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## The Influence of Good Corporate Governance (GCG), Profitability and Corporate Social Responsibility (CSR) on Company Value: Literature Review

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Received: August, 2024; Accepted: August, 2024; Published: November, 2024  
Permalink/DOI:

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### Abstract

Good Corporate Governance (GCG), profitability, and Corporate Social Responsibility (CSR) are three important aspects in modern company management. GCG emphasizes transparency, accountability and fairness in decision making and company management. Profitability refers to a company's ability to generate profits. CSR refers to a company's commitment to providing a positive impact on society and the environment.

The Literature Review article on the influence of GCG, profitability and CSR on company value is a scientific article which aims to build a research hypothesis on the influence between variables that will be used in further research. The method for writing this Literature Review article is the library research method, which is sourced from online media such as Google Scholar, Mendeley and other academic online media. The results of this literature review article are: 1) GCG influences company value 2) Profitability influences company value 3) CSR influences company value.

**Keywords:** *Good Corporate Governance, Profitability, Corporate Social Responsibility, Company Value.*

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### INTRODUCTION

#### Background of the problem

As companies develop to help improve the economy in Indonesia, they often require good corporate governance or can be referred to as Good Corporate Governance, hereinafter written as GCG, in increasing company value but not only focusing on financial aspects. As competition between companies increases in achieving a good corporate image, companies are required to be able to create value in attracting the attention of the public and investors. In the book *Good Corporate Governance A Review of Ethics in Business Practices*, Hamdani (2016:20) in Fajri (2018) defines GCG as a system that directs and controls a company. This definition shows that GCG can function to build trust, establish cooperation, and create a shared vision between all parties involved in the company so that agency problems can be anticipated. Corporate Social Responsibility, hereinafter written as CSR, is an effort by a company to improve its image in the eyes of the public by creating

charity programs both external and internal. External program by implementing partnership (Partnership) involving all stakeholders (stakeholders) to show the company's concern for the community and surrounding environment. Meanwhile, internally it is able to produce well, achieve maximum company profits and improve the welfare of its employees (Ahmad Lamo Said 2018:23).

High profitability can indicate that the company is able to generate more profits. In other words, companies are able to strengthen their social responsibility activities and disclose their social responsibilities in their annual reports (Kalsum, 2017). In accordance with research by Anggasta and Suhendah (2020), which shows that profitability has a significant positive effect on company value. In addition, supported by Monalisa (2019), profitability calculated using the return on assets formula shows a significant and positive influence on company value. With this evaluation, it is hoped that the company can increase shareholder value because many investors choose to invest when the company is profitable.

In Indonesia, the government mandates companies to carry out CSR as stated in article 74 paragraph (1) of Law Number 40 of 2007 concerning limited liability companies (UU PT) which states "Companies that carry out their business activities in the field of and/or related to natural resources are obliged to carry out Social and Environmental Responsibility". This issue regarding CSR was strengthened by the issuance of regulation of the Minister of Environment of the Republic of Indonesia Number 3 of 2014 concerning the Company Performance Rating Assessment Program in Environmental Management. In this way, it is hoped that companies can actively participate in managing a good environment.

Based on the background, problems can be formulated that will be discussed in order to build hypotheses for further research, namely:

- 1) Does Good Corporate Governance (GCG) affect company value?
- 2) Does profitability affect company value?
- 3) Does Corporate Social Responsibility (CSR) affect company value?

## **Literature review**

### **Agency Theory or agency theory**

Agency theory or agency theory is a theory that explains the relationship between the owners of a company (shareholders or stakeholders) and the administration or management. According to Scott, 2015, the concept of Agency Theory is a bond or commitment that occurs between the principal and the agent. The principal is the party who has the authority to give obligations to the agent to carry out tasks for the principal's needs, while the agent is the party implementing the principal's own needs. Agency theory can be divided into two theories: legitimacy theory and stakeholder theory. Legitimacy theory is based on a social contract between the organization and the community, and there must be organizational goals that are consistent with the values held in society (Ratmo & Sagala, 2015). Stakeholder theory is management's reaction to the existing business environment (Laplume, Sonpar, and Litz, 2008). Therefore, companies should strive to maintain relationships with their stakeholders, taking into account their wants and needs. Moreover, unlike those who have control over the availability of

resources used in the company's operational activities, such as: Workers, Customers and Owners (Ghozali and Chariri, 2007).

#### **Good Corporate Governance (GCG)**

Good Corporate Governance is the principles that underlie a company management process and mechanism based on statutory regulations and business ethics. The meaning of GCG is none other than business management that involves stakeholders and the use of resources based on the principles of justice, efficiency, transparency and accountability (Wardani, 2010) in Dewi, et al (2018). According to the National Governance Policy Committee, there are several basic principles of Corporate Governance that are good to apply, namely information disclosure, accountability, independence, responsibility, fairness and equality. Apart from that, according to Halim & Christiawan (2017) there are four benefits from implementing corporate governance, namely creating a better decision-making process, increasing company operational efficiency, providing cheaper and less rigid financing, restoring investor confidence in investing their capital, and benefiting all shareholders. shares through increased dividends. Satisfied with the company's performance.

#### **Profitability**

Profitability is a ratio measure used to measure the effectiveness of overall business management, which is indicated by small or large profits from sales or investment relationships (Suryana & Islami, 2018). According to Brigham & Dave (2012), there are five measures of profitability, namely: gross profit margin, net profit margin, return on investment, return on equity, and earnings.

Profitability refers to a company's ability to generate profits. High profitability can attract investors and increase company value. The company's ability to generate sustainable profits shows that the company has good prospects and can provide added value for investors. All companies try to increase their company's profitability because by getting large profits, it will affect the level of the company's ability to distribute dividends which will also have an impact on increasing company value (Kasmir, 2014).

#### **Corporate Social Responsibility (CSR)**

The definition of CSR according to Keinert (2008: 39) CSR is an idea that aims to develop relationships between business and the surrounding community at large and to redefine the role and obligations of private business in society, if deemed necessary. In September 2004, ISO (International Organization for Standardization), the parent organization for international standardization, took the initiative to invite various parties to form a team (working group) which pioneered the formation of guidelines and standardization for social responsibility which was named ISO 26000: Guidance Standard on Social Responsibility. With ISO 26000, it is hoped that organizations will provide additional value to currently developing social responsibility activities by: 1) Developing a consensus on the meaning of social responsibility and its issues. 2) Providing guidance on translating principles into effective activities and 3) Selecting best practices that have been developed and disseminated for the good of the international community or society. (<https://isoindonesiacenter.com>).

### **The value of the company**

Company value is the view given by investors regarding the level of success of a company which is often linked to share prices so that it can increase the quality and trust of shareholders. Share prices are an important source of information for shareholders. The higher the price of shares owned by a company, the higher the prosperity and welfare of its shareholders. Companies with high share prices increase company value and increase market share confidence in company performance. The profitability value shows the level of profit and efficiency of the company in good condition and shows that the company value is at a high level so that it can attract investors' interest in investing their capital in the company.

### **Journal Review**

**Table 1. Review of previous research**

<b>Author (Year)</b>	<b>Research Title</b>	<b>Previous Research Results</b>	<b>Similarities to this article</b>	<b>Differences with this article</b>
Henryanto Wijaya, Delvinia Regina T, Hadi Cahyadi (2021)	Factors That Influence Company Value	that Profitability shows a negative and insignificant influence on company value, leverage shows a negative and insignificant influence on company value, that (CSR) has an insignificant negative influence on company value. The test results show that (CSR) weakens the influence of Profitability on company value and (CSR) weakens the influence of Leverage on company value.	Profitability CSR The value of the company	There is variable leverage

Vindy Rizky Istigfari, Vinola Herawaty (2023)	The Influence of GCG, CSR, and Leverage on Company Value with Profitability as a Moderating Variable	GCG has a positive influence on company value, CSR has a negative influence on company value, and leverage has a positive influence on company value. Meanwhile, profitability tends to weaken because moderator variables weaken Good Corporate Governance on company value.	GCG; CSR; profitability; The value of the company	Leverage;  Profitability as a moderator variable
Edy Supriyono (2023)	The Influence of <i>Good Corporate Governance</i> and Disclosure of <i>Corporate Social Responsibility</i> on Company Value	The research results explain that GCG and CSR influence company value. Meanwhile, other GCG variables, namely managerial ownership and independence of the board of commissioners, have no effect on company value	GCG; CSR; The value of the company	There is no profitability variable
Hosam Alden Riyadh, Maher A. Al- Shmam	Corporate Social Responsibility And GCG Disclosure On	The results of this research show that CSR influences company value,	CSR, GCG, Company Values Profitability	Profitability and CSR as moderating variables

(2022)	Firm Value With Profitability	and managerial ownership influences company value. Meanwhile, GCG as measured by institutional ownership has no effect on company value. In addition, profitability can moderate CSR and managerial ownership, but profitability cannot moderate institutional ownership.		
Ardhi Aristo Alfarisi, Bambang Setyobudi Irianto, (2021)	The Influence of GCG on Company Value Mediated by CSR and Profitability in Banking Companies	GCG has a positive and significant effect on CSR, CSR has a positive and significant effect on profitability, profitability has a positive and significant effect on company value and GCG has a positive and significant effect on company value.	GCG, CSR, Profitability, company value	CSR and Profitability as mediating variables
Armi Sulthon Fauzi, Ni Ketut Suransi	The influence of GCG and CSR on company	GCG, CSR and Profitability have an effect on company	GCG, CSR, Profitability, company value	Profitability as a moderating variable

	<p>value with <i>profitability</i> as a moderating variable</p>	<p>value, partially the CSR variable has an effect on company value, the GCG variable shows a negative effect on company value, the Profitability variable has no effect on company value, the interaction variable Profitability with CSR has a negative effect on company value which means that Profitability is moderating variable which weakens the relationship between CSR and company value, the interaction variable ROA with GCG has a significant effect on company value, which means ROA is a moderating variable which strengthens the relationship between GCG and company value</p>		<p>ROA</p>
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Mefriyudi Wisra, Silvia Rizli (2023)	The Influence of GCG, CSR, and Leverage on Company Value with Profitability as a Moderating Variable	GCG has a positive influence on company value, CSR does not have a negative influence on company value, and leverage has a positive influence on company value. Meanwhile, profitability does not have a moderating variable influence that weakens Good Corporate Governance on company value.	GCG, CSR, Leverage, profitability, company value.	Variable leverage, Profitability as a moderating variable
Saparila Worokinasih, Muhammad Lutfi Zuhdi (2020)	The Mediating Role of Corporate Social Responsibility (CSR) Disclosure on Good Corporate Governance (GCG) and Firm Value. A Technical Note	GCG has a positive and significant effect on Company Value, GCG has a negative and significant effect on CSR. CSR does not have a significant effect on Company Value	CSR, GCG, company values	CSR as a mediating variable  There is no profitability variable
Yunindra AE, Tamrin H (2022)	The Influence of <i>Good Corporate Governance</i>	(GCG) and (CSR) influence company value	GCG, CSR, Company Values	There is no profitability variable



	<i>And Corporate Social Responsibility for Values Company</i>			
Tarmadi Putri, Mardenia L (2019)	The influence of <i>Good Corporate Governance, Corporate Social Responsibility</i> and company size Towards Company Value	GCG has a positive effect on company value, profitability and CSR have no effect on company value, while company size has a negative effect on company value.	Company Value, Company Size, Good Corporate Governance, Corporate Social Responsibility,	There is a variable company size

Source: Processed by Researchers, 2024

## **METHOD**

The method for writing this Literature Review article is the descriptive qualitative method and library research, sourced from the online application Google Scholar, Mendeley and other online applications. This literature review article uses writing data sources that are limited to a 5 year time span, namely between 2019 and 2024.

## **RESULTS AND DISCUSSION**

Based on theoretical studies and relevant previous research, the discussion of this literature review article in the financial concentration is:

### **The Influence of GCG on Company Value**

According to Vindy Rizky Istigfari, Vinola Herawaty (2023), Edy Supriyono (2023), Ardhi Aristo Alfarisi (2021), Bambang Setyobudi Irianto (2021), Mefriyudi Wisra, Silvia Rizli (2023), Saparila Worokinasih, Muhammad Lutfi Zuhdi (2020), Yunindra AE, Tamrin H (2022) and Tarmadi Putri, Mardenia L (2019), the results of their research show that GCG influences company value. However, the results differ from research conducted by Hosam Alden Riyadh, Maher A. Al-Shmam (2022) that GCG as measured by institutional ownership has no effect on company value when profitability is a moderating variable. Meanwhile, research results according to Armi Sulthon Fauzi and Ni Ketut Suransi show that GCG has a negative effect on company value.

### The Influence of Profitability on Company Value

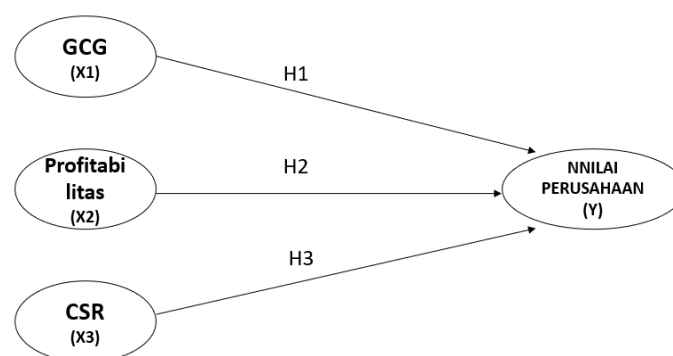
According to Ardhi Aristo Alfarisi, Bambang Setyobudi Irianto (2021) and Armi Sulthon Fauzi, Ni Ketut Suransi (2019), research results show that profitability has a positive effect on company value, but this is different from other researchers such as Henryanto Wijaya, Delvinia Regina T, Hadi Cahyadi (2021) research results show that Profitability shows a negative and insignificant influence on company value, especially when CSR is a mediator variable, the results show that (CSR) weakens the influence of Profitability on company value. And research results according to Hosam Alden Riyadh, Maher A. Al-Shmam (2022) profitability can moderate CSR and firm value.

### The Influence of CSR on Company Value

According to Yunindra AE, Tamrin H (2022), and Edy Supriyono (2023) as well as Armi Sulthon Fauzi, Ni Ketut Suransi, the research results show that CSR has a positive and significant effect on company value. However, it is different according to Henryanto Wijaya, Delvinia Regina T, Hadi Cahyadi (2021), in the title Factors that Influence Company Value, also the results of Vindy Rizky Istigfari, Vinola Herawaty (2023) that (CSR) has an insignificant negative effect on company value. Also different from the research results from Tarmadi Putri, Mardenia L (2019), CSR has no effect on company value. And when profitability is placed as a mediator, the research results show that profitability does not have a moderating variable influence that weakens Good Corporate Governance on company value, according to research results from Mefriyudi Wisra, Silvia Rizli (2023). In contrast to research from Armi Sulthon Fauzi, Ni Ketut Suransi (2019), when profitability moderates CSR and company value, the results have a negative effect, which means that profitability is a moderating variable that weakens the relationship between CSR and company value.

### Conceptual Framework

Based on the problem formulation, theoretical studies, relevant previous research and discussion of the influence between variables, the framework for this article is as follows:



**Figure 1. Theoretical Framework**  
Source: Processed by Researchers, 2024

The following is a description of each relationship between variables:

H1: GCG has a positive influence on company value

H2: Profitability has a positive influence on company value.

H3: CSR has a positive influence on company value.

It is recommended that for further research, relevant articles can be formulated, hypotheses for further research can be formulated: GCG influences company value; Profitability influences company value; CSR influences company value.

## **CONCLUSION**

Conclusion Based on theory, relevant articles, and discussions that have been carried out, it can be concluded that three main factors, namely Good Corporate Governance (GCG), Profitability, and Corporate Social Responsibility (CSR) have a significant influence on company value. Therefore, companies need to focus on improving GCG practices, increasing profitability, and investing in CSR activities to increase overall company value.

## **ACKNOWLEDGEMENT**

I would like to express my gratitude to all those who have helped me during the writing of this article. And thanks to my two beloved children who always give me prayers and strength and support me without a word of complaint.

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