THE EFFECT OF GOOD CORPORATE GOVERNANCE ON FIRM VALUE WITH ISLAMIC SOCIAL REPORT DISCLOSURE AS THE MEDIATING VARIABLE

THESIS

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MALANG
2019

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Presented to:
Universitas Islam Negeri (UIN) Maulana Malik Ibrahim Malang in Partial Fulfillment of the requirements for the Degree of *Sarjana Manajemen* (S.M)

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ACKNOWLEDGEMENT

Untuk kedua orang tuaku yang hebat

Untuk mama yang mengajarkanku arti kedisiplinan dan ketulusan

Untuk ayah yang mengajarkanku arti integritas

Untuk Adik yang selalu menjadi penyemangat

Karya ini adalah bagian dari usaha dan do'a kalian setiap harinya

Terimakasih

MOTTO

Walk with God

PREFACE

Alhamdulillah, I thank God for His mercies, blessings, and guidance. Prayer and *greetings* may always be with the Messenger of Allah, Prophet Muhammad PBUH. I am grateful for completing the final assignment of this thesis with the title "*The Effect of Good Corporate Governance on Firm Value with Islamic Social Report Disclosure as the Mediating Variable*".

I realized that in the preparation of this thesis, there were guidance and contribution of thoughts from various parties. On this occasion I would like to express my gratitude to:

1. The Almighty God, Allah SWT who always gives *Rahmad, Hidayah* and sustenance in the form of extraordinary health so that I can complete this thesis.
2. Prof. Dr. Abdul Haris, M.Ag as the Rector of Universitas Islam Negeri (UIN) Maulana Malik Ibrahim Malang.
3. Dr. H. Nur Asnawi, M.Ag as the Dean of the Faculty of Economics, Universitas Islam Negeri (UIN) Maulana Malik Ibrahim Malang.
4. Drs. Agus Sucipto, M.M as the Head of the Management Department, Faculty of Economics, Universitas Islam Negeri (UIN) Maulana Malik Ibrahim Malang.
5. Dr. Indah Yuliana, M.M as the advisor who has provided guidance, input and direction so that this research can be completed properly.
6. Lecturers who have provided knowledge and insight to the author while studying in Universitas Islam Negeri (UIN) Maulana Malik Ibrahim Malang.
7. Both of my parents, Mr. Purwaji and Mrs. Nari who never stop giving motivation, prayer and enthusiasm, become the best friends and teachers in every step of the author's life. Not to forget the beloved sister, Saltsa Ari

Purbo Anugrah Virdaus who has always been an encouragement in the author's daily life.

8. The partner who continues to support the completion of this thesis, Ruli Faisal Amri.
9. The best friends, Rina Azfiani, Umy Nasikhah, Husnul Maghfirah, Hanny Lubaba, Muhammad Khamami, Jauhar Fikri, Ahmad Dhani Nasrullah, Sarah Rizkayanti, and Fitriyah Ema Ningsih who are always willing to be bothered.
10. The SESCOM Family, PERMAGRES, MRUF ENVOY IX, CREW GAMADA KINGDOM, and CREW OMAH SEDEP who encouraged me to complete this thesis.
11. Friends of the 2015 Management Department who became partners during class learning and always gave prayers in the completion of the thesis.
12. Nur Khalim, Hanny Lubaba, Putri Esty Cahyani, and Mashuri who have provided data analysis tutorials using Smart PLS.
13. All parties who involved directly or indirectly that cannot be mentioned one by one.

Finally, with all humility I realize that this thesis writing is far from perfect. Therefore, I expect criticism and constructive suggestions for the perfection of this writing. I also hope that this simple work can be beneficial to all parties.

Malang, 13^{th} of May 2019

Author

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ABSTRAK

Titis Yoely Setya Nugrahani. 2019. SKRIPSI. Judul: "**Pengaruh *Good Corporate Governance* terhadap Nilai Perusahaan dengan *Islamic Social Report Disclosure* sebagai Variabel Mediasi**"

Pembimbing : Dr. Indah Yuliana, S.E., M.M

Kata Kunci : *Good Corporate Governance, Nilai Perusahaan, Islamic Social Report Disclosure*

Tujuan didirikannya suatu perusahaan disamping untuk memaksimalkan nilai laba adalah untuk memaksimalkan nilai perusahaan Nilai perusahaan merupakan persepsi investor terhadap perusahaan, yang sering dikaitkan dengan harga saham. Dalam upaya menciptakan nilai yang tinggi, perusahan melalui tata kelola (*corporate governance*) dalam perusahaan teresebut berupaya untuk mengkomunikasikan dan menginformasikan kinerja mereka tidak hanya dari segi finansial, tetapi juga keberlanjutan dan kinerja sosial mereka terhadap para pemangku kepentingan. Tujuan dari penelitian ini adalah untuk mengetahui pengaruh *good corporate governance* terhadap nilai perusahaan dengan *Islamic Social Report Disclosure* sebagai variabel mediasi.

Metode yang digunakan dalam penelitian ini adalah dengan menggunakan pendekatakan deskriptif kuantitatif. Sampel yang digunakan sebanyak 6 perusahaan dari total 19 perusahaan.BUMN yang terdaftar di Indeks Saham Syariah Indonesia (ISSI) 2013-2017. Penelitian ini menggunakan data sekunder yang diperoleh dari laporan keuangan yang dipublikasikan oleh Bursa Efek Indonesia (BEI). Analisis data menggunakan metode *Partial Least Square* (PLS).

Hasil penelitian ini menunjukkan bahwa (1) *good corporate governance* berpengaruh positif signifikan terhadap *islamic social report disclosure*, (2) *islamic social report disclosure* tidak berpengaruh signifikan terhadap nilai perusahaan, (3) *good corporate governance* berpengaruh positif signifikan terhadap nilai perusahaan, dan (4) *islamic social report disclosure* tidak dapat memediasi pengaruh *good corporate governance* terhadap nilai perusahaan

ABSTRACT

Titis Yoely Setya Nugrahani. 2019. THESIS. Title: “**The Effect of Good Corporate Governance on Firm Value with Islamic Social Report Disclosure as the Mediating Variable”**

Advisor : Dr. Indah Yuliana, S.E., M.M

Keywords : *Good Corporate Governance, Firm Value, Islamic Social Report Disclosure*

The purpose of establishing a company beside to maximize profit value is to maximize the company value. The value of the company is the perception of investors towards the company, which is often sought by stock prices. In order to develop high value, companies through good corporate governance communicate and support their performance not only financially, but also sustainability and social performance aimed at stakeholders. The purpose of this study was to study the effect of good corporate governance on firm value with islamic social disclosure as a mediating variable.

The method used in this research is quantitative descriptive method. The samples used were 6 State-Owned Enterprises (SEOs) from a total of 19 SOEs listed on the 2013-2017 Indonesian Syariah Stock Index (ISSI). This study used secondary data obtained from financial and annual reports published by the Indonesia Stock Exchange (IDX). Data were analyzed by using the Partial Least Square (PLS) method.

The results of this study indicate that (1) good corporate governance has a significant positive effect on Islamic social report disclosure, (2) Islamic social report disclosure has no significant effect on firm value, (3) good corporate governance has a significant positive effect on firm value, and (4)) Islamic social report disclosure cannot mediate the effect of good corporate governance on firm value

المستخلص

تيتيس يولي ستيا نوغراهاني. ٢٠١٩. بحث جامعي. العنوان: **"تأثير حسن حوكمة الشركة إلى قيمة الشركة بتقرير الإفصاح الاجتماعي الإسلامي كالمتغير المتوسط"**

المشرفة : دكتورة إنداه يوليانا

الكلمات الرئيسية : *حسن حوكمة الشركة، قيمة الشركة، تقرير الإفصاح الاجتماعي الإسلامي*

يهدف بناء الشركة بجانب إكمال الربحية لإكمال قيمة الشركة، حيث كانت غفتراض المستثمرين لدى الشركة المتعلقة بأسعار الأسهم. ففي محاولة تنشيء القيمة الراقية، تكون الشركة عبر حوكمة الشركة تحاول لتواصل الأعمال وإعلامها ليس فقط في المجال المالي، بل في الاستمرار والعمل الاجتماعي نحو صاحب الأهميات. يهدف هذا البحث إلى معرفة تأثير حسن حوكمة الشركة إلى قيمة الشركة بتقرير الإفصاح الاجتماعي الإسلامي كالمتغير المتوسط.

يستوعب هذا البحث منهجية الكمي الوصفي باستخدام العينات بعدد ٦ شركات من ١٩ شركة مسجلة في مؤشر الأسهم الشرعي بإندونيسيا فترة ٢٠١٣-٢٠١٧. يتخذ هذا البحث البيانات الثانوية المكتسبة من التقرير المالي المنشور من قبل البورصة الإندونيسية. وأما طريقة تحليل البيانات فهي أقل المربعات الجزئي.

فنتائج البيانات تدل على أن (١) حسن حوكمة الشركة توثر إيجابيا قطعيا نحو تقرير الإفصاح الاجتماعي الإسلامي؛ (٢) تقرير الإفصاح الاجتماعي الإسلامي لم يؤثر قطعيا نحو قيمة الشركة؛ (٣) حسن حوكمة الشركة توثر إيجابيا قطعيا نحو قيمة الشركة؛ (٤) تقرير الإفصاح الاجتماعي الإسلامي لم يوسط تأثير حسن حوكمة الشركة نحو قيمة الشركة.

CHAPTER I

INTRODUCTION

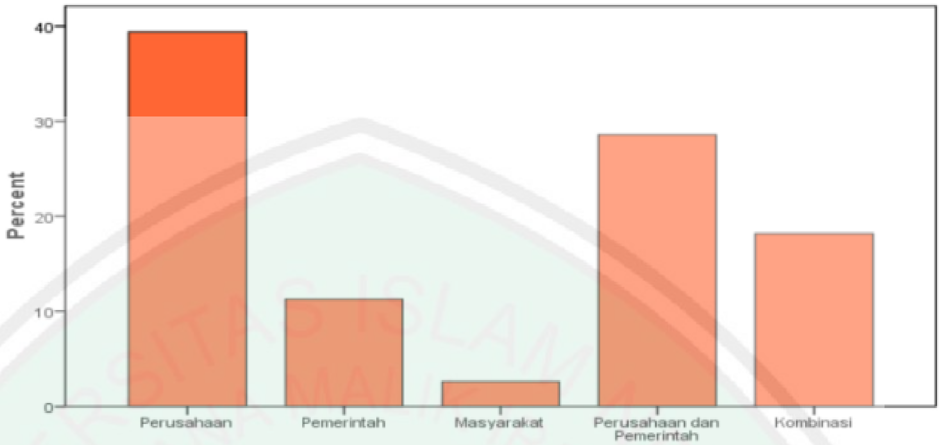
1.1 Research Background

The issue of Good Corporate Governance (GCG) in Indonesia has been a hot consumption for discussion. The company's failure to implement GCG further worsens the condition of the Indonesian economy, firstly because of the ineffective function of the board of commissioners and corporate audit committee in protecting shareholders, and secondly unprofessional corporate governance that hamper the welfare of shareholders and stakeholders (Iswandi and Rahmawati, 2011) .

One of the biggest cases in Indonesia that happened in 2006 was PT Lapindo Brantas. At that time the company did not have drilling operational standards and had not yet implemented professional corporate governance. In the written program, the wall might be installed to a depth of 8,500 feet. However, it was not done and even drilling was done to a depth of 9,297 feet (http://www.beritasatu.com/). As a result, water pressure continued to rise and looked for gaps that eventually burst not far from the drilling well. Relating to the principle of accountability, before the incident, PT Lapindo Brantas did not account for the performance and activities of the company to stakeholders, which can be seen from the non-issuance of sustainable reports. Whereas, accountability emphasizes the clarity of corporate accountability mechanisms to stakeholders (Wardhani and Andono, 2017)

The latest case was a demonstration of dozens of Papuans and West Papuans in front of the Ministry of Environment and Forestry (KLHK) office. They demanded the company, which they said had damaged the environment, immediately stopped its activities and removed their traditional land. Their intended companies included PT Bintuni Agro Prima Perkasa in Tambrauw West Papua, PT Korindo Abadi in Boven Digoel Papua, and PT Mega Mustika Plantation in Sorong West Papua (https://www.hijauku.com/). In the last few years the issue of environmental destruction and violations of human rights by corporations has been in the spotlight, even by the United Nations (UN). In 2018, the UN High Commissioner for Human Rights Zeid Ra'ad Al Hussein specifically stated that from Sumatra to Papua corporations were the main causes of human rights violations against farmers, workers and indigenous peoples, in the form of land grabbing, environmental damage and pollution of water sources which led to the emergence health hazard (https://www.republika.co.id/). Not much different, the oldest environmental organization, Wahana Lingkungan Hidup Indonesia (WALHI) has even stated that corporations and government-corporation combinations were the main actors of environmental destruction in Indonesia (https://www.mongabay.co.id).

Figure 1.1
Main Actors Destroys the Environment



Source: WALHI

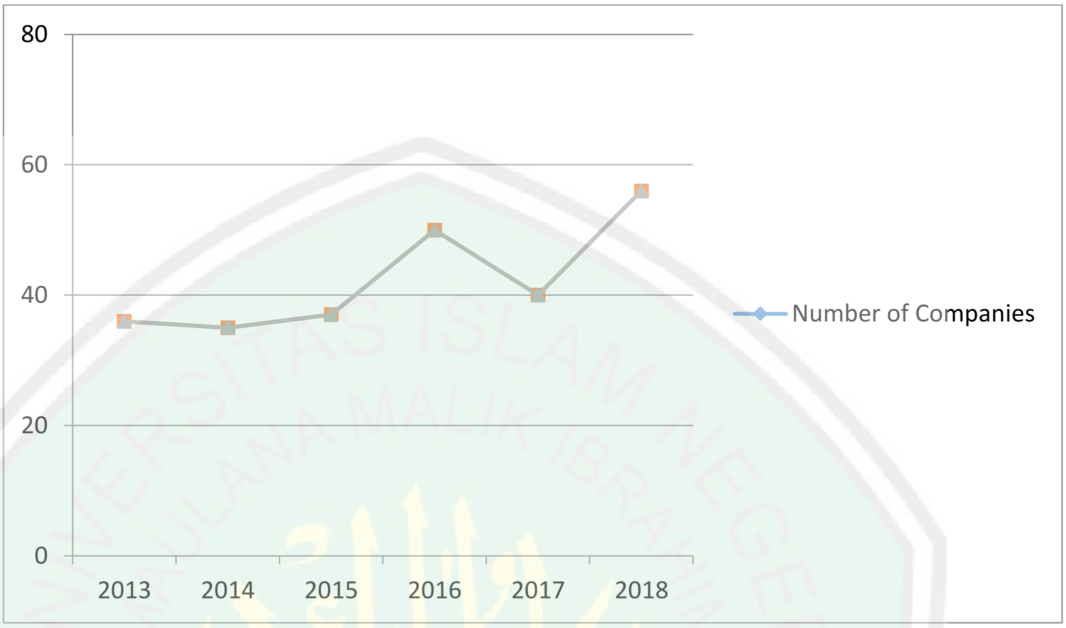
From the figure above it is clear that the company is the main actor in environmental destruction, especially companies in the mining and plantation industries. In addition, the second rank environmental destroyer is the combination of government and companies which are often referred to State-Owned Enterprises (SOEs).

It has been a reality that the presence of companies in an environment will bring positive and negative impacts. Some positive impacts are 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 negative externalities of industrialization (Harahap, 2001).

Looking at the negative side of the industrialization, it is not fair if the community must bear the social burden. 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 that many companies have developed to share corporate responsibility with various negative externalities of industrialization (Hadi, 2011). The disclosure can also be used as a company 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.

At the end of 2017, there was only 30% of the top 100 companies listed on the Jakarta Stock Exchange (IDX) which have made sustainability reports (https://www.ey.com/id/). Meanwhile, from 2000 until now, there have been only 97 companies which reported through the Global Report Initiative (GRI). GRI Country Program Manager in Indonesia, Bob Eko Kurniawan explained that there was pressure from investors, especially foreign investors, so that those listed companies made sustainability reports. By making this sustainability report, companies will find it easier to find investors. Its reputation will also be better for the company, so investors will be more attracted to them. In addition, companies can more easily get a license to operate from the socio-economic community, because with the more structured Corporate Social Responsibility (CSR) program, companies will get more approval from the public and will not be interfered in their operations (Majalahcsr.id).

Figure 1.2
List of Companies Participating in the Sustainability Reporting Award



Source: *NSCR*

Based on the graph above, it can be seen that the number of companies participating sustainability reporting award (SRA) is increasing. In 2013, the number of companies participating in the SRA totaled 36 companies and increased to 56 companies in 2018. This shows that companies are increasingly aware of the importance of disclosure of social responsibility in order to gain legitimacy from the public and investors.

In sharia perspective, the concept of social responsibility has already existed in Islamic teachings. Sofyani, et al (2012) stated that humans as caliphs on earth have the obligation to prosper this earth. Therefore, the perfection of human's faith will not be achieved only by building a vertical relationship with God (*Hablumminallah*), but also must be followed by a horizontal relationship with his fellow creatures (*Hablumminannas*).

Nowadays there is no CSR reporting and measurement standards intended for Islamic business institutions. This caused the CSR reporting of Islamic companies still using conventional CSR reporting standards. Yet according to Muhammad (2009) stakeholders will have positive outlook and consider relevant social reporting practices in an Islamic perspective.

In recent years, a number of Islamic economists have begun to initiate a form of social performance reporting of Islamic business institutions. Some forms of those reporting include Islamic Social Reporting (ISR), Shariah Enterprise Theory (SET), and Islamicity Performance Index. Of the three forms of social performance reporting mentioned above, ISR is a form of reporting that is widely discussed today, this can be seen from the many recent studies relating to ISR.

According to Haniffa (2002), ISR is an effort to report social aspects in the activities of Islamic financial institutions in the perspective of Islam to reduce weaknesses in the practice of Islamic financial institutions. Social reporting in Islamic perspective is a process of identifying, providing, and attempting to communicate social information and others related to 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 and to attain Allah's good pleasure.

ISR disclosure is closely related to the concept of Good Corporate Governance (GCG). When associated with disclosure of social responsibility, the board of commissioners and the audit committee have a role in the extent of information that will be delivered to the public. The greater number of members of the board of commissioners will increase effectiveness in monitoring management, facilitate control efforts on the CEO, and increase pressure on management to expand information on social responsibility disclosure (Coller and Gregory, 1999 in Sembiring, 2005). The role of the audit committee in controlling and monitoring top management will be more effective if the size of the audit committee is greater. Good monitoring is expected to expand the disclosure of Islamic Social Reporting (ISR) in meeting the information needs of stakeholders and can minimize information that might be hidden by company management (Hasanah et al, 2017).

The purpose of establishing a company in addition to maximizing the value of earnings is to maximize the value of the company. The higher the value of the company, the more prosperous the owner. Company value is the investor's perception of the company, which is often associated with stock prices. High stock prices make the value of the company also high (Devi Kurnia Julianti in Moniaga, 2013). Therefore, maximizing company value is very important for the company. However, according to Sofyan (2011) in achieving maximum company value, the principle of *maslahah* in sharia business must be considered by positioning a company in the 3P realm, namely People, Profit, and Planet. This means that basically the earth was created by God to meet human needs, but not to meet greed, but also must pay attention to the environment and surrounding communities.

In order to guide investors who want to invest in sharia, the Indonesia Stock Exchange (IDX) launched the Indonesian Sharia Stock Index (ISSI) on May 12, 2011. ISSI is a composite index of sharia stocks listed on the IDX. ISSI is an indicator of the performance of the Indonesian sharia stock market. ISSI constituents are all sharia shares listed on the IDX and entered into the Sharia Securities List (DES) issued by OJK. That is, the IDX does not select sharia shares that enter ISSI. The ISSI constituency is reselected twice a year, every May and November, following the DES review schedule. Therefore, in every selection period, there are always sharia shares that go out or enter into ISSI constituents. The ISSI calculation method follows the other BEI stock index calculation methods, namely the weighted average of market capitalization using December 2007 as the base year for ISSI calculations (https://www.idx.co.id/).

Research related to the implementation of the ISR Index in Indonesia is still relatively small. Fitria and Hartati (2010) stated that the development of the ISR index in Indonesia is still very slow compared to the development of the ISR index in other 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. This is evident from the many studies on the ISR index in these countries. According to Sofyani et.al (2012), based on the ISR Index, the social performance of Islamic banks in Malaysia is better than Islamic banks in Indonesia. Research related to the ISR Index is considered very important to support the practice of social performance of Islamic-based companies.

In this study, researcher examined how the influence of GCG on company value by disclosure of ISR as a mediating variable in state-owned mining and manufacturing companies. Some researchers have conducted research on the effect of Good Corporate Governance on corporate value. Lutfilah Amanti (2012) and Manuel Amman (2010) showed that Good Corporate Governance has a positive effect on corporate value. This showed that good corporate governance will increase corporate value. Different results were shown by Apri Dwi Astuti & Juwenah (2017) and Agus Santoso (2017) who stated that there was no influence between GCG and company value. Researchers reviewed how the influence of GCG on company value and added the ISR variable as a variable that mediates the relationship between the two. In addition, this research also specialized in conducting research in the mining and manufacturing sectors which are accused of being the biggest environmental destroyers (https://www.mongabay.co.id). This specialization is expected to be able to increase the sensitivity of the research results, where one sector and another company has different operational activities.

Based on the background above, researcher is interested in writing research entitled "The Effect of Good Corporate Governance on Firm Value with Islamic Social Report Disclosure as a Mediation Variable". Researcher reexamined the effect of GCG on firm value and developed research by adding other factors in the form of Islamic Social Reporting Disclosure as a mediating variable.

1.2 Problem Formulation

Based on the background described above, the formulation of the problem in this study include:

1. Does Good Corporate Governance (GCG) have a significant effect on Islamic Social Report Disclosure?
2. Does Islamic Social Report Disclosure have a significant effect on Firm Value?
3. Does Good Corporate Governance (GCG) have a significant effect on Firm Value?
4. Does Islamic Social Report Disclosure mediate the effect of Good Corporate Governance (GCG) on Firm Value?

1.3 Research Purposes

Based on the problem formulation above, the purposes of this study are:

1. To find out and analyze the effect of Good Corporate Governance (GCG) on Islamic Social Report Disclosure.
2. To find out and analyze the effect of Islamic Social Report Disclosure on Firm Value.
3. To find out and analyze the effect of Good Corporate Governance (GCG) on Firm Value.
4. To find out and analyze the indirect effect of Good Corporate Governance (GCG) on Firm Value with Islamic Social Report Disclosure as a mediating variable.

1.4 Research Use

The benefits expected from this study are as follows:

1. For Author

   The results of this study are expected to provide benefits and additional knowledge to the author regarding the effect of the implementation of Good Corporate Governance in Manufacturing Companies in Indonesia, especially the influence on corporate value mediated by the Islamic Social Report Disclosure.

2. For Academics

   The results of this research are expected to contribute significantly in the development of economics, especially in the field of management. The results of this study are also expected to be a reference and comparison material for further research related to Good Corporate Governance (GCG) and Islamic Social Report Disclosure.

3. For Corporations

   So far, the disclosure of sustainability reports by companies is still voluntary and limited to disclosure of conventional aspects. The results of this study are expected to be used as a reference in making policies related to whether companies need to make and improve the quality of their social report disclosures, especially to meet the needs of Muslim stakeholders who need to carry out business activities in accordance with their spiritual needs.

4. For Investors

The results of this research are expected to provide an overview of corporate governance and become a reference for investors, especially in manufacturing to invest their funds.

5. For Society

The results of this study are very useful for the community, because in a company activity it will definitely have an impact on the community. In addition, the results of this study can also be used to legitimize the status of companies and controllers of corporate behavior.

1.5 Research Scope

Based on the background and identification of the problems above, the writer will not go too far because in order to avoid widespread problems in this study. Therefore, the proxy variable Good Corporate Governance (GCG) uses the Decree of the Secretary of the Ministry of SOEs Number: SK-16 / S.MBU / 2012 concerning Indicators of Evaluation and Evaluation Parameters for the Implementation of Good Corporate Governance in Owned Enterprises State issued on June 6, 2012 (BUMN Scorecard). This study also uses the Islamic Social Reporting Index initiated by Ross Hanifa (2002) and perfected by Rohana Othman et al (2009) to measure the quality of Islamic Social Reporting disclosure itself. Meanwhile, Tobin's Q is used as a proxy of the company's value.

CHAPTER II

LITERATURE REVIEW

2.1 Previous Studies

Previous studies or researches are collection of several studies carried out by previous researchers who are related to the research to be conducted for use as a comparison and reference. Previous research related to Good Corporate Governance (GCG) influencing company value was conducted by several other researchers. Author and researcher of this study will deliver some of the previous studies as a reference base to support hypotheses.

Some of the previous studies of this research include research conducted by Rob Bauer et al (2003) entitled Empirical Evidence on Corporate Governance in Europe: The Effect on Stock Returns, Firm Value, and Performance. The results showed that simultaneously, there was a positive influence between stock returns, company value, and company performance, which contained Good Corporate Governance (CGC). However, this relationship weakened significantly when adapted to different countries. There is a negative relationship between Good Corporate Governance (CGC) and company performance.

The research of Peter Klein et al (2005) entitled Corporate Governance, Family Ownership and Firm Value: the Canadian evidence shows that there is no evidence that the total index of corporate governance has a bearing on the value of the company. Research by Manuel Amman et al (2010) entitled

Corporate Governance and Firm Value: International Evidence 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. Research by Lutfi Amanti (2012) entitled The Effect of Good Corporate Governance on Company Value with Disclosure of Corporate Social Responsibility as a Moderating Variable (Case Study on Cigarette Companies Registered on the IDX) shows that GCG has proven to have a negative effect on firm value but is not significant.

Research by Reny Dyah Retno et al (2012) entitled The Effect of Good Corporate Governance and Disclosure of Corporate Social Responsibility on Company Value (Empirical Study of Companies Listed on the Indonesia Stock Exchange Period 2007-2010) shows that GCG has a positive effect on firm value with a control variable Size and leverage. CSR disclosure has a positive and not significant effect on firm value with control variables Size, Industry type, Profitability, and Leverage. In addition, GCG and CSR Disclosures have a positive effect on Company Value.

Research by Bima & Prastiwi (2015) entitled The Effect of Disclosure on Sustainability Reports on Company Performance and Value shows that the disclosure of each performance in Sustainability Report, namely disclosure of economic, environmental and social performance is not able to significantly influence the value of the company on the company that discloses it. Marlene Plumlee's research in the same year entitled Voluntary Environmental

Disclosure Quality (VEDQ) and Firm Value: Further Evidence shows that VEDQ is related to company value, both in terms of EFCF and COEC. The type and nature of disclosure quality affect the relationship between VEDQ and firm value.

Research by Ayu Komala Sari et al (2016) entitled The Effect of Corporate Social Responsibility on Firm Value with Company Size and Number of Board of Commissioners as Moderating Variables (Study of Manufacturing Companies listed on the Indonesia Stock Exchange) shows that corporate value is not influenced by CSR. The company's value will be influenced by CSR by being moderated by the size of the company and the number of the board of commissioners.

Ehtazaz Javaid's research Lone Amjad Ali Imran Khan (2016) entitled Corporate Governance and Corporate Social Responsibility Disclosure: Evidence from Pakistan shows that the level of CSR disclosure is different before and after issuance of the guidline. CSR disclosures differ 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. Independent Director has a significant positive relationship to CSR disclosure. Woman Director has a significant positive relationship to CSR disclosure.

Agus Santoso (2017) research entitled The Effect of Good Corporate Governance on Company Value with Financial Performance as an Intervening Variable shows that Good Corporate Governance represented by a proxy for institutional ownership has a significant positive direct effect on firm value. Good Corporate Governance, represented by a proxy for institutional ownership, has a significant indirect effect on firm value by using financial performance as an intervening variable.

Research conducted by Apri Dwi Astuti & Juwenah (2017) entitled The Effect of Disclosure of Sustainability Report on the Value of Companies Involved in LQ45 of 2012-2013 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. Research conducted by Lawrence Loh et al in the same year entitled Sustainability Reporting and Firm Value: Evidence from Singapore-Listed Companies shows that Sustainability Reporting (SR) is positively related to the company's market value, and that the relationship is independent of the sector and company status, such as government company or family company.

Research conducted by Nindya Tyah Hasanah et al (2017) entitled Analysis of the Effects of GCG and Financial Performance on Islamic Social Reporting Disclosure (ISR) shows that audit committee size, liquidity, and profitability variables significantly influence the Islamic Social Reporting (ISR) disclosure. While the variable size of the board of commissioners, and leverage do not affect the disclosure of Islamic Social Reporting (ISR).

Research conducted by Karsam Sunaryo et al (2018), entitled 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) 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.

Research conducted by Setiyawan, et al (2018), entitled The Effect of Corporate Good Governance Mechanism with Corporate Values, shows that managerial ownership and audit committees have a significant positive effect on firm value. Institutional ownership, the size of the board of directors and the proportion of independent board of directors have not a significant positive effect on company value. CSR is only able to be a pure moderator in the influence of the audit committee on peer value, whereas in the influence of managerial ownership, institutional ownership, the size of the board of directors and the proportion of independent board of commissioners on company value, CSR is not able to become a pure moderator.

Previous research examined the relationship between governance and corporate value and the relationship of governance with disclosure of sustainability reports. In this study, researchers wanted to reexamine the direct effect of Good Corporate Governance and disclosure of sustainability reports on firm value. In addition, researchers also examined the relationship of Good Corporate Governance to corporate value with Islamic Social Report Disclosure as a mediating variable.

The following will be attached to the research conducted by previous researchers, which are shown in the Table as follows:

Table 2.1
Previous Studies

No.	Name, Year, Title	Variable	Method/Data Analysis	Results
1.	Rob Bauer et al (2003) entitled *Empirical Evidence on Corporate Governance in Europe: The Effect on Stock Returns, Firm Value, and Performance.*	Independent Variable: *Corporate Governance* Dependent Variables: *Stock Return, Firm Value, Firm Performance.*	This research used descriptive analysis techniques and multiple linear regression analysis.	1. Simultaneously, there is a positive influence between stock returns, company value, company performance and Good Corporate Governance (CGC). However, this relationship weakened significantly when adapted to different countries. 2. There is a negative relationship between Good Corporate Governance (CGC) and company performance.
2.	Peter Klein et al (2005) entitled *Corporate Governance, Family Ownership and Firm Value: the Canadian evidence*	Independent Variables: *Corporate Governance, Family Ownership* Dependent Variable: *Firm Value*	This study used regression analysis techniques.	1. There is no evidence that the total corporate governance index has an effect on the value of the company.
3.	Manuel Amman et al (2010) entitled *Corporate Governance and Firm Value: International Evidence*	Independent Variable: *Corporate Governance* Dependent Variable: *Firm Value*	The method used was analysis using a regression model.	1. There is a significant positive relationship between firm-level corporate governance and corporate value 2. Companies with high social behavior have a significant positive relationship

				between corporate governance and corporate value.
4.	Lutfilh Amanti (2012) entitled *Pengaruh Good Corporate Governance Terhadap Nilai Perusahaan dengan Pengungkapan Corporate Sosial Responsibility sebagai Variabel Pemoderasi (Studi Kasus Pada Perusahaan Rokok Yang Terdaftar Di BEI)*	Independent Variable: *GCG* Dependent *Variable: Firm Value* Mediating Variable: *Sustainability Report Disclosure*	Data analyzed using the Multiple Regression with SPSS tools	1. GCG has been proven to have a negative effect on firm value but is not significant 2. Disclosure of CSR as a moderating variable is not proven to affect the value
5.	Reny Dyah Retno et al (2012) entitled *Pengaruh Good Corporate Governance Dan Pengungkapan Corporate Social Responsibility Terhadap Nilai Perusahaan (Studi Empiris Pada Perusahaan Yang Terdaftar Di Bursa Efek*	Independent Variables: *GCG, Corporate Social Responsibility Disclosure* Dependent Variable: *Firm Value*	Data collection techniques: documentation and literature study Data analysis technique: Descriptive statistics, Classical Assumption Test, Fit and Goodness	1. GCG has a positive effect on Company Value with the Size and Leverage control variables. 2. CSR disclosure has a positive and not significant effect on firm value with control variables Size, type of industry, profitability, and leverage. 3. GCG and CSR Disclosures have a positive effect on Company Value.

	Indonesia Periode 2007-2010)		Testing, Hypothesis Testing	
6.	Bima & Prastiwi (2015) entitled *Pengaruh Pengungka-pan Sustainability Report Terhadap Kinerja Dan Nilai Perusahaan*	Independent Variable: *Sustainability Report Disclosure* Dependent Variable: *Firm Value, Firm Performance* Moderating Variables: *Firm Size, The Number of Board of Commissioners*	Data analyzed using the Multiple Regression	1. 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.
7.	Marlene Plumlee (2015) entitled *Voluntary Environmental Disclosure Quality (VEDQ) and Firm Value: Further Evidence.*	Independent Variable: *VEDQ* Dependent Variables: *Stock Price, Expected Future Cash Flow (EFCF), and Cost of Equity Capital (COEC).*	The data analysis technique was the three sets of regressions.	1. VEDQ relates to company value, both in terms of EFCF and COEC. 2. The type and nature of disclosure quality affect the relationship between VEDQ and company value.
8.	Ayu Komala Sari et al (2016) entitled Pengaruh *Corporate Social Responsibility terhadap*	Independent Variable: *CSR* Dependent Variable:	Analysis of the data used MRA (moderated	1. Company value is not influenced by CSR. 2. The value of the company will be influenced by CSR by being moderated

	Nilai Perusahaan dengan Ukuran Perusahaan dan Jumlah Dewan Komisaris sebagai Variabel Pemoderasi (Studi pada Perusahaan Manufaktur yang terdaftar Bursa Efek Indonesia)	*Firm Value* Moderating Variables: *Firm Size, The Number of Board of Commissioners*	regression analysis).	by the size of the company and the number of boards of commissioners.
9.	Ehtazaz Javaid Lone Amjad Ali Imran Khan (2016) entitled *Corporate Governance and Corporate Social Responsibility Disclosure: Evidence from Pakistan*	Independent Variable: *GCG* Dependent Variable: *Corporate Social Responsibility Disclosure*	Analysis of the data used the context analysis method and regression	1. The level of CSR disclosure differs before and after the publication of the guideline 2. CSR disclosure differs by sector, the oil and gas sector has the best quality in its disclosure, while the industrial sector is the opposite. 3. Board size has a significant positive relationship on CSR disclosure 4. Independent Director has a significant positive relationship to CSR disclosure 5. Woman Director has a significant positive relationship to CSR disclosure.
10.	Agus Santoso (2017) entitled *Pengaruh Good Corporate Governance Terhadap Nilai Perusahaan Dengan Kinerja Keuangan*	Independent Variable: *Good Corporate Governance* Dependent Variable: *Firm Value*	This study used descriptive analysis techniques and multiple linear regression	1. Good Corporate Governance represented by a proxy for institutional ownership has a significant positive direct effect on the value of the company. 2. Good Corporate Governance represented by a proxy for institutional ownership has

	Sebagai Variabel Intervening.	Intervening Variables: *Financial Performance*	analysis, and path analysis.	a significant indirect effect on firm value by using financial performance as an intervening variable.
11.	Apri Dwi Astuti & Juwenah (2017) entitled *Pengaruh Pengungkapan Sustainability Report Terhadap Nilai Peru-sahaan Yang Terga-bung Dalam LQ45 Tahun 2012-2013*	Independent Variable: *Sustainability Report Disclosure* Dependent Variable: *Firm Value*	Analysis of the data used Multiple Regression with SPSS tools	1. Economic performance has a significant positive effect on firm value. 2. Social performance has no significant effect on company value. 3. The results of environmental performance have no significant effect on firm value.
12.	Lawrence Loh et al (2017) entitled *Sustainability Reporting and Firm Value: Evidence from Singapore-Listed Companies*	Independent Variable: *Sustainability Reporting* Dependent Variable: *Firm Value*	Data analysis techniques used Olson's model as a baseline.	1. Sustainability Reporting (SR) is positively related to the company's market value, and the relationship is independent of the sector and status of the company, such as a government company or a family company.
13.	Nindya Tyah Hasanah dkk (2017) entitled *Analisis Pengaruh GCG dan Kinerja Keuangan Terhadap Pengungkapan*	Independent Variables: *GCG, Financial Performance* Dependent Variable:	Analysis of the data used Multiple Regression with SPSS tools	1. The audit committee size, liquidity, and profitability variables significantly influence the disclosure of Islamic Social Reporting (ISR). While the variable size of the board of commissioners, and

	Islamic Social Reporting (ISR)	*Islamic Social Reporting (ISR) Disclosure*		leverage do not affect the disclosure of Islamic Social Reporting (ISR).
14.	Karsam Sunaryo et al (2018) entitled *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)*	Independent Variable: *GCG, Financial Performance* Dependent Variables: *Sustainability Report Disclosure, Corporate Value*	Data analysis used regression analysis	1. GCG and Financial Performance affect the Disclosure of Sustainability Reports and Company Values in Mining Companies listed on the Indonesia Stock Exchange during 2011-2016

Source: Processed by Researcher (2019)

From several previous studies that have been presented by researchers, it showed different results and some have similarities about the effect of Good Corporate Governance on Company Value with Islamic Social Reporting Disclosure as a mediating variable. The differences and similarities of this research with previous research are:

Research conducted by Rob Bauer et al (2003), Peter Klein et al (2005), Manuel Amman et al (2010), Reny Dyah Retno et al (2012) entitled Corporate Governance and Firm Value: International Evidence examines the effect of Good Corporate Governance on firm value. The difference between this research and this research is on the object of research, where this research measures the GCG of Indonesian state-owned companies, while previous studies carry evidence from other countries. The GCG proxy in this study is also different from previous studies. In addition, the researcher also added a mediating variable in the form of Islamic Social Repor disclosure which was proxied by the ISR index as conceived by Haniffa (2002) and perfected by Othman (2010).

To find out the differences and similarities from previous studies, more complete is in table 2.2 as follows:

Table 2.2
Similarities and Differences with Previous Studies

Similarities	Differences

1. Examined the effect of corporate governance and disclosure of sustainability reports on company value 2. Using Tobin's Q in measuring company value	1. The sample used is a company in Indonesia. 2. Add the disclosure of the sustainability report as a mediating variable, not moderating. 3. The sustainability report used is the Islamic Social Report which is proxied by the ISR Index. 4. Using the Decree of the Secretary of the Ministry of BUMN Number: SK-16 / S.MBU / 2012 to calculate the GCG score

Source: Processed by Researcher (2019)

2.2 Previous Studies

2.2.1 Agency Theory

The main theory related to corporate governance is agency theory. Jensen and Meckling (1976) define an 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 basically wants to increase wealth or 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 Good Corporate Governance (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 provides assurance 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.

2.2.2 Legitimacy Theory

The theory of legitimacy (legitimacy theory) focuses on the interaction between companies and the community. This theory states that organizations are part of society so they must pay attention to social norms of society because conformity with social norms can make companies more legitimate.

According to Dowling and Pfeffer (1975), legitimacy is important for organizations, boundaries are emphasized by social norms and values, and reactions to these limits encourage the importance of analyzing organizational behavior with regard to the environment.

Deegan and Tobin (2002) stated that the legitimacy of the company will be obtained, if 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.

In order to continue gaining legitimacy, corporate organizations must communicate environmental activities by disclosing social environments

(Berthelot and Robert: 2011). Environmental disclosure is considered beneficial to restore, enhance and maintain the legitimacy that has been received (Hadjoh and Sukartha: 2013).

2.2.3 Signaling Theory

The originator of this signaling theory was Spence who conducted research under the title Job Market Signaling in 1973. Spence (1973) stated that asymmetric information occurred in the labor market. Therefore, Spence created a signal criteria in order 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 company's business prospects and how they are marketed. 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 to outsiders. This will result in an 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 assess the quality of the company objectively. 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).

2.2.4 Firm Value

2.2.4.1 Definition of Firm Value

Suad (2008: 7) stated that the value of the company is the price a prospective buyer is willing to pay if the company is sold. The value of the company can be reflected in the company's stock price, high stock prices indicate that the high value of the company. Company value can provide maximum shareholder prosperity if the company's share price continues to increase. According to Keown et al (2001: b2-4) from an investor's perspective, the stock market price reflects the value of the company and the overall complexity of the company's real-world risks that reflect investment, funding and dividend decisions. The higher the share price, the higher the value of the company, thereby increasing the prosperity of shareholders. Company value is the market value of the debt securities and corporate equity in circulation.

In general, many methods and techniques have been developed to measure the value of the company, including; a) the profit approach includes the method of profit rate ratio or price earning ratio, the capitalization projection method of earnings; b) the cash flow approach includes a discounted cash flow method; c) dividend approach including dividend growth methods; d) the asset approach includes an asset valuation method; e) stock price approach; and f) Economic value added approach.

2.2.4.2 Types of Firm Value

According to Jogiyanto (2009: 121) there are several values related to stock prices, namely:

a) Book Value

Book value is the value of shares according to the books of the issuer. To calculate the book value of a stock, several values related to it need to be known. These values are par value, additional paid-in capital or in excess of par value, paid-in capital and retained earnings.

b) Market Value

Market value is different from book value. If the book value is the value recorded at the time the shares are sold by the company, then the market value is the price of shares that occur on the stock market at a certain time determined by market participants. This market value is determined by the demand and supply of the relevant shares in the stock market.

c) Intrinsic value (intrinsic value)

Intrinsic value is the true value of the stock. This supposed value is also called fundamental value. There are two kinds of analysis that are widely used to determine the true value of shares, namely fundamental security analysis and technical analysis. Technical analysis is widely used by practitioners in determining stock prices, while fundamental analysis is widely used by academics.

2.2.4.3 Factors Affecting Firm Value

Firm value can be influenced by profitability. Weston and Copeland (1996: 143) argue that market value will depend on profits, market value is influenced by the amount of profit or profit generated by the company. If profits increase, the market value of shares will increase and will increase the value of the company. Suad (2008: 286) states that basically future stock market prices are influenced by future profitability and the risk borne by investors. Whereas, Taswan (2003) states that corporate value is influenced by insider ownership, debt policy and dividend policy. Thus, from the above statements it can be concluded that the value of the company can be influenced by several factors, namely: (1) Managerial Ownership (2) Profitability (3) Company Size (4) Financial Decisions (5) Debt Policies (6) Policies Dividend.

2.2.4.4 Indicators of Firm Value Management

Measurement of firm value can use several calculations, one of them is Tobin's Q. Tobin's Q or commonly also called Q ratio or Q Theory was first introduced by James Tobin in 1969. James Tobin is an American economist who won the Nobel Prize in economics by proposing a hypothesis that the market value of a company should be equal to the cost of replacing the assets of the company so as to create a state of equilibrium.

The definition of Tobin's Q according to James Tobin as quoted by Carton and Terjff in Juniarti (2009: 22) is: "Tobin's Q is the ratio of the market value of a firm assets (as measured by the market value of the market value of its outstanding stock and debt) to the replacement cost of the firm's assets ". Tobin's Q offers an explanation of the value of a company. The Tobin's Q model defines a company's value as a combination value between tangible assets and intangible assets. The company's low Tobin's Q value (between 0 and 1) indicates that the cost of replacing company assets is greater than the market value of the company. This indicates that the market valued the company less. Whereas if the Tobin's Q value of a company is high (more than 1), then the value of the company is greater than the value of the listed company assets. This indicates that there are some assets of the company that are not measured or recorded.

The Tobin's Q or Q ratio value can generally be calculated by dividing the market value of a company (measured by the market value of outstanding shares and debt) with the cost of replacing assets. This basic formula was then further developed, including by Reddy et al. Reddy et al (2010) developed a method for measuring Tobin's Q to be:

$$\text{Tobin's Q} = \frac{\text{MVE} + \text{L/T Debt} + \text{Net S/T Debt}}{\text{Total Assets}}$$

2.2.4.5 Firm Value in the Islamic Perspective

According to Brighem and Gapenski (2011), corporate value is a certain condition that has been achieved by a company as an illustration of public trust in the company after experiencing a process of activities for several years, namely since the company was founded until now. This can be attributed to the word of God in Surah Al-Qashas verse 77 where a company must create achievements and foster a good image to gain the trust of the community.

وَابْتَغِ فِيمَا آتَاكَ اللَّهُ الدَّارَ الْآخِرَةَ ۖ وَلَا تَنسَ نَصِيبَكَ مِنَ الدُّنْيَا ۖ وَأَحْسِن كَمَا أَحْسَنَ اللَّهُ إِلَيْكَ ۖ وَلَا تَبْغِ الْفَسَادَ فِي الْأَرْضِ ۖ إِنَّ اللَّهَ لَا يُحِبُّ الْمُفْسِدِينَ

Meaning: *"And look for what Allah has bestowed upon you (happiness) of the hereafter, and do not forget your portion of worldly (enjoyment) and do good (to others) as God has done good, to you, and do not do damage on (face)) earth. Surely Allah does not like those who do mischief " (QS. Al-Qashas: 77).*

(And seek) strive (in what Allah has bestowed upon you) in the form of possessions (the happiness of the afterlife), suppose you spend it on the path of obedience to Allah (and do not forget), do not forget (your part of worldly pleasures) that you should do charity with it to attain merit in the hereafter (and do good) to people by giving alms to them (as Allah has done good to you, and do not do) do (damage on earth) by doing immoral acts. (Indeed, Allah does not like those who do mischief) meaning that Allah will surely punish them (Tafsir Jalalain).

From Abu Ya 'la Syaddad bin Aus Radhiallahuanhu from the Prophet Muhammad said, "*Verily Allah has determined good deeds (ihsan) for everything. If you kill then be good at it. If you slaughter well in that respect, let you sharpen the knife and please the animal to slaughter"* (Muslim history). The lesson to be learned from this hadith is that the Islamic Sharia demands the conduct of Allah for every creature including animals. It is not permissible to torture and damage the body as a target and objective, nor can anyone slaughter a person who is punished by *qishash*. Including *ihsan* also do well to livestock and compassion towards it. Must not burden it beyond its capabilities and do not torture when slaughtering it.

2.2.5 Good Corporate Governance (GCG)

2.2.5.1 Definition of GCG

Corporate governance is a process and structure used by corporate organs to determine policies in order to improve business success and corporate accountability, so as 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).

According to the Forum for Corporate Governance in Indonesia (FCGI), the definition of Good Corporate Governance is a set of rules governing relations between shareholders, managers (managers) of the company, creditors, government, employees, as well as other internal and external stakeholders related to rights and their obligations or in other words a system that regulates and controls the company so as to create added value for all stakeholders.

There are two things that are emphasized in the concept of Good Corporate Governance. First, the importance of the right of shareholders to obtain information correctly and on time. Second, the company's obligation to make disclosure (disclosure) accurately, timely, transparent to all information on company performance, ownership, and stakeholders.

2.2.5.2 GCG Principles in State-Owned Enterprises

Based on the Decree of the Secretary of the Ministry of SOEs Number: SK-16 / S.MBU / 2012 concerning Indicators of Evaluation and Evaluation Parameters for the Implementation of Good Corporate Governance in State-Owned Enterprises which was issued on June 6, 2012, the application of Good Corporate Governance in State-Owned Enterprises (SOEs) must always be based on five (5) basic principles;

a) Transparency, namely openness in carrying out the decision making process and openness in disclosing material and relevant information about the company.

b) Accountability, namely clarity of functions, implementation, and accountability of Organs so that company management is carried out effectively.

c) Responsibility, which is the suitability in the management of the company for the laws and regulations and the principles of a healthy corporation.

d) Independence, which is a condition where the company is managed independently without conflict of interest and influence / pressure from any party that is not in accordance with the laws and regulations and healthy corporate principles.

e) Fairness, namely justice and equality in fulfilling the rights of stakeholders arising under agreements and laws and regulations.

2.2.5.3 Indicators of GCG Measurement

Measurements in the implementation of Good Corporate Governance (GCG) are carried out in the form of:

a) Assessment, which is a program to identify the implementation of GCG in SOEs through measurement of the implementation and implementation of GCG in SOEs that is carried out regularly every 2 (two) years.

b) Review (Evaluation), a program to describe the follow up of the implementation and implementation of GCG in SOEs conducted in the following year after the assessment referred to in letter a, which includes evaluation of the results of the assessment and follow-up on recommendations for improvement.

Indicators or evaluation and evaluation parameters for GCG implementation in SOEs are a measurement tool to assess the quality of BUMN initiatives in implementing GCG principles in the SOE concerned. Based on the Decree of the Secretary of the Ministry of SOEs Number: SK-16 / S.MBU / 2012 concerning Indicators of Evaluation and Evaluation Parameters for the Implementation of Good Corporate Governance in State-Owned Enterprises which were issued on June 6, 2012, indicators/ parameters These are grouped into 6 (six) GCG factors/aspects consisting of commitment to the implementation of good corporate governance on an ongoing basis, shareholders and GMS / Capital Owners, Board of Commissioners / Board of Trustees, Directors, Disclosure and Disclosure of Information, and Other factors / aspects.

2.2.5.4 GCG in the Islamic Perspective

Soraya (2012) states that the principle of Good Corporate Governance in an Islamic perspective is based on two steps, namely a spiritual footing and an operational footing. A spiritual foundation is a footing based on faith and piety which is manifested in the form of two commitments, halal and t*ayyib*.

Operationally, corporate governance must refer to two principles. The first principle is the behavior of the Prophet and the Apostle in activities including in business, namely *Siddiq*, *Amanah*, *Tabliqh*, and *Fatanah*. The second principle is the principle used in the business world in general, such as transparency, responsibility, accountability, balance, and fairness (Soraya, 2012).

Meanwhile, Muqorobin (2011: 4) states that Good Corporate Governance in Islam must refer to the following principles:

a) Monotheism (*Tauhid*)

Monotheism (*Tauhid*) is the highest basic principle of all life activities of Muslims and is a guide for every Muslim without distinguishing schools of thought or the sect they profess. Monotheism is the principle of the Oneness of God that teaches humans that God is One or Most Single. There is no ally for Him and does not need help from anywhere or anyone. He is not a princess nor a son. There is nothing like Him.

Faith or belief in the principle of monotheism is a major part of the Muslim belief system contained in the Five Pillars of Faith as an important component in the teachings on beliefs called *'aqidah*. In the *'aqidah* system, faith in Allah becomes the first and most important pillar in the pillars of faith, which are then followed by faith in angels, books, prophets and apostles, the last days, and faith in destiny *(qadha* and *qadar*). The principle of monotheism teaches humans to always remember that he is only a creature of Allah who must obey Him and carry out all the commands and leave His prohibitions.

If someone wants to do business, he must first know the religious law that regulates trade so that he does not engage in illegal activities and is detrimental to society. In *muamalah* what must be considered is how it should create an atmosphere that are guided by divine values. (Mardani, 2012: 8).

b) *Taqwa* and *Rida*

The principle or principle of piety and pleasure is the main principle of the establishment of an Islamic institution in any form the principle of *taqwa* to God and His pleasure. Business governance in Islam must also be upheld on the foundation of *taqwa* to Allah and His pleasure in QS At-Taubah verse 109.

أَفَمَنْ أَسَّسَ بُنْيَانَهُ عَلَىٰ تَقْوَىٰ مِنَ اللَّهِ وَرِضْوَانٍ خَيْرٌ أَم مَّنْ أَسَّسَ بُنْيَانَهُ عَلَىٰ

شَفَا جُرُفٍ هَارٍ فَانْهَارَ بِهِ فِي نَارِ جَهَنَّمَ ۗ وَاللَّهُ لَا يَهْدِي الْقَوْمَ الظَّالِمِينَ

Meaning: *"So are the people who built the mosque on the basis of piety to Allah and His good pleasure, or are those who built their buildings on the edge of a collapsed cliff, then the building fell with him into Hell Hell? And Allah does not guide the wrongdoers" (QS. At-Taubah: 109).*

In conducting a business, let it be on a voluntary or voluntary basis. It is not justified that an act of *muamalah*, for example trade, is carried out by force or fraud. If this happens, it can cancel the act. This principle of pleasure shows the sincerity and good faith of the parties.

c) Equilibrium (Balance and Justice)

Tawazun or *mizan* (balance) and *al-'adalah* (justice) are two concepts of equilibrium in Islam. *Tawazun* is more widely used in explaining physical phenomena, even though it has social implications, which then often become the area of *al-'adalah* or justice as a manifestation of monotheism especially in the social context, including economic and business justice. In the context of justice, the parties that make the engagement are required to be true in expressing their wishes and circumstances, fulfill the agreements they have made, and fulfill all their obligations (Mardani: 2012).

d) Benefit (*Maslahah*)

The enforcement of leadership and religious authority in the context of maintaining physical and social harmony is also intended to fulfill the objectives of the implementation of Islamic sharia (*maqashidusy-shari'ah*), which is to achieve the benefit of the human race as a whole, as an expression of the will of Islam to become a blessing for the universe.

The purpose of the application of Islamic teachings in the business world, in general has been stated before, namely to achieve *maslahah* in world life and the hereafter. In particular, the scholars who were among the most discussed were Imam Ghazali, Imam Syatibi and Imam Izzuddin Abdus-Salam had classified this goal into three categories, namely primary or basic needs (*dharuriyat*), secondary needs (*hajiyyat*) to make life more perfect , and tertiary needs for life to be beautiful (*tahsiniyyat*).

2.2.6 Islamic Social Report Disclosure (ISR Disclosure)

2.2.6.1 Definition and Concept of Disclosure

According to Haniffa (2002) disclosure is to make something known or reveal something. In accounting, the term disclosure refers more to the presentation and disclosure of the company's financial statements. Baridwan (2008) explains that what is meant by disclosure in accounting principles is to present complete information in the financial statements.

Annual reports are the main media for the delivery of information by management to parties outside the company. The annual report communicates financial conditions and other information to shareholders, creditors, and other stakeholders. The annual report includes matters such as management discussion and analysis, footnotes and supplementary reports. So that the annual report is known how strong the disclosure information submitted by the company.

In general, according to Hendriksen and Breda (1992) in Raditya (2012) there are three concepts of disclosure. These concepts include:

a) Adequate Disclosure, which is the minimum disclosure that must be met so that the report is not misleading in the interest of decision making.
b) Fair Disclosure, namely disclosure that must be achieved so that all parties receive the same information.
c) Full Disclosure (Full Disclosure) Full disclosure is disclosure that requires the presentation and full disclosure of all information relevant to decision making.

2.2.6.2 Disclosure of Social Performance

At present there are many models of disclosure of social performance initiated by various national and international forums. Wibisono (2007) revealed that the Equator Principles adopted by several countries formulated several principles, including:

a) Accountability standard (AA 1000), which refers to the principle of "triple bottom line" from John Elkington.
b) Global Reporting Initiative (GRI), which is a guide to corporate reporting to support sustainable development initiated by the United Nations

through the Coalition for Innovation Economic (CERES) and UNEP in 1997

c) International Social Accountability SA8000 Standard

d) ISO 14000 environmental management standard

e) ISO 26000.

Along with the rapid development of sharia business today, some experts have begun to form a form of disclosure of social performance specifically for sharia business institutions. Some forms of disclosure of social performance that have been initiated include:

a) Islamic Social Reporting Index (ISR Index), conceived by Haniffa (2002) and developed by Othman et al (2009);

b) Sharia Enterprise Theory (SET), is an enterprise theory that has been internalized with Islamic values to produce a more humane and transcendental theory. One researcher who has discussed SET is Iwan Triyuwono (2007);

c) Islamicity Performance Index (IPI), a method of measuring the performance of Islamic banks that contains financial and social ratios.

2.2.6.3 Measurement of ISR Disclosure

Measurement of ISR disclosure can use the ISR index. ISR indexes are disclosure items that are used as indicators in reporting the social performance of Islamic business institutions. Haniffa (2002) made five ISR Index disclosure themes, namely Funding and Investment Themes, Product and Service Themes, Employee Themes, Community Themes, and

Environmental Themes. Then developed by Othman et al (2009) by adding a disclosure theme, namely the theme of Corporate Governance. Each disclosure theme has a sub-theme as an indicator of the disclosure of that theme. Some ISR Index researchers previously had differences in terms of the number of sub-themes used, depending on the object of research used (Gustani, 2013).

Furthermore, after determining the ISR index component, ISR index scoring is done, namely by giving a score on each ISR index that is disclosed in the company's annual report. If a sub-theme is revealed, it will get a score of 1, and if not, it will get a score of 0. If all the sub-themes are revealed, it will get a score of 53.

After the ISR index scoring process is performed in each company, the first part will be an analysis of each ISR index theme for each company to determine the level of disclosure of the company's social performance. Next is the cumulative assessment of the ISR index on the company which will determine the level of disclosure of the company's social performance.

In this research, content analysis is used to identify the disclosure of the ISR index on the company by reading and analyzing the company's annual report. The analysis does not count the number of occurrences of the principal disclosed in each company annual report, as long as there is at least one subject disclosed in any form, the disclosure principal is declared available.

To find out how much the level of disclosure of the ISR Index on each ISR theme or cumulatively used the following formula:

$$\text{ISR Index} = \frac{\text{Number of point disclosed}}{\text{Maximum number of point}} \times 100$$

After knowing the ISR index value for each theme or cumulatively, the level of social performance disclosure of each company will be determined. In assessing the level of disclosure of corporate social performance, the author uses the approach used by Irwanto in Pramono (2005) in Munawaroh (2007) where disclosure scores are classified in 4 categories: Very Informative (81-100), Informative enough (66- <81), Less informative (51- <66) and not informative (0- <51).

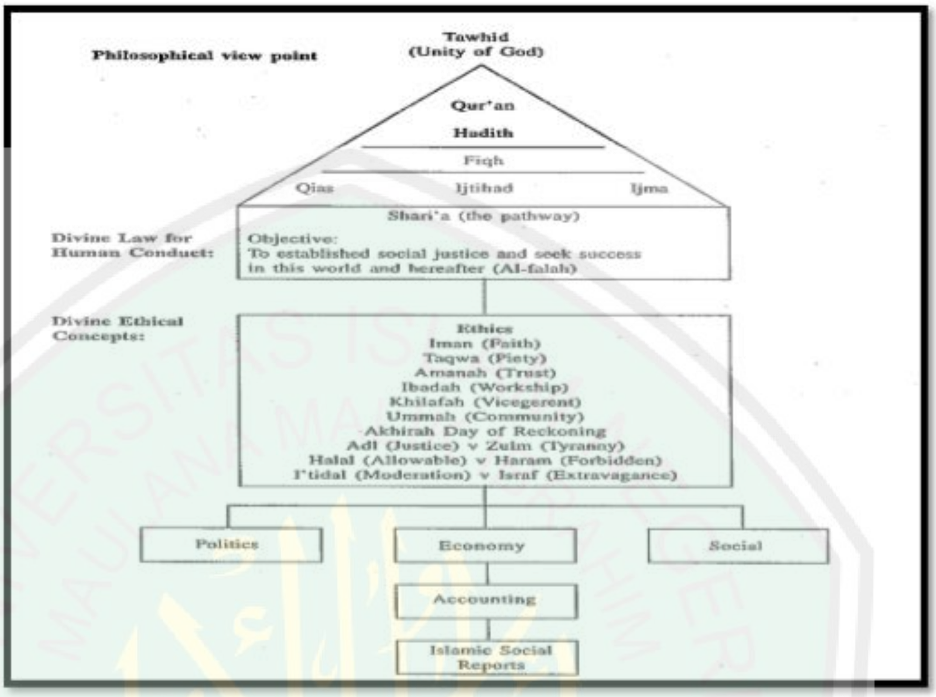
2.2.6.4 ISR in the Islamic Perspective

Before discussing Islamic Social Reporting (hereinafter ISR), we will first discuss the sharia framework. The sharia framework was first conceived by Haniffa and Hudaib (2000), then developed by Haniffa (2002) as the basic foundation for the formation of a comprehensive ISR. This sharia framework (Figure 2.1) will produce material, moral and spiritual aspects in the reporting of the company's ISR (Raditya: 2012).

ISR was first conceived by Ross Haniffa in 2002 in his article entitled "Social Reporting Disclosure: An Islamic Perspective". ISR was further developed more extensively by Rohana Othman, Azlan Md Thani, and Erlane K Ghani in 2009 in Malaysia and currently ISR is still being developed by subsequent researchers. According to Haniffa (2002) there are many limitations in conventional social reporting, so he put forward the ISR conceptual framework that is based on sharia provisions. ISR not only helps decision-making for Muslims but also helps companies in fulfilling obligations towards God and society.

ISR is a sharia-based corporate social reporting standard. This index was developed developed on the basis of reporting standards based on AAOIFI which were then developed by each subsequent researcher. Specifically, this index is an extension of social performance reporting standards that include public expectations not only about the role of companies in the economy, but also the role of companies in a spiritual perspective. Besides this index also emphasizes social justice related to the environment, minority rights, and employees (Fitria and Hartati, 2010)

Figure 2.1
ISR Sharia Framework



Source: Gustani (2013)

Table 2.3
Accountability and Transparency in ISR

<table>
<tr><td colspan="2">ISR Objectives:
- As a form of accountability to Allah SWT and the community
- Increase transparency of business activities by presenting relevant information.</td></tr>
<tr><td>Form of Accountability:

1. Providing halal and good products
2. Fulfill the rights of God and society
3. Pursue reasonable profits in accordance with Islamic principles
4. Achieve business goals
5. Become an employee and the community
6. Ensuring ecologically sustainable business activities
7. Making work as a form of worship</td><td>Form of Accountability:

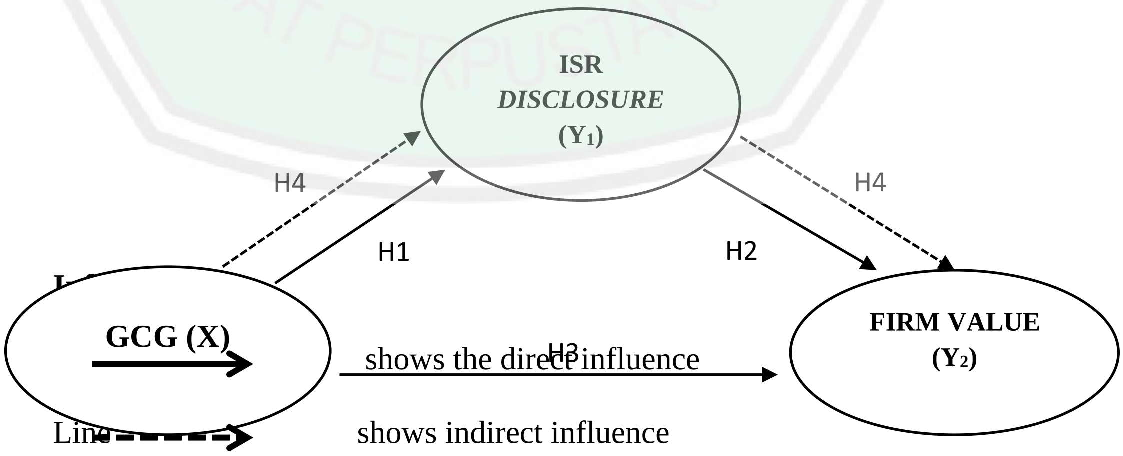
1. Provide information regarding all halal and haram activities carried out.
2. Providing relevant information regarding financing and investment policies
3. Provide relevant information regarding employee policies
4. Provide relevant information about relations with the community
5. Provide relevant information regarding resource use and environmental protection</td></tr>
</table>

Source: Gustani (2013) processed from Haniffa (2002)

2.3 Conceptual Network

Conceptual framework is a model that explains how a theory relates to important factors that are known in a particular problem. The conceptual framework will theoretically describe the relationship between the independent variable, the dependent variable and the mediating variable (Sugiono 2012). In this study will look at the effect of Good Corporate Governance (GCG) on firm value, the effect of Islamic Social Report Disclosure on company value and the influence of Good Corporate Governance (GCG) on company value with Islamic Social Report Disclosure as a mediating variable. Based on the theoretical study above, the research model or conceptual framework that is built is contained in Figure 2.2 which explains the theoretical framework that illustrates the effect of Good Corporate Governance (GCG) on company value with Islamic Social Report Disclosure as a mediating variable.

Figure 2.2
Conceptual Framework



shows the direct influence

Line - - - - -> shows indirect influence

Reference:

1. Ehtazaz Javaid Lone Amjad (2016) and Ali Imran Khan (2016)
2. Reny Dyah Retno (2012) and Bima & Prastiwi (201)
3. Lutfilah Amanti (2012) and ManueL Amman (2010)

2.4 Research Hypothesis

Based on the formulation of the problem, previous research, theoretical studies, and the mindset described previously, it can be developed as follows:

2.4.1 The Effect of Good Corporate Governance on ISR Disclosure

Good Corporate Governance is a process and structure used by corporate organs to determine policies in order to improve business success and corporate accountability, so as 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.

Based on the code of corporate governance issued by the National Committee on Governance Policy (2006) states that the corporate management function carried out by the Board of Directors includes five functions, namely management, risk management, internal control, communication and social responsibility. The task of social responsibility outlines that the Board of Directors must have a clear written plan and focus in carrying out corporate social responsibility. Compliance with laws and regulations as well as disclosure of additional information made by the company is the responsibility of the board of directors (Natalia and Wahidahwati, 2016). One of the additional information disclosures is the disclosure of sustainability report. Therefore, good corporate governance will affect the disclosure of social performance.

H1: It is suspected that GCG has a direct effect on ISR Disclosure

2.4.2 The Effect of ISR Disclosure on Firm Value

Corporate social responsibility 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 that can later increase the value of the company (Matteww Brine, 2008).

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 to always 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: 583).

H2: It is suspected that ISR Disclosure has an effect on the company's value

2.4.3 The Effect of Good Corporate Governance on Firm Value

The application of GCG is measured using a GCG score. Companies that have high GCG scores indicate that the implementation of GCG implementation in the company is good. GCG which functions as a control tool in a company is able to 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 CG mechanism causes CG to be a factor that has a significant impact on increasing the stock market value of the company (Black, Jang, and Kim, 2003). Penman (2004: 43) in Tarjo (2008) states that one of the company's goals is to maximize shareholder wealth through dividends and increase 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.

H3: It is suspected that GCG has a direct effect on the company's value

2.4.4 The Effect of Good Corporate Governance on Firm Value with ISR Disclosure as the Mediating Variable

The more extensive the disclosure of corporate social performance, especially those containing sharia elements, the company's image is related to the company's future prospects at a better value. This is what attracts investors, both conventional investors and Muslims to invest. Good corporate governance 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).

H4: ISR Disclosure is able to mediate the relationship between GCG and corporate value

CHAPTER III

RESEARCH METHOD

3.1 Research Type and Approach

Referring to the formulation of the problem, the type of research used is quantitative research with a descriptive approach. Quantitative methods are defined as methods based on the philosophy of positivism, used to examine populations or specific samples, generally sampling techniques are carried out randomly, data collection uses research instruments, quantitative / statistical data analysis with the aim of testing hypotheses that have been determined (Sugiyono, 2012).

Quantitative research methods are research methods that try to make accurate measurements of behavior, knowledge, opinions, or attitudes (Cooper & Schindler, 2011). Quantitative methods are widely used in various studies because of their suitability to test models or hypotheses (Indrawati, 2015). The purpose of hypothesis testing is to determine precisely whether the null hypothesis can be accepted and alternative hypotheses can be rejected or vice versa (Indrawati, 2015). This research was prepared based on the financial statements and annual reports of each company that were published in the 2013-2017 period.

3.2 Research Location and Time

This research is located at the Indonesia Stock Exchange Investment Gallery Faculty of Economics, Maulana Malik Ibrahim State Islamic University of Malang, Gajayana Street Number 50, Malang City. The observation period in this study was five years, namely the 2013-2017 period. This period was chosen with the assumption of a time frame, in which the study uses a longer period and more samples in order to get a detailed picture of Good Corporate and Corporate Value and disclosure of Islamic Social Report.

3.3 Populations and Samples

Population is a collection of all possible people, objects, and other sizes of objects that are the target of attention in research (Suharyadi & Purwanto, 2012). The population used in this study is state-owned companies listed in the Indonesian Sharia Stock Index (ISSI) for the 2013-2017 period. The population list in question is:

Table 3.1
Research Populations

No	Issuer Code	Corporate Name	Sector
1.	ADHI	PT Adhi Karya Tbk.	Property, real estate, construction
2.	ANTM	Aneka Tambang Tbk	Mining
3.	BBNI	Bank Negara Indonesia (Persero) Tbk	Banking
4.	BBRI	Bank Rakyat Indonesia (Persero) Tbk	Banking
5.	BBTN	Bank Tabungan Negara (Persero) Tbk	Banking
6.	BMRI	Bank Mandiri (Persero) Tbk	Banking
7.	GIIA	Garuda Indonesia (Persero) Tbk	Infrastructure, utility, transportation
8.	INAF	Indofarma (Persero) Tbk	Manufacture
9.	JSMR	Jasa Marga (Persero) Tbk	Infrastructure, utility, transportation
10.	KAEF	Kimia Farma (Persero) Tbk	Manufacture
11.	KRAS	Krakatau Steel (Persero) Tbk	Manufacture
12.	PGAS	Perusahaan Gas Negara Tbk	Infrastructure, utility, transportation

13.	PTBA	PT Bukit Asam Tbk	Mining
14.	PTPP	PT Pembangunan Perumahan Tbk	Property, real estate, construction
15.	SMBR	Semen Baturaja (Persero) Tbk	Manufacture
16.	SMGR	Semen Indonesia (Persero) Tbk	Manufacture
17.	TINS	Timah (Persero) Tbk	Mining
18.	TLKM	Telekomunikasi Indonesia (Persero) Tbk	Infrastructure, utility, transportation
19.	WIKA	PT Wijaya Karya Tbk	Property, real estate, construction

Source: Data was processed by researcher (2019)

Meanwhile, the sample is a portion of the population that matches the characteristics and can represent the entire population (the number of samples is less than the total population) (Subagyo et al., 2005: 93). The sample in this study, detailed as follows:

Table 3.2
Research Samples

No	Kode Emiten	Nama Perusahaan	Sektor
1.	ANTM	Aneka Tambang Tbk	Pertambangan
2.	INAF	Indofarma (Persero) Tbk	Manufaktur
3.	KAEF	Kalbefarma (Persero) Tbk	Manufaktur
4.	PTBA	PT Bukit Asam Tbk	Pertambangan
5.	SMGR	Semen Indonesia (Persero) Tbk	Manufaktur
6.	TINS	Timah (Persero) Tbk	Pertambangan

Source: Data was processed by researcher (2019)

3.4 Sampling Technique

The sampling technique used by researchers is to use purposive sampling, with the aim of obtaining representative data based on predetermined criteria. The purposive sampling technique is one of the non-probability sampling techniques, where this technique selects certain sample members intentionally by the researcher, because only the sample represents or can provide information to answer the research problem (Indrawati, 2015).

The sampling criteria in this study are as follows:

1. BUMN companies that are always listed in the Indonesian Sharia Stock Index (ISSI) in the 2013-2017 period
2. The company originates from the manufacturing and mining sectors
3. The company issued a GCG assessment report for the period 2013-2017

Table 3.3
Research Sampling Criteria

No.	Criteria	Number of Samples
1	State-Owned Enterprise (SOEs) registered in the ISSI 2013-2017 period	19
2	State-Owned Enterprise (SOEs) that have been delisted from ISSI for the 2013-2017 period	(3)
3	The company is not from the manufacturing and mining sectors	(10)
4	The company is not from the manufacturing and mining sectors	(0)
Total of research samples		6

According to the sampling criteria, the total sample of this study amounted to 6 companies, which companies have all the data related to research.

3.5 Data and Type of Data

The data used in this study is quantitative data. Quantitative data according to Maharani et al (2013) is data in the form of numbers or quantitative data raised. Types and data in research are secondary data. Secondary data is data that has been formed already, has been collected and processed by other parties, usually in the form of comments and publications.

Secondary data sources in this study are annual reports and financial reports for the 2013-2017 period from state-owned companies listed on the Indonesian Syaria Stock Index (ISSI). Secondary data sources were obtained from the offical website of the Indonesia Stock Exchange and each company. As for the research data, it is a panel data that is a combination of time series and cross sections for the period of 2013 to 2017.

3.6 Data Collection Technique

Research data collection techniques are systematic and standard procedures for obtaining the required data. The data collection technique used in this study is the documentation method. The documentation method according to Sugiyono (2012) is collecting data from records of events that have already passed. Secondary data collection in the form of annual reports and GCG reports obtained from the official website of the Indonesia Stock Exchange and each company.

Researchers also conduct library research to gather information and data relevant to the problem under study so that it can be used as a basis and reference in data management. Literature research is sourced from literature and library materials such as theses, theses, journals, laws, and Circular Letters (SE) or Bank Indonesia Regulations (PBI) or Kauangan Services Authority (OJK) and books and previous research on Good Corporate Governance (GCG), Company value and sustainability report.

3.7 Definition of Operational Variable

The operational definition is the determination of Construct so that it becomes a variable that can be measured (Indriyantoro & Supomo Nurdan, 1999: 69). Jogiyanto (2007: 159) states that the operation of variables is a way to measure variables so they can be operated. This allows other researchers to replicate measurements in the same way or develop better ways of measuring constructs. Exogenous variables are variables that affect or are the cause of changes or the emergence of dependent variables. In this study the independent variable used was GCG (Sugiono, 2012). Endogenous Variables are variables that are affected or that are the result, because of the independent variables. In this study the dependent variable used is firm value (Sugiono, 2012). Mediation variables are variables that theoretically affect the relationship between exogenous and endogenous variables, so that exogenous variables do not directly affect the change or emergence of endogenous variables (Sugiono, 2007: 5). The mediating variable in this study is the Islamic Social Report Disclosure.

3.7.1 Operational Definition

Jogiyanto (2007) stated that the operational variables are in the form of measuring the variables so that they can be operated. To make it easier to see about the research variables used in this study, the authors describe in the form of the operationalization of variables that can be seen in the following table:

Table 3.4
Operational Variable

No.	Variable	Indicator	Composition
1.	**Exogenous Variable (X):** GCG according to Novianti (2018) is a process and structure used by company organs to determine policies in order to improve business success and corporate accountability, so as to increase added value for shareholders in the long term by taking into account the interests of stakeholders based on the provisions of the articles of association and legislation valid invitation.	GCG Score	**Interval** Performance Score: 86-100 (very good) 76-84 (good) 61-75 (pretty good) 51-60 (poor) < =50 (bad) Source: *Keputusan Sekretaris Kementerian BUMN Nomor: SK-16/S.MBU/ 2012*
2.	**Mediation Variable:** ISR indexes are disclosure items that are used as indicators in reporting the social performance of Islamic business institutions. Haniffa (2002) made five ISR Index disclosure themes, namely Funding and Investment Themes, Product and Service Themes, Work Themes, Community Themes, and Environmental Themes.	ISR Index $= \frac{\text{Number of point disclosed}}{\text{Maximum number of point}} \times 100$	**Interval** Index Interval: 81-100 (very informative) 66-80 (pretty informative) 51-65 (not informative) 0-50 (poor) Source:

			Pramono (2005) dalam Munawaroh (2007).
3.	**Endogenous Variable (Y)** Company value is the investor's perception of the company's success rate that is often associated with stock prices (Sujoko & Soebiantoro, 2007).	Tobin's Q =[(MVE + L/T Debt + Net S/T Debt) : Total Asset]	**Interval** Tobin's Q Score: 0-1 (low) >1 (high) Source: *Juniarti (2009)*

Source: Processed by Researcher (2019)

3.7.2 Variable Measurement

In this study, the measurement of the variables used can be explained as follows:

a) Dependent Variable (Y2)

According to Sri Rahayu (2010), company value is a value that measures the quality level of a company and a value that explains how good the level of interest of a company is in the eyes of its consumers. The value of the company can increase if the company can operate by achieving targeted profits. Companies with high company value and good performance are good signals for investors in determining their investment decisions. The Q numerator that is used, includes all the elements of debt and capital stock of the company, not just the elements of ordinary shares.

Assets calculated in Tobin's Q also show all of the company's assets not just the company's equity. The greater the value of Tobi's Q ratio shows that the company has good growth prospects and has good growth prospects and has greater intangible assets. This can happen because the greater the market value of a company's assets compared to the book value of a company's assets, the greater the investor's willingness to spend more to own the company. Reddy, et al (2010) states that the ratio of Tobin's Q can be calculated using the following formula:

Tobin's Q = (MVE + L / T Debt + Net S / T Debt) / (Total Assets)

From the formula above, MVE (The Market Value Estimate) is a product of the company's stock price and ordinary shares outstanding, L / T Debt (Long Term Debt) is the book value of long-term liabilities; Net S / T Debt (Short Term Debt) is the book value of current liabilities minus current assets

b) Independent Variable (X)

GCG is a tool used by the Company's Organs to improve the business success and accountability of the Company in order to realize shareholder value in the long term while still taking into account the interests of other stakeholders, based on laws and regulations and business ethics. BUMN must always play an active role in the process of national economic development by improving the performance of the Company based on the principles of GCG.

State-Owned Enterprises (SOEs) as one of the pillars of the Indonesian economy are required to be the pioneers in implementing Good Corporate Governance (GCG). To encourage this, the Minister of State Owned Enterprises has issued Regulation of the Minister of State Owned Enterprises Number: PER-9 / MBU / 2012 dated July 6, 2012 concerning Amendments to the Minister of State Owned Enterprises Regulation: PER-01 / MBU / 2011 dated August 1, 2011 concerning the Implementation of GCG To BUMN. The following are the GCG assessment factors and their rating scale table:

Table 3.5
GCG Assessment Factors

No.	Parameters	Weight
1.	Commitment to the implementation of good corporate governance on an ongoing basis	7,00
2.	Shareholders and RUPS / Capital owners	9,00
3.	Board of Commissioners / Board of Trustees	35,00
4.	The Directors	35,00
5.	Information disclosure and transparency	9,00
6.	Other aspects	5,00
Overall Score		100,00

Source: Copy of Decree of the Secretary of the Ministry of BUMN Number SK: 16 / S.MBU / 2012.

After finding the achievement value, the predicate of quality of GCG implementation at Islamic banks is determined as follows:

Table 3.6
Predicate of GCG Implementation Quality

No.	Performance Score	Predicate
1.	86-100	Very Good
2.	76-84	Good
3.	61-75	Pretty Good
4.	51-60	Poor
5.	< =50	Bad

Source: Copy of Decree of the Secretary of the Ministry of BUMN Number SK: 16 / S.MBU / 2012.

From the description above, it can be concluded that the application of GCG in SOEs is basically to minimize conflicts of interest between shareholders and managers. Information owned by managers is greater when compared to shareholders, so that shareholders and managers can use GCG as a guideline in managing a company.

c) Mediation Variable (Y1)

The mediation variable, Islamic Social Report Disclosure is measured using the Islamic Social Index (ISR). ISR indexes are disclosure items that are used as indicators in reporting the social performance of Islamic business institutions. Haniffa (2002) developed 5 ISR Index disclosure themes, namely Funding and Investment Themes, Product and Service Themes, Work Themes, Community Themes, and Environmental Themes. Then developed by Othman et al (2009) by adding a disclosure theme, namely the theme of Corporate Governance. The following are details of disclosure items and scores in the ISR index:

Table 3.7
Disclosure Items and ISR Index Score

No	Disclosure Items	Score	Source
A	**Funding and Investment**		
1.	Activities that contain usury (interest expense and interest income)	1	Haniffa (2002) Othman et al (2009)

2.	Activities that contain *Gharar* (hedging, future on delivery trading / margin trading, spot and forward arbitration, short selling, pure swap, warrant)	1	Haniffa (2002) Othman et al (2009)
3.	Zakat (amount and distribution)	1	Haniffa (2002) Othman et al (2009)
4.	Policy for late payment of accounts receivable and write-off of uncollectible accounts	1	Othman et al (2009)
5.	Investment activities	1	Haniffa dan Hudaib (2007)
6.	Project financing	1	Haniffa dan Hudaib (2007)
B	**Products and Services**		
7.	DPS statement on the halal status of new products and services	1	Haniffa dan Hudaib (2007)
8.	The type, definition, and security status of each product	1	Haniffa dan Hudaib (2007)
9.	Services for customer complaints (form, number of complaints, and settlement)	1	Haniffa dan Hudaib (2007)
C	**Employees**		
10.	Working hours	1	Hanifa (2002) Othman et al (2009)
11.	Day off	1	Hanifa (2002) Othman et al (2009)
12.	Employee benefits	1	Hanifa (2002) Othman et al (2009)
13.	Remuneration Policy	1	Othman et al (2009)
14.	Employee Education and Training	1	Hanifa (2002) Othman et al (2009)
15.	Appreciation for outstanding employees	1	Othman et al (2009)
16.	Employee health and safety	1	Haniffa dan Hudaib (2007)
17.	Employee involvement in the company	1	Othman et al (2009)
18.	The similarity of space between employees	1	Othman et al (2009)
19.	Adequate place of worship	1	Othman et al (2009)
20.	Time of worship / religious activities	1	Othman et al (2009)
21.	Employee welfare	1	Haniffa dan Hudaib (2007)
D	**Society**		
22.	Alms / Donations (Amount and distribution)	1	Haniffa (2002) Othman et al (2009)
23.	*Waqf* (type and distribution)	1	Haniffa (2002)
24.	*Qard* Hasan / benevolent loan (Amount and distribution)	1	Haniffa (2002)

25.	Employee volunteers	1	Othman et al (2009)
26.	Providing school scholarships	1	Othman et al (2009)
27.	Empowerment of work of school / college graduates (internships or practical field work)	1	Othman et al (2009)
28.	Development of the young generation	1	Othman et al (2009)
29.	Improving the quality of life of the poor	1	Othman et al (2009)
30.	Concern for children	1	Othman et al (2009)
31.	Charity or social activities (natural disaster relief, blood donation, mass circumcision, infrastructure development, etc.)	1	Haniffa dan Hudaib (2007) Othman et al (2009)
32.	Supporting health, entertainment, sports, culture, education and religious activities)	1	Othman et al (2009)
E	**ENVIRONMENT**		
33.	Environmental conservation	1	Haniffa (2002) Othman et al (2009)
34.	Activities to reduce the effects of global warming (pollution minimization, waste management, clean water management, etc.)	1	Othman et al (2009)
35.	Education on the environment	1	Othman et al (2009)
36.	Award in the field of Environment	1	Haniffa dan Hudaib (2007)
37.	Environmental management system	1	Othman et al (2009)
F	**CORPORATE GOVERNANCE**		
38.	Sharia compliance status (DPS opinion)	1	Othman et al (2009)
39.	Non-halal fund income and use	1	SEBINo.12/13/DPbS (2010)
40.	Share ownership structure	1	Othman et al (2009)
41.	Anti-corruption policy	1	Othman et al (2009)
42.	Anti-disbursement policy to fund terrorism activities	1	UU no 8 tahun 2010
43.	Lawsuit	1	Othman et al (2009)
44.	Details of the name and profile of the board of commissioners	1	Othman et al (2009)
45.	Commissioner performance (implementation of responsibilities and number of meetings)	1	Othman et al (2009)
46.	Board of Commissioners' remuneration	1	Othman et al (2009)
47.	Details of the names and profiles of the board of directors	1	Othman et al (2009)
48.	Performance of directors (implementation of responsibilities and number of meetings)	1	Othman et al (2009)

49.	Board of Directors' remuneration	1	Othman et al (2009)
50.	Details of DPS names and profiles	1	Othman et al (2009)
51.	DPS performance (implementation of responsibilities and number of meetings)	1	Othman et al (2009)
TOTAL		51	

Source: Gustani (2013)

3.8 Data Analysis Techniques

Analysis of the data used in this study includes descriptive statistical analysis, Partial Least Square, and Mediation Test.

3.8.1 Descriptive Statistic

According to Sugiyono (2012) descriptive statistics are statistics used to analyze data by describing or describing data that has been collected as it is without intending to make conclusions that apply to the public or generalizations. Descriptive statistics are generally used to provide information about the characteristics of the main research variables and respondent demographic data (if any). The measures used in the description include: frequency, central tendency (mean, median, and mode), dispersion (standard deviation and variance) and coefficients between research variables. The size used depends on the type of construct measurement scale used in the study.

3.8.2 Partial Least Square (PLS)

According to Sugiyono (2012) descriptive statistics are statistics used to analyze data by describing or describing data that has been collected as it is without intending to make conclusions that apply to the public or generalizations. Descriptive statistics are generally used to provide information about the characteristics of the main research variables and respondent demographic data (if any). The measures used in the description include: frequency, central tendency (mean, median, and mode), dispersion (standard deviation and variance) and coefficients between research variables. The size used depends on the type of construct measurement scale used in the study.

Based on the hypothesis and research design, the data collected was analyzed using the Partial Least Square (PLS) method with SmartPLS software version 3.0.m3. PLS is a multivariate statistical technique that makes comparisons between multiple dependent variables and multiple independent variables. PLS is one of the variant-based statistical methods of Structural Equation Modeling (SEM) designed to solve multiple regressions when specific problems occur in data, such as small sample sizes, missing data and multicollinearity (Jogiyanto & Abdillah, 2009: 11).

PLS is a powerful analysis method because it can be applied at all data scales, it does not require a lot of assumptions and the sample size does not have to be large. Besides PLS can be used as a confirmatory theory can also be used to build relationships or for testing propositions (Ghozali, 2008).

The reasons behind the selection of the Partial Least Square (PLS) analysis model in this study are as follows:

1) The model formed in the conceptual framework of this study, shows a tiered causal relationship.
2) This study uses latent variables that are measured through ratios. PLS is suitable to confirm items of a concept / construct / factor.
3) Variance-based SEM with PLS method is a multivariate analysis technique that allows a series of analyzes of several latent variables to be carried out simultaneously so as to provide statistical efficiency.
4) PLS is a powerful method that is not based on many assumptions.

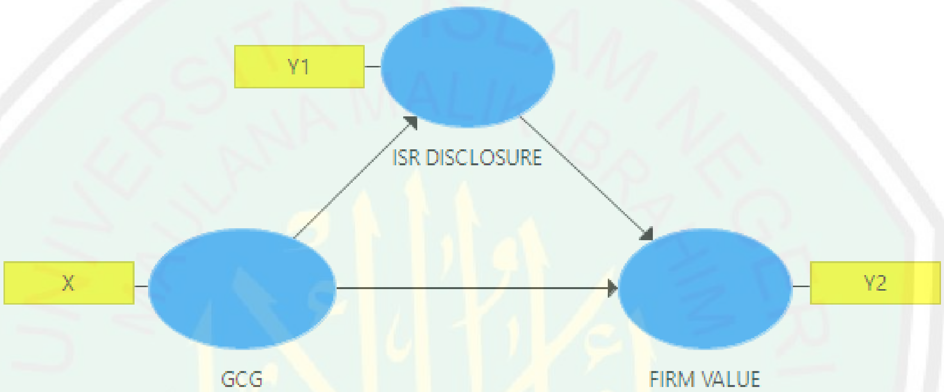
In analyzing data using PLS, there are steps that must be taken (Yamin, 2011: 23-26):

1) Designing a Structural Model (inner model). At this stage, the researcher formulates the relationship model between constructs.

2) Designing a Measurement Model (outer model). At this stage, the researcher defines and specifies the relationship between the latent construct and the indicator whether it is reflective or formulative.

3) Constructing the Path Diagram. The main function of building a path diagram is to visualize the relationship between indicators with their constructs and between constructs that will make it easier for researchers to see the model as a whole.

Figure 3.1
Path Diagram



Source: Processed by Researcher 2019

4) Estimated model. In this step, there are three weighting selection schemes in the model estimation process, namely the factor weighting scheme, centroid weighting scheme, and path weighting scheme.

5) Goodness of Fit or model evaluation, including evaluation of measurement models and structural model evaluations.

6) Hypothesis testing and interpretation.

The following are the evaluation criteria for the PLS model proposed by Chin 1998 in Ghozali (2011: 27):

Table 3.8
PLS Assessment Criteria

Criteria	Explanation
Evaluation of PLS Assessment	

R^2 for endogenous variables	R^2 results of 0.67, 0.33 and 0.19 for endogenous latent variables in the structural model indicate that the model is "good", "moderate" and "weak".
Estimated path coefficient	The estimated value for the path relationship in the structural model must be significant. This significant value can be obtained by the bootstrapping procedure. f^2 for effect size
f^2 for effect size	f^2 values of 0.2, 0.15 and 0.35 can be interpreted whether the predictor of latent variables has a weak, medium or large influence on the structural level
Evaluation of the Reflective Measurement Model	
Loading Factor	The loading factor value must be above 0.70
Composite Reliability	Composite reliability measures internal consistency and its value must be above 0.60
Average Variance Extracted	Average Variance Extracted (AVE) value must be above 0.50
Discriminant Validity	The square root value of AVE must be greater than the correlation value between latent variables.
Cross Loading	Another measure of discriminant validity. It is expected that each indicator block has a higher loading for each latent variable measured than the indicator for the other latent variable.
Evaluation of the Formative Measurement Model	
The significance of the weight value	Estimated values for formative measurement models must be significant. This level of significance was assessed by the bootstrapping procedure.
Multicollinearity	Manifest variables in the block must be tested for multicollinearity. The value of the variance inflation factor (VIF) can be used to test this. VIF values above 10 indicate that there are multicollinearity

Source: Ghozali (2011:2)

3.8.3 Mediation Test

Mediation testing aims to detect the position of intervening variables in the model. Testing mediation hypotheses can be done by a procedure developed by Sobel known as the Sobel test (Sobel test). The Sobel test is carried out by testing the strength of the significant influence X to Y2 through Y1 in other words being able to act as a mediator in this relationship.

The Sobel test formula is as follows:

$$Y1 = \frac{ab}{\sqrt{(b^2 SE_a^2) + (a^2 SE_b^2}}$$

Information:

a = regression coefficient of the independent variable to the mediating variable.

b = regression coefficient of the mediating variable to the dependent variable.

SEa = Standard error of estimation of the influence of independent variables towards mediation variables.

SEb = Standard error of estimation of the effect of mediation variables on the dependent variable.

To test the significance of the indirect effect, it is necessary to test the t value of the ab coefficient. The value of t arithmetic compared with the value of t table, if the value of t arithmetic> value of t table then it can be concluded that there is a mediating effect (Ghozali, 2011). Furthermore, to determine the nature of the relationship between variables either as a complete mediation variable or partial mediation, or not as a mediating variable, the examination method is used. The method of checking mediation variables is carried out using the difference approach between the coefficient and significance values as follows: (1) examining the direct influence of exogenous variables on endogenous models by involving mediation variables; (2) examine the direct influence of exogenous variables on endogenous without involving mediating variables; (3) examine the effect of exogenous variables on mediating variables; (4)examine the effect of mediating variables on endogenous variables (Solimun, 2012).

CHAPTER IV

RESULT AND DISCUSSION

4.1 Result

4.1.1 General Description of the Research Object

The object of research used in this study is a State-Owned Enterprise (BUMN) registered in the Indonesian Sharia Stock Index (ISSI). BUMN is a business entity whose capital is wholly or partly owned by the state through direct participation from separated state assets (Law Number 19 of 2003). Meanwhile, ISSI is a composite index of sharia shares listed on the Indonesia Stock Exchange (IDX) since May 12, 2011. ISSI is an indicator of the performance of the Indonesian sharia stock market whose constituents are all sharia shares listed on the IDX and entered into the Sharia Stock List (DES) issued by the Financial Services Authority (OJK). In other words, IDX does not select sharia shares that enter ISSI (https://www.idx.co.id/).

The purpose and objectives of establishing SOEs are (1) contributing to the development of the national economy in general and state revenue in particular, (2) pursuing profits (3) organizing public benefits in the form of providing high-quality and adequate goods and / or services for fulfilling living needs many people (4) become pioneers of business activities that cannot yet be carried out by the private sector and cooperatives, and (5) actively provide guidance and assistance to entrepreneurs of economically weak groups, cooperatives, and the community (Law Number 19 of 2003).

Recorded in the period 2013 to 2017 there are 19 SOEs registered in ISSI. The nineteen BUMNs are from the property sector; real estate; construction, banking, manufacturing, mining and infrastructure; Utilities; Transportation. These SOEs include PT Adhi Karya Tbk, Aneka Tambang Tbk, Bank Negara Indonesia (Persero) Tbk, Bank

Rakyat Indonesia (Persero) Tbk, State Savings Bank (Persero) Tbk, Bank Mandiri (Persero) Tbk, Garuda Indonesia (Persero) Tbk , Indofarma (Persero) Tbk, Jasa Marga (Persero) Tbk, Kimia Farma (Persero) Tbk, Krakatau Steel (Persero) Tbk, Perusahaan Gas Negara (Persero) Tbk, PT Bukit Asam Tbk, PT Pembangunan Perumahan Tbk, Semen Baturaja (Persero) Tbk, Semen Indonesia (Persero) Tbk, Timah (Persero) Tbk, Telekomunikasi Indonesia (Persero) Tbk, and PT Wijaya Karya Tbk.

Table 4.1
SOEs listed in ISSI Based on Its Sector

No	Issuer Code	Corporate Name	Sector
1.	ADHI	PT Adhi Karya Tbk.	Property, real estate, construction
2.	ANTM	Aneka Tambang Tbk	Mining
3.	BBNI	Bank Negara Indonesia (Persero) Tbk	Banking
4.	BBRI	Bank Rakyat Indonesia (Persero) Tbk	Banking
5.	BBTN	Bank Tabungan Negara (Persero) Tbk	Banking
6.	BMRI	Bank Mandiri (Persero) Tbk	Banking
7.	GIIA	Garuda Indonesia (Persero) Tbk	Infrastructure, utility, transportation
8.	INAF	Indofarma (Persero) Tbk	Manufacture
9.	JSMR	Jasa Marga (Persero) Tbk	Infrastructure, utility, transportation
10.	KAEF	Kimia Farma (Persero) Tbk	Manufacture
11.	KRAS	Krakatau Steel (Persero) Tbk	Manufacture
12.	PGAS	Perusahaan Gas Negara Tbk	Infrastructure, utility, transportation
13.	PTBA	PT Bukit Asam Tbk	Mining
14.	PTPP	PT Pembangunan Perumahan Tbk	Property, real estate, construction
15.	SMBR	Semen Baturaja (Persero) Tbk	Manufacture
16.	SMGR	Semen Indonesia (Persero) Tbk	Manufacture
17.	TINS	Timah (Persero) Tbk	Mining
18.	TLKM	Telekomunikasi Indonesia (Persero) Tbk	Infrastructure, utility, transportation
19.	WIKA	PT Wijaya Karya Tbk	Property, real estate, construction

Source: Data was processed by researcher (2019)

At the end of 2017, stagnation has colored all corporations in Indonesia, SOEs are no exception. SOE Minister Rini Soemarno targets the number of companies that will lose by the end of 2017 to 13 to 14 companies. That number decreased compared to 24 SOEs that experienced a deficit in the first semester of 2017 (Pranoto, 2017).

Previously, the government in 2015 had provided State Capital Inclusion (PMN) to several State-Owned Enterprises (BUMN) and institutions. However, the fact is that there are some companies that actually lose money after getting the capital injection. Minister of Finance Sri Mulyani Indrawati said in September 2017, from a number of BUMNs that received capital injections, there were 26 BUMNs after PMN conducted they got their net profit up, 4 BUMNs after getting PMN their losses decreased, and 6 BUMNs who after PMN got losses instead (Pranoto, 2017).

Even though they have repeatedly received injections of government funds through PMN, some SOEs still suffer losses due to the fact that SOEs also carry out state duties in public services by carrying out PSO missions. These assignments sometimes make it difficult for BUMNs to move and have difficulty improving financial performance.

Critical note on the performance of several SOEs that are still losing money in 2017, in addition due to uncontrollable external factors is also partly due to weak competitiveness. These weaknesses stem from the slow pace of business anticipation because of the changing dynamics of the environment, inadequate quality of human resources and leaders, and the possibility of too long a bureaucracy in decision making.

In connection with the activities of SOEs registered with ISSI, amid the sluggishness and stagnation of SOEs, several SOEs remain top gainers, two of which are PT Semen Indonesia (Persero) Tbk and PT Wijaya Karya Tbk.

4.1.2 Descriptive Statistic Analysis

Descriptive analysis is carried out with the aim to find a general description of the sample which shows the minimum value, maximum value, and average value of the research variables. In this study using secondary data relating to corporate governance, disclosure of social performance, and company value from SOEs that are always registered at ISSI 2013 to 2017. Below are the results of descriptive statistical analysis:

Table 4.2
Average Variable Value

Variable / Year	2013	2014	2015	2016	2017
GCG	85.136	87.057	88.634	87.751	89.400
ISR Dsiclosure	69.281	71.895	75.163	75.817	71.895
Firm Value	2.076	2.393	1.371	3.455	3.836

Source: Processed by Researcher (2019)

Table 4.3
Average Variable Value in 5-year Observation

Variable	N	Minimum	Maximum	Mean	Deviation Standard
GCG	30	75.670	97.857	87.596	6.859
ISR Disclosure	30	56.853	80.392	72.810	5.419
Firm Value	30	0.645	13.824	1.924	0.942

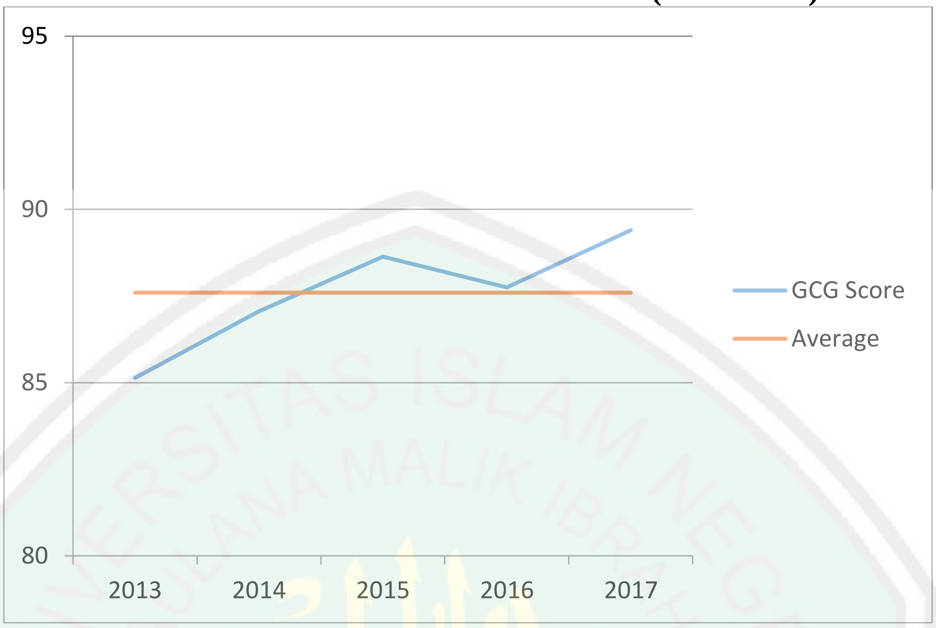
Source: Processed by Researcher (2019)

4.1.2.1 Variable of Good Corporate Governance

On the GCG variable, the average score over the 5 years of observation was 87,857 with a standard deviation of 6,859. This shows that the average value of 87,857 is a representative value of the overall GCG score, because the deviation value is much smaller than the average score of the GCG itself. Based on the Decree of the Secretary of the Ministry of SOEs Number: SK-16 / S.MBU / 2012, the achievements of the GCG of SOEs can be classified as scores with the title "very good".

Related to the movement of GCG achievement scores, during the period of 2013 to 2017 it can be said that BUMN GCG scores continue to improve, except in 2016 which decreased from 88,634 in 2015 to 87,751. In terms of title, over a period of 5 years, the evaluation of GCG in 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, 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 so as to minimize errors. Second, the implementation of the committee's tasks has been carried out in accordance with the needs of the bank so that the results obtained can be utilized optimally to make the decision of the board of commissioners. Meanwhile, the decline in 2016 was due to violations of applicable regulations such as the delay in reporting that resulted in sanctions for the obligation to pay for SOEs. Graph 4.1 below will provide an overview related to the achievement of GCG scores of SOEs during the period of 2013 to 2017.

Graphic 4.1
GCG Achievement Score of SOEs (2013- 2017)



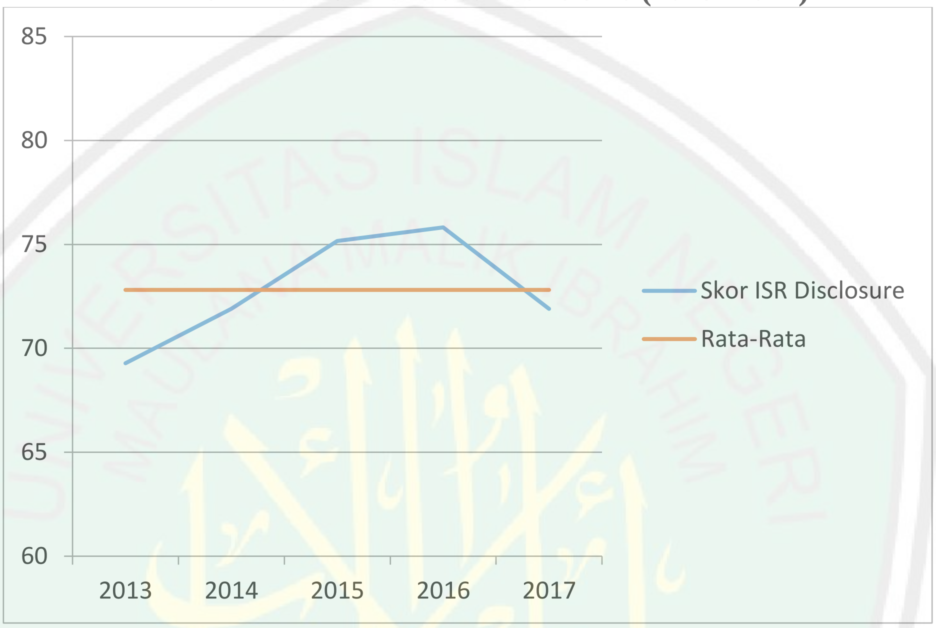
Source: Processed by Researcher (2019)

4.1.2.2 Variable of Islamic Social Report Disclosure

In the ISR Disclosure variable, the average score for 5 years of observation 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, because the deviation value is much smaller than the average ISR Disclosure score itself. Based on Pramono (2005) in Munawaroh (2007), the disclosure score can be classified as a score with the title "quite informative".

Regarding the ISR disclosure score, during the period 2013 to 2017 it can be said that the score of the ISR Disclosure of SOEs continues to increase, except in 2017 which decreased from 75,817 in 2016 to 71,895. This indicates that the quality of disclosure of socio-Islamic performance of SOEs registered at ISSI is getting better. In terms of title, over a period of 5 years, ISR disclosure scores to SOEs have always been "quite informative". An "informative enough" score was obtained because there were still several aspects / items that were not disclosed by the state-owned companies, among others related to zakat, benevolent loans, time and place of worship for employees, terrorism danger mitigation, and the opinion of the Sharia Supervisory Board (DPS). Graph 4.2 below will provide an overview related to the achievement of ISR Disclosure scores of SOEs during the period of 2013 to 2017.

Graphic 4.2
ISR Achievement Score of SOEs (2013- 2017)



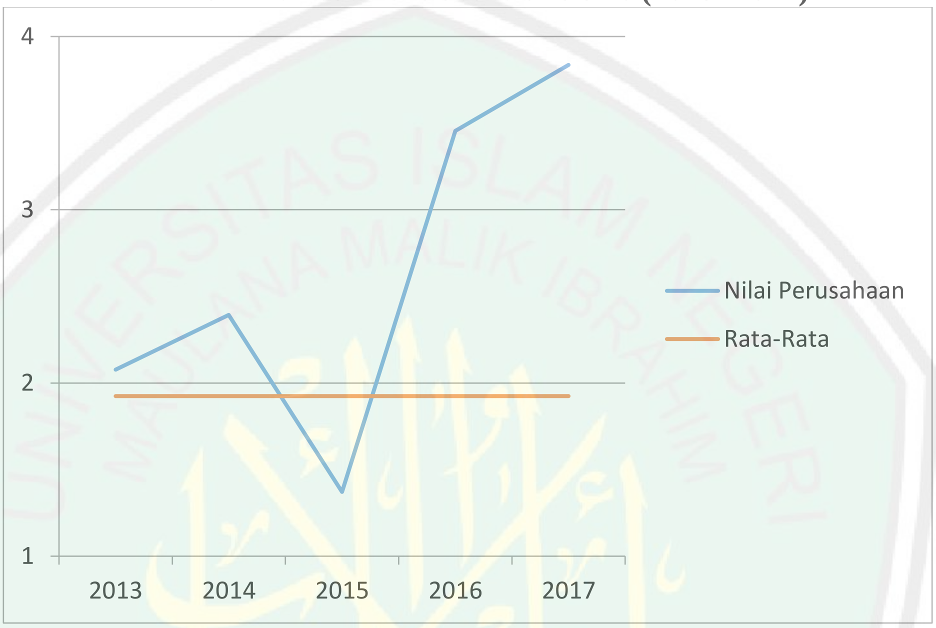
Source: Processed by Researcher (2019)

4.1.2.3 Variable of Firm Value

In the company value variable which is proxied by Tobin's Q, the average score for 5 years of observation is 1,924 with a standard deviation of 0.942. This shows that the mean value of 1,924 is representative of the overall value of Tobin's Q, because the deviation is much smaller than the average Tobin's Q score itself. Meanwhile, Juniarti (2009) states that 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.

Regarding the movement of company value, during the period of 2013 to 2017 it can be said that the value of BUMN companies experienced a very volatile movement but with an increasing trend. The highest average value of SOEs was achieved in 2017 with a score of 3,836, while the lowest average value occurred in 2015 with a score of 1,371. In predicate, for a period of 5 years, the valuation of SOE companies has always been "high" in terms of where shares are in an overvalued condition. Graph 4.3 below will provide an overview of the achievements of SOE companies during 2013 to 2017.

Graphic 4.3
ISR Achievement Score of SOEs (2013- 2017)



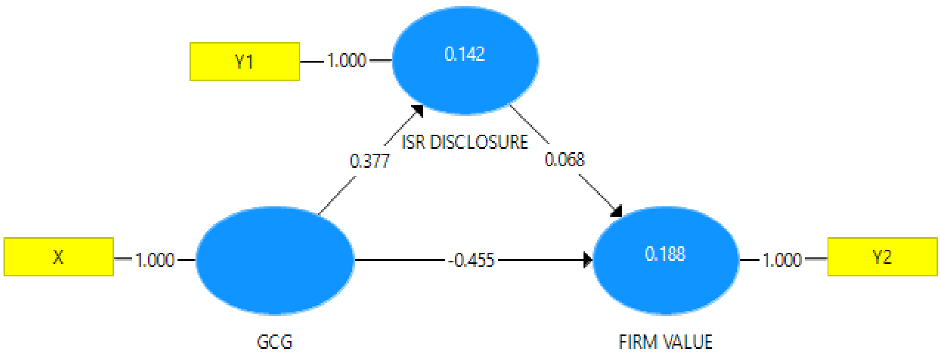
Source: Processed by Researcher (2019)

4.1.3 Partial Least Square (PLS) Analysis

4.1.3.1 Structural Model Test (Inner Model)

Testing the inner model or structural model is done to see the relationship between the construct, the significance value and the R-square of the research model.

Figure 4.1
Structural Model



Source: Processed by using SmartPLS 3.0 Application

The evaluation of the PLS structural model begins with looking at the R-square of each latent dependent variable. Table 4.4 is the estimated R-square results using PLS.

Table 4.4
The Result of *Goodness of Fit*

Variable	*R-Square*
ISR *Disclosure*	**0.142**
Firm Value	**0.188**

Source: Processed by using SmartPLS 3.0 Application

From table 4.4 shows the R-square value for the ISR Disclosure variable of 0.142 or 14.2%. This value indicates that the ISR Disclosure variable can be explained by the GCG variable by 14.2%, the remaining 85.5% is influenced by other variables not included in the study. R-square value for the company value variable is 0.188 or 18.8%. This value indicates that the corporate value variable can be explained by GCG variables of 18.8% so that the remaining 81.2% is influenced by other variables not included in the study.

In addition to measuring the predictability of the model, it can be measured through Q-Square. If Q-Square is more than 0, it can be interpreted that the model can be predicted whereas if the model ≤0 then the model cannot be predicted. Following are the results of Q-Square calculations in this study:

Q2 = 1 - (1 − R12) (1 − R22) …… (1 − R*P*2)

Q2 = 1- (1 - 0.188) (1 - 0.142)

Q2 = 1- - (0.812) (0.858)

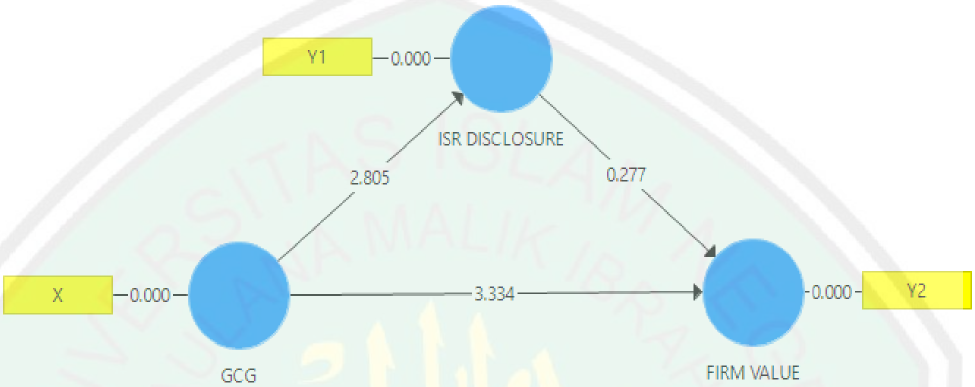
Q2 = 0.264

Based on the Q2 calculation above, the Q2 value is known to be 0.264. This value is greater than 0, which means that the structural model in this study can be measured and predicted.

4.1.3.2 Hypothesis Testing Result

The basis used in testing the hypothesis directly is the output image and the value contained in the output path coefficients and indirect effects. The following is a complete explanation of hypothesis testing:

Figure 4.2
Result of Hypothesis Testing



Source: Processed by using SmartPLS 3.0 Application

Figure 4.3
Path Coefficient

Path Coefficients

Mean, STDEV, T-Values, P-Va... | Confidence Intervals | Confidence Intervals Bias C... | Samples | Copy to Clipboard: Excel Format | R Format

	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T Statistics (|O/STDEV|)	P Values
GCG -> FIRM 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 -> FIRM VALUE	0.068	0.099	0.246	0.277	0.782

Source: Processed by using SmartPLS 3.0 Application

Figure 4.4
Indirect Effect

Specific Indirect Effects

Mean, STDEV, T-Values, P-Va... | Confidence Intervals | Confidence Intervals Bias C... | Samples | Copy to Clipboard: Excel Format | R Format

	Original Sampl...	Sample Mean (...	Standard Devia...	T Statistics (|O...	P Values
GCG -> ISR DISCLOSURE -> FIRM VALUE	0.026	0.042	0.103	0.249	0.803

Source: Processed by using SmartPLS 3.0 Application

In PLS statistical testing every hypothesized relationship is done using simulations. In this case the bootstrapping method is performed on the sample. The following is the result of PLS bootstrapping analysis as follows:

a) Effect of GCG on ISR Disclosure

The results of the first hypothesis testing are the effect of GCG on ISR Disclosure showing a coefficient value 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.

b) The Effect of ISR Disclosure on Company Value

The results of the second hypothesis testing are the effect of ISR Disclosure on firm value showing 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 positive effect on firm value. So the hypothesis which states that ISR Disclosure affects the company value is rejected.

c) The Effect of GCG on Company Value

The results of testing the third hypothesis is the effect of GCG on firm value showing a coefficient value of -0.455, with a p-value of 0.001 and t-statistics 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 firm value. So the hypothesis that says that GCG has an effect on firm value is accepted.

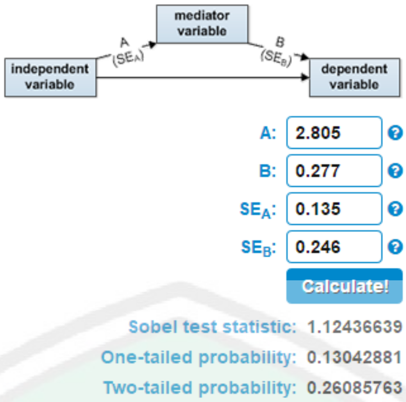
d) The effect of GCG on Company Value with ISR Disclosure as a mediating variable

The fourth hypothesis testing results namely GCG on Firm Value with ISR Disclosure as a mediating variable shows 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 positive and 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.

4.1.3.3 Mediation Test

Mediation test is conducted to detect the position of mediation variables in the model. Mediation testing is carried out through methods developed by Sobel known as the Sobel test (Sobel test) with the Free Statistics Calculation for Sobel Test version 4.0 software (Supriyanto & Maharani, 2013). This test is done by testing the effect of GCG on company value through ISR Disclosure. The following are the results of calculations through the Free Statistics Calculation for Sobel Test version 4.0 software.

Figure 4.5
The Result of Mediation Testing



Source: Processed from *Free Statistic Calculation for Sobel Test 4.0 Software*

.From the results of the mediation test calculation above shows the number 1.12436639 for the relationship of GCG to the value of the company. The mediation test results are less than t table namely 1.96 and One-tailed probability 0.13042881> 0.05, so that the ISR Disclosure variable is not able to mediate the effect of GCG on firm value.

4.2 Discussion

4.2.1 The Effect of Good Corporate Governance on Islamic Social Report Disclosure

Based on the results of the hypothesis test, the results show 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 and also the disclosure of the company's Islamic Social Report.

In the context of the relationship between GCG and ISR disclosure, the theory of legitimacy put forward by Dowling and Pfeffer (1975) is more appropriate to be used as the main basis in explaining the relationship of GCG with ISR disclosure. In view of the theory of legitimacy, the legitimacy of the company 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.

Furthermore (Berthelot and Robert: 2011) revealed that in order to continue to gain legitimacy, the company organization must communicate the company's activities by making sustainable non-financial disclosures. 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 are also consistent with research conducted by Manuel Amman et al (2010), Reny Dyah Retno et al (2012), and Agus Santoso (2017) who state that good corporate governance has a significant positive effect on Islamic Social Report disclosure. Permatasari and Novitasry (2014) state that implementing GCG will 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 do not cause overlaps that can confuse employees. A conducive work environment naturally leads to effective and more transparent operations.

The need for good corporate governance at the level of BUMN manufacturing and mining sectors registered with ISSI is that the two sectors constitute the corporate sector which has been accused of being the biggest cause of damage and chaos in Indonesia (WALHI, 2013). Meanwhile, as a constituency of ISSI, SOEs must maintain the image and benefit in each of its operational activities in order to remain attractive in the eyes of Muslim investors. Therefore, companies 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 so as 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.

Viewed from an Islamic perspective, the link between GCG and ISR disclosure is contained in the QS. Al Maidah verse 8:

يَا أَيُّهَا الَّذِينَ آمَنُوا كُونُوا قَوَّامِينَ لِلَّهِ شُهَدَاءَ بِالْقِسْطِ ۖ وَلَا يَجْرِمَنَّكُمْ شَنَآنُ قَوْمٍ عَلَىٰ أَلَّا تَعْدِلُوا ۚ اعْدِلُوا هُوَ أَقْرَبُ لِلتَّقْوَىٰ ۖ وَاتَّقُوا اللَّهَ ۚ إِنَّ اللَّهَ خَبِيرٌ بِمَا تَعْمَلُونَ

Meaning: *" O you who have believed, be persistently standing firm for Allah, witnesses in justice, and do not let the hatred of a people prevent you from being just. Be just; that is nearer to righteousness. And fear Allah; indeed, Allah is acquainted with what you do" (QS. Al-Maidah: 8).*

From the above verse it can be concluded that God commands and teaches his servants to be servants who always uphold the truth and act fairly. In accordance with the principles of good corporate governance, namely accountability regarding the clarity of functions and implementation of the accountability of bank organs so that the management runs effectively and improves company performance.

4.2.2 The Effect of Islamic Social Report Disclosure on Firm Value

Based on the results of hypothesis testing conducted, ISR Disclosure has no significant positive effect on firm 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 states that the disclosure of published information will 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. However, in this study, there are several things that led to the results of the study stating that the disclosure of ISR has no effect on firm value. This happens because in the case of mining and manufacturing SOEs registered with ISSI, it is automatically certain that their shares are listed on the Sharia Securities Register. Therefore, 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. In fact, Haniffa (2010) states that for companies that have a Muslim investor market, disclosure must be made not only in social, environmental and economic terms, but also in terms of their willingness.

The results of this study are in line with research conducted by Lutfilh Amanti (2012) and Bima & Prastiwi which state 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.

4.2.3 The Effect of Good Corporate Governance on Firm Value

Based on the results of hypothesis testing, the results show that good corporate governance has a significant positive effect on firm 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 corporate 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 basically wants to increase wealth or wealth, but the manager as the party 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. Good corporate governance indicates that management has been working in accordance with the expectations of shareholders and enables reduced agency costs. This will lead to an improved management / company image and an improved investor perspective on the company.

This study reinforces and is in accordance with research conducted by Reny Dyah Retno et al (2012) and Karsam Sunaryo et al (2018) which states that there is a positive influence between good corporate governance and corporate value. As stated by Binti Ulin Ulfa in Shleifer and Vishniy (2017), said that the value of the company is influenced by several factors, including the number of company assets, how long the company was standing, and good corporate governance. Good corporate governance is proven to be able to overcome agency problems between management and shareholders which lead to shareholders' trust in management. Indirectly, this will increase the value of the company in the eyes of investors.

When viewed from an Islamic perspective, the influence of good corporate governance on the value of the company is in accordance with the Word of God QS. Al-Anfal verse 27 which reads:

يَا أَيُّهَا الَّذِينَ آمَنُوا لَا تَخُونُوا اللَّهَ وَالرَّسُولَ وَتَخُونُوا أَمَانَاتِكُمْ وَأَنتُمْ تَعْلَمُونَ

Meaning: *"O you who have believed, do not betray Allah and the Messenger or betray your trusts while you know (the consequence)."(QS. Al-Anfal: 27).*

From this verse it can be concluded that we are ordered and taught not to betray God, the Prophet and not to betray the mandates entrusted by others. This is in accordance with the principles of good corporate governance in the form of responsibility, namely the management of company assets in accordance with legal and statutory provisions. From this paragraph it can also be concluded that the agency problem will not occur when all parties in it can be responsible and honest in revealing all company information.

4.2.4 The Effect of Good Corporate Governance on Firm Value with Islamic Social Report Disclosure as the Mediating Variable

Based on the results of mediation tests through the Sobel test it can be seen that there is no significant positive effect between good corporate governance on company value through ISR Disclosure. This indicates that ISR Disclosure is not able to mediate the effect of good corporate governance on corporate value.

This happened due to several factors, including the overall corporate performance that experienced a decline from 2015 to 2017. In addition, some of the SOEs also experienced stagnation and losses even after obtaining PMN capital 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 BUMN itself. Third, Islamic items/sharia have not yet been disclosed by most of the BUMNs registered with ISSI, such as zakat, *waqaf*, 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 Marlene Plumlee (2015) entitled Voluntary Environmental Disclosure Quality (VEDQ) and Firm Value: Further Evidence. Stating that disclosure of sustainability reports will be able to affect the value of the company when there is a grouping of disclosure quality by type and nature.

CHAPTER V

CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Based on the results and discussion of the quantitative research as described in the previous chapters, a number of conclusions and suggestions can be drawn from this study.

1. Good Corporate Governance has a significant positive effect on the disclosure of Islamic Social Report. The results of this study indicate that the better corporate governance measured by GCG performance scores, the broader and also the disclosure of the company's Islamic Social Report.
2. Islamic Social Report Disclosure has no significant positive effect on firm value. This indicates that the disclosure of social-Islamic performance in the company is not able to increase the value of the company.
3. Good Corporate Governance has a significant positive effect on company value. Good corporate governance is proven to be able to overcome agency problems between management and shareholders which lead to the shareholders' trust in management.
4. There is no significant positive influence between good corporate governance on company value through Islamic Social Report Disclosure. This indicates that Islamic Social Report Disclosure is not able to mediate the effect of good corporate governance on corporate value.

5.2 Recommendations

Based on the conclusions of several important findings in the study, then some suggestions that can be conveyed include:

1. For the Company

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

2. 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 and the contribution and responsibility of the company to the society.

3. For Future Researchers

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

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Al Qur'an

E-Hadits

ATTACHMENTS

PANEL DATA

Corporate Name	Year	GCG	ISR INDEX	FIRM VALUE
ANTM	2013	96.880	70.588	0.890
ANTM	2014	97.040	72.549	0.914
ANTM	2015	97.575	72.549	0.645
ANTM	2016	97.857	78.431	1.103
ANTM	2017	97.014	74.510	0.884
INAF	2013	79.350	56.863	0.917
INAF	2014	83.529	58.824	1.410
INAF	2015	76.516	70.588	0.953
INAF	2016	78.049	70.588	11.081
INAF	2017	81.192	66.667	13.824
KAEF	2013	78.310	66.667	1.669
KAEF	2014	83.120	70.588	3.129
KAEF	2015	86.760	72.549	1.918
KAEF	2016	81.040	78.431	3.819
KAEF	2017	84.520	74.510	2.947
PTBA	2013	91.600	72.549	2.366
PTBA	2014	91.600	76.471	2.364
PTBA	2015	92.530	76.471	1.067
PTBA	2016	88.660	74.510	1.942
PTBA	2017	90.880	74.510	2.625
SMGR	2013	84.577	74.510	3.017
SMGR	2014	91.384	78.431	3.071
SMGR	2015	93.310	78.431	2.053
SMGR	2016	93.620	78.431	1.539
SMGR	2017	92.450	74.510	1.771
TINS	2013	80.100	74.510	3.601
TINS	2014	75.670	74.510	3.469
TINS	2015	85.110	80.392	1.587
TINS	2016	87.278	74.510	1.246
TINS	2017	90.345	66.667	0.963

Calculation of Firm Value

Corporate Name	year	TMV	Total Liabilities	Total Assets		TMV + TL	FIRM VALUE
ANTM	2013	$10,396,921,127,500.00	$9,071,629,859,000.00	$21,865,117,391,000.00		$19,468,550,986,500.00	0.89039
ANTM	2014	$10,158,459,633,750.00	$9,954,166,791,000.00	$22,004,083,680,000.00		$20,112,626,424,750.00	0.91404
ANTM	2015	$7,545,660,123,650.00	$12,040,131,928,000.00	$30,356,850,890,000.00		$19,585,792,051,650.00	0.64519
ANTM	2016	$21,507,534,428,875.00	$11,572,740,239,000.00	$29,981,535,812,000.00		$33,080,274,667,875.00	1.10335
ANTM	2017	$15,019,227,953,125.00	$11,523,869,935,000.00	$30,014,273,452,000.00		$26,543,097,888,125.00	0.88435
INAF	2013	$474,187,927,500.00	$716,194,659,797.00	$1,297,630,005,512.00		$1,190,382,587,297.00	0.91735
INAF	2014	$1,100,239,962,500.00	$662,061,635,028.00	$1,249,763,660,131.00		$1,762,301,597,528.00	1.41011
INAF	2015	$520,676,940,000.00	$940,999,667,498.00	$1,533,708,564,241.00		$1,461,676,607,498.00	0.95303
INAF	2016	$14,504,571,900,000.00	$805,876,240,489.00	$1,381,633,321,126.00		$15,310,448,140,489.00	11.08141
INAF	2017	$20,145,238,570,000.00	$1,003,464,884,586.00	$1,529,874,782,290.00		$21,148,703,454,586.00	13.82381
KAEF	2013	$3,276,860,000,000.00	$847,585,000,000.00	$2,471,940,000,000.00		$4,124,445,000,000.00	1.66851
KAEF	2014	$8,136,610,000,000.00	$1,291,700,000,000.00	$3,012,779,000,000.00		$9,428,310,000,000.00	3.12944
KAEF	2015	$4,831,980,000,000.00	$1,374,127,000,000.00	$3,236,224,000,000.00		$6,206,107,000,000.00	1.91770
KAEF	2016	$15,273,500,000,000.00	$2,341,155,131,870.00	$4,612,562,541,064.00		$17,614,655,131,870.00	3.81884
KAEF	2017	$14,440,400,000,000.00	$3,523,628,217,406.00	$6,096,148,972,533.00		$17,964,028,217,406.00	2.94678
PTBA	2013	$23,502,144,870,000.00	$4,112,693,000,000.00	$11,673,932,000,000.00		$27,614,837,870,000.00	2.36551
PTBA	2014	$28,801,648,125,000.00	$6,335,533,000,000.00	$14,860,611,000,000.00		$35,137,181,125,000.00	2.36445
PTBA	2015	$10,426,196,621,250.00	$7,606,496,000,000.00	$16,894,043,000,000.00		$18,032,692,621,250.00	1.06740
PTBA	2016	$28,801,648,125,000.00	$8,024,369,000,000.00	$18,576,774,000,000.00		$36,826,017,125,000.00	1.98237
PTBA	2017	$49,538,834,775,000.00	$8,187,497,000,000.00	$21,987,482,000,000.00		$57,726,331,775,000.00	2.62542
SMGR	2013	$83,931,008,000,000.00	$9,081,620,983,000.00	$30,833,102,777,000.00		$93,012,628,983,000.00	3.01665
SMGR	2014	$96,090,624,000,000.00	$9,326,744,733,000.00	$34,331,674,737,000.00		$105,417,368,733,000.00	3.07056
SMGR	2015	$67,619,328,000,000.00	$10,712,329,531,000.00	$38,153,118,932,000.00		$78,331,657,531,000.00	2.05309

SMGR	2016	$54,421,696,000,000.00	$13,652,504,525,000.00	$44,226,895,982,000.00		$68,074,200,525,000.00	1.53920
SMGR	2017	$68,212,480,000,000.00	$18,524,450,664,000.00	$48,963,502,966,000.00		$86,736,930,664,000.00	1.77146
TINS	2013	$8,052,832,000,000.00	$847,585,000,000.00	$2,471,940,000,000.00		$8,900,417,000,000.00	3.60058
TINS	2014	$9,160,736,748,420.00	$1,291,700,000,000.00	$3,012,779,000,000.00		$10,452,436,748,420.00	3.46937
TINS	2015	$3,761,115,494,270.00	$1,374,127,000,000.00	$3,236,224,000,000.00		$5,135,242,494,270.00	1.58680
TINS	2016	$8,006,334,963,050.00	$3,894,946,000,000.00	$9,548,631,000,000.00		$11,901,280,963,050.00	1.24639
TINS	2017	$5,623,053,857,770.00	$5,814,816,000,000.00	$11,876,309,000,000.00		$11,437,869,857,770.00	0.96308

CONSULTATION SHEET

Name : Titis Yoely Setya Nugrahani

NIM/Department : 15510015/Management

Advisor : Dr. Indah Yuliana, S.E., M.M.

Title : The Effect of Good Corporate Governance on Firm Value with Islamic Social Report Disclosure as Mediating Variable

No.	Date	Consultation Material	Advisor's Signature
1.	12/7/2018	Outline Submission	1.
2.	10/8/2018	Title Submission	2.
3.	27/2/2019	New Title Submission	3.
4.	1/3/2019	Sampling Technique	4.
5.	2/3/2019	Chapter 1,2,3 Submission	5.
6.	14/3/2019	Proposal Revision	6.
7.	15/3/2019	Proposal Approval	7.
8.	9/5/2019	Consulting the result of the analysis	8.
9.	13/5/2019	Thesis submission	9.
10.	13/5/2019	Revision	10.
11.	19/5/2019	Approval	11.

Malang, 25th of May 2019

Head of Department of Management

KEMENTERIAN AGAMA REPUBLIK INDONESIA FAKULTAS EKONOMI

Drs. Agus Sucipto, M.M

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FORMAL EDUCATION

2001-2003 : TK DHARMA WANITA PERSATUAN LAMPAH 1

2003-2009 : SD NEGERI 1 LAMPAH

2009-2012 : SMP NEGERI 1 BENJENG

2012-2015 : MA NEGERI 2 GRESIK

2015-2019 : UIN MAULANA MALIK IBRAHIM MALANG

ORGANIZATION EXPERIENCES

2015-2019 : Member of Sharia Economic Student Community (SESCom)

2016-2017 : Member of Leprosy Care Community

2017-2018 : Member of Student Executive Board of Faculty of Economics

2018-2019 : Founder of Bisnis Mahasiswa (BISMA UIN MALANG)

ACHIEVEMENTS

2015 : 3rd Winner of *Lomba Artikel Nasional* held by Universitas Negeri Yogyakarta

2016 : Finalist of National Essay Competition held by Universitas Negeri Surakarta

2016 : 2nd Winner of Specch Contest IPPBMM 2016

2017 : Awardee of ENVOY Scholarship from Mien R. Uno Foundation

2017 : Finalist of Duta Muda Jawa Timur 2017

2018 : 1st Winner of East Java Business Plan Competition held by Forum Silaturahim dan Studi Ekonomi Islam (FoSSEI)

2018 : 2nd Winner of National Debate Competition Held by UIN Maulana Malik Ibrahim Malang

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Menerangkan bahwa penulis skripsi mahasiswa tersebut dinyatakan **BEBAS PLAGIARISME dari TURNITIN** dengan nilai Originaly report:

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