research parks publishing

International Journal on Economics, Finance and Sustainable Development (IJEFSD)

Volume: 6 Issue: 10 | October 2024

https://journals.researchparks.org/index.php/IJEFSD

p-ISSN: 2615 – 4021

e-ISSN: 2620 – 6269

Article

Contemporary Financial Management. Systematic Literature Review (SLR)

Budi[1], Samuel Felix[2*]

2. Universitas Katolik Widya Mandala Surabaya, Indonesia
* Correspondence: managedoctor.samuel.f.23@ukwms.ac.id

Abstract: This study presents a systematic literature review (SLR) focusing on the interplay between Good Corporate Governance (GCG), Corporate Social Responsibility (CSR), and their impact on financial performance and firm value. The primary objective is to examine how GCG and CSR practices influence company outcomes, particularly in the context of long-term sustainability and competitive advantage. The research methodology involves the collection and analysis of articles from national and international journals using keywords related to corporate management, financial performance, and CSR. The findings demonstrate a positive correlation between GCG, CSR, and firm value, with financial performance acting as a moderating factor. Companies that adopt robust governance and social responsibility practices tend to exhibit stronger financial outcomes and higher firm value. However, the study also identifies gaps in existing literature, particularly in the consistency of measurement techniques and the need for more research in developing countries. This research provides valuable insights for business practitioners and scholars, emphasizing the importance of integrating ethical practices with corporate management to enhance competitiveness and sustainable growth.

Keywords: Financial Performance, Firm Value, Good Corporate Governance, Corporate Social Responsibility, Management.

Citation: Samuel Felix. Contemporary Financial Management. Systematic Literature Review (SLR). International Journal on Economics, Finance and Sustainable Development (IJEFSD) 2024, 6(10), 253-259

Received: 10th Agst 2024
Revised: 11th Sept 2024
Accepted: 24th Oct 2024
Published: 27th Oct 2024

Copyright: © 2024 by the authors. Submitted for open access publication under the terms and conditions of the Creative Commons Attribution (CC BY) license (https://creativecommons.org/licenses/by/4.0/)

1. Introduction

Every organization aims to remain attuned to market trends and external requirements in the dynamic landscape of business. Heightened competition compels firms to cultivate a favorable image and perception among all stakeholders. A key objective in business management is to enhance the value of the enterprise, as indicated by the share price. An increase in a company's value can yield maximum wealth for shareholders when the share price rises. Consequently, a higher share price correlates with greater company value. The firm's value is essentially the amount that prospective buyers are prepared to invest. Business leaders are striving to boost competitiveness across various sectors to draw in investors. An increase in firm value serves as a positive indicator of the company's performance, signaling favorable prospects to investors. However, focusing solely on the interests of capital owners can result in social disparities and environmental degradation.

One significant factor influencing a company's value is Good Corporate Governance (GCG). Corporate governance encompasses the systems and practices that guide and regulate an organization, including the allocation of rights and responsibilities among its stakeholders. Effective corporate governance can facilitate the alignment of stakeholder interests and enhance the financial performance of the company. In the UK, robust corporate governance positively affects the financial outcomes of businesses.

Corporate Social Responsibility (CSR) encompasses the initiatives undertaken by an organization to enhance socio-economic welfare beyond mere profit generation. A company that prioritizes the interests of all stakeholders while acting in a socially responsible manner is likely to achieve long-term success. CSR is fundamentally about the obligation of businesses to promote sustainable development by taking into account the social, environmental, and economic consequences of their operations.

The establishment of Good Corporate Governance (GCG) serves as the cornerstone of effective corporate governance, while Corporate Social Responsibility (CSR) underpins the organization's engagement with environmental and community issues. This engagement is guided by principles such as transparency, responsibility, accountability, independence, fairness, and equality. A company's value is enhanced when it is managed effectively. Sound management practices can lead to increased profitability and a reduction in the risk of losses, thereby elevating the company's value over time.

The ongoing commitment to social responsibility is integral to the endeavor of enhancing value. The organization aspires that through the adoption of corporate social responsibility initiatives, it will achieve social legitimacy and sustain its financial growth over an extended duration. By fulfilling its corporate obligations, the company anticipates a favorable reaction from both investors and the community, which will contribute to the enhancement of its overall value. The implementation of corporate social and environmental responsibility is actively pursued.

Sustainable economic development aimed at enhancing both the quality of life and the environment yields advantages for local communities and society at large, in addition to benefiting the company itself. This approach fosters a harmonious, balanced, and purposeful relationship with the environment, as well as with the values, standards, and culture of the local community. The significance of effective corporate governance through Corporate Social Responsibility (CSR) is evident in its influence on external stakeholders, including investors and the community. This research aims to examine the effects of Good Corporate Governance (GCG) and CSR on financial performance and the overall value of the firm by conducting a thorough review of existing literature.

The strategy for article retrieval employs the eresources database, encompassing both national and international journals, utilizing keywords to locate articles related to financial performance, corporate values, corporate governance, social responsibility, and corporate management. This research aims to yield important practical insights, highlighting the necessity for business practitioners to comprehend how Good Corporate Governance (GCG) and Corporate Social Responsibility (CSR) impact financial performance and firm value.

2. Materials and Methods

Agency Theory

Jensen and Meckling describe agency theory as a contractual arrangement involving one or more contracts, wherein an individual is entrusted with decision-making authority to act on behalf of another party. Ross elaborates on this by defining an agency relationship as one in which an agent is designated to represent another party, known as the Principal, who holds shares in a company. According to Eisenhardt, agency theory rests on several foundational assumptions, including those related to human behavior, organizational dynamics, and the nature of information.

Michael Johnson's interpretation of agency theory posits that corporate managers serve as agents for shareholders, often prioritizing their own interests over the prudent and equitable treatment of shareholders. As the concept evolved, agency theory became increasingly relevant to contemporary practices and garnered significant attention. The

principles of advanced governance are rooted in agency theory and are executed in strict adherence to various standards and regulations.

Good Corporate Governance (GCG)

Good Corporate Governance (GCG) refers to the collaborative efforts of a company's various departments aimed at ensuring the organization's success. It focuses on enhancing standards in accordance with a code of ethics and reinforcing the company's dedication to generating long-term value for shareholders, while also considering the interests of other stakeholders. The organizational structure employed by the company includes the General Meeting of Shareholders (GMS), Commissioners, Directors, and capital owners. Stakeholders encompass those who hold shares in state-owned enterprises (BUMN), which may include shareholders, employees, and other parties. The adoption of Good Corporate Governance (GCG) serves as a mechanism to enhance business value, boost competitiveness, and promote sustainable long-term growth, thereby fostering trust among stakeholders (Arif, 2020). GCG is a fundamental component of the market economy system and is intrinsically linked to the level of trust in both the companies that practice it and the overall business environment within a country. The implementation of GCG promotes healthy competition and a favorable business climate. Consequently, the adoption of GCG by companies in Indonesia is vital for supporting sustainable economic growth and stability, while also aiding the government's initiatives to uphold good corporate governance practices throughout the nation.

The Independent Board Of Commissioners

The independent board of commissioners is characterized as individuals who do not have any affiliations with the primary shareholder. Independent commissioners are those who are external to the organization. The ratio of independent commissioners is calculated by determining the number of independent commissioners as a percentage of the overall total of a company's directors.

Audit Committee

The audit committee is a committee created by the board of directors and is accountable to the board. Its primary function is to guarantee that the principles of effective corporate governance, especially transparency, are consistently and properly implemented by management. According to the Indonesia Stock Exchange (IDX), the audit committee is constituted by the company's board of directors, with its members being appointed and removed by the board in accordance with the directors' responsibilities in managing the company.

Board of Commissioners

The board of commissioners serves as a critical indicator of a company's success, as it guarantees management accountability in corporate strategy, oversight, and operational efficiency. This board plays a vital role in the implementation of good corporate governance (GCG). The relationship between board size and firm value presents varied outcomes. The composition of the board of commissioners may significantly influence the effectiveness of management oversight. When the management team is effectively supervised and guided by the board of commissioners, the company's profitability is likely to increase, subsequently enhancing the share value, which is indicative of the company's overall worth (Yusmaniarti et al., 2020).

The board of directors comprises individuals who, alongside their fellow members, make essential decisions and take necessary actions. This board is tasked with executing the policies and strategies sanctioned by the board of commissioners, maintaining the organizational framework, and ensuring that the delegation of authority is conducted efficiently

Return on Assets (ROA)

Return on Assets (ROA) is a key financial metric utilized to assess a company's performance. It is derived by dividing the net profit generated by the company by its total assets. The resulting ROA figure serves as a standard for evaluating how effectively a company manages its assets. A higher ROA indicates superior asset management, which is likely to enhance profitability and foster company growth

Research Methods

The approach employed in composing this article is based on the Systematic Literature Review (SLR) methodology. SLR encompasses various activities, including the collection of literature data, methods for reading and documenting findings, and the organization of research materials, all aimed at addressing specific issues through the examination of previously conducted journal reviews. The SLR method serves to identify, assess, evaluate, and interpret existing research outcomes to effectively respond to the established research question. The steps involved in the Systematic Literature Review include the classification, identification, collection, and analysis of research findings concerning the implementation of business ethics and Good Corporate Governance (GCG) in relation to the financial performance of conventional banking online applications, utilizing platforms such as Google Scholar, Mendeley, and other online resources. Initially, a review of relevant journals pertaining to the subject matter was conducted with the assistance of two websites: https://www.connectedpapers.com/. Subsequently, searches for journals were initiated using predetermined keywords associated with the research topic.

This Literature Review article relies on data references from publications within the last five years. The presentation phase is then executed to investigate three key aspects of this research: the purpose/background, methodologies, and findings related to the influence of good corporate governance and Customer Social Responsibility on Company Value. The objective is to delineate significant findings pertinent to this topic, ultimately leading to recommendations for future research endeavors by other scholars. The research process is visually represented in Figure 1.

Figure 1. SLR Process Flow

Research GAP

a) Diverse measurements:
   i. Lack of consensus in measuring GCG, CSR, and firm value variables.
   ii. This leads to difficulties in comparing research results from different studies.
   iii. Development of more standardized and valid measurement instruments is needed.
b) Limited research context:
   i. Most studies focus on companies in developed countries.
   ii. Research on companies in developing countries is minimal.
   iii. Required research more Further research is needed on how GCG and CSR affect firm value across different cultural and economic contexts.
c) Mechanisms that are not yet clear:

i. It remains unclear how exactly GCG and CSR affect firm value.
ii. Further research is needed to identify the mechanism underlying the relationship between the three variables.
iii. This research could use both qualitative and quantitative methods to dig deeper into this complex relationship.

d) The role of stakeholders:
i. There is a lack of research that considers the role of stakeholders in the relationship between GCG, CSR, and firm value.
ii. Research is needed to understand how stakeholder expectations and perceptions influence the effectiveness of GCG and CSR.
iii. This research can involve various stakeholders, such as shareholders, employees, customers and the community.

e) Long-term impact:
i. Most studies focus on the short-term impact of GCG and CSR on firm value.
ii. Further research is needed to understand the long-term impact of these practices.
iii. This research can use panel data or longitudinal studies to track changes in firm value over time.

f) Moderation and mediation:
i. There are still few studies that examine moderator and mediator variables in the relationship between GCG, CSR, and firm value.
ii. Required research to identify factors that can strengthen or weaken the relationship between the three variables.
iii. This research can use various statistical analysis techniques to test hypotheses about moderation and mediation.

g) Theory integration:
i. Most studies use one theory to explain the relationship between GCG, CSR, and firm value.
ii. Research that integrates multiple theories is needed to provide a more comprehensive understanding of this complex relationship.
iii. Research This can use approach multi-theoretical approach to incorporate perspectives from different disciplines.

h) Practical implications:
i. Lack of research that translates research findings on GCG, CSR, and firm value into practical implications for managers and other stakeholders.
ii. Research is needed to develop guidelines and recommendations that can assist companies in implementing effective GCG and CSR practices to increase firm value.
iii. This research could involve collaboration between academics and practitioners to ensure that the research findings are relevant and actionable.

3. Result and Discussion

Research shows that GCG and CSR have a significant influence on the value of company performance, according to data from this table (90 percent). Many regions are forced by globalization and competition to prioritize values that promote human welfare and progress in the economic, social, and political spheres in accordance with environmental developments in business and business activities. As measured by appropriate metrics, corporate social responsibility and good corporate governance are critical to corporate profitability (financial statements), as well as overall corporate performance.

Researchers observed that every country needs a business entity to manage its potential, as the economy has been sluggish during COVID-19. Every business strives to achieve superior performance. Superior performance is closely related to the welfare of its employees and even society in general. However, in practice, there are still many companies in Indonesia that lack the initiative and motivation to improve their performance through the implementation of good governance principles and disclosure of environmental issues.

According to the above research described, stakeholders believe that disclosing their performance means announcing good news to the market, which is consistent with the discretionary disclosure theory. As a form of management For a healthy company, good corporate governance can safeguard the interests of both shareholders (the general public) and creditors (the company's external financiers). Good corporate governance includes protecting the interests of shareholders as well as creditors, and ensuring that corporate objectives are met.

Business activities that perform well in terms of environmental performance should disclose more information about environmental quality and quality than businesses that perform poorly in terms of environmental quality and quality. Environmentally sound businesses believe that disclosure of their performance benefits market participants. Finally, businesses that perform well in terms of environmental performance are required to disclose more information about environmental quality and conditions than businesses that perform poorly or underperform. Harmonizingly, it emphasizes that even CSR can build a positive image of the company and advance the value of the company.

Based on performance research, the environment has a positive effect on financial performance. The board of directors (DD), board of commissioners (DK) and managerial ownership (KM) also affect firm value, while institutional ownership and corporate social responsibility (CSR) have no effect (Setiarini et al., 2020). Therefore, researchers emphasize that the influence of GCG and CSR can improve company performance both proxied by other variables and standing as the dependent variable.

4. Conclusion

Based on the data found above, research results show that around 90% of scientific studies report that GCG and CSR have a vital effect on the performance value of a company. In addition, as a form of good corporate management, shareholders (the general public) and creditors (investors outside the company) can rely on GCG to safeguard their best interests. Environmentally conscious companies and businesses that believe in disclosing their performance benefit market participants. In addition, environmentally responsible businesses are required to disclose additional information about the quality and condition of the environment through their CSR programs. As a proxy or dependent variable, according to researchers, the impact of GCG and CSR on firm performance can be significant.

Research on GCG, CSR, and firm value is still growing. The research gaps identified above provide ample opportunities for researchers to gain a deeper understanding of the complex relationships between the three variables and to develop practical implications that benefit companies and other stakeholders.

REFERENCES

[1] Aprila, N.W., Suryandari, N.N.A., & Susandy, P.G.B.A. (2022). The Effect Of Good Corporate Governance On Corporate Financial Performance: Evidence From Banking Companies Listed On The IDX From 2014-2018. Journal Of ATTITUDE.

[2] Aras, G., & Crowther, D. (2008). Governance and sustainability: An investigation into the relationship between corporate governance and corporate sustainability. Management Decision, 46(3), 433-448.

[3] Bassen, A., & Kovács, A. M. (2008). Environmental, social and governance key performance indicators from a capital market perspective. Zeitschrift für Wirtschafts-und Unternehmensethik, 9(2), 182-192.

[4] Damayanti, G. A. E. (2019). Factors Affecting Company Value In Manufacturing Companies In Indonesia: The Influence Of CSR, GCG, And Foreign Ownership. E-Journal Of Accountancy, Udayana University.

[5] Hadyan, M. (2021). The Effect Of Good Corporate Governance On The Financial Performance Of Banking Companies: An Analysis From Various Ownership Structures And Governance Mechanisms. Competitive Accounting Journal.

[6] Jamali, D., Safieddine, A. M., & Rabbath, M. (2008). Corporate governance and corporate social responsibility synergies and interrelationships. Corporate Governance: An International Review, 16(5), 443-459.

[7] Kurnia, A., & Wirasedana, P. (2018). The Influence Of Environmental Performance And Good Corporate Governance Components On The Value Of Companies Listed On The IDX. E-Journal Of Accountancy, Udayana University.

[8] Mallin, C. (2006). Corporate governance and social responsibility. Journal of Business Ethics, 68(4), 359-378.

[9] Nafiul Qohar, M. H., & Irianto, G. (2024). The Influence Of Corporate Social Responsibility (CSR), Good Corporate Governance (GCG), And Intellectual Capital On Company Value In Oil Palm Plantation Companies Listed On The IDX. E-Journal Of Accountancy, Udayana University.

[10] Ntim, C. G. (2016). Corporate governance, corporate health accounting, and firm value. Corporate Governance: The International Journal of Business in Society, 16(6), 920-942.

[11] Okoye, A. (2009). Theorizing corporate social responsibility as an essentially contested concept: Is a definition necessary? Journal of Business Ethics, 89(4), 613-627.

[12] Purawan, N. M. D. (2020). The Effect Of Corporate Social Responsibility Disclosure On Company Value With Environmental Performance As Moderator In Oil Palm Plantation Sector Companies Listed On The IDX For The Period 2014-2018. E-Journal Of Accountancy, Udayana University.

[13] Putra, I. B. A., & Astika, I. B. P. (2019). The Effect Of Corporate Social Responsibility Disclosure On Company Value With Liquidity As A Moderating Variable. E-Journal Of Accountancy, Udayana University.

[14] Rezaee, Z. (2009). Corporate governance and ethics. John Wiley & Sons.

[15] Rizki, D.A., & Wuryani, E. (2021). The Influence Of Good Corporate Governance On The Financial Performance Of Banking Companies Listed On The IDX Year 2014-2018: An Empirical Study Using Panel Data Analysis Methods. E-Journal Ma.

[16] Sabatini, C., & Sudana, I. P. (2019). The Effect Of Corporate Social Responsibility Disclosure On Firm Value With Earnings Management As A Moderating Variable. E-Journal Of Accountancy, Udayana University.

[17] Scholtens, B., & Kang, F. C. (2013). Corporate social responsibility and earnings management: Evidence from Asian economies. Corporate Social Responsibility and Environmental Management, 20(2), 95-112.

[18] Susanti, G. A. M. R. (2019). The Effect Of Corporate Social Responsibility Disclosure And Profitability On Company Value In Mining Companies Listed On The IDX For The Period 2015-2017. E-Journal Of Accountancy, Udayana University.

[19] Uadiale, O. M., & Fagbemi, T. O. (2012). Corporate social responsibility and financial performance in developing economies: The Nigerian experience. Journal of Economics and Sustainable Development, 3(4), 44-55.

[20] Waddock, S. A., & Graves, S. B. (1997). The corporate social performance-financial performance link. Strategic Management Journal, 18(4), 303-319.

[21] Wijaya, P. I., & Wirawati, N. G. P. (2019). Good Corporate Governance As A Moderator Of The Effect Of Profitability And Corporate Social Responsibility On Company Value. E-Journal Of Accountancy, Udayana University.