Global Review of Islamic Economics and Business, Vol. 8, No. 1 (2020) 001-011
Published by Faculty of Islamic Economics and Business, State Islamic University Sunan Kalijaga Yogyakarta
e-ISSN: 2338-7920, p-ISSN: 2338-2619

# Mediating Effect of Islamic Social Reporting on the Relationship between Good Corporate Governance and Company Value: The Case of the State-Owned Enterprises

Indah Yuliana[a] and Farahiyah Sartika[b,*]

[a,b]*Department of Management, Faculty of Economics, UIN Maulana Malik Ibrahim Malang, Indonesia*

**Abstract:** The concept of Good Corporate Governance (GCG) is related to the disclosure of Islamic Social Reporting (ISR) which guarantees that the funds invested in the company are well managed and will provide adequate returns so that this can attract investors and indirectly can increase the company value. This research aims to analyze the indirect effect of GCG rating on company value through the disclosure of ISR and it also attempts to analyze the direct effect of GCG and ISR toward company value, and the effect of GCG towards ISR. This research used quantitative and descriptive approaches with secondary data. The state-owned enterprises in the manufacturing and mining sector listed in the Indonesian Sharia Stock Index (ISSI) were selected as the sample of the study. The method used in this study includes descriptive statistical analysis, partial least square, and mediation test. The result shows that GCG has a positive effect on company value and ISR disclosure, while ISR disclosure does not affect company value. However, GCG does not affect company value through ISR disclosure. This indicates that ISR disclosure has no mediation effect on the relationship between GCG and company value.

**Keywords:** *Good Corporate Governance, Islamic Social Reporting, and Company Value.*

Article History
Received 25 April 2020; Revised 29 June 2020; Accepted 2 July 2020; Available Online 19 August 2020

## Introduction

The main goal of the company is to increase the prosperity of the owner or shareholders through an increase in company value (Salvatore, 2005). Company value is very important because it reflects company performance, which can influence investor perception of the company. High company value is the desire of the company owners because a high value shows the prosperity of shareholders so that shareholders will invest more in the company. One of the factors that influence a company's value is Good Corporate Governance (GCG). Susanti et al. (2010) state that GCG can create added value because by implementing GCG, it is expected that the company will have good performance to create added value and increase the company value that can provide benefits for shareholders or company owner.

The issue of GCG in Indonesia in recent years has been a hot topic for discussion. A reality that the presence of companies in an environment will bring positive and negative impacts on the environment. Some positive impacts, such as providing employment opportunities, providing goods needed by the community to be consumed, paying taxes, making donations, and others. However, several cases of national and international scale, such as global warming, air pollution, poisoning, noise, discrimination, coercion, illicit food production, radiation and the emergence of various deadly diseases due to chemical infections from industrialization are a series of excess negative externalities of industrialization (Harahap, 2001).

Looking at the negative side of industrialization, it is not fair if the community must bear the social burden. It was considering that the community is a party that does not obtain a direct counter-achievement from industrialization. The echo of the sustainability report disclosure seems to be one of the alternatives developed by many companies to share the company's responsibility for various excess negative externalities of industrialization (Hadi, 2011). The disclosure can also be used as a company

*Corresponding author.

indahoty@manajemen.uin-malang.ac.id (I. Yuliana), farahiyah@uin-malang.ac.id (F. Sartika).

https://doi.org/10.14421/grieb.2020.081-01 

siding strategy for the community and the environment, as well as a vehicle for maintaining and carrying out preventive and repressive efforts to the possibility of the emergence of the negative impact of industrialization.

The echo of the sustainability report disclosure seems to be one of the alternatives developed by many companies to share the company's responsibility for various excess negative externalities of industrialization (Hadi, 2011). There was pressure from investors for listed companies to make sustainability reports. From 2000 until now, there have only been 97 companies reporting through the Global Report Initiative (GRI). Until the end of 2017, from the top 100 companies listed in the Jakarta Stock Exchange (IDX), only 30% of companies have made a sustainability report (https://www.ey.com). At present, there is no standard reporting and measurement of corporate social responsibility intended for sharia business institutions. This causes sharia corporate social responsibility reporting still using conventional corporate social responsibility reporting standards. Arni (2009) explained that stakeholders have positive views and consider relevant social reporting practices from an Islamic perspective.

Fitria and Hartati (2010) stated that the development of the Islamic Social Reporting (ISR) index in Indonesia is still very slow compared to the development of the ISR index in other Islamic countries. This is different from the development of the ISR index in Islamic countries such as Malaysia, Sudan, Bahrain, United Arab Emirates, Iran, Palestine, Kuwait, Bangladesh, and Qatar where the ISR index has become part of the reporting of Islamic organizations in these countries. This report is a process of identifying, providing, and attempting to communicate social information and other related activities that are in line with the information needs of decision-makers as a form of accountability to God and the people in the broadest sense, to increase transparency in business management in front of Muslims, and to attain Allah's good pleasure. Some forms of reporting include ISR, Sharia Enterprise Theory (SET), and Islamicity Performance Index.

Haniffa (2002) explains that ISR is an effort to report social aspects in the activities of Islamic financial institutions from an Islamic perspective as an alternative to reduce weaknesses in practice in Islamic financial institutions. The disclosure of ISR is related to the concept of GCG. GCG guarantees that the funds invested in the company are well managed and will provide adequate returns. The results of the study Bauer et al. (2004) showed that simultaneously, there was a positive influence between stock returns, company value, and the performance of companies with GCG. However, this relationship weakened significantly when adapted to different countries. There is a negative relationship between GCG and company performance. The results of the study Ammann et al. (2011) and Amanti (2012) showed that there was a significant positive relationship between firm-level corporate governance and firm value. Companies with high social behavior have a significant positive relationship between corporate governance and corporate value. GCG will increase company value. However, Klein et al. (2005), Astuti and Juwenah (2017), and Santoso (2017) show that there is no evidence that the total corporate governance index influences firm value. It is very interesting to review the relationship between GCG ratings and company value.

Deegan et al. (2002) state that corporate legitimacy will be obtained if there are similarities between the results and what is expected by the community from the company, so there is no guidance from the community. To continue to gain legitimacy, corporate organizations must communicate environmental activities by disclosing social environments (Barthelot & Robert, 2011). Environmental disclosure is considered beneficial to restore, to enhance, and to maintain the legitimacy that has been received (Hadjoh & Sukartha, 2013). The results of the study Lone et al. (2016) showed that the level of disclosure of Corporate Social Responsibility (CSR) was different before and after the issuance of the guideline. Disclosure of CSR is different for each sector, the oil and gas sector has the best quality in its disclosure, while the industrial sector is the opposite. Board size has a significant positive relationship with the disclosure of CSR. The Independent director has a significant positive relationship with CSR disclosure. The woman director has a significant positive relationship with CSR disclosure. The results of Plumlee et al. (2015) show that Voluntary Environmental Disclosure Quality (VEDQ) is related to firm value, both in terms of Expected Future Cash Flows (EFCF) and Cost of Equity Capital (COEC). The type and nature of disclosure quality affect the relationship between VEDQ and firm value.

Meanwhile, the results of the research conducted by Sejati and Prastiwi (2015) showed that the disclosure of economic, environmental, and social performance was not able to significantly influence the value of the company. This is very interesting for researchers to review the direct relationship of GCG with disclosure of social performance and disclosure of social performance with company value and analyze the indirect effect of GCG values on company value with ISR disclosure as a mediating variable. The mining and manufacturing sectors have been the ones accused of being the biggest environmental destroyers. The specialization of this sector is expected to be able to increase the sensitivity of the results of the study because one sector and another has different operational activities. With the background above, the objectives of this study are to analyze the effect of GCG rating and ISR disclosure on company value, to analyze the effect of GCG rating on ISR disclosure, and to analyze the indirect effect of GCG rating on company value mediated by the ISR disclosure.

## Literature Review

### *Good Corporate Governance (GCG), Islamic Social Reporting (ISR) Disclosure, and Company Value*

Penman (2004: 43) in Tarjo (2008) states that one of the company's goals is to maximize shareholder wealth through dividends and increase the company value as measured by share prices. The higher the stock price, the higher the shareholder prosperity. With high company value, it is expected that the welfare of shareholders will be fulfilled. The legitimacy theory states that organizations are part of society, so they must pay attention to the social norms of society because conformity with social norms can make companies more legitimate. Dowling and Pfeffer (1975) explained that legitimacy is important for organizations, boundaries emphasized by social norms and values, and reactions to these limits encourage the importance of analyzing organizational behavior concerning the environment. The application of GCG is measured using a GCG score. Companies that have high GCG scores indicate that the implementation of GCG in the company is good. GCG, which functions as a control tool in a company, can prevent or reduce agency conflicts in the company so that it is positively perceived by investors. Good GCG implementation indicates that the company has been managed efficiently according to the wishes of shareholders. Positive perception by investors makes investors react positively to the company's shares so that the company's stock price will increase. The large variation in the implementation of the GCG mechanism causes GCG to be a factor that has a significant impact on increasing the stock market value of the company (Black et al., 2006). Bauer et al. (2004) show that simultaneously, there is a positive influence between stock returns, company value, and company performance with GCG. However, this relationship weakened significantly when adapted to different countries. There is a negative relationship between GCG and company performance. Research conducted by Ammann et al. (2011) shows that there is a significant positive relationship between firm-level corporate governance and firm value. Companies with high social behavior have a significant positive relationship between corporate governance and corporate value. While the results of the research Klein et al. (2005) show that there is no evidence that the total index of corporate governance affects the value of the company.

CSR can contribute to financial performance. This is because, in decision making, companies must consider various social and environmental issues if the company wants to maximize long-term financial results, which can later increase the value of the company (Brine et al., 2007). Disclosure of social performance will be able to give a positive signal to investors because the company's prospects are considered good. This positive signal will have an impact on stock prices so that there is an increase in the value of the company. This encourages management always to try to disclose private information which, according to consideration, will be appropriate and in demand by investors or shareholders, especially if the information is good news (Suwardjono, 2014).

Research conducted by Retno and Priantinah (2012) shows that GCG has a positive effect on firm value with size and leverage as control variables. CSR disclosure has a positive and not significant effect on firm value with size, industry type, profitability, and leverage as control variables. In addition, GCG and CSR disclosures have a positive effect on company value. Research conducted by Loh et al. (2017) shows that Sustainability Reporting (SR) is positively related to the company's market value and that relationship is independent of sector and company status, such as government companies or family companies.

Research conducted by Lone et al. (2016) shows that the level of CSR disclosure is different before and after the issuance of the guideline. CSR disclosure varies by sector. The oil and gas sector has the best quality in its disclosure, while the industrial sector is the opposite. Board size has a significant positive relationship on CSR disclosure. The Independent director has a significant positive relationship with CSR disclosure. The woman director has a significant positive relationship with CSR disclosure. Research conducted by Sejati and Prastiwi (2015) shows that the disclosure of each performance in the sustainability report, namely disclosure of economic, environmental, and social performance, is not able to significantly affect the value of the company in the company that discloses it. These results are corroborated by research of Astuti and Juwenah (2017), which shows that economic performance has a significant positive effect on firm value. Social performance has no significant effect on firm value. Environmental performance has no significant effect on firm value.

$H_1$: Good corporate governance affects the company value.
$H_2$: Islamic social reporting disclosure affects the company value.

### *Good Corporate Governance (GCG) and Islamic Social Reporting (ISR) Disclosure*

The main theory related to corporate governance is agency theory. Jensen and Meckling (1976) define agency relationship as a contract which states that one or more (principal) asks another person (agent) to perform certain services in the interests of the principal by delegating authority to him. Principal or company owner hands over management of the company to management. A shareholder wants to increase wealth, but the manager as the party that is authorized to manage the company tends to do something that maximizes his interests and sacrifices the interests of shareholders so that this triggers agency problems.

Agency problems that occur within the company can be overcome by implementing GCG. GCG in this case has an important role where the management of the company must be monitored and controlled to ensure that the management of the company is carried out in compliance with various applicable rules and regulations. For shareholders, GCG guarantees that the funds invested in the company are well managed and will provide adequate returns. These efforts will lead to agency costs that must be incurred by the company so that the cost to reduce losses due to non-compliance is equivalent to an increase in enforcement costs. Research conducted by Sunaryo et al. (2018) shows that GCG and Financial Performance affect the disclosure of sustainability reports and company value in mining companies listed on the Indonesia Stock Exchange during 2011-2016.

$H_3$: Good corporate governance affects Islamic social reporting disclosure.

### *The Relationship between Good Corporate Governance (GCG) and Company Value with Islamic Social Reporting (ISR) Disclosure as a Mediating Variable*

Corporate governance is the process and structure used by corporate organs to determine policies to improve business success and corporate accountability to increase added value for shareholders in the long run by taking into account the interests of stakeholders based on statutory provisions and applicable laws and regulations (Dilling, 2010). Information is an important element for investors and business people because it presents information, notes, or a good picture of the past, current, and future conditions regarding the business prospects of the company and how it markets its effects. Complete, relevant, accurate, and timely information is needed by investors in the capital market as an analytical tool for making investment decisions. Signaling theory explains that company managers have more accurate information about the company that is not known to outsiders. This will result in information asymmetry between the parties concerned. Information asymmetry is a condition where private information is only owned by investors who only get information (Jogiyanto, 2013). According to Arifin (2005), the emergence of information asymmetry makes it difficult for investors to objectively assess company quality. Published information will provide a signal for investors in making investment decisions. When information is announced, market participants (investors) first interpret and analyze the information as a good signal or a bad signal. If the announcement contains a good signal, then the market is expected to react when the announcement is received by the market (Jogiyanto, 2013).

The more extensive the disclosure of corporate social performance, especially those containing sharia elements, the company's image is related to the company's prospects at a better value. This is what attracts investors, both conventional investors and Muslims to invest. GCG can increase the extent of disclosure of corporate social performance that has an impact on increasing the value of the company in the eyes of investors (Khalim, 2018). Based on the code of corporate governance issued by The National Governance Policy Committee (2006) states that the functions of corporate management carried out by the board of directors include five functions, namely management, risk management, internal control, communication, and social responsibility. The task of social responsibility explains that the board of directors must have a clear written plan and focus on carrying out corporate social responsibility. Compliance with laws and regulations and the disclosure of additional information made by the company is the responsibility of the board of directors (Natalia & Wahidahwati, 2016). One of the additional information disclosures is the disclosure of sustainability reports. Therefore, GCG will affect the disclosure of social performance.

$H_4$: Islamic social reporting disclosure mediates the relationship between good corporate governance and company value.

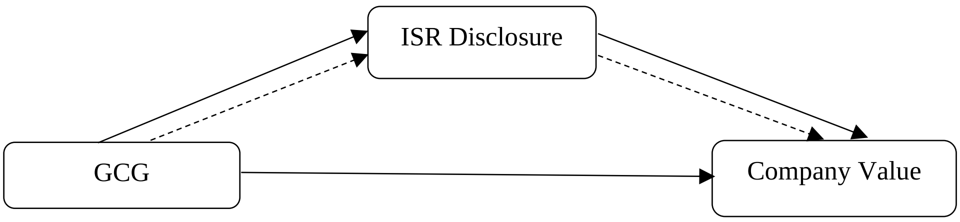


Figure 1. Proposed Research Model

**Methods**

This type of research is quantitative research with a descriptive approach. The observation period is five years from 2013 until 2017. The population used in this study is state-owned mining and manufacturing sector companies that are accused of the biggest environmental destroyer. This sector specialization is expected to be able to increase the sensitivity of the research results. This research used purposive sampling, with the following criteria: state-owned mining and manufacturing sector companies listed consecutively during 2013-2017 at the Indonesian Sharia Stock Index (ISSI) and have annual reports that have complete data related to the variables used in the study. According to the sampling criteria, the total sample of this study amounted to 6 companies in which companies have all the data related to the research as shown in Table 1.

Table 1. List of Samples

| Code | Company | Sector |
|---|---|---|
| ANTM | PT Aneka Tambang Tbk | Mining |
| INAF | PT Indofarma (Persero) Tbk | Manufacture |
| KAEF | PT Kalbe Farma (Persero) Tbk | Manufacture |
| PTBA | PT Bukit Asam Tbk | Mining |
| SMGR | PT Semen Indonesia (Persero) Tbk | Manufacture |
| TINS | PT Timah (Persero) Tbk | Mining |

The data used in this study were quantitative data and the type of data was secondary data from annual reports and financial reports for the 2013-2017 period from state-owned companies listed on the Indonesian Sharia Stock Index (ISSI). Secondary data sources were obtained from the official website of the Indonesia Stock Exchange and each official company website. It results in panel data which were a combination of time series and cross-sections for the period of 2013 to 2017. Data collection techniques used in this study were the documentation method. Analysis of the data used in this study includes descriptive statistical analysis, partial least square, and mediation test.

The measurement of the implementation of GCG is carried out using GCG implementation scores called as Corporate Governance Perceived Index (CGPI) published by The Indonesian Institute for

Corporate Governance (IICG). CGPI is a research program and it is conducted in collaboration with the Komite Nasional Kebijakan Governance (KNKG). CGPI is in the form of score and weighting based on the reference that has been made. The assessment was carried out using a questionnaire that included a commitment to corporate governance, shareholder rights and functions key ownership, equal treatment of all shareholders, the role of stakeholders in corporate governance, disclosure, transparency, and responsibility of the board of commissioners and board of directors. The index score is in the form of numbers from 0 to 100, if the company has a score close to 100 then the company is getting better at implementing corporate governance.

ISR in this study was measured by the ISR index by the scoring method (value 1 if items in the ISR index are disclosed in the annual report data, and a value of 0 is given otherwise). Company value is measured by Tobin's Q.

## Results and Discussion

Based on Table 2, it can be explained as follows:

1) Good Corporate Governance Variable
The average GCG assessment was 87.596 with a standard deviation of 6.859. In terms of title, over 5 years, the evaluation of GCG in State-Owned Enterprise (SOEs) has always been "very good". The high score of GCG is caused by several factors. First, the implementation of the duties and responsibilities of the board of commissioners has provided sufficient time to carry out their duties and responsibilities optimally, so that the established committee has carried out its duties effectively. Second, the board of directors has succeeded in developing a risk management culture at all levels to minimize errors. Third, the implementation of the committee's tasks has been carried out according to the needs so that the results obtained can be utilized optimally to make decisions of the board of commissioners.
2) Islamic Social Reporting Disclosure Variable
The average score of the ISR disclosure variable was 72.810 with a standard deviation of 5.419. This shows that the average value of 72.810 is a representative value of the overall ISR disclosure score. The disclosure score can be classified as a score with the title "quite informative".
3) Company Value Variable
The average score was 1.924 with a standard deviation of 0.942. This shows that the average value of 1.924 is a representative value of the overall value of Tobin's Q because the deviation is much smaller than the average Tobin's Q score itself. The company's value above 1 (>1) illustrates that the value of the company is high, where shares are in an overvalued condition. In other words, company management is successful in managing company assets and high investment growth potential.

Based on Table 3 and Figure 2, they can be explained as follows:

1) The Effect of GCG on Company Value
The results of testing the effect of GCG on company value show a coefficient value of 0.455, with a p-value of 0.001 and a t-statistic of 3.334. The p-value of 0.001 is less than 0.05 and the t-statistic value of 3.334 is greater than the t-table of 1.96. These results indicate that GCG has a positive and significant effect on company value. So the hypothesis that says that GCG affects company value is accepted.
2) The Effect of ISR Disclosure on Company Value
The results of the second hypothesis testing are the effect of ISR disclosure on company value that shows a coefficient value of 0.068 with a p-value of 0.782 and a t-statistic of 0.277. The p-value of 0.782 is more than 0.05 and the t-statistic value of 0.277 is smaller than the t-table of 1.96. These results indicate that ISR disclosure does not have a significant effect on company value. So the hypothesis which states that ISR disclosure affects the company value is rejected.

3) The Effect of GCG on ISR Disclosure
   The results of testing the effect of GCG on ISR disclosure show a coefficient of 0.377, with a p-value of 0.005 and a t-statistic of 2.805. The p-value of 0.005 is less than 0.05 and the t-statistic value of 2.805 is greater than the t-table of 1.96. These results indicate that GCG has a positive and significant effect on ISR disclosure. So the hypothesis that says that GCG affects the ISR disclosure is accepted.
4) The Effect of GCG on Company Value with ISR Disclosure as a Mediating Variable
   The fourth hypothesis testing results, namely GCG on company value with ISR disclosure as a mediating variable, show a coefficient value of 0.026, with a p-value of 0.803 and a t-statistic of 0.249. The p-value of 0.803 is more than 0.05 and the t-statistic value of 0.249 is less than the t-table of 1.96. These results indicate that GCG does not have a significant effect on company value through ISR disclosure. So the hypothesis that says that GCG affects the value of the company with ISR disclosure as a mediating variable is rejected.

Table 2. Descriptive Statistics of Variables

| Variables | N | Minimum | Maximum | Mean | Standard Deviation |
|---|---|---|---|---|---|
| GCG | 30 | 75.670 | 97.857 | 87.596 | 6.859 |
| ISR Disclosure | 30 | 56.853 | 80.392 | 72.810 | 5.419 |
| Company Value | 30 | 0.645 | 13.824 | 1.924 | 0.942 |

Table 3. Path Coefficient

| Variables | Original Sample | Sample Mean | Standard Deviation | t-statistic | Prob. |
|---|---|---|---|---|---|
| GCG➔Company Value | 0.455 | 0.486 | 0.137 | 3.334 | 0.001 |
| GCG➔ISR Disclosure | 0.377 | 0.382 | 0.135 | 2.805 | 0.005 |
| ISR Disclosure➔Company Value | 0.068 | 0.099 | 0.246 | 0.277 | 0.782 |

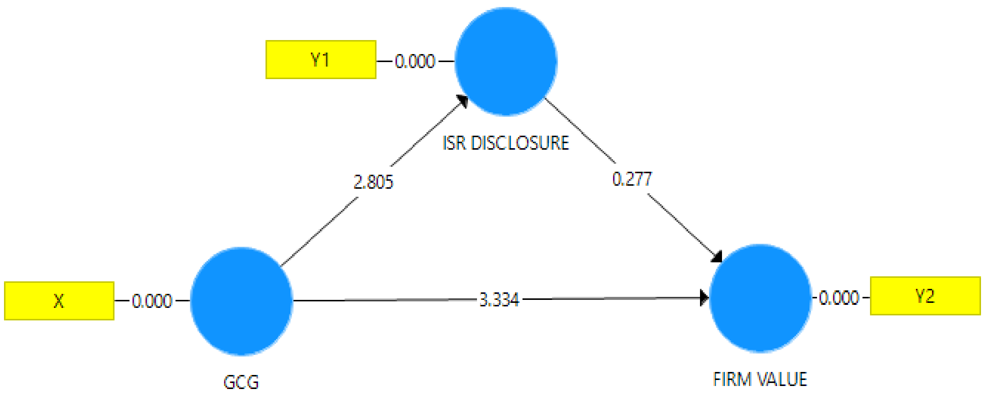


Figure 2. Hypothesis Testing Result
Source: Processed from the SmartPLS 3.0 application.

***The Effect of Good Corporate Governance (GCG) on Company Value***

Based on the results of hypothesis testing, the results show that GCG has a significant positive effect on company value. This indicates that the better corporate governance the better the value (perspective) of investors for a company. In discussing the relationship of GCG with company value, the agency theory proposed by Jensen and Meckling (1976) can be used as a basis for discussing this relationship. In the view of agency theory, a shareholder wants to increase wealth, but managers as those who are authorized to manage the company tend to do something that maximizes their interests and sacrifices the interests of shareholders so that this triggers agency problems. GCG indicates that management has been working in accordance with the expectations of shareholders and allows the reduction of agency costs. This will lead to an improved management or company image and an improved investor perspective on the company.

Spence (1973) states that asymmetric information occurs in the labor market. Therefore, Spence created signal criteria to add strength to decision making. Information is an important element for investors and business people because it presents information, notes, or a good picture of the past, current, and future conditions regarding the business prospects of the company and how it markets its effects. Complete, relevant, accurate, and timely information is needed by investors in the capital market as an analytical tool for making investment decisions (Jogiyanto, 2013). The assumption of signaling theory is that company managers have more accurate information about the company that is not known by outsiders. This will result in information asymmetry between the parties concerned (Jogiyanto, 2013). Information asymmetry is a condition where private information is only owned by investors who only get information (Jogiyanto, 2013).

According to Arifin (2005), the emergence of information asymmetry makes it difficult for investors to objectively assess company quality. Published information will provide a signal for investors in making investment decisions. When information is announced, market participants (investors) first interpret and analyze the information as a good signal or a bad signal. If the announcement contains a good signal, it is expected that the market will react when the announcement is received by the market (Jogiyanto, 2013). This research reinforces and it is consistent with research conducted by Bauer et al. (2004), Ammann et al. (2011), Retno and Priantinah (2012), Santoso (2017), and Sunaryo et al. (2018) which state that there is a positive influence between GCG with company value. Companies with high social behavior have a significant positive relationship between corporate governance and company value. Company value is influenced by several factors, including the amount of company assets, how long the company has been standing, and GCG. GCG is proven to be able to overcome agency problems between management and shareholders which leads to shareholders' trust in management. Indirectly, this will increase the value of the company in the eyes of investors.

### *The Effect of Islamic Social Reporting (ISR) Disclosure on Company Value*

Based on the results of hypothesis testing conducted, ISR disclosure has no significant effect on company value. This indicates that the disclosure of social-Islamic performance in the company is not able to increase the value of the company. The results of this study are not in accordance with the signal theory proposed by Spence (1973) which stated that the disclosure of information published would give a signal to investors in making investment decisions. When information is announced, market participants (investors) first interpret and analyze the information as a good signal or a bad signal. If the announcement contains a good signal, it is expected that the market will react when the announcement is received by the market. However, on the other hand, Spence (1973) also added that complete, relevant, accurate, and timely information is needed by investors in the capital market as an analytical tool for making investment decisions.

The results of this study indicate that ISR disclosure does not affect company value. Many companies do not disclose items related to the company's willingness. Some items that have never been or rarely disclosed are regarding zakat, benevolent loans, terrorism mitigation, employee time and place of worship, as well as the use of waqf. In addition, despite being listed in the Sharia Securities Register, the SOEs registered at ISSI have issued several separate sustainability reports that use other non-Islamic standards. Haniffa (2002) states that for companies that have a Muslim investor market should disclose not only in terms of social, environmental, and economic but also in terms of their willingness. The results of this study are in line with research conducted by Amanti (2012), and Sejati and Prastiwi (2015) which state that the disclosure of each performance in the sustainability report, namely the disclosure of economic, environmental, and social performance is not able to significantly affect the value of the company in the company who revealed it.

### *The Effect of Good Corporate Governance (GCG) on Islamic Social Reporting (ISR) Disclosure*

Based on the results of the hypothesis test, the results show that GCG has a significant positive effect on the disclosure of Islamic social reports. The results of this study indicate that the better corporate governance measured by GCG performance scores, the broader the disclosure of the company's Islamic social report. In view of the theory of legitimacy, company legitimacy will be obtained when there is a similarity between the results and what is expected by the community from the company, so there is no guidance from the community. Companies can make social sacrifices as a reflection of the company's attention to society. Further, Barthelot and Robert (2011) revealed that to continue to gain legitimacy, corporate organizations must communicate the company's activities by making non-financial disclosures sustainable. Disclosures such as environmental and social disclosures are considered beneficial to restore, enhance, and maintain the legitimacy that has been received.

The results of this study were also consistent with research conducted by Ammann et al. (2011), Retno and Priantinah (2012), and Santoso (2017) which state that GCG has a significant positive effect on the disclosure of Islamic social reports. Permatasari and Novitasary (2014) stated that GCG implementation would improve company performance. A healthy GCG will have a positive impact on the company's performance. A good GCG can be seen from the policies, procedures, directives, and structures implemented by the company that does not cause overlaps that can confuse employees. A conducive work environment naturally leads to effective and more transparent operations. The need for GCG at the SOEs level of the manufacturing and mining sectors registered at ISSI is because the two sectors are the corporate sectors that have been accused of being the biggest cause of damage and chaos in Indonesia. Meanwhile, as ISSI's constituents, the SOEs must maintain the image and benefit in each of their operational activities in order to remain attractive in the eyes of Muslim investors. Therefore, a company with good governance will have a wider and more transparent disclosure of social and Islamic performance. These SOEs also conduct compliance monitoring in line with strategic priorities to minimize the potential for scandal, chaos, and corruption within the company. This is stated in the GCG index, where there are reports from outside SOEs related to their social and Islamic performance.

### *The Mediating of ISR on the Effect of GCG on Company Value*

Based on the results of mediation tests through the Sobel test, it can be seen that there is no significant effect between GCG on company value through ISR disclosure. This indicates that ISR disclosure is not able to mediate the effect of GCG on company value. This happened due to several factors, including the first, the overall corporate performance which experienced a decline from 2015 to 2017. In addition, some of the SOEs also experienced stagnation and losses even after obtaining National Capital Participation (PMN) injections from the government. Second, as a company that is also required to fulfill the lives of many people, SOEs have a little difficulty in increasing their performance which has an impact on the decline in the value of the SOEs itself. Third, there are some Islamic items or sharia which have not been disclosed by the majority of SOEs registered at ISSI, such as zakat, waqf, distribution of benevolent funds, policies on time and place of worship for employees, and mitigation of terrorism. The results of this study are consistent with research conducted by Plumlee et. al. (2015) which states that disclosure of sustainability reports will be able to affect the value of the company when there is a grouping of disclosure quality based on the type and "nature".

## Conclusion

This study reveals that good corporate governance has a significant positive effect on company value. Accordingly, good corporate governance is proven to be able to overcome agency problems between management and shareholders which leads to shareholders' trust in management. In addition, the study also documented that Islamic social reporting disclosure has an insignificant effect on company value. This indicates that the disclosure of social-Islamic performance in the company is not able to increase the value of the company. Hence, the study proved that good corporate governance has a significant positive effect on the disclosure of Islamic social reports. The results of this study indicate that the better corporate governance measured by GCG performance scores, the broader the disclosure of the company's Islamic social report. There was an insignificant effect between good corporate governance on company value through Islamic social reporting disclosure. This indicates that Islamic social reporting disclosure is not able to mediate the effect of good corporate governance on company value.

## Suggestion

### *For Companies*

To fulfill the huge market needs of Muslim investors, companies are advised to make disclosures related to sharia items and those directly related to Islam, such as the concept of waqf, zakat, benevolence funds, and worship facilities for employees.

### *For Investors*

The selection of investment portfolios should not only be seen in terms of financial performance. Investors should also pay attention to the status of sustainability, the contribution, and the responsibility of the company to the people.

### *For Further Researchers*

This research can be sharpened by increasing the amount of data and widening the research period. In addition, a comparison between one of the SOE sectors with another sector also needs to be studied in order to obtain more valid results.

## References


Amanti, L. (2012). Pengaruh good corporate governance terhadap nilai perusahaan dengan pengungkapan corporate sosial responsibility sebagai variabel pemoderasi: Studi kasus pada perusahaan rokok yang terdaftar di BEI. *Jurnal Akuntansi AKUNESA, 1*(1), 1-21.

Ammann, M., Oesch, D., & Schmid, M. M. (2011). Corporate governance and firm value: International evidence. *Journal of Empirical Finance, 18*(1), 36-55. https://doi.org/10.1016/j.jempfin.2010.10.003

Arifin, Z. (2005). *Teori keuangan & pasar modal*. Ekosinia.

Arni, M. (2009). *Komunikasi organisasi*. Bumi Aksara.

Astuti, A. D., & Juwenah. (2017). Pengaruh pengungkapan sustainability report terhadap nilai perusahaan yang tergabung dalam LQ45 tahun 2012-2013. *Accounthink: Journal of Accounting and Finance, 2*(1), 301-313. https://doi.org/10.35706/acc.v2i01.733

Barthelot, S., & Robert, A. (2011). Climate change disclosure: An examination of Canadian oil and gas firm. *Issues in Social and Environmental Accounting, 5*(1/2), 106-123.

Bauer, R., Guenster, N., & Otten, R. (2004). Empirical evidence on corporate governance in Europe: The effect on stock returns, firm value, and performance. *Journal of Asset Management, 5*(2), 91-104. https://doi.org/10.1057/palgrave.jam.2240131

Black, B. S., Jang, H., & Kim, W. (2006). Does corporate governance predict firms' market value? Evidence from Korea. *Journal of Law, Economics, and Organization, 22*(2), 366-413. https://doi.org/10.1093/jleo/ewj018

Brine, M., Brown, R. & Hackett, G. (2007). Corporate social responsibility and financial performance in the Australian context. *Economic Roundup,* (2), 47-58.

Deegan, C., Rankin, M., & Tobin, J. (2002). An examination of the corporate social and environmental disclosures of BHP from 1983-1997: A test of legitimacy theory. *Accounting, Auditing & Accountability Journal, 15*(3), 312-343. https://doi.org/10.1108/09513570210435861

Dilling, P. F. A. (2010). Sustainability reporting in a global context: What are the characteristics of corporation that provide high quality sustainability reports - An empirical analysis. *International Business & Economics Research Journal, 9*(1), 19-30. https://doi.org/10.19030/iber.v9i1.505

Dowling, J., & Pfeffer, J. (1975). Organizational legitimacy: Social values and organizational behavior. *The Pacific Sociological Review, 18*(1), 122-136. https://doi.org/10.2307%2F1388226

Fitria, S., & Hartati, D. (2010). Islam dan tanggung jawab sosial: Studi perbandingan pengungkapan berdasarkan global reporting initiative indeks dan Islamic social reporting indeks. *Prosiding Simposium Nasional Akuntansi XIII, 13*. http://pdeb.fe.ui.ac.id/?p=5083

Hadi, N. (2011). *Corporate social responsibility*. Graha Ilmu.

Hadjoh, R. A., & Sukartha, I. M. (2013). Pengaruh ukuran perusahaan, kinerja keuangan dan eksposur media pada pengungkapan informasi lingkungan. *E-Jurnal Akuntansi, 4*(1), 1-17.

Haniffa, R. (2002). Social reporting disclosure: An Islamic perspective. *Indonesian Management and Accounting Research*, *1*(2), 128-146.

Harahap, S. S. (2001). *Budgeting penganggaran: Perencanaan lengkap untuk membantu manajemen* (1st ed.). Raja Grafindo Persada.

Jensen, M. C., & Meckling, W. H. (1976). Theory of the firm: Managerial behavior, agency costs, and ownership structure. *Journal of Financial Economics*, *3*(4), 305-360. https://doi.org/10.1016/0304-405X(76)90026-X

Jogiyanto, H. (2013). *Metodologi penelitian bisnis salah kaprah dan pengalaman-pengalaman* (6th ed.). BPFE Yogyakarta.

Khalim, N. (2018). *Pengaruh good corporate governance terhadap nilai perusahaan dengan kinerja maqoshid syariah sebagai variabel mediasi: Studi kasus pada bank umum syariah indonesia tahun 2013-2017* [Unpublished undergraduated thesis]. Universitas Islam Negeri Maulana Malik Ibrahim Malang.

Klein, P., Shapiro, D., & Young, J. (2005). Corporate governance, family ownership, and firm value: The Canadian evidence. *Corporate Governance: An International Review*, *13*(6): 769-784. https://doi.org/10.1111/j.1467-8683.2005.00469.x

Komite Nasional Kebijakan Governance. (2006). *Pedoman umum good corporate governance Indonesia*.

Loh, L., Thomas, T., & Wang, Y. (2017). Sustainability reporting and firm value: Evidence from Singapore-listed companies. *Sustainability*, *9*, 1-12. https://doi.org/10.3390/su9112112

Lone, E. J., Ali, A., & Khan, I. (2016). Corporate governance and corporate social responsibility disclosure: Evidence from Pakistan. *Corporate Governance*, *16*(5), 785-797. https://doi.org/10.1108/CG-05-2016-0100

Natalia, O., & Wahidahwati. (2016). Faktor-faktor yang mempengaruhi tingkat pengungkapan sustainability report. *Jurnal Ilmu dan Riset Akuntansi*, *5*(11), 1-23.

Permatasari, I., & Novitasary, R. (2014). Pengaruh implementasi good corporate governance terhadap permodalan dan kinerja perbankan di Indonesia: Manajemen risiko sebagai variabel intervening. *Jurnal Ekonomi Kuantitatif Terapan*, *7*(1), 52-59. https://doi.org/10.24843/JEKT.2014.v07.i01.p06

Plumlee, M., Brown, D., Hayes, R. M., & Marshall, R. S. (2015). Voluntary environmental disclosure quality and firm value: Further evidence. *Journal Accounting and Public Policy*, *34*(4), 336-361. https://doi.org/10.1016/j.jaccpubpol.2015.04.004

Retno, R. D., & Priantinah, D. (2012). Pengaruh good corporate governance dan pengungkapan corporate social responsibility terhadap nilai perusahaan: Studi empiris pada perusahaan yang terdaftar di Bursa Efek Indonesia periode 2007-2010. *Jurnal Nominal*, *1*(2), 84-103. https://doi.org/10.21831/nominal.v1i2.1000

Salvatore, D. (2005). *Ekonomi manajerial* (5th ed.). Salemba Empat.

Santoso, A. (2017). Pengaruh good corporate governance terhadap nilai perusahaan dengan kinerja keuangan sebagai variabel intervening. *Prosiding Seminar Nasional dan Call for Paper Ekonomi dan Bisnis*, 67-77. https://jurnal.unej.ac.id/index.php/prosiding/article/view/6675/4833

Sejati, B. P., & Prastiwi, A. (2015). Pengaruh pengungkapan sustainability report terhadap kinerja dan nilai perusahaan. *Diponegoro Journal of Accounting*, *4*(1), 1-12.

Spence, M. (1973). Job market signaling. *The Quarterly Journal of Economics*, *87*(3), 355-374. https://doi.org/10.2307/1882010

Sunaryo, K., Fabian, A., & Dewi, S. (2018). The effect of good corporate governance and financial performance on sustainability report disclosures and its implications on corporate values: Case study of the IDX listed company in 2011-2016. *Proceeding of the International Conference on Accounting and Management Science.*

Susanti, A. N., Rahmawati, & Aryani, Y. (2010). Pengaruh mekanisme corporate governance terhadap nilai perusahaan dengan kualitas laba sebagai variabel intervening pada perusahaan manufaktur yang terdaftar di Bursa Efek Indonesia periode 2004-2007. *Jurnal Ekonomi and Bisnis*, *4*(3), 178-183.

Suwardjono. (2014). *Teori akuntansi perekayasaan pelaporan keuangan.* BPFE Yogyakarta.

Tarjo. (2008). Pengaruh konsentrasi kepemilikan institusional dan leverage terhadap manajemen laba, nilai pemegang saham serta cost of equity capital. *Prosiding Simposium Nasional Akuntansi*, *11*. http://pdeb.fe.ui.ac.id/?p=6535