The Mediating Effect of Corporate Social Responsibility and Good Corporate Governance on the Company’s Firm Value

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Received 3 September 2017; accepted 22 October 2017; published 25 October 2017

ABSTRACT

The study explores the mediating roles of corporate social responsibility (CSR) on the relationship between corporate governance and firm value. The Corporate Governance mechanism is measured using Governance Index Variables, managerial share ownership, and Board Size. This study using all companies’ data which are registered in Indonesia Stock Exchange Year 2011-2015. The election period are occupied due to the application of the Constitution No.40 Year 2007, which substitutes the Constitution No.1 Year 1995 about incorporated company. Sample in this study is registered in Corporate Governance Perception Index (CGPI) Year 2011—2015. The results of this study can be concluded that: In order to increase the Firm Value, the company must implement the Good Corporate Governance (GCG). It encourages and supervises the management’s work to achieve corporate and shareholder objectives. GCG is represented by managerial ownership variables that have an effect on the Firm Value, while either the number of directors and Governance Index don’t. The effect that occurs on the ownership variable is the negative effect. At a time when managerial ownership increases but does not increase the Firm Value, due to low managerial ownership. While the stock ownership is low, there is a tendency for opportunistic behavior to occur. This can lead to fraudulent and unethical behavior of management that will harm the shareholders. Management is more likely to perform in order for companies to run effectively and efficiently so that they get incentives / compensation for their performance in the form of bonuses, etc. Management is less likely to work to maximize its utility to increase shareholder value.

Key words: Corporate Governance; Corporate Social Responsibility; Firm Value; Corporate Governance Perception Index (CGPI)

INTRODUCTION

The emergence of a sustainable economic concept has become a worldwide economic trend based on the impacts of the industrial revolution, which did not guarantee the long-term sustainable welfare and cause the environmental damage. Nowadays, people are demanding companies to contribute more, as an effort to achieve its sustainable economy, through Corporate Social Responsibility, which almost become a trend for businesses in recent years.

Corporate Social Responsibility (CSR) is a business contribution for sustainable development, where the company does not only need to ensure shareholder returns, but also the concerns of other stakeholders. In this CSR, companies should pay attention to 3P (Profit, People, and Planet), which committed to create a prosperous business through a prudent and responsible business practice process. There are various definitions of CSR, but generally refers to serving people, communities, and communities, in ways that surpass a company’s legal obligations.
By conducting corporate CSR, it means that the company takes responsibility in correcting the social gap and environmental damage caused by the resulting operational activities. The more, the company performs CSR, it will raise the image of the company. Investors will be more interested in investing funds in companies that have a better image than companies that have a negative image. The firm value is usually reflected in the stock market price of the company because the investor’s assessment of the company can be seen through the movement of the company’s stock price in the stock market. This CSR relationship is supported by several researches conducted by Chiho, Louie and Choe (2010), Servaes and Tamayo (2012), Jo and Harjanto (2011), Gunawan and Utami (2008). They found that CSR affects the firm value.

The firm value can also be established through good corporate governance or often we refer to as Good Corporate Governance (GCG). The goal of GCG itself is to create addition value by taking into account all stakeholders. With this GCG, there will be alignment of interests among all stakeholders so as to reduce conflicts and company management can be in accordance with company goals, and ultimately the value of the company will also increase.

The correlation of GCG to firm value is supported by several studies. Weterings and Swagerman (2011) in his research entitled The Impact of Board Size on Firm Value: Evidence from The Asian Real Estate Industry found that there is a positive relationship between boardsize and firm value. Faqi et al in the Influence of Good Corporate Governance Mechanism on Firm Value at State-Owned Enterprise Listed in Indonesia Stock Exchange found that managerial ownership, institutional ownership, and independent commissioner influence to firm value.

While the relationship between CSR and GCG on the value of the firm is supported by the research of Jo and Harjoto (2011), it is found that the selection of CSR is positively related to internal and external Corporate Governance, then this CSR activity also positively affects the firm value. Gunawan and Utami (2008) in their research also found that corporate social responsibility, the percentage of management ownership, industry type, and variables that interact simultaneously have an effect on firm value.

2. Objectives:

Corporate Social Responsibility (CSR) is a business contribution for sustainable development, where the company does not only need to ensure shareholder returns, but also the concerns of other stakeholders. The firm value can also be established through good corporate governance or often we refer to as Good Corporate Governance (GCG). With this GCG, there will be alignment of interests among all stakeholders so as to reduce conflicts and company management can be in accordance with company goals, and ultimately the value of the company will also increase. Therefore, the objective of this study are explores the mediating roles of corporate social responsibility (CSR) on the relationship between corporate governance and firm value.

3. Research Methods:

The research employs all companies’ data which are registered in Indonesia Stock Exchange Year 2011-2015. The election period of 2008-2012 are occupied due to the application of the Constitution No.40 Year 2007, which substitutes the Constitution No.1 Year 1995 about incorporated company. The renewal constitution is employed with the purpose in supporting the application of Good Corporate Governance. Purposive Sampling is used in this research with characteristics as follow Public Company, not Bank, which is registered in Indonesia Stock exchange Year 2011-2015, public company, not Bank, which is registered in Corporate Governance Perception Index (CGPI) Year 2011—2015. Total samples are 25 public company.

It will examine the influence of a company’s Corporate Governance mechanism toward the Firm Value, Corporate Governance mechanism toward the CSR and CSR toward the Firm Value. The test uses regression as a study about the dependency between dependent and independent variable, with the intention to predict the average population or dependent variable based on the independent variable value (Gujarati: 2003).

The research model as follow:

\[ V_{firm} = \alpha + \beta_1 BD_{size} + \beta_2 GI + \beta_3 MO + \epsilon \]  \hspace{1cm} (1)

\[ CSR = \alpha + \beta_1 BD_{size} + \beta_2 GI + \beta_3 MO + \epsilon \]  \hspace{1cm} (2)

\[ V_{firm} = \alpha + \beta_1 CSR + \epsilon \]  \hspace{1cm} (3)

The CSR test as mediation variable will be done with the Path Analysis. The Path Analysis is the using of regression analysis to assess the correlation between variable causalities, which are set previously (Ghozali: 2009).
4. Analysis and Discussion:

Based on the above path analysis, there are 2 (two) correlations happened. The first correlation is the direct Corporate Governance mechanism that influence toward the Firm Value (P1), while the second correlation is the indirect influence of Corporate Governance toward Corporate Social Responsibility and will continue to Firm Value (P3). CSR has a role as mediation of influence Corporate Governance mechanism toward the Firm Value as if: Indirect influence) > Direct influence. It shows that CSR has a mediation role toward the influence of Boardsize/ Governance Index or managerial ownership toward Firm Value.

4.1. Descriptive Statistics:

Based on the sample processing of 101 data, it is delivered the average, minimum, maximum and standard deviation values on the table 4.1 below.

Table 4.1: Descriptive Analysis

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>logbsize</td>
<td>101</td>
<td>.48</td>
<td>.95</td>
<td>.7269</td>
<td>.10134</td>
</tr>
<tr>
<td>gindex</td>
<td>62</td>
<td>60.55</td>
<td>89.57</td>
<td>79.1945</td>
<td>6.65043</td>
</tr>
<tr>
<td>kpmilikan</td>
<td>101</td>
<td>.00</td>
<td>.02</td>
<td>.0008</td>
<td>.00239</td>
</tr>
<tr>
<td>csr</td>
<td>101</td>
<td>.21</td>
<td>.73</td>
<td>.5475</td>
<td>.10460</td>
</tr>
<tr>
<td>lognilai</td>
<td>101</td>
<td>-.51</td>
<td>.74</td>
<td>.0777</td>
<td>.30854</td>
</tr>
<tr>
<td>Valid N (Listwise)</td>
<td>62</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The first independent variable of the company logboardSize, which is measured with the log number of directors, has a total minimum of 0.48 and maximum of 0.95. The logboardsize average value of the company of 0.7296. It is obtained of standard deviation value of 0.10134. The standard deviation, which is smaller than average value, displays how low the variation of the company sample measurement.

The second independent variable of the company Governance Index, which is measured with CGPI, has a minimum value of 60.55 and maximum value of 89.57. It indicates that the average Governance Index that the company owned at the least of 60.55 and at the most of 89.57. The average Governance Index value the company had is of 79.1945. It is obtained the standard deviation of 6.65043. The standard deviation value that is smaller than the average value displays how low the variation of the company sample measurement.

The third independent variable of the managerial ownership percentage, it has a minimum value of 10% and maximum value of 2%. It indicates that the average managerial ownership in a company at the least of 0 and at the most of 2%. The average managerial ownership value in a company of 0.08%, it obtained a standard deviation value of 0.239%.

The fourth independent variable of Corporate Social Responsibility, which is measured by 78 disclosures, has a minimum score of 21% and maximum score of 73%. It indicates that most companies revealed their CSR activities at the least of 21% and at the most of 73% of 78 disclosure items. The average CSR disclosure value by big company is 54.75% or more over of 40 items. It is obtained the standard deviation value of 10.46%. The standard deviation, which is smaller than the average value, shows how low the variation of the company sample measurement.

For the dependent variable of company log value, which is measured using the log Tobins’Q, has a minimum value of -0.51 and maximum value of 0.74. The average company log value of 0.0777. It is obtained a standard deviation value of 0.30854. The standard deviation, which is greater than the average value, shows how high the variation of the company sample measurement.

4.2. Hypothesis Test Result:

Hypothesis in this research intends to know the role of Corporate Social Responsibility in its influence of GCG mechanism toward the Firm Value that is registered in Indonesia Stock Exchange.

The hypothesis in this research are:

H1a : Boardsize takes effect toward Firm Value.
H1b: Governance index takes effect toward Firm Value
H1c : Managerial Ownership takes effect toward the Firm Value
Based on the test result presented in table 4.2.1, it is found that the variable of the number of directors also does not affect the firm value; it is indicated by the significance value of 0.408 which is greater than 0.05, then the hypothesis H1a considered as rejected. The results of this study does not support the results of research conducted by Weterings and Swagerman (2011), and T. Einsberg et al (1998), which stated that boardsize affects the value of the company. The results of this study are in line with research conducted by Framudyo (2009) which states that the number of boards of directors has no effect on the firm value. It can be attributed that the size of the board of directors are not seen from the size of the board of directors, but it will depend on the norms and beliefs received in the organization.

From the test results in table 4.2.1 above, the governance index variables have a significance value of 0.897, greater than 0.05, so that the Governance Index does not affect the firm value, then the hypothesis H1b considered as rejected. It means whether the company is registered or not in the CGPI index, got a predicate trusted, very reliable, and quite reliable will not affect the firm value. It can be done due to the investors does not paying much attention to the information about GCG when investing in the company, so that the Governance Index, which shows the value of GCG implementation of a company does not affect the firm value. This high or low score will have no effect on firm value. It also becomes the case that not all companies listed on the Indonesia Stock Exchange are participating in the CGPI index. This CGPI index is only filled about 30-40 companies and even then not every year they participate in this index because whether by getting index CGPI or not, it will not increase their firm value.

From the test results presented in table 4.5.1, Managerial ownership variables affect the firm value of 0.023. This significance value is smaller than the specified level (sig = 0.05). Due to the value of significance is less than 0.05, it means that ownership affects the firm value, hence hypothesis H1c is accepted. The results of this study support research conducted by Weterings and Swagerman (2011), Faqi et al (2013), Retno and Priantinah (2012) which in his research stated that managerial ownership affects the Firm Value.

This Ownership variable is negatively calculated. It means that the effect is negative influence. It can be because the Corporate Governance Mechanism is not running optimally. According to the Agency Theory, the separation between ownership and company management can lead to agency conflict. The conflict of interest may harm shareholders. The purpose of this managerial ownership is to align the interests of shareholders with the management so that the agency conflict does not occur. Managerial ownership can motivate management to maximize its utility to increase the firm value.

In this study, the negative effect occurs due to the low average managerial ownership of a company, which is only 0.08%. This low ownership makes monitoring of the company's activities ineffective and there is still a difference of interest between management and the shareholders. When the stock ownership is low then there is a tendency the occurring of opportunistic behaviour of the management. This can lead to fraudulent and unethical behaviour of management that will harm shareholders. Management is more likely to perform in order for companies to run effectively and efficiently so that they get incentives / compensation for their performance in the form of bonuses, etc. Management is less likely to work maximally to increase shareholder value because the profit earned as shareholder is less than profit in the form of bonus etc. This leads to an agency conflict that can degrade the firm value. The results above are in accordance with Siallangkan and Machfoedz (2006) which suggest in his research that managerial ownership has a negative and significant effect on firm value.

The second hypothesis of the research stated:
H2a : Boardsize takes effect toward Corporate Social Responsibility.
H2b : Governance Index takes effect toward Corporate Social Responsibility
H2c : Managerial Ownership takes effect toward Corporate Social Responsibility

The hypothesis test result as follow:

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td>-0.72</td>
<td>0.512</td>
</tr>
<tr>
<td>gindes</td>
<td>-0.001</td>
<td>0.007</td>
</tr>
<tr>
<td>kpmilikan</td>
<td>-35.179</td>
<td>15.010</td>
</tr>
<tr>
<td>logsize</td>
<td>0.361</td>
<td>0.433</td>
</tr>
</tbody>
</table>

A. Dependent Variable: lognilai
Based on the test results presented in table 4.2.2, boardsize Variable Significance Value of 0.315, it is greater than 0.05, so that the boardsize variable has no effect on CSR activities of the company. Then H2a Hypothesis is considered as rejected. Whatever the number of directors will not affect the CSR activities of the company. CSR implementation is not dependent on the number of directors, but by the policies and objectives of the company in carrying out CSR activities. If the company is just doing CSR to meet the existing regulations, then the company’s CSR activities are not comprehensive. Unlike if the company really makes CSR as the company’s goal to create sustainable development, then the company will do CSR widely. In addition, the awareness of directors / managers toward the importance of implementing a CSR is also required. If the directors have awareness and awareness of social and environment, automatically CSR will be more widely executed.

Gindex variables affect the value of the company. It is due to the significance value that is less than 0.05 (gindex = 0.042), which means the Governance Index affects CSR, H2b hypothesis is accepted. The results of this study support research conducted by Jo and Harjoto (2011), it stated that the Governance Index affects Corporate Social Responsibility. It means that the greater of the governance index, the CSR is also increasingly expressed. Basic principles in the implementation of Corporate Governance consist of Transparency, Accountability, Justice and Responsibility. These four principles will form the governance index of a company. CSR is included in the principle of Responsibility which is a principle to comply with existing rules and social aspects. Companies that implement CSR broadly, then the company will also have a high Governance Index from the aspect of responsibly.

The ownership variable has a significance value of 0.000, it is smaller than 0.05, so that managerial ownership effect on CSR H2c hypothesis is accepted. Managerial ownership has a negative influence on CSR, this is because managerial ownership in Indonesia is still low, which indicated by the average value of ownership in a company of only 0.08%. In the CSR Disclosure Item, the average firm discloses 7 managerial ownership shares of 21 samples annually. This is inversely proportional to the disclosure of profit-sharing in other forms which averages 17 firms out of 21 samples annually. Therefore, there will be differences in the interests of shareholders with management. Because they do not feel like a shareholder, the managerial party will tend not to over-invest on CSR because for cost efficiency rather than conduct a broad CSR that aims to increase the value of the company and its shareholders. This is because management prefers profit sharing in other forms such as bonuses rather than using profits to fund CSR activities that are widely implemented.

The third hypothesis in this research stated that Corporate Social Responsibility takes effect toward Firm Value. The hypothesis result as follow:

Based on the result of hypothesis testing on table 4.2.3 above, it obtained significance value of 0.013, which is smaller than 0.05. It means that CSR has an effect on firm value, then the third hypothesis in this research is accepted. The results of this study support research conducted by Gunawan and Utami (2008), Jo and Harjoto (2011), Retno and Priantinah (2012) who stated that CSR affects the firm value. However, this study does not support research conducted by Ramadhani and Hadiprajitno (2012), and Mulyadi and Anwar (2012), Suhartati et al (2011) who stated that CSR has no effect on firm value. It means that by doing CSR, the company do good with care about social and environment. The good of this company is that it will certainly improve the company’s image, hence the value of the company will also increase as well. In addition CSR is financed by the
company’s earnings, so the company that performs CSR is identical with a company that has a large profit so as to be able to fund its CSR activities. Due to it is synonymous with this profitable company, then the firm value will also increase.

The fourth hypothesis in this research stated that:
H4a : CSR takes role as mediation on the effect of boardsize toward the firm value.
H4b : CSR takes role as mediation on the effect of Governance Index toward the firm value
H4c : CSR takes role as mediation on the effect of managerial ownership toward the firm value

To know about its mediation role, hence the Path analysis is done in this research. On the first hypothesis, it is found that the ownership variable itself takes effect toward the firm value, hence the ownership variable itself will be tested. Regression is done with model:

\[ V_{firm} = \alpha + \beta_1 MO + \epsilon \]  
\[ CSR = \alpha + \beta_1 MO + \epsilon \]  
\[ V_{firm} = \alpha + \beta_1 CSR + \epsilon \]  

The regression result as follow:

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficientsa</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td></td>
<td>.111</td>
<td>.031</td>
<td>3.613</td>
<td>.000</td>
</tr>
<tr>
<td>kpmilikan</td>
<td></td>
<td>-42.559</td>
<td>12.230</td>
<td>-3.480</td>
<td>.001</td>
</tr>
</tbody>
</table>

a. Dependent Variable: lognilai

<table>
<thead>
<tr>
<th>Model</th>
<th>Coefficientsa</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 (Constant)</td>
<td></td>
<td>.568</td>
<td>.009</td>
<td>64.487</td>
<td>.000</td>
</tr>
<tr>
<td>kpmilikan</td>
<td></td>
<td>-26.194</td>
<td>3.516</td>
<td>-7.449</td>
<td>.000</td>
</tr>
</tbody>
</table>

a. Dependent Variable: csr

Path Analysis is done by counting the direct and indirect effect value:
The direct effect of ownership toward value is -0.330
The indirect effect of ownership toward CSR toward value = -0.599 x 0.247 = -0.147
Total effect = -0.478

**Fig. 1:** Path Analysis

In order to test the significance indirect effect, the research uses Value T counted with the formula:

\[ a = \text{the ownership coefficient regression} \]
toward CSR = -26.194

B = the CSR coefficient regression toward
towards CSR coefficient

value = 0.728

δa = standard error a = 3.516

δb = standard error b = 0.287

\[ \delta_{a,b} = \sqrt{\delta_a^2 + \delta_b^2 + a^2 b^2} \]

\[ = 26.674 \]

\[ \frac{a \cdot b}{\delta_{a,b}} = \frac{-26.194 \times 0.728}{26.674} \]

\[ = -0.71 \]

Based on the results of the above analysis, it is obtained that the indirect effect value of (-0.147) > direct influence (-0.330). But, this indirect influence has a value of T arithmetic of -0.71. Because T Count (-0.71) > T Table is -2.576 (at 1% sig level), it can be concluded that there is no indirect effect to the firm value. At the significance level of 5%, the value of T Count (-0.71) is still greater than T table (-1.96), so the indirect effect has no significant effect on firm value. Similarly, there is no indirect influence on firm value at the level of significance of 10%, this is indicated by the value of T arithmetic (-0.71) > T Table (-1.645). So, CSR does not play a role in mediating the influence of ownership on firm value. Hence the H4c hypothesis is considered as rejected.

The results of this study are not in line with the research conducted by Retno and Priantinah (2012) which stated that GCG and CSR disclosure affect the firm value, but the research conducted by Retno and Priantinah (2012) is slightly different from this research, where CSR research is positioned as a mediation variable. The result of this research is almost similar to the research done by Dewi and Widagdo (2012) and Barbara and Utami (2008), the difference is in their research which becomes the mediation variable is GCG. In their research, they get the result that GCG does not serve as a mediating variable in the influence of CSR on firm value. Then the fourth hypothesis stated that CSR acts as mediation on the influence of corporate governance mechanisms toward the firm value is considered rejected. It can be caused due to the company is still implementing CSR only to meet the existing regulations so that the role of CSR as mediation is not running optimally. CSR is still not an essential part of the company's soul to create a sustainable company. The research results show that the level of disclosure is still relatively medium (average 40 items of 78 items). The low level of disclosure made by the company is due to the fact that the company, which practices CSR, is only to meet the rules set by the regulatory body such as the government. In addition, the company is still thinking about the amount of expenses incurred to carry out social activities and disclose them in the annual report. The condition of the shareholders in Indonesia, who are more concerned with corporate profits in investing, cause companies with broad CSR will not produce high value in the eyes of the shareholders compared with companies that generate high profits. With a broad CSR, it is necessary funds for CSR activities that it will reduce the corporate profits. The company still has the view that the activities and disclosure of social responsibility have no role for the creation of long-term firm value so that CSR activities are not done optimally so that the role of CSR as mediation does not implemented.

**Conclusion:**

This study examines the effect of Corporate Governance and Corporate Social Responsibility on Firm Value. The Corporate Governance mechanism is measured using Governance Index Variables, managerial share ownership, and Board Size. The results of this study can be concluded that: In order to increase the Firm Value, the company must implement the Good Corporate Governance (GCG). It encourages and supervises the management’s work to achieve corporate and shareholder objectives. GCG is represented by managerial ownership variables that have an effect on the Firm Value, while either the number of directors and Governance Index don’t. The effect that occurs on the ownership variable is the negative effect. At a time when managerial ownership increases but does not increase the Firm Value, due to low managerial ownership. While the stock ownership is low, there is a tendency for opportunistic management to occur. This can lead to fraudulent and unethical behaviour of management that will harm the shareholders. Management is more likely to perform in order for companies to run effectively and efficiently so that they get incentives / compensation for their performance in the form of bonuses, etc. Management is less likely to work to maximize its utility to increase shareholder value. This leads to agency conflicts that can degrade corporate value. This can also be attributed to a sense of company ownership not being formed because governance mechanisms are not running optimally.
The Corporate Governance mechanism also affects The Corporate Social Responsibility. The variables that influence are Governance Index and ownership. Governance Index positively affects CSR. This is the greater the value of Governance Index, then the company will also be more extensive doing CSR. This is because one aspect of the score assessment of the Governance Index is the aspect of responsibility so that to achieve a high Governance Index the company can conduct a broad CSR. While the ownership variables have a negative effect on the value of the company. This can be attributed to the low share ownership by the directors or managerial so that the lack of ownership of the company. Because they do not feel as shareholders, the managerial side will tend not to over-invest in CSR because for cost efficiency compared to CSR activities aimed at increasing the value for shareholders and company prefer to gain profits in other forms than the increase in stock prices because of the profits in The form of shares received by management is not great. When doing CSR then the profit / profit of the company will be reduced to fund CSR so that profit sharing on management will be less.

Corporate Social Responsibility affects the value of the company. It means that by doing CSR will significantly affect the increase of Firm Value. It can be caused because by doing CSR the company will get a positive response from stakeholders so that will raise the image of the company that will eventually increase the value of the company.

Corporate Social Responsibility does not act as a mediating variable in relation to corporate governance mechanisms to company value. It means that CSR does not act as a variable that will strengthen corporate governance mechanisms in that creating the value of the company. This variable of corporate governance mechanism is measured using managerial ownership. CSR as mediation is not running optimally because the company is running CSR only to meet the existing regulations. Companies have not made CSR as the company's main strategy to create long-term sustainability.

REFERENCES