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Study of Effectiveness Investments with Social Commitment towards Corporate Value Creation: In the Context of Structure and Mechanism Corporate Governance

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Abstract

The objective of this paper was to investigate the association between the structure and mechanism of corporate governance and firm value mediated by the effectiveness of investments with social commitment that derived from synthesis of Agency and Stakeholder theories. The study was conducted to all corporations in the Indonesian Stock Exchange during 2009 – 2011. This study was expected to provide new insights on the synergistic effects of investment discretion that synchronizes between economic and social orientation as suggested in the finance literature, an area had not been examined in the prior studies. The result of this study can resolve the existing conflict in the literatures. Effectiveness investments with social commitment mediate the relationship between structures and mechanisms of corporate governance in the aspect of ownership concentration and the intensity role of the board toward firm value. The finding of this research, the most dominant path was effect of the intensity role of the board on firm value through effectiveness of investment with social commitment and corporate reputation. This suggests that the mechanism of corporate governance was more effective than the structure of corporate governance toward firm value.

Keywords: Effectiveness of investment with social commitment; corporate governance; ownership concentration; managerial ownership; intensity role of board; reputation; firm value.

1. Introduction

The study Berle and Means (1932) explicitly states about the necessity for separation between ownership and management of the company, so that the distribution of shares in the company becomes an important issue. At the time of the corporate management no longer do by the principal but handed over to the agent, then potential conflict in the relationship between owners and managers, which is often referred as the agency problem (Jensen and Meckling, 1976). In terms of ownership, there are two issues of agency, which the agency problem between majority shareholders and minority shareholders (Shleifer and Vishny, 1997), and agency problems between management and shareholders (Jensen and Meckling, 1976). Agency conflicts as mentioned above by Shleifer and Vishny (1997) can be resolved in one way is through good corporate governance.

The literature on corporate governance structures and mechanisms identified three important corporate governance is the board of directors, disclosure and ownership structure. However, based on empirical research there is no unanimity among researchers about the impact of the structure and mechanism of corporate governance on corporate performance. According to Gill et al. (2009), temporary literature suggests the findings agreed on the positive relationship between disclosure and corporate performance, but the relationship between the board of directors and ownership structure on corporate performance shows mixed results.

Implementation of good corporate governance as an instrument to mitigate conflicts of interest in the public companies in Indonesia has not been fully working optimally. The fact was supported by the results of a survey of national institutions and international level about the implementation of good corporate governance (GCG) in Indonesia which global investors' perceptions about the management of the corporation in Indonesia was still weak (Daniri, 2006); the results of the World Bank and McKinsey survey shows that investors have a preference for avoiding corporate enterprise with poor corporate governance (McKinsey and Co, 2002).

The next phenomenon is the increase in the complexity and dynamics of the business environment at the moment encouraged companies to think about sustainability in a corporate goal orientation. According Elkington (1997), sustainability is a balance between people, planet, and profit, which is known as the concept of the Triple Bottom Line (TBL). Frame of mind and the concept of sustainability were lies at the interface between the three aspects, people-social, planet-environmental, and profit- economic. Companies should be responsible for the positive and negative impact caused to the economic, social and environmental. Sustainability is the end goal to be achieved by all companies. The ultimate goal of which is to balance between economic performance, social welfare, and the rejuvenation and preservation of the environment. Process of achieve the ultimate goal is referred to as sustainable development and to achieve the ultimate goal, it takes a vehicle in contributing to sustainability is called Corporate Social Responsibility (Panapanaan et al., 2003). Activity of Corporate Social Responsibility is an integral part of good corporate governance. Oriented social responsibility to stakeholders, which is in line with one of the main principles of Good Corporate Governance that is responsibility. At this time there has been a paradigm shift in Good Corporate Governance is to extend the theoretical paradigm of agency theory to the stakeholder theory perspective. The consequences of the paradigm shift of Good Corporate Governance should pay attention to issues of corporate social responsibility.

Theoretical models developed in this study proposes a concept that can contribute to addressing gaps or inconsistencies in the results of empirical research on the effect of corporate governance on firm value and accommodate business phenomena associated with the implementation of corporate governance of public companies in Indonesia. The concept is a derivation from synthesis agency and stakeholder theory that leads to the achievement of corporate policy of sustainable performance through investment strategies oriented in domains that are morefriendly to stakeholders called effectiveness investment with social commitment. Discretion of investment based on asset effectively with economic and social orientation committed equally and simultaneously predictable impact on the reputation and increasing corporate value. The objectives of this research are: (1) Developing theoretical models in an attempt to resolve the conceptual and empirical controversy about the influence of corporate governance structures and mechanisms from the aspect of ownership structure and board of directors on firm value of listed companies in Indonesia; (2) Synthesize and test empirically the effectiveness investments with social commitment as a mediating influence corporate governance structure and mechanism from the aspects of ownership structure and board of directors on firm value.

2. Effectiveness of Investments with Social Commitment

2.1 State of the art

Synthesis of agency and stakeholder theory related to the expansion of the company's goal maximizing value of firm. According agency theory, firm objective is to maximizing firm value for benefit of shareholders. But on the other hand, a firm can not maximize value if it ignores the interests of stakeholders. Jensen (2001) gives a solution to the conflict between maximizing firm value for shareholder benefit and stakeholder theory with fusion joint between the enlightened value maximization and enlightened stakeholder theory.

In the long term, the goals of social and economic are not inherently in conflict with each other but are integrally connected. Achievement of these objectives is described through the linkage of corporate social performance (CSP) and corporate financial performance (CFP) which is a combination of social and economic benefits. CSP and CFP is not a concept that trade off each other and even both are concepts which have a positive relationship and complementary. Both of them are a concept of alignment of interests between shareholders and stakeholders. This concept is supported Orlitzky et al. (2003) which uses the principles of agency theory to build a positive relationship of CSP to CFP. In his article mentioned that building relationships with stakeholders serves as a monitoring and enforcement mechanism that prevents managers to forget the purpose of the broader financial organizations. Negotiation process and the explicit and implicit contracts with stakeholders based on mutual relations and bilateral, preventing managers from diverting attention to organization-wide financial objectives (Hill and Jones, 1992, Jones 1995).

In addition, by addressing and balancing the claims of various stakeholders (Freeman and Evan, 1990), managers can improve the efficiency of their organizational adaptation to external demands. These methods will lead to lower agency costs resulting in a positive relationship between CSP and CFP. State of the art proposition Investment Effectiveness with Social commitments can be illustrated by the diagram of Figure 1.

2.2 Proposition

Based on the theoretical study of the synthesis between the Agency and Stakeholder theory, substantial theoretical and empirical research above it can be derived that a proposition Effectiveness Investment with Social commitments. Effectiveness Investments with Social commitment is an investment based asset that synchronizes economic motives and commitment to social orientation. Investment based on assets with economic orientation was measured using corporate financial performance (CFP) and investment with social commitment was measured with corporate social performance (CSP) (Elkington, 1997; Fauzi et al., 2011). CFP and CSP synchronization is based on virtous cyrcle which stated that there is no trade-off between CSP and CFP (Preston and O'Banon, 1997; Waddock and Graves, 1997; Orlitzky et al., 2003; Wissink, 2011)

Effectiveness investments with social commitment is a strategy for optimizing the use of assets of the company which has the objective to maintain business sustainability by shifting its focus from the maximization of profit (shareholder oriented) to maximize value creation for all stakeholders (stakeholders and shareholders oriented). Effectiveness investments with social commitment are corporate strategic outcomes as the impact of structures and mechanisms of corporate governance in the context of the ownership structure and the role of the board of directors. Extend and intensity of the role of the board of directors in the mechanisms of corporate governance is an important factor to encourage executives to achieve the effectiveness of investments with social commitment (Hung, 2011). Effectiveness of investment with social commitment has a positive impact on corporate reputation and corporate value creation. Effectiveness of investments with social commitment is a mediating factor of the relationship between the structure and mechanism of corporate governance on firm value creation. Based on the description above, it can be formulated in the following proposition statement.

Proposition:

> ***Effectiveness investment with social commitment*** *is an investment based on asset that synchronizes economic orientation and commitment to social orientation. Effectiveness Investment with Social commitment will have a positive impact on the reputation and firm value. Effectiveness Investment with Social commitment mediate the effect of structure and mechanisms of corporate governance in aspects of ownership structure and board of directors toward corporate value creation.*

Effectiveness of investments with social commitment was measured with a combined (jointly) between company financial performance and corporate social performance. The use of these measures is based on the assumption that combining the two measures provides a synergistic effect. Corporate financial performance is measured by using Asset Turnover Ratio proxy. Corporate social performance is measured by the index of corporate social responsibility disclosure. Empirical basis of measure selection can be described as follows:

1) Investment based on asset with economic orientation used Asset Turnover Ratio as proxy (Kallapur dan Trombley, 1999; Gaver and Gaver, 1993; Skinner, 1993; Florackis dan Ozkan, 2009). Asset turnover ratio is defined as the ratio of total sales to total assets. This ratio is used in the context of the agency by Ang, et al. (2000) and Danielson and Scott (2007) to construct an index of agency costs. The assumptions used are agency costs reflect the degree of separation between ownership and control. Approach using two alternative measures agency cost. Proxy is also adopted by Singh and Davidson (2004); Fleming, *et al.* (2005); and Porras and Mateo (2011). This proxy interpreted by asset utilization ratio which shows how management effectively deploys asset. A higher asset turnover ratio shows a good investment decision or may create a high return. This suggests that corporate governance mechanisms to reduce conflicts between managers and shareholders may be significant (Florackis and Ozkan, 2009).
2) CSR Disclosure Index. Socially responsible investment is CSR performance using proxy CSR Disclosure Index. CSR reporting, or social disclosure, is a strategic plan by the company to demonstrate a company's social performance to stakeholders (Roberts, 1992), in other words, to understand CSR reporting as part of the dialogue between the company and the stakeholders (Gray et al., 1995). Therefore, stakeholder theory provides a useful framework for evaluating CSR activities through social reporting (Snider et al., 2003). CSR disclosure is a form of corporate social responsibility towards stakeholders. Corporate social accountability in the report submitted with the form of mechanisms that companies report to the parties concerned in the form of financial statements, annual reports and other types of reports. The report is the form of the provision of financial and non-financial organizations with respect to the interaction with the physical and social environment, as stated in the annual

report or a separate social report (Hackston dan Milne, 1996). Corporate social disclosures include details of the physical environment, energy, human resources, products and community involvement matters. To find out the extent of social disclosure level is determined by how many items of the type of social disclosure in reports through content analysis procedures (Krippendoff, 2004 and Neuendrof, 2011).

2.3 Hypothesis Development

2.3.1 Ownership Concentration and Managerial Ownership as the Corporate Governance Structure and its influence on Effectiveness Investment with Social commitment and Corporate Value

The presence of concentrations of ownership characterized by dominant shareholders control corporate behavior affects the organization's goals and how the control is done in the company (Thomsen dan Pedersen, 2000). High percentage of shares held by shareholders makes it possible to conduct important transactions without the other shareholders can intervention (Destefanis dan Sena, 2007). Anderson et al. (2003) argues that the dominant shareholder different from the other shareholders in the two aspects: (a) interests of long-term corporate survival; (b) the importance of maintaining their own reputation is strongly associated with the company. This suggests that the dominant shareholders, compared with other types of owners, will be more likely to adopt decisions that maximize the firm's behavior economic, social and environmental. Other empirical studies support (Syriopoulos et al., 2007; Andres, 2008; Dinga dan Stratling, 2009; Mandaci dan Gumus, 2010; Salami, 2011), it can be formulated hypothesis:

H1a: Ownership concentration has a positive effect on firm value.

H1b: Ownership concentration has a positive effect on Effectiveness investment with Social commitment.

H1c: Effect of Ownership Concentration on Firm Value mediated by Effectiveness Investment with Social commitments.

Theoretically, there are two main hypotheses about the impact of managerial ownership on firm value. Convergence of interest hypothesis linking the role of managerial ownership and corporate performance (Jensen and Meckling, 1976; Jensen, 1993), propose that the shareholding managers will assist in aligning the interests of shareholders and managers. Entrenchment hypothesis proposed by Stulz (1988) explained that the higher managerial ownership will cause a decrease in the value of the company. Managers who have a large number of shares that will likely entrenched in his position. As a result, the investment decision is non-value maximizing that firm value will decrease (Chen et al., 2003; Lundstrum, 2009; Mandaci and Gumus, 2010).

The result of relationship between managerial ownership and firm value is still conflicting shows two main directions (Iturriaga dan Sanz, 2001). *First,* several studies have detected a non-monotonic relationship between managerial ownership and firm value (Morck et al.,1988; McConnel and Servaes, 1990; Cho, 1998). This led to doubts about the allegations an alignment of interest resulting from the presence of managerial ownership. *Second*, as it says Jensen and Meckling (1976), that investment decisions can serve as a transition mechanism between managerial ownership with firm values. Results of research Iturriaga and Sanz (2001) shows the reciprocal relationship between firm value, investment and managerial ownership. Chan Du dan Jia Wu (2011) suggests that CEO stock option holders significant positive effect on investment decisions for all model specifications.

Empirical evidence which explains relation between among insider ownership and corporate CSR is not widely studied and researched in the empirical literature. Managerial ownership is a major source of executive power (Finkelstein, 1992), and research shows that executives see themselves as mediators of conflicting claims about the organization. Insider Ownership associated with the powers that be, allowing the ability of the executive to allocate resources among diverse stakeholders in a manner that ensures continued contribution to stakeholders and extended the company's prosperity. Based on theoretical and empirical research studies mentioned above, the hypothesis is formulated:

H2a: Managerial ownership has a negative effect on firm value.

H2b: Managerial ownership positively associated with the effectiveness of investments with social commitment.

H2c: Effect of Managerial Ownership on Firm Value mediated by Effectiveness Investment with Social commitments.

2.3.2 Intensity Role of Board of Directors as Corporate Governance Mechanism and its influence on Effectiveness Investment with Social commitment and Firm Value

This study using the intensity role of the Board is an approach that needed board to run it functions and its role in corporate governance mechanisms. Intensity role of board is a combined process that using proxy frequency of board meetings, among board, with committees and directors (Zahra dan Peace, 1989) and attribute composition using proxy independence of the board (Setia-Atmaja, 2009; Shan and McIver, 2011).

The Board directors of the company do an important role and thus considered to be an important mechanism Corporate Governance (Lipton and Lorsch, 1992; Jensen, 1993). Role of the board is to provide advice (expert advice), monitoring and find accountability (discipline) management to ensure that the managers give priority to the interests of shareholders (Jensen and Meckling, 1976; Ntim, 2009). Important proxy for measuring the intensity and effectiveness of monitoring and discipline is the frequency of corporate board meetings (Jensen, 1993; Vafeas, 1999). The theoretical proposition is that the frequency of board meetings to measure the intensity of the board's activities, and the quality or effectiveness of monitoring (Vafeas, 1999; Conger et al., 1998; Ntim dan Osei, 2011). Higher frequency of board meetings can produce a higher quality of managerial monitoring, and thus have a positive impact on the financial performance of the company (Vafeas, 1999, Ntim, 2009). Regular meetings allow directors more time to negotiate, strategize, and to assess managerial performance (Vafeas, 1999).

Another proxy used to measure the intensity of the role of board is the independence of the board. Fama dan Jensen (1983) describes the role of corporate governance mechanisms in controlling agency conflicts. They identified board as one of the most important of the control of the organization, and highlight the importance of the independence of board in relation to the ratification and monitoring of management decisions. Specifically emphasized that the board has the power employ, dismiss, and compensation for top managers and to ratify and monitoring important decisions.

Role in implementing functions of an independent board monitoring and advising as well as the approval of the company's strategic decisions especially with regard to social interest based on resource dependency theory. Resource dependence theory suggests that the election of board members outside can be seen as a strategic decision to address the organization's relationship with its business environment (Pfeffer and Salancik, 1978). In efforts to maintain a positive relationship with the environment is composed of various stakeholders, outside directors can help companies respond appropriately to external constituents through comply with environmental standards and participate in various activities oriented stakeholder (Pfeffer, 1973; Abdur Rouf, 2011; Harjoto and Jo, 2011). Based on theoretical studies and an overview of some empirical studies on the effect of the frequency of board meetings and board independence on firm value can be formulated hypothesis:

H3a: Board of Directors with the high intensity of the role of board has a positive effect on firm value.

H3b: Intensity role of board has a positive effect on the effectiveness of investments with social commitment.

H3c: Effect of Intensity role of Board on Firm Value mediated by Effectiveness Investment with Social commitments.

2.3.3 Association of Effectiveness Investment with Social commitment to Corporate Value and mediation Corporate Reputation

Resource-based view of the firm provides the appropriate basis for examining how companies create social and environmental reputation (Hart, 1995; Litz, 1996; Porter & Van Der Linde, 1996; Russo & Fouts, 1997, Waddock & Graves, 1997). The most important reputation comes from intangible assets. Its interpretation is consistent with the resource-based view explain the competitive advantage in quality can not be duplicated, including those packaged in reputation. Recently has been applied specifically to environmental management and competitive advantage. Physical resources can be easily obtained by competitors (Barney, 1991), while the asset-based social complex can not be imitated (Hart, 1995). Reputation-based intangible assets become more important contributor to the performance of the company and the resources are more likely to be valuable and can not be replicated when people demand a cleaner environment (Russo & Fouts, 1997). Empirical research shows that improving the company's reputation and eventually creates goodwill has a positive effect on the market value (Chauvin & Hirschey, 1994; Fombrun, 1996).

Accounting disclosure incorporated with signaling hypothesis formed important relationships among perspectives of resources and corporate governance. Signaling theory remains important because it has the potential of combining together separate strands of empirical findings on disclosure (Spicer, 1978; Jaggi & Freedman, 1992) and resource-

based perspective and governance outlined previously. Toms (2002) offering a theoretical extension of the resource-based view of the firm to include quality signaling through channel of accounting disclosure. The results showed that the implementation, monitoring and disclosure of environmental policies and disclosures in the annual report contributed significantly to the creation of environmental reputation. According Gray et al. (1995), corporate managers disclose social information in the context to improve the company's image, although he had to sacrifice resources for the event. The company's image will improve investor confidence in the company so that the value of the company increases. Based on a review of theoretical and empirical research overview the following hypothesis can be developed:

H4: Corporate Finance reputation positive effect on Firm Value.

H5: Effectiveness Investment with Social commitment has a positive effect on Corporate Financial Reputation.

H6: Effectiveness Investment with Social commitment has a positive effect on Firm Value

H7: Effect Effectiveness investment with social commitment to the firm value mediated by corporate financial reputation.

Based on the hypothesis statements 1 through 7 above can then be arranged in an empirical research model in Figure 2.

3. Research Methods

Object of this research is all the companies listed on the Indonesia Stock Exchange with managerial ownership and implementing corporate social responsibility activities in years 2009-2011. Sources of data obtained from: (1) Indonesian Capital Market Directory (ICMD); (2) Corporate Annual report; (3) JSX Monthly Statistics for the January 2009 through December 2011. The data used is panel data with purposive sampling technique. The object of research that match with criteria as much as 231 observations.

Survey methods used to collect data about the structure and mechanism of corporate governance and social performance. Social disclosure form of words, numbers, pictures, graphs, and tables and word that show or indicate corporate social responsibility are disclosed in annual report of the company through content analysis. Social disclosure consists of: (a) Environment; (b) Energy; (c) Social community involvement and development; (d) Human resources; (e) Product and customers; (f) Another factor are corporate governance, commitment to CSR and external rewards to company performance.

Corporate governance structure are measured by the concentration ownership – *OC* (Lee and O'Neil, 2003; Setia-Atmaja, 2009; Dinga, 2009), and Managerial Ownership – *MO* (Morck et al., 1988; Bhagat and Black, 2002; Florackis, 2005; Bhagat and Bolton, 2007; Mura, 2007; Florackis and Ozkan, 2009). Corporate governance mechanism is measured by the intensity role of board (*IRB*). Intensity role of board using combined proxy among the frequency of board meetings (Vafeas, 1999; Conger et al., 1998; Ntim, 2009; Ntim and Osei, 2011) and independence board (Muth and Donaldson, 1998; Hermalin and Weisbach, 2003; Xie et al., 2003; Prasanna, 2006; Tang, 2007; Garg, 2007; Pathan et al., 2007; Javed and Iqbal, 2007; Samad et al., 2008; Setia-Atmaja, 2009). Effectiveness Investments with Social Commitments (*EISC*) measured by multiplying Asset Turnover Ratio (Ang et al., 2000; Singh and Davidson, 2004; Fleming et al., 2005) with CSR Disclosure Index (Krippendoff, 2004 dan Neuendrof, 2011).

$$EISC = \frac{TS}{TA} \times \frac{\sum PS_i}{\sum PS_n} \quad (1)$$

Where, *EISC* is Effectiveness Investments with Social Commitments; *TS* is Total Sales; *TA* is Total Asset; PS_i is Real corporate social disclosure; PS_n is Real social disclosure across the enterprise.

Corporate financial reputation (*CR*) is measured by the difference in the current year stock price with the previous year (Neda Vitezic, 2011; Dunbar and Schwalbach, 2000; Roberts and Dowling, 2002; Rose andThomsen, 2004; Neville et al., 2005; Inglis et al., 2006; Sanchez and Sotorrio, 2007; Zhang and Rezaee, 2009). Corporate financial reputation is calculated by the following formula.

$$CR = P_t - P_{t-1} \quad (2)$$

Where, *CR* is Corporate financial reputation; P_t is closing price in years *t*; and P_{t-1} is closing price in years *t-1*.

Proxy firm value is Tobin's Q (Copeland et al., 2000; Lidenberg and Ross, 1981). Some researchers are using Tobin's Q as a proxy for firm value: Demsetz and Villalonga (2001); Brown and Caylor, 2004; Bebchuk et al. (2009); Bhagat and Bolton (2007); Amman et al. (2010); Bos et al. (2011). Tobin's Q model is calculated using the following formula:

$$Q = \frac{(EMV + D)}{(EBV + D)} \quad (3)$$

Where, Q is Firm Value; EMV is Equity Market Value; D is Book value of Debt and EBV is Equity Book Value.
Data were analyzed using path analysis approach with program AMOS 16.0. Based on empirical research model path diagram, it can be arranged three standardized structural equation, as follows:

$$EISC = \beta_{11}OC + \beta_{12}MO + \beta_{13}IRB + \varepsilon_1 \quad (4)$$

$$CR = \beta_{21}EISC + \varepsilon_2 \quad (5)$$

$$Q = \beta_{31}OC + \beta_{32}MO + \beta_{33}IRB + \beta_{34}EISC + \beta_{35}CR + \varepsilon_3 \quad (6)$$

4. Result and Discuss

Table 1 shows the description of the company's observation illustrates that: (1) companies that are observed are mostly corporate ownership concentration where the average concentration of ownership of 30.79%; (2) managerial ownership varies widely, the minimum amount of 0.0001%, maximum 52% and average managerial ownership 3.7%; (3) proportion of independent board average of 43.76% means fulfilling minimum requirement of 30% and an average board meeting is 10 times. The intensity of the role of board on average 4.56 means that the role of board is quite intense.; (4) Value of Tobin's q has an average of 1.529 shows the average firm observations have value good company; (5) EISC value quite varied with a minimum value of 0.00015, maximum value 0.656 and average value of 0.145 indicates EISC observations company perform an investment policy with economic and social motives simultaneously, even though with a disproportionate weight; (6) reputation with an average of 6.262 indicates that observed firms on average have a positive reputation.

Testing of model assumptions empirical research has been conducted with the result that the empirical research model assumptions fulfilled. Multivariate normality of the data can be tolerated and there were no multicollinearity. Evaluation performed multivariate outliers using the mahalonobis distance calculations are based on the value of the chi-square distribution table χ^2 on the degree of freedom for the number of variables used in the study. This research using 3 variables at level p < 0,001 is χ^2 (3;0.001) = 16.27. The data has a Mahalanobis distance greater than 16.27 is considered multivariate outliers. Mahalanobis distance calculation from the most distant data is 98.269 and the closest was 4.871. Based on the output of the Mahalanobis distance calculations there are 5 data are considered outliers whose value is above 16.27 removed so that the number of observations from 231 to 226 samples.

Goodness-of-fit measures conformance input observation or actual (covariance matrix or correlation) with the predictions of the model proposed. Chi-square value obtained from the analysis of the empirical research model is equal to 6.058 with a probability level of 0.109. Value table for χ^2 with $df = 3$ and $\alpha = 0.05$ is 7.82. Thus the chi-square value of the research is smaller than the table value of chi-square and probability value larger study of α 0.05, which means the model proposed are no significant difference with the observational data or a very good fit. Value of *GFI, AGFI, TLI* and *RMSEA* in Table 2 shows criteria value is goodness of fit, therefore empirical research model is very feasible to test the hypotheses that follow.

The result of hypothesis testing using path analysis in Table 3 provides three main results. ***First***, directly influence the structure and mechanism of corporate governance in the aspects of ownership concentration (*OC*) and the intensity role of board (*IRB*) on firm value (*Q*) is not proved significant (H1a and H3a not proved). Structure and mechanism of corporate governance in the aspect of ownership concentration (*OC*) and the intensity role of board (*IRB*) had a positive impact on the effectiveness of investments with social commitments (*EISC*) (H1b and H3b). EISC proved as mediating the relationship of structure and corporate governance mechanisms in the aspect of ownership concentration (*OC*) and the intensity role of board *(IRB*) on the firm value (H1c and H3C). The test results provide empirical evidence that the effectiveness investment with social commitment to address the disparities between the results of empirical studies of corporate governance and firm value. Effectiveness Investment with social commitment to be a measure of the corporate performance that are able to create corporate value by taking into account the interests of shareholders and stakeholders in a balanced way. The results of this study support Waddock and Graves (1997), Orlitzky et al. (2003) and Wissink (2011) about links between corporate financial performance and corporate social performance. The results of this study support the concept of enlightened value maximization of the firm (Jensen, 2001)

and contribute to the development of theory in this case is the synthesis of agency and stakeholder theory to accommodate the dynamics of the business environment.
Second, Effectiveness investments with social commitments (*EISC*) positive impact on corporate financial reputation (*CR*) that will increase firm value (Q), but the effect of Effectiveness investments with social commitments on firm value directly more dominant than through reputation (H4, H5, H6 and H7). The test results provide empirical evidence that the effectiveness investment with social commitment is a good quality signal so that positive impact on the reputation and firm value. The results support the research Gray et al. (1988) and Toms (2002). This empirical evidence implies that the effectiveness of investments with social commitments can be applied as a corporate strategy of competitive advantage (Hart, 1995; Chauvin and Hirschey, 1994; Fombrun, 1996).
*Third**,*** effect of managerial ownership (*MO*) on the firm value directly is more dominant than the indirect effect through investment effectiveness with social commitment in a negative direction (H2a proved; H2b and H2C not proved). The test results indicate that a small proportion of managerial ownership impact on increasing the value of the company so that there is alignment of interests between shareholders and agents (convergence of interest hypothesis) in line with Jensen and Meckling (1976) and Jensen (1993). But in a high proportion of share ownership will give the agency the power to entrench in the company (entrenchment hypothesis). This is consistent with Stulz (1988). The results do not support Iturriaga and Sanz (2001), the absence of a non-monotonic relationship between managerial ownership and firm value and investment decisions can not serve as a transition mechanism between managerial ownership and firm value.
Table 4 shows that there are 9 (nine) indirect effect relationship between variables or paths existing in the empirical research model. The most dominant path is influence of the intensity role of the board on firm value through effectiveness of investment with social commitment and corporate reputation. This suggests that the intensity role of board that have proactive and objective natures will contribute to the achievement of the effectiveness investment with social commitment to providing a positive impact on the corporate financial reputation and eventually creates firm value.

5. Conclusion

This study proves that the corporate governance structures and mechanisms - from the aspect of ownership concentration and intensity of the role of board - have a positive and significant impact on the achievement of effectiveness of investments with social commitment that will enhance the company's reputation and eventually have an impact on the value creation of the company listed in Indonesia Stock Exchange. Effectiveness of investments with social commitment is a managerial strategic outcome is influenced structure and corporate governance mechanisms with the new paradigm of complexity and dynamics due to the pressure of external environment. The finding of this study is the effectiveness of investments with social commitment mediates the effect of corporate governance structures and mechanisms of the aspects of ownership concentration and the intensity of the role of board to the reputation and value of the company. The next finding is the intensity role of board as a corporate governance mechanism is more effective in contributing to an increase firm value in comparison to the power of concentration ownership as a corporate governance structure.

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Notes:

Table 1. Descriptive Statistic

Variables	**N**	**Range**	**Minimum**	**Maximum**	**Mean**	**Std. Deviation**
OC	226	0,93	0,01	0,94	0,3079	0,229
MO	226	51,999	0,00001	52,00	3,7401	6,54047
IRB	226	24,99	0,66	25,65	4,5592	3,48559
EISC	226	0,64593	0,00015	0,646	0,145	0,119
CR	226	99,50	(56,00)	43,50	6,262	12,478
Q	226	4,797	0,461	5,258	1,529	0,868

Table 2. Goodness of fit Empirical Research Model

Goodness of fit Index	**Cut-off Value**	**Result**	**Evaluation**
Absolute Measures:			
χ^2 – Chi-Square (df=3)	Low expected	6,058	Good
Probability	$\geq$ 0,05	0,109	Good
CMN/DF	$\leq$ 2,00	2,019	Good
RMSEA	$\leq$ 0,08	0,067	Good
GFI	$\geq$ 0,90	0,991	Good
Incremental Fit Measure:			
AGFI	$\geq$ 0,90	0,939	Good
TLI	$\geq$ 0,90	0,901	Good
CFI	$\geq$ 0,95	0,980	Good
NFI	$\geq$ 0,90	0,964	Good

Table 3. Estimation Regression

Variables relation	**Standardized coefficient**	**Critical Ratio**	**Probability**	**Sign**
OC → Q	0,023	0,365	0,715	+
MO → Q	**(0,248)**	**(3,896)**	**0,000**	-
IRB → Q	(0,080)	(1,238)	0,216	-
EISC → Q	**0,134**	**1,968**	**0,049**	+
CR → Q	**0,336**	**5,654**	**0,000**	+
OC → EISC	**0,245**	**4,032**	**0,000**	+
MO → EISC	**(0,141)**	**(2,259)**	**0,024**	**-**
IRB → EISC	**0,308**	**5,087**	**0,000**	+
EISC → CR	**0,166**	**2,521**	**0,012**	+

Table 4. Indirect effect path

Indirect Effect Path	**Independent Variables**			
	OC	*MO*	***IRB***	*EISC*
Independent variable →EISC→Q	0,033	(0,019)	0,041	-
Independent variable →EISC→RKP	0,041	(0,023)	0,051	-
Independent variable →EISC→CR→Q	0,046	(0,027)	**0,058**	-
EISC→CR→Q	-	-	-	0,056

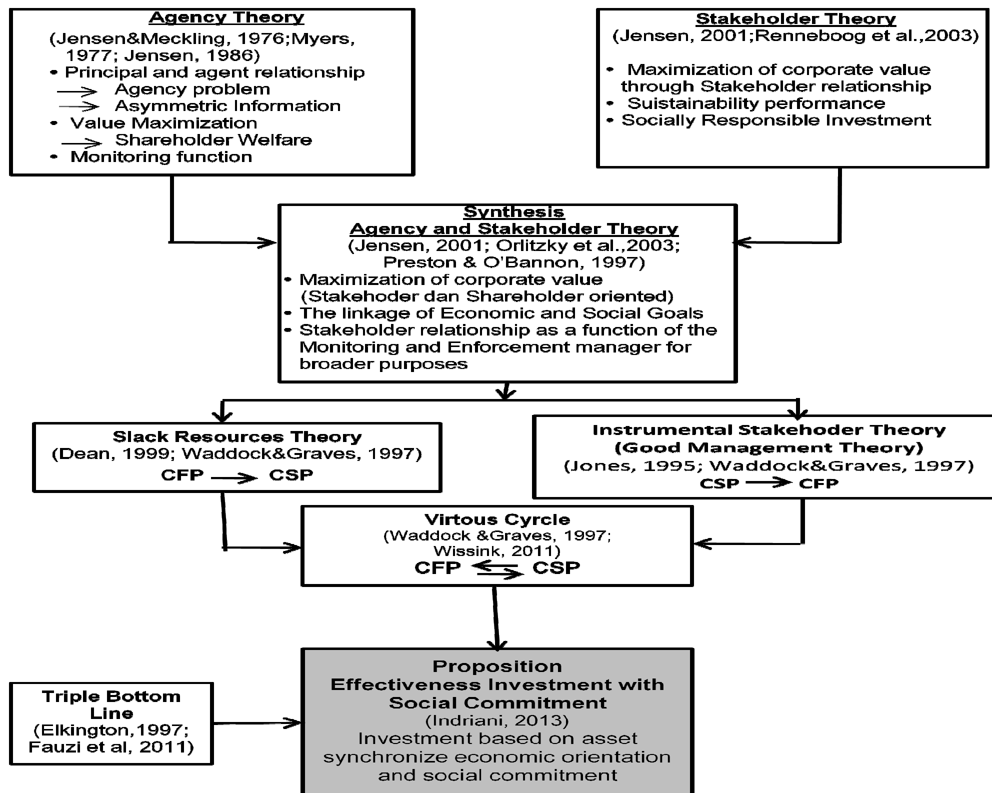

Figure 1. State of the art of Effectiveness of investments with social commitment

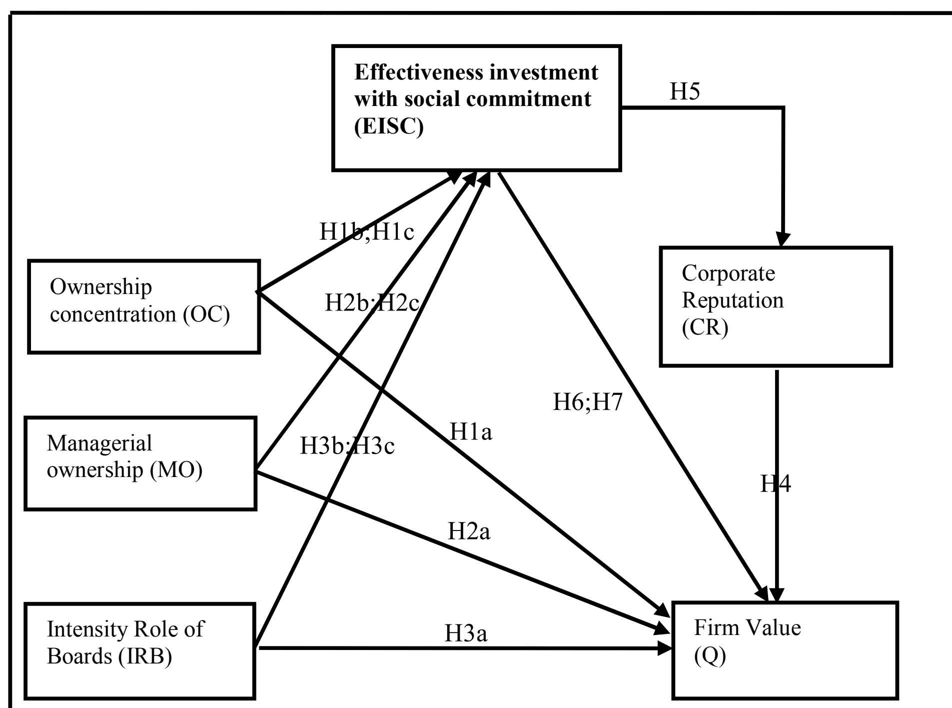

Figure 2. Empirical Research Model

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