng (2015)

Source: previous research.

CHAPTER IV

DATA ANALYSIS AND DISCUSSION

4.1 Data Analysis Research

The data collected in this research was sourced from the Indonesia Stock Exchange Capital Market Reference Center (d/h Jakarta Stock Exchange/IDX)*by downloading* it from www.jsx.co.id and from the Capital Market Data Center (PDPM) semarang. Companies sampled in thisstudy are companies that participated in the CGPI*(Corporate Governance Perception Index) rating* program during the period 2009-2015 with the following criteria: (1) Publish annual reports *and* financial statements from 2009 to 2015; (2) Data on the number of commissioners, independent board of commissioners, institutional ownership, and frequency of meetings or number of meetings; (3) Have data on *Leverage,* Return *on Assets,*related parties, as well as the firm obligations to related parties and total assets.

The research population is 236 observation data. The selection of samples was sorted based on the criteria above and obtained by 31 companies from 2009 to 2015 so that observation data obtained as many as 195 (Appendix 1). The selected sample is presented in the following table 4.1:

Tabel 4.1

Data Perusahaan Sampel

No	Sektor	Perusahaan	Observasi	Kode
1.	*Automotive & Allied Product*	1. PT. United Tractors, Tbk	7	AUTO
		2. PT. Astra Otoparts, Tbk	7	UNTR
2.	*Holding and Other Investment*	3. PT. Bakrie & Brother, Tbk	7	BNBR
3.	*Real Estate & Property*	4. PT. Bakrieland Development, Tbk	3	ELTY
		5. PT. Metropolitan Land Tbk.	5	MTLA
4.	*Telecomunication*	6. PT. Telkom Indonesia Tbk	7	TLKM
		7. PT. Bakrie Telecom Tbk	5	BTEL

No	Sektor	Perusahaan		Observasi	Kode
5.	*Construction*	8.	PT. Adhi Karya Tbk	7	ADHI
		9.	PT. Wijaya Karya Tbk	6	WTON
6.	*Other*	10.	PT. Jasa Marga	5	JSMR
7.	*Mining*	11.	PT. Aneka Tambang Tbk	7	ANTM
		12.	PT. Bukit Asam Tbk	7	PTBA
		13.	PT. Timah Tbk	7	TINS
		14.	PT. Berau Coal Tbk	5	BRAU
		15.	PT. Bumi Resources Tbk	4	BUMI
		16.	PT. Indo Tambang Raya Tbk	7	ITMG
8.	*Banking*	17.	PT. Bank Central Asia Tbk	7	BBCA
		18.	PT. Bank Negara Indonesia Tbk	7	BBNI
		19.	PT. Bank Mandiri Tbk	7	BMRI
		20.	PT. Bank OCBC NISP Tbk	6	BNIS
		21.	PT. Bank Nasional Parahiyangan Tbk	7	BBNP
		22.	PT. Bank Tabungan Negara Tbk	7	BBTN
		23.	PT. Bank CIMB Niaga Tbk	7	BNGA
		24.	PT. Bank Rakyat Indonesia Tbk	7	BBRI
		25.	PT. Bank Jabar Banten Tbk	7	BJBR
		26.	PT. Bank Permata Tbk	7	BNLI
9.	*Metal*	27.	PT. Krakatau Steel Tbk	7	KRAS
10.	*Transportation*	28.	PT. Adi Sarana Dinamika Tbk	4	ASSA
		29.	PT. Garuda Indonesia Tbk	5	GIAA
		30.	PT. Panorama Transportasi Tbk	5	WEHA
11.	*Finance*	31.	PT. Adira Dinamika Multi Finance Tbk	4	ADMF
11 sub sektor		Jumlah observasi		195	

Source: processed research data

4.2 Empirical Research Model Assumption Testing

The data obtained from the research results are then processed using data analysis *techniques, namely Partial Least* Square *(PLS). PLS* according to Wold in Ghozali (2008) is a powerful method of *analysis* because it is not based on many assumptions. This research uses *PLS* as data analysis technique with *SmartPLS software* version

2.0.M3 which can be*downloaded* from http://www.smartpls.de. PLS *method* has its own advantages, among others: data does not have to be distributed normal *multivariate (indicators* with category scale, ordinal, interval to ratio can be used on the same model) and sample size does not have to be large. In accordance with the explanation in Chapter III will be presented the test sequence as follows:

4.2.1. Uji Multikolinearitas

A multicolinearity test is a test conducted to ascertain whether in a regression model there is interrelation or colinearity between free variables. An interrelationship is a linear relationship or a strong relationship between one free variable or a predictor variable and another predictor variable. A good regression model should not be a correlation between free variables. If free variables correlate, then these variables are not orthogal (i.e. free variables whose correlation value between each other free variables equals zero). Multicoloniality test can be seen from: (1) tolerance value and its opponent (2) *variance inflation factor* (VIF). Tolerance measures the variability of selected independent variables that are not explained by other independent variables. So a low tolerance value equals a high VIF value (VIF=1/tolerance). The *cut off value* commonly used to indicate the existence of multicollinierity is the value of tolerance < 0.10 or equal to the value VIF > 10.

Tabel 4.15
Quality Criteria : Collinearity Statistic

	DKOM	FRAP	INVS	KINS	KOMI	IBASOC	ROTA
DKOM						2,091	2,287
FRAP						1,052	1,088
INVS							1,283
KINS						1,178	1,493
KOMI						1,937	2,075
IBASOC			1,000				1,714
ROTA							

Sumber : Output PLS – Outer Model

From table 4.15 above, it can be concluded that there is no multicolinearity in the proposed regression model because from the calculation of VIF value less than 10.

4.2.2. Test *the Goodness of Fit* Empirical Research Models

Model goodness testing with PLS is performed by looking at the values : (1) SRMR *or Standardize Root Mean Square Residual* defined as the difference between the observed correlation and the implied matrix correlation model. Thus, it is possible to assess the average size of the difference between the observed correlations and expected as the absolute size (model) according to the criteria. The expected value of SRMR is less than 0.10 or from 0.08 (Hu and Bentler, 1999). Henseler et al. (2014) introduced SRMR as a good measure of PLS-SEM that can be used to avoid model *misspecification.* And (2) NFI or *Normal Fit Index is* a measure of the model's conformity base with a *comparative base line* or noll model, the expected value is greater than 0.90.

Table 4.16
Quality Criteria : Model Fit Summary

	Saturated Model	Estimated Model
SRMR	0,000	0,079
d_ULS	0,000	0,175
d_G	0,000	0,046
Chi-Square	0,000	42,020
NFI	1,000	0,906

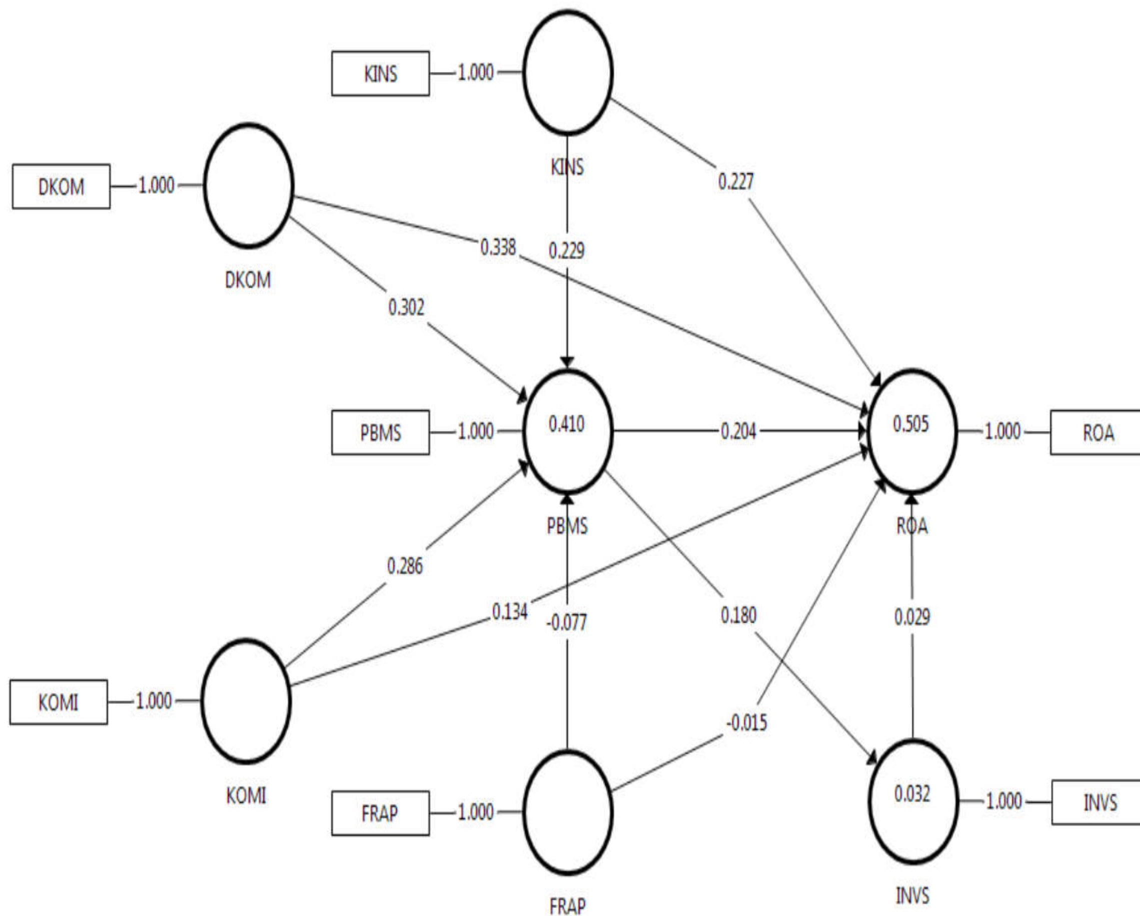
Sumber : Output PLS – Outer Model

From table 4.16 above, it can be concluded that the research model *shows fit* because the SRMR value of 0.079 is less than the expected value of 0.10 and the NFI value of 0.906 is greater than 0.900.

4.2.3. Model Testing

4.2.3.1 Model Estimation Results

After data processing with PLS method can be obtained output from inner model that describes structural model that connects between latent variables, namely variables that serve as free variables and will affect bound variables. Namely the number of board of commissioners with DKOM notation, the number of independent commissioners with KOMI notation, the number of institutional ownership with KINS notation and the frequency of meetings with frap notation that is hypothesized will affect social capital-based funding with IBASOC notation and company performance that is proxies with return to total assets or ROTA. Social capital-based funding with IBASOC notation to investment innovation with INVS notation and investment innovation or INVS to the firm performance or ROTA. The coefficient value of each variable can be described in the model presented in figure 4.4 below



The result of processing output for direct relationship of free variable to bound variable is explained through *coefficient path value* which provides detailed information on the amount of regression coefficient number, t count or t *statistic value* and p value *to* determine the significance of the relationship between research variables as stated in the research hypothesis in chapter II. From the test results have been obtained the results and detailed description is described in table 4.17 below.

Tabel 4.17
Final result – Path Coefficient (Direct Effect)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
DKOM -> IBASOC	0,302	0,305	0,075	4,018	0,000
DKOM -> ROTA	0,338	0,327	0,088	3,830	0,000
FRAP -> IBASOC	-0,077	-0,081	0,050	1,541	0,062
FRAP -> ROTA	-0,015	-0,042	0,032	0,465	0,321
INVS -> ROTA	0,029	0,076	0,055	0,523	0,300
KINS -> IBASOC	0,229	0,228	0,047	4,923	0,000
KINS -> ROTA	0,227	0,232	0,063	3,608	0,000
KOMI -> IBASOC	0,286	0,283	0,068	4,202	0,000
KOMI -> ROTA	0,134	0,139	0,081	1,668	0,048
IBASOC -> INVS	0,180	0,182	0,062	2,919	0,002
IBASOC -> ROTA	0,204	0,209	0,080	2,531	0,006

Source : OUTPUT PLS – Inner Model

From figure 4.4 and table 4.17 above can be arranged equations as follows:

$$IBASOC=0,302DKOM+0,286KOMI+0,229KINS-0,077FRAP+\varepsilon 1 \quad (3.1)$$

$$INVS=0,180IBASOC+\varepsilon 2 \quad (3.2)$$

$$ROTA=0,338DKOM+0,134KOMI+0,227KINS-0,015FRAP+0,204IBASOC+0,029INVS+\varepsilon 3 \quad (3.3)$$

4.2.3.2 Coefficient of Determination

The coefficient of determination *or R Square* (R^2)will explain what proportion or percentage of total variation in bound variables is described by the free variable. The value of R^2 is located between 0 – 1 and the fit of the model is said to be better if R^2 is closer to 1.

Tabel 4.18
Quality Criteria – R Square

	R Square	R Square Adjusted
INVS	0,032	0,027
IBASOC	0,410	0,397
ROTA	0,505	0,489

Source : OUTPUT PLS – Outer Model

The value of R - Square IBASOC is 0.410, it can be explained that the influence of the number of commissioners (X1), the number of independent board of commissioners (X2), the number of institutional

ownership (X3) and the number of meetings or frequency of meetings (X4) on social capital-based funding decisions (Y1) gives a value of 0.410 which can be interpreted that the variable of social capital-based funding can be explained by the variable number of commissioners, the number of independent commissioners, the number of institutional ownership and the number of meetings or meeting frequency of 41%. While the remaining 59% is explained by other variables beyond the researched.

R – Square INVS value of 0.032 can be explained that the influence of social capital-based funding (Y1) on investment innovation (Y2) gives a value of 0.032 which can be interpreted that the variable of investment innovation can be explained by the variable of social capital-based funding of 3.2%. While the remaining 96.8% is explained by other variables outside the researched.

R - Square ROTA value of 0, 505 can be explained that the influence of the number of commissioners (X1), the number of independent board of commissioners (X2), the number of institutional ownership (X3) and the number of meetings or frequency of meetings (X4) on the performance of the company (Y3) gives a value of 0.505 which can be interpreted that the variables of the firm performance can be explained by the variable number of board of commissioners, the number of independent commissioners, the number of institutional ownership and the number of meetings or the frequency of meetings of 50.5%. While the remaining 49.5% is explained by other variables outside the researched.

4.2.3.3 Mediation Variable Testing

Mediation variable testing is performed with *indirect effect significance* through *bootstrapping techniques.* Kriteria used is if z-value in absolute price = 1.96 or statistical significance level z (p-value) = 0.05 *means indirect effect of independent variable to* dependent variable through mediation variable, significant at significance level 0.05 (Preacher and Hayes., 2004)

Table 4.19
Final result – Path Coefficient (Indirect Effect)

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
DKOM -> IBASOC -> ROTA	0.063	0.065	0.029	2.152	0.016
FRAP -> IBASOC					
FRAP -> IBASOC -> ROTA	-0.016	-0.018	0.014	1.153	0.125
INVS -> IBASOC -> ROTA					
KINS -> IBASOC					
KINS -> IBASOC -> ROTA	0.048	0.048	0.020	2.418	0.008
KOMI -> IBASOC -> ROTA	0.060	0.062	0.030	1.973	0.024
IBASOC -> INVS					
IBASOC -> INVS -> ROTA	0.005	0.014	0.012	0.432	0.333

Source : OUTPUT PLS – Outer Model

4.2.4. Hypothesis Testing

This empirical research model is divided into four parts, namely the first, part about the influence of corporate governance structures *and mechanisms on* the firm performance. Second, the part about the influence of corporate governance structures and *mechanisms* on social capital-based funding. Third, a section on social capital-based funding for investment innovation and company performance as well as investment innovation on company performance. The four influences of social capital-based funding mediation on the influence of corporate governance structures and *mechanisms* on the firm performance and the influence of

investment innovation mediation on the influence of social capital-based funding on the firm performance.

4.2.4.1 Testing the influence of corporate governance structures and mechanisms on company performance

In accordance with *the outer model* results in figure 4.4, *path coefficient* of direct influence on table 4.17 can be explained as follows:

4.2.4.2 Testing the Influence of the Board of Commissioners on the Firm Performance

Value t - Statistics of 3,830 proved significant because the p value of 0.000 is less than 0.05. With t table significance of 5% = 1.96 then the calculated value of t is 3,830 greater than t table of 1.96. Thus, hypothesis 1 which states that the number of commissioners will improve the firm performance is **acceptable.**

4.2.4.3 Testing the Influence of Independent Commissioners on Company Performance

The value t - Statistics of 1,668 proved significant because the p value of 0.048 was less than 0.05. With t table significance of 5% = 1.96 then the calculated value of t is 1,668 less than t table of 1.96. Thus, hypothesis 2 states that the number of independent commissioners will improve the firm performance is **acceptable.**

4.2.4.4 Testing the Effect of Institutional Ownership on Company Performance

Value t - Statistics of 3,608 proved significant because the p value of 0.000 is less than 0.05. With t table significance of 5% = 1.96 then the calculated value of t is 3,608 greater than t table of 1.96. Thus, hypothesis 3

which states that institutional ownership will improve the firm performance is **acceptable.**

4.2.4.5 Testing the Effect of Meeting Frequency on Company Performance

The value t - Statistics of 1.541 proved insignificant because the p value of 0.062 was more than 0.05. With t table significance of 5% = 1.96 then the calculated value of t is 0.062 less than t table of 1.96. Thus the hypothesis 4 which states that the frequency of meetings will improve the performance of the company is **rejected.**

Based on the comparison of the amount of direct influence coefficient value of the four *variables* representing the structure and mechanism of corporate governance as seen in table 4.17 and its explanation, the variable of the board of commissioners is the most dominant variable impact on the firm performance of 0.338.

4.2.4.6 Testing the influence of corporate governance structures and mechanisms on social capital-based funding

In accordance with *the outer model* results in figure 4.4, *path coefficient* of direct influence on table 4.19 can be explained as follows:

4.2.4.7 Testing the Influence of the Board of Commissioners on IBASOC

Value t - Statistics of 4.018 proved significant because the p value of 0.000 is less than 0.05. With t table significance of 5% = 1.96 then the calculated value of t is 4,018 greater than t table of 1.96. Thus the hypothesis 5 which states that the number of commissioners will increase funding based on social capital is **acceptable.**

4.2.4.8 Testing the Influence of Independent Commissioners on IBASOC

The value t - Statistics of 4,202 proved significant because the p value of 0.000 was less than 0.05. With t table significance of 5% = 1.96 then the calculated value of t is 4,202 greater than t table of 1.96. Thus, hypothesis 6 states that the number of independent commissioners will increase social capital-based funding is **acceptable.**

4.2.4.9 Testing the Effect of Institutional Ownership on IBASOC

The value t - Statistics of 4,923 proved significant because the p value of 0.000 was less than 0.05. With a table of significance of 5% = 1.96 then the calculated t value of 4,923 is greater than the table t of 1.96.Thus the hypothesis 7 which states that institutional ownership will increase social capital-based funding is **acceptable.**

4.2.4.10 Testing the Effect of Meeting Frequency on Company Performance

The value t - Statistics of 1.541 proved insignificant because the p value of 0.062 was more than 0.05. With t table significance of 5% = 1.96 then the calculated value of t is 0.062 less than t table of 1.96. Thus, hypothesis 8 which states that the frequency of meetings will increase social capital-based funding is **rejected.**

Based on the comparison of the coefficient of direct influence of the four *variables* representing the structure and mechanism of corporate governance as seen in table 4.19 and its explanation, the variable of the board of commissioners is the most dominant variable of its influence on social capital-based funding of 0.302.

4.2.4.11 Social capital-based funding testing of company performance and investment innovation and investment innovation to company performance

In accordance with *the outer model* results in figure 4.4, *path coefficient* of direct influence on table 4.19 can be explained as follows:

4.2.4.12 Testing the Effect of IBASOC on Company Performance

Value t - Statistics of 2,531 proved significant because the p value of 0.006 was less than 0.05. With t table significance of 5% = 1.96 then the calculated value of t is 2,531 greater than t table of 1.96. Thus, hypothesis 13 which states that social capital-based funding will improve the firm performance is **acceptable.**

4.2.4.13 Testing the Effect of IBASOC on Investment Innovation

The value t - Statistics of 2,919 proved significant because the p value of 0.002 was less than 0.05. With t table significance of 5% = 1.96 then the calculated value of t is 2,919 greater than t table of 1.96. Thus, hypothesis 14 which states that social capital-based funding will increase investment innovation is **acceptable.**

4.2.4.14 Testing the Effect of Investment Innovation on Company Performance

Value t - Statistics of 0.523 proved insignificant because p value of 0.300 is more than 0.05. With t table significance of 5% = 1.96 then the calculated value of t is 0.300 less than t table of 1.96. Thus, hypothesis 15 stating that investment innovation will improve the firm performance is **rejected.**

4.2.4.15 The influence of IBASOC mediation on corporate governance structures and mechanisms on the firm performance and the influence of investment innovation mediation on the influence of IBASOC on the firm performance.

In accordance with *the results of path coefficient* indirect influence on table 4.19 can be explained as follows: **Influence of DKOM. IBASOC. ROTA**

The statistical value of t calculates 2,152 greater than t table 1.96 and p value of 0.016 less than 0.05 then it can be concluded that social capital-based funding is able to mediate the relationship between the number of commissioners to the firm performance. Thus hypothesis 9 is **accepted.**

4.2.4.16 Influence of KOMI. ⟶ IBASOC ⟶ ROTA

The statistical value of t calculates 1,973 greater than t table 1.96 and p value of 0.024 less than 0.05 then it can be concluded that social capital-based funding is able to mediate the relationship between the number of independent commissioners to the firm performance. Thus hypothesis 10 is **accepted.**

4.2.4.17 Influence of KINS ⟶ IBASOC. ⟶ ROTA

The statistical value of t calculates 2,418 greater than t table 1.96 and p value of 0.008 less than 0.05 then it can be concluded that social capital-based funding is able to mediate the relationship between the amount of institutional ownership to the firm performance. Thus hypothesis 11 is **accepted.**

4.2.4.17 Effects of FRAP ⟶ IBASOC. ⟶ ROTA

The statistical value of t calculates 1,153 less than in table t 1.96 and p value of 0.125 more than 0.05, it can be concluded that social capital-based funding is not able to mediate the relationship between the frequency of meetings to the firm performance. Thus hypothesis 12 is **rejected.**

4.2.4.18 Influence IBASOC ⟶ INVS ⟶ ROTA

The statistical value of t calculates 0.432 is smaller than the table t 1.96 and p value of 0.333 more than 0.05 then it can be concluded that investment innovation is not able to mediate the relationship between social capital-based funding to the firm performance. Thus hypothesis 16 is **rejected.**

Based on the comparison of the amount of indirect influence coefficient value of the *four variables* representing the structure and mechanism of corporate governance mediated by social capital-based funding as seen in table 4.19and its explanation, the most effectivepath is DKOM ⟶ IBASOC ⟶ ROTA with a coefficient value of 0.063.

Summary of Hypothesis Test Results

Hipotesis		Coefficient Value	Value t	ρ value	Results
H1	Aboard of commissioners will improve the firm performance.	0,338	3,830	0,000	Accepted
H2	The number of independent commissioners will improve the firm performance.	0,134	1,668	0,048	Accepted
H3	Aninstitutional ownership will improve the firmperformance.	0,227	3,608	0,000	Accepted
H4	The frequency of meetings will improve the firm performance.	-0,015	0,465	0,062	*Rejected*
H5	Aboard of commissioners will increase the *Invesment Base Social Comitment* (IBASOC)	0,302	4,108	0,000	Accepted
H6	The number of independent commissioners will *increase the Invesment Base Social Comitment* (IBASOC)	0,286	4,202	0,000	Accepted
H7	The amount of institutional ownership will *increase the Invesment Base Social Comitment* (IBASOC)	0,229	4,923	0,000	Accepted
H8	The frequency of meetings will *increase the Invesment*	-0,077	1,541	0,062	*Rejected*

	Hipotesis	Coefficient Value	Value t	ρ value	Results
	Base Social Comitment (IBASOC)				
H9	*Invesment Base Social Comitment* (IBASOC) mediates the influence of the number of commissioners on the firm performance	0,063	2,152	0,016	Accepted
H10	*Invesment Base Social Comitment* (IBASOC) mediates the influence of the number of independent commissioners on the firm performance	0,060	1,973	0,024	Accepted
H11	*Invesment Base Social Comitment* (IBASOC) mediates the influence of total institutional ownership on the firm performance	0,048	2,418	0,008	Accepted
H12	*Invesment Base Social Comitment* (IBASOC) mediates the influence of meeting frequency on the firm performance	-0,016	1,153	0,125	*Rejected*
H13	*Invesment Base Social Comitment* (IBASOC) will improve the firm performance	0,204	2,531	0,006	Accepted
H14	*Invesment Base Social Comitment* (IBASOC) will increase investment innovation	0,180	2,919	0,002	Accepted
H15	Investment innovation will improve the firm performance	0,029	0,523	0,300	*Rejected*
H16	Investment Innovation will mediate the influence of *Invesment Base Social Comitment* (IBASOC) on the firm performance	0,005	0,432	0,333	*Rejected*

CHAPTER V

DISCUSSION OF RESEARCH RESULTS

5.1. Discussion of Research Results

The findings of this research are very related **to the**first, *review of the mechanisms and structures of good corporate governance* that are proxies by the board of commissioners (DKOM), independent commissioners (KOMI), institutional ownership (KINS) and frequency of meetings (FRAP) to the financial performance of companies that are *proxyed with return to total assets* (ROTA). **Second,**review the mechanisms and structures of corporate *governance* proxies by the board of commissioners (DKOM), independent commissioners (KOMI), institutional ownership (KINS) and frequency of meetings (FRAP) to the *Invesment Base Social Comitment* (IBASOC). Third, the *study of Invesment Base Social Comitment* (IBASOC) on company performance (ROTA) and Investment Innovation (INVS). K**e4**, a review of the mediation function of the *Invesment Base Social Comitment* (IBASOC) for the influence of corporate governance on *the company's financial* performance and the investment innovation mediation function (INVS) *for the influence of the Invesment Base Social Comitment* (IBASOC) on the company's performance (ROTA). The first research structure tested four hypotheses representing the structure and mechanism of corporate governance *towards* the company's performance. The *concept of corporate governance* is a commitment chosen by the company in order to ensure that all management activities are basically focused on the welfare of shareholders. Companies with good governance, are believed to be better able to produce performance to achieve goals than if the company is not in good governance. In accordance with the research framework and research hypothesis 1 to 4, it is believed that corporate governance will be able *to* improve the company's performance.

The first research structure is also based on the idea that companies that *implement corporate governance will* be able to condition the management ranks in order to create the best strategies to achieve goals, one of which is strategies related to funding decisions. The strategy of funding decisions that are projected with the capital structure will determine how much the composition between debt and capital is optimal and synergize with the achievement of goals. Many factors influence funding decisions, one of which is social capital support. Through the novelty presented in this dissertation, *the Invesment Base Social Comitment* (IBASOC) shows that in a certain percentage of social capital contributes to the company's funding decisions. This means that management can optimize the source of funding through their social capital. In companies with good governance, social capital-based funding decisions are believed to be more optimal. The hypothesis developed based on this thinking is hypothesis 5 to 8 which suspects a relationship between corporate governance *and* social capital-based funding.

The second research structure ensures that the novelty model *of Invesment Base Social Comitment* (IBASOC) will have an impact on the company's performance and investment decisions and investment innovations will have an impact on the company's performance. The alleged thinking is expressed through hypotheses 13, 14 and 15.

The third research structure looked *at the role of the Invesment Base Social Comitment* (IBASOC) in mediating *the relationship between corporate governance and corporate performance* expressed through hypotheses 9 to 12. In addition, it also looks at whether social capital-based funding affects the company's performance directly and the indirect influence on the company's performance through investment innovation variables expressed through hypothesis 16.

The approach of agency theory as conveyed by Jensen and Meckling (1976) explains that the separation between the owner and the manager allows for a tangent of interests that potentially threaten the achievement of goals. Including when managers as managers are faced with funding decisions regarding capital structures. Therefore, many factors will influence decision making related to funding. A funding decision is a decision on how much debt and capital the company will use. Rational choices will show different capital structures judging by the amount of debt. An aggressive capital structure will show a larger amount of debt than capital. A moderate structure produces a relative balance between debt and capital and conservative capital structures prefer more capital than debt. Previous research has shown many factors that affect the structure of capital. Nguyen and Ramacandran (2006); Zhang and Fung (2006); Arregle *et al*l(2007); Godesiabois (2008); Du *et al*l(2013) agreed that the social capital owned by the company has an influence on the capital structure. Social capital is said to be a mutually recognized value in the relationship between economic actors, will be realized in the dimension of markets, hierarchy and social relations (Adler and Kwon, 2002).

Invesment Base Social Comitment (IBASOC) is a concept to explain the relationship between how funding decisions may change due to social capital factors. Furthermore, this concept will be able to describe how debt can be accessed more easily because management is able to use social capital owned through network building and relational with other economic actors. So that management will combine the interests of the company to determine howmuch debt or capital, from which*obtained*(resources of fund), taking intoaccount the social components owned by the company. Measurement of *the concept of Invesment Base Social Comitment* (IBASOC) is derived from the concept of leverage that represents funding decisions with debt-to-capital ratios and social capital concepts seen from the amount of debt that can be obtained due to special

relationships or relationships with other economic actors. The results of this calculation will result in the value of the Invesment Base Social Comitment (IBASOC) which is able to explain the percentage change in funding caused by a percentage change in social capital or social capital contribution to funding decisions.

Invesment Base Social Comitment (IBASOC) will be able to support the realization of the company's goal in the short term, namely the achievement of profit. *This Invesment Base Social Comitment* (IBASOC) will develop in a business environment that has good corporate governance. How management is more focused on achieving the company's goals by reducing the degree of *utility of personal interests* and leaning towards the interests of stakeholders will be accommodated in the support of good *corporate governance.*

Based on this, the empirical model built is used to answer research questions that have been disclosed in Chapter I namely: 1) Does the number of commissioners, independent commissioners, institutional ownership and frequency of meetings as corporate governance *proxies* affect *corporate performance?* 2) Does the number of commissioners, independent commissioners, institutional ownership and frequency of meetings as *corporate governance proxies* affect *the Invesment Base Social Comitment* (IBASOC)? 3) Does the *Invesment Base Social Comitment* (IBASOC) affect *corporate performance?* And 4) Can *the Invesment Base Social Comitment* (IBASOC) mediate the influence of corporate *governance* on corporate *performance?* Data analysis has been done using observation data as many as 195 samples with 31 companies representing 11 sub-sectors, descriptively by displaying cross tabulation between hypothesized variables. To test 16 hypotheses developed used *path analysis method* processed using SMART PLS software. In runtut results and discussions have been put

forward in Chapter IV and Chapter V, the following research findings have presented some findings, among others as follows:

1. The hypothetical test *results state that the Invesment Base Social Comitment* (IBASOC) has a positive impact on the achievement of the company's financial performance which *is projected with a return to total assets* (ROTA). The interpretation of these results is social capital-based funding as a result of management's decision on capital structure combined with social capital that enables the company to improve its performance. The function of social capital-based funding as a mediation in the relationship of corporate governance structures and *mechanisms* -from the number of board of commissioners- to the performance of the company in the direction of positive relationships.
2. The most dominant path of indirect influence is the path of influence of the number of commissioners as *a corporate governance structure towards the* creation of corporate performance through social capital-based funding. The findings of the study are that the role of the board of commissioners as a corporate governance *structure* is more dominant in creating the company's performance compared to the structures and mechanisms used in this dissertation. These findings indicate several things, among others: (1) The performance of the board of commissioners is considered good and has performed the supervisory function optimally and (2) the structure is more effective than the mechanism in the *context of corporate governance.*

5.2. Research Implications

Based on the test results of all the hypotheses in this research and its discussion, as well as some conclusions that have been drawn, it will then be presented how the

implications of the findings. Overall the concept *of Invesment Base Social Comitment* (IBASOC) provides useful insights to assess companies from the point of view of:

1. Financial decision point of view: *Invesment Base Social Comitment* (IBASOC) is a funding decision making that considers relational relationships with other economic actors so that funding needs can be met optimally and this means that it will support investment decisions and dividends later.
2. Stakeholder point of *view: Invesment Base Social Comitment* (IBASOC) is a tangible manifestation of management's commitment to increase the value of the company through the company's performance and this will have an impact on increasing the trust of potential investors to the company.
3. Competency point of view: *the implications of Invesment Base Social Comitment* (IBASOC) in management activities will support the achievement of the company's performance *and this has an impact in the company's sustainability* in the future.

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