

IS IT TRUE THAT CSR MEDIATES THE PROPORTION OF INDEPENDENT COMMISSIONER AND AUDIT COMMITTEE SIZE ON FIRM VALUE?

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Abstract

This study examines the influence of the Proportion of Independent Commissioners (PIC) and Audit Committee Sizes (ACS) on Firm Value (FV) through CSR. The data were obtained from the Indonesia Stock Exchange, resulting in unbalanced data do to the focus on companies that issued CSR reports from 2018 to 2021, totaling 220 company-year observations. Data analysis was conducting using EvIEWS 9. The direct analysis indicates that PIC negatively affects both FV and CSR, meaning that an increase in PIC leads to a decrease in both FV and CSR. On the other hand, ACS positively influences CSR and FV, indicating that an increase in ACS leads to an increase in both CSR and FV. Additionally, CSR positively affects FV. Indirect relationship testing shows that (1) CSR mediates the negative effect of PIC on FV; (2) CSR mediates the positive effect of ACS on FV. This study enriches governance research by considering PIC and ACS as factors influencing FV. It contributes to the liberature by providing significant relationships between corporate governance mechanisms in all sector listed on the Indonesia Stock Exchange that issue CSR reports.

Keywords: *Proportion Independent Commisioner, Audit Committee Size, Firm Value, Corporate Social Responsibility.*

Abstrak

Penelitian ini bertujuan untuk menguji pengaruh proporsi komisaris independen dan ukuran komite audit terhadap nilai perusahaan melalui CSR. Data diperoleh dari Bursa Efek Indonesia, menggunakan data yang tidak seimbang karena fokus pada perusahaan yang menerbitkan laporan CSR dari tahun 2018 sampai 2021, dengan total 220 observasi tahun perusahaan. Pengolahan data dilakukan dengan EvIEWS 9. Pengolahan langsung menunjukkan bahwa PIC berpengaruh terhadap nilai perusahaan dan CSR dengan arah negatif, artinya ketika PIC bertambah, maka nilai perusahaan maupun CSR akan turun. Sementara ACS berpengaruh terhadap CSR dan nilai perusahaan dengan arah positif, artinya semakin naik ACS maka CSR serta nilai perusahaan akan bertambah. CSR juga berpengaruh terhadap nilai perusahaan dengan arah positif. Pengujian hubungan tidak langsung menunjukkan bahwa (1) CSR memediasi PIC terhadap nilai perusahaan dengan arah negatif; (2) CSR memediasi ACS terhadap nilai perusahaan dengan arah positif. Studi ini memperkaya penelitian mengenai tata kelola dengan mempertimbangkan PIC dan ACS yang memengaruhi nilai perusahaan. Penelitian ini memberikan kontribusi terhadap literatur dengan menyediakan hubungan signifikan antara mekanisme tata kelola perusahaan di semua sektor yang terdaftar di BEI, yang menerbitkan laporan CSR.

Kata Kunci: *Proporsi Komisaris Independen, Ukuran Komite Audit, Nilai perusahaan, Tanggung Jawab Sosial Perusahaan.*

1. Introduction

Company value is an important factor to study because it represents the amount that would be paid when the company is sold. In the manufacturing industry, company value has gradually decreased (Moktadir et al. 2019). Nowadays, companies are becoming more environmentally conscious, as evidenced by environmental disclosures being a prominent and important aspect in a country (Su, Hu, and Zhang 2023). Experienced directors can influence the disclosure of company environmental information, such as environmental regulations (Pactwa, Woźniak, and Dudek 2021), the legal environment (Liu and Liu 2022), and corporate governance (Samara et al. 2018). Corporate environmental governance is related to company value, from both short-term and long-term perspectives (Fu et al. 2024). Currently, environmental degradation and conservation are becoming increasingly important issues, including climate change (Cifuentes-Faura 2021). Actions to improve human well-being, the planet, prosperity, and peace are part of the 2030 Agenda (Lafuente-Lechuga, Cifuentes-Faura, and Faura-Martínez 2020). This requires the participation of all countries, citizens, and stakeholders to promote a fair and sustainable society (Khurshid, Khan, and Cifuentes-Faura 2023); (Lorente et al. 2023). CSR structures can influence a company's Financial Performance (Seo, Luo, and Kaul 2021). CSR disclosure can build a trusted image and send positive signals to stakeholders (Garanina and Aray 2021). CSR disclosure enables companies to gain legitimacy in national and international markets in Russian Companies (Aray et al. 2021); (Garanina and Kim 2023).

The primary mechanism of business governance includes the board of directors, which has two functions: oversight and advisory (Su, Hu, and Zhang 2023). The distribution of control among corporate participants constitutes the definition of corporate governance (CG) (Bacq and Aguilera 2022). When CG is effective, it can eliminate corporate earnings management, increase commitment to social responsibility, and promote sustainable development (Wang, Weng, and Wang 2021). Agent behavior can be monitored and conflicts between agents and principals reduced through effective CG mechanisms (Panda and Leepsa 2017). Companies with effective governance need to disclose information related to the environment (Li et al. 2022). Managers tend to gain additional benefits and power, potentially harming shareholders (Karpoff 2021). Board members with international experience can influence the operational aspects of the company, including CSR commitments (Islam et al. 2021), and company performance. Another element of CG is the size of audit committee. The audit committee significantly influences the value of companies in Jordan (Zraiq and Fadzil 2018). This research builds upon (Hermanto, Lusy, and Widyastuti 2021). The difference from previous research lies in the elements of CG studied and the research object.

Companies play a crucial role in environmental protection, thus contributing to the promotion of sustainable products and services (Pizzi et al. 2020); (Zhang, Wang, and Dong 2023). The topic of CSR has become a major issue as it aims to reduce the social and environmental consequences of a company's activities (Miloud 2024). CSR activities for suppliers have a positive impact on the company's value (Choi, Lee, and Choi 2023). CSR activities have the potential to increase a company's value (Lee and Choi 2021). CSR-related activities can enhance social performance and drive innovation (Awan and Sroufe 2020). Investments in CSR typically require support from controlling shareholders (Nguyen, Kecskés, and Mansi 2020). In pandemic situations, CSR activities aimed at fostering sustainable relationships with suppliers can significantly impact a company's value (Golubeva 2021). The relevance of CSR concerning social and environmental issues worldwide indicates a shift in business paradigms (Mariani, Al-Sultan, and De Massis 2023).

CG can facilitate the creation of FV (Whittingham et al. 2023). The system applied to manage a company, with the goal of enhancing long-term shareholder value, is the definition of CG (Sugosha and Artini 2020). Several studies determine the factors influencing changes in FV (Endri and Fathony 2020); (Gerged and Agwili 2020); (Jeroh 2020). Good Corporate Governance (GCG) can lead to better sustainability disclosure (Miloud 2024). GCG can create value (Sarker and Hossain 2023). The primary concern of every business organization is to have high corporate value as it relates to investor investment decisions (Bassey, Ukpe, and Solomon 2017). The market value of a company can be indicated by stock prices, which can enhance shareholder prosperity (Ibrahim 2020). Conversely, some studies show that board size is negatively related to the value of financial institutions in Europe (Ben-Fatma and Chouaibi 2023). Board independence is a critical component of the board structure. Several studies indicate that board independence affects FV (Agarwal and Singh 2021); and (Al-Farooque,

Buachoom, and Hoang 2019). There is study showing that board independence has different effects on FV in a country (Kao, Hodgkinson, and Jaafar 2019).

GCG can reduce the influence of earnings management on FV (Hong et al. 2023). One element of CG is the presence of an audit committee. The independence of the audit committee is a critical characteristics that affects the committee's efficiency in managing financial reporting processes (Baxter and Cotter 2009). The audit committee can also significantly influence FV (Al-Okaily and Naueihed 2020). Conversely, some studies indicate that smaller audit committees can also enhance FV (AL-Matari et al. 2012). Research on 63 companies in Jordan showed no significant relationship between factors of audit committee effectiveness and dividend distribution (Nimer, Warrad, and Khuraisat 2012). There are also research findings indicating that the audit committee has a significant impact on FV in Jordan (Zraiqa and Fadzil 2018).

This research examines CG in terms of the Proportion of Independent Commissioners (PIC) dan Audit Committee Size (ACS) as independent variables. The novelty of the model lies in CSR as a mediating variable between the independent variables and FV. This study provides a unique model of the extent to which PIC and ACS, as elements of CG, with CSR as a mediating variable, affect FV. The uniqueness of this research compared the previous ones lies in measuring CG and the research model that places CSR as a mediating variable. Thus, this research adds insights into the literature on independent variables, with CSR as a mediating variable affecting FV.

2. Theoretical Framework and Hypothesis Development

Several studies on the factors underlying changes in FV in emerging markets have begun to emerge ((Endri and Fathony 2020); and (Jeroh 2020)). This research is based on Agency Theory, which states that larger boards have greater control over Top Management, leading to a positive relationship between board size and FV (Rossi et al. 2021). Some studies indicate that larger boards have more control over top management, and directors can monitor tasks and performance wisely, thereby increasing FV (Yanti and Patrisia 2019). Conversely, some research argues that smaller boards can achieve higher FV because of their ability to communicate and coordinate effectively (Salem et al. 2019). Smaller boards help make better decisions due to easier coordination among board members with less communication, making them more efficient and increasing FV (Zabri, Ahmad, and Wah 2016).

Another theory underlying this research is the Resource Dependence Theory (RDT) (Ben-Fatma and Chouaibi 2023). This theory focuses on the role of the board of directors in providing access to resources, including economic, informational, skills, and knowledge resources necessary for business success. Having a larger board can provide opportunities for resource access, which can improve company performance (Kiharo and Kariuki 2018); (Waheed and Malik 2019). Typically, board members have strong external connections in networks, which positively influence long-term company development (Salem et al. 2019). Integrating the governance structure of a company will result in maximizing resources that can enhance FV (Kiharo and Kariuki 2018). According to the RDT, a larger and more experienced board can provide opportunities for relationships and access to resources, thereby improving FV (Kiharo and Kariuki 2018); (Waheed and Malik 2019).

Another theory underlying this research is the Signalling Theory. Companies that implement CSR are considered signals used by organizations to reduce information asymmetry in the market and to demonstrate sustainability commitment. According to Signaling Theory, CSR communication is an important signal to show a company's commitment (Saxton et al. 2019). Voluntary disclosure of CSR is essential from the perspective of signaling theory when competing in the capital market (Maqbool and Zameer 2018).

2.1 The Importance of CG

CG plays a crucial role in overseeing companies (Ben-Fatma and Chouaibi 2023). Well-managed companies will experience sustainable growth (Singh and Pillai 2022). Some attributes of CG that influence FV are still limited (Noguera 2020). Research shows a negative relationship between board size (an attribute of CG) and FV, proving that smaller boards achieve higher FV because they can coordinate and make more effective decisions (Kao, Hodgkinson, and Jaafar 2019). Smaller boards help make better decisions due to less communication, thus aiding in efficiency and increasing FV (Zabri, Ahmad, and Wah 2016).

This study uses an independent board as a fundamental CG mechanism (Ben-Fatma and Chouaibi 2023). The presence of independent directors plays a crucial role in providing adequate information and leads to higher FV in Nigeria (Ahmad and Sallau 2018). The independence of independent directors can enhance the board's effectiveness in overseeing management, thus avoiding misleading financial reporting (Kiharo and Kariuki 2018). Conversely, some studies show no significant relationship between board independence and FV (Mukhtaruddin, Relasari, and Felmania 2014). That's why the PIC variable is worthy of investigation due to inconsistent research results. This study is unique because it chooses the PIC, measured by the percentage of independent commissioners compared to the total number of board members.

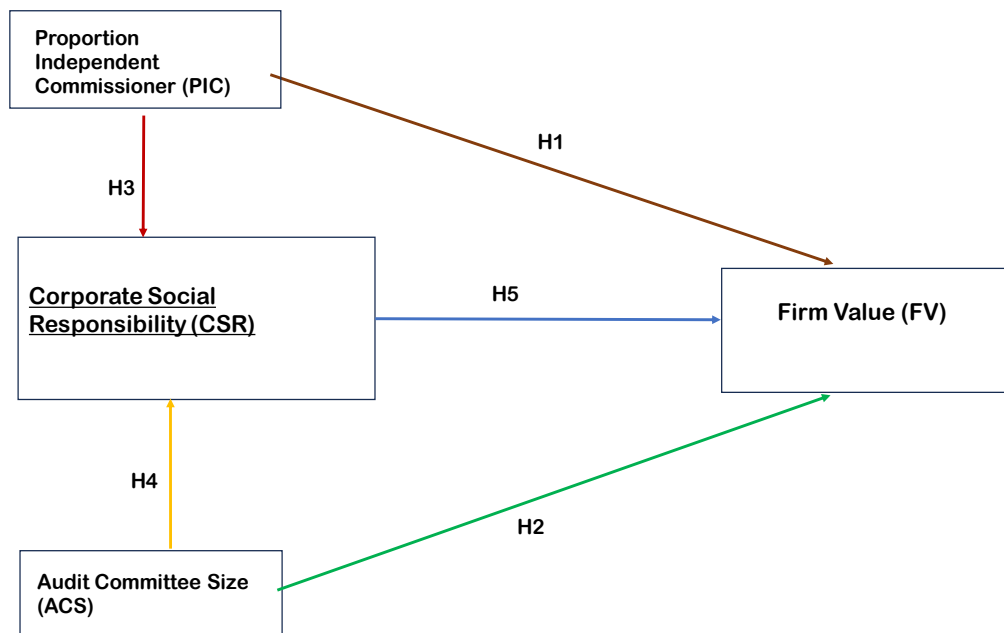
A GCG system certainly leverages resources and adheres to principles of accountability and responsibility (Pramani et al. 2023). Companies in developing countries can reduce their agency costs by implementing good governance practices (Arora and Sharma 2016). The audit committee plays a crucial role in assisting the board in fulfilling its oversight duties (Pramani et al. 2023). Companies with independent audit committees make financial investors trust the quality of financial information provided (Srivastava, Das, and Pattanayak 2019). A larger audit committee results in better management policies, including compliance with CG (Ntim et al. 2012). That's why the larger size of the audit committee in a company, the better compliance with CG. This study aligns with (A. R. Crişan and Fülöp 2014), which shows a positive influence of audit committee size on compliance with CG. This research is unique in using PIC and ACS as attributes of CG.

2.2 *The Importance of CSR*

CG is a set of processes, rules, and structures aimed at controlling and leading an organization (Evers, Gerschewski, and Khan 2023). Companies that comply with CG regulations are crucial for achieving legitimacy in the eyes of society. Strong internal governance, measured by board independence, makes voluntary and detailed disclosure of carbon emissions more likely (Park, Lee, and Shin 2023). Strong internal governance tends to make companies voluntarily disclose their environmental information (Tsang, Xie, and Xin 2019). Research on CSR-related compensation can enhance CSR performance (Baraibar-Diez, Odriozola, and Fernández-Sánchez 2019). Some research shows a negative relationship between CSR and companies operating in Europe and North America compared to the Asia-Pacific region (Jo and Park 2020). CSR serves as a signal to the market to reduce information asymmetry between managers and stakeholders, thus enhancing FV (Zerbini 2017). Research in Australia shows that board independence positively affects carbon disclosure (Elsayih, Tang, and Lan 2018). Companies implementing CSR are associated with lower stock market volatility and better stock liquidity (Egginton and McBrayer 2019); (Shakil 2021). CSR also brings risk management benefits (Kim, Lee, and Kang 2021).

The composition of the board of directors as part of the CG mechanism can determine the value of the company (Ben-Fatma and Chouaibi 2023). This research uses PIC and ACS as elements of CG. The study also uses CSR as a mediating variable affecting FV. Hypotheses 1 and 2 related to PIC and ACS use Agency Theory (Yanti and Patrisia 2019). Hypotheses 5 and 6 use RDT (Ben-Fatma and Chouaibi 2023). The linkage of CSR in tyoptheses 3 and 4 is supported by signaling theory because CSR is a signal used to reduce information asymmetry in the market and demonstrate commitment to sustainability (Conte et al. 2023). The research Framework is shown in Figure 1 below.

Figure 1.
Conceptual framework



2.3 Proportion Independent Commissioner (PIC)

An independent board has directors from outside the company the majority, who are not affiliated with the company's top executives and have business unrelated to the company to avoid potential conflicts of interest (Kiharo and Kariuki 2018). Agency theory and RDT indicate a positive effect of independent directors on FV, albeit in different ways (Salem et al. 2019). External parties as a mechanism connecting the company with its environment can support managers in achieving organizational goals (Kiptoo, Kariuki, and Ocharo 2021). The more independent directors on the board, the more positive signal it sends to investors and shareholders, demonstrating effective monitoring of the company, thus enhancing public trust and ultimately increasing FV (Wu 2021); (Sheikh, Wang, and Khan 2013). Independent directors play a crucial role in making company operations more efficient and increasing FV (Van-Khanh et al. 2020). Research on the Nairobi Securities Exchange shows that the presence of independent directors is positively related to the market value of insurance sector companies (Mweta and Mungai 2018). PIC measurement is percentage of proportion of the number of independent commissioner relative to number of Board Members. Based on the literature above, the hypothesis related to PIC is:

H1. Hypothesis one. PIC has a significant effect on FV

H3. Hypothesis three. PIC has a significant effect on CSR

2.4 Audit Committee size (ACS)

The responsibilities of the audit committee include monitoring the financial reporting process and the effectiveness of internal controls. The Audit Committee is a key element in CG. It plays a significant role in decision-making within company and assists the Board of Directors, management, internal audit, and external audit (Andrei Răzvan Crișan and Fülöp 2014). The independence of the audit committee positively affects company performance (Chan and Li 2008). Audit committee functions as a guardian of financial reporting quality and the audit process (Bruynseels and Cardinaels 2014). Research in Europe on CG shows a positive relationship between audit committee independence and reporting quality (De-Vlaminck and Sarens 2015). The size of the audit committee has an impact on the value of companies in Jordan (Hamdan, Sarea, and Reyad 2013). These findings are consistent with (Al-Okaily and Naueihed 2020). A larger audit committee is better at detecting financial fraud and has a positive impact on FV (Chi, Huang, and Xie 2015); (Elewa and El-Haddad 2019). ACS

measurement is number of audit committee members. Based on this research, the hypothesis of this study is:

H2. Hypothesis two. ACS has a significant effect on FV.

H4. Hypothesis four. ACS has a significant effect on CSR.

2.5 Corporate Social Responsibility (CSR)

CSR has become a significant concern for stakeholders, not only for large corporations but also a necessity for all businesses and companies (Diab and Metwally 2020). Disclosing information about social and environmental issues in financial and non-financial reports is done to strengthen legitimacy, trust, and transparency (Martínez-Ferrero, Banerjee, and García-Sánchez 2016). CSR activities conducted by companies demonstrate ethical behavior (Gao and Zhang 2015). The disclosed CSR aims to reduce existing risks, build a credible image, and send positive signals to stakeholders (Boubakri et al. 2021).

Several studies show a positive relationship between CSR disclosure and FV (Buchanan, Cao, and Chen 2018); (Chen, Hung, and Wang 2018). CSR as a communication tool with stakeholders can reduce conflicts of interest between managers and various non-investor stakeholders (Mohmed, Flynn, and Grey 2020). Implementing CSR by companies results in a better information environment and reduce information asymmetry between the company and stakeholders (Cui, Jo, and Na 2018). Better CSR performance improves stock liquidity (Shakil 2021). Research conducted in 34 countries shows that board independence has a positive effect on CSR performance (Liao et al. 2021). CSR measurement is number of item disclosed by companies relative to number of item based on GRI. The measurement of a FV using Tobin's Q. Based on the mentioned points, this study hypothesizes that:

H5. Hypothesis five. CSR has a significant effects on FV.

H6. Hypothesis six. CSR has mediating effects on the relationship between PIC on FV.

H7. Hypothesis seven. CSR has mediating effects on the relationship between ACS on FV.

3. Research Method

This study uses a quantitative approach the influence of the Proportion of Independent Commissioners (PIC) and Audit Committee Sizes (ACS) on Firm Value (FV) through CSR. The data were obtained from the Indonesia Stock Exchange with population of all sectors of companies listed on the Indonesian Stock Exchange and publishes CSR reports, resulting in unbalanced data due to the focus on companies that issued CSR reports from 2018 to 2021, totaling 220 company-year observations. Data analysis was conducting using Eviews 9.

4. Results

Table 1.
Results of Direct Influence Testing

Direct Influence	Path Coefficient	P-value	Conclusion
Proportion Independent Commissioner (PIC) -> CSR	-0.111	0.006	Significant
Audit Committee Size (ACS) -> CSR	0.048	0.000	Significant
Proportion Independent Commissioner (PIC) -> FV	-0.239	0.045	Significant
Audit Committee Size (ACS) -> FV	0.057	0.002	Significant
CSR -> FV	1.754	0.000	Significant

Source: Data processed by researchers

The testing of PIC shows that PIC has an effect on FV, so hypothesis 1 is accepted with a negative direction, meaning that each increase in PIC by one unit results in a decrease in FV by 0.239 and vice versa. The testing results of PIC on CSR are accepted (Hypothesis 3) with a negative direction, indicating that each decrease in one unit of PIC results in an increase in CSR by 0.111. This research

aligns with (Agarwal and Singh 2021); (Al-Farooque, Buachoom, and Hoang 2019); (Mweta and Mungai 2018).

The results of ACS on FV show a value < 0.05 , with a positive direction (hypothesis 2 is accepted), meaning that each increase in one unit of ACS results in an increase in FV by 0.057. The testing of ACS on CSR shows that ACS has an effect on CSR with a positive direction (hypothesis 4 is accepted), meaning that each decrease in one unit of ACS will cause a decrease in CSR by 0.048. Meanwhile, the testing of CSR on FV shows that hypothesis 5 is accepted with a positive direction, meaning that each increase in one unit of CSR will result in an increase in FV by 1.754. This is in line with research on audit committees from (Abernathy et al. 2014); (Ghafran and Yasmin 2018); (Ghafran and O'Sullivan 2017); and (Chiru and Gherghina 2019).

Table 2.
Results of Indirect Effect Testing

Indirect Effect	Path Coefficient	P-value
Proportion Independent Commissioner (PIC) -> CSR -> FV	-0.194	0.009
Audit Committee Size (ACS) -> CSR -> FV	0.084	0.000

Source: Data processed by researchers

The indirect effect of PIC on FV through CSR shows a significance of 0.009, meaning hypothesis 6 is accepted with a negative direction. Thus, it can be concluded that CSR mediates the effect of PIC on FV. The indirect effect of ACS on FV through CSR shows a significance of 0.000 meaning hypothesis 7 is accepted with a positive direction, indicating that CSR mediates the effect of ACS on FV. This is consistent with the research of (Garanina and Aray 2021); (Garanina and Kim 2023); (Seo, Luo, and Kaul 2021).

5. Conclusion

Based on data processing with Eviews 9, it is shown that PIC hurts FV and CSR, which is consistent with research on financial institutions in Europe (Ben-Fatma and Chouaibi 2023). A smaller board can achieve higher FV because it can coordinate, communicate, and make decisions more effectively (Kao, Hodgkinson, and Jaafar 2019); and (Zabri, Ahmad, and Wah 2016). ACS has a positive impact on both FV and CSR. This is consistent with research in Jordan (Hamdan, Sarea, and Reyad 2013); and (Elewa and El-Haddad 2019). CSR also influences FV and serves as a mediating variable for both PIC and ACS on FV. This is in line with research by (Buchanan, Cao, and Chen 2018); (Shakil 2021). The findings of this study support agency theory, resource dependence theory, and signaling theory. This study fills gaps in the literature related to PIC and ACS, especially in developing countries like Indonesia facing challenges in both environmental and economic aspects. The study also contributes to accounting literature by highlighting the role of PIC and ACS in enhancing FV and sustainability. Practical implications suggest that GCG creates value and is beneficial for all stakeholders.

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