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by Nila Tristiarini

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Nila Tristiarini
St. Dwiarso Utomo
Faculty of Economics and Business, Universitas Dian Nuswantoro, Semarang – Indonesia
nila.tristiarini@dsn.dinus.ac.id ; Phone: +628112722748

ABSTRACT

This research is aimed at providing an empirical evidence of the capability of risk to mediate the relationship between corporate reputation and market value. The samples of the research are firms listed in CGPI ranking conducted by The Indonesia Institute for Corporate Governance and firms that report their corporate social responsibility implementation in the course of 2013-2016. Based on purposive sampling method, 120 firms were taken as samples. The originality of this research lies in its empirical evidence that a firm risk has the ability as a corporate reputation driver to increase market value in a long term by regarding the firm's sustainability, with an emphasis on the stakeholder's interests and monitoring mechanisms through corporate governance. The result of the analysis shows that the corporate reputation measured by using corporate responsibility and corporate governance has a significant influence to market value. Also, firm risk measured by using business risk, financial risk and market risk partially has a significant influence to market value. Meanwhile, the mediating variables that influence the relationship between corporate social responsibility and market value are business risk and market risk, and the mediating variable influencing corporate governance and market value is business risk.

Keywords: *Corporate reputation, Corporate Social Responsibility, Corporate Governance, Risk Management, Market Value*

1. INTRODUCTION

Corporate reputation is an important asset that can be used as a competitive advantage and a source of financial performance. A "good" reputation is identified as an intangible resource that can give a basis to a firm to maintain its valuable competitive advantage and is the corporate characteristic (Hall, 1993). All companies are vulnerable to events that can influence their reputation. These events may arise due to various factors, such as the firm's working practice, macroeconomic condition, natural disaster, and bad governance or management. The firm's ability to maintain a good reputation is directly related to its ability to maintain its stakeholders and business sustainability. If management is able to manage the firm's reputation, the firm will in turn have a good stock value (Peterson, 2004). Corporate sustainability has become an economic and strategic imperative with the potential to create opportunities and risks for businesses (Rezaee, 2017).

Indonesia is a developing country which has a big potential since it has vast natural resources compared to other ASEAN countries. As the industrial firms in Indonesia also grow, the research employed go-public companies in Indonesia as samples. The rationale is that the number

of industrial firms in Indonesia gradually increases year by year, on the other hand Indonesia's economic growth decelerates, and there are external and internal risks faced by Indonesian firms. Seen from the production index, companies in Indonesia have grown. It is shown from the production index that reached 1.43% in 2013 and increased to 4.10% in 2014. In 2015 it increased to 6.01%, but in 2016 it decreased to 4.76%. From 2013 to the first quarter of 2017 the growth of non-oil and gas industries has exceeded the economic growth, and only in 2016 the growth of those industries is slightly below the economic growth. This means that industrial firms are believed to be able to grow. However, Indonesia's economic growth in 2017 decelerated to 5.8% compared to that of in 2016. From the external side, the deceleration is mainly caused by the decrease in export due to the decrease in the demand and the price of global commodities, as well as the raw mineral export limitation policy. From the domestic demand side, the deceleration is driven by the government's limited consumption along with the budget saving program.

Furthermore, there are several risks faced by companies in Indonesia other than decreasing export demand and budget saving for domestic government, such as the Asean Economic Community (AEC). Seen from the competitiveness rank, Indonesia is still in lower than Singapore, Brunei, and Malaysia, and is slightly lower than Thailand. Besides, Indonesia's trade level is also lower than that of ASEAN countries. The total of Indonesia's export to the ASEAN countries is slightly over 20%. Based on this condition, all Indonesian companies must be able to compete internationally due to the agreements of goods free flow, service free flow, investment free flow, capital free flow, and workforce free flow for 10 countries involved in AEC. Therefore, to be able to survive and grow, Indonesian firms need to have a good reputation so that they can increase their values by improving their abilities in facing external and internal risks.

Several studies on corporate reputation show that reputation is a firm's important asset (Flanagan and O'Shaughnessy, 2005; Flanagan et al., 2011). Other studies also investigate the relationship among firm's reputation, financial performance, and market performance, as well as investor's behavior (Roberts and Dowling, 2002; Sanchez and Sotorrio, 2007; Capehart et al., 2010; Gatzert, 2015, Chou, et al., 2017). Researches on reputation argue that a good reputation contributes to financial and market performances, and for some reasons to distinguish the firm from its competitors and to encourage customers to pay premium price, and to increase buyers' trust (Gatzert, 2015 and Garai, 2017).

In this research, corporate reputation is measured from the firm's ability to conduct corporate social responsibility (CSR) and the ability of corporate governance (CG). CSR and GC are used to describe corporate reputation since it is often found that business failure is caused by the lack of understanding of the environmental impact of business management or experience that is

limited to corporate governance (Carmeli and Tishler, 2005, Fombrun et al., 2000). Investors become the basis of CSR implementation and governance ability is a form of corporate reputation, in that they do not see corporate reputation from financial point of view or firm's brand. Instead, they see on how the firm has a good reputation continuously (Jacob, 2012; Piriyakul and Wingwon, 2013).

The previous sudies look at the direct impact of corporate reputation in enhancing financial and market performances. They mostly focus on only one relationship, for example, one between reputation and finanial performnce or between corporate reputation and financial impact. Other studies also only investigate whether reputation can partially reduce a firm risk (Lange et al., 2011; Walker, 2010; Clardy, 2012; Tischer and Hildebrandt, 2014). In this research, the ability of corporate reputation is related to the firm risk management which in turn will enhance the firm's market value. Risk management can maximize the relationship between corporate reputation and performance. Risk management requires a deep understanding of the relationship and interaction between corporate reputation and financial consequences, as well as a consideration of perspective and (key) behavior, i.e. stakeholder and corporate management. All organizations are susceptible to all kinds of risk. Risks are inherent in business, not only because they operate in a risky environment, but also because the business' nature that is constantly changing.

This research is aimed at investigating the problem further by employing a more comprehensive approach which includes empirical evidences of the relationship of three aspects, namely corporate reputation, firm risk, and firm's market value by considering stakeholders' behavior and corporate governance in creating reputation. The research also has a purpose to give an insight in risk management, which needs a holistic consideration from this relationship and what has been acknowledged from empirical literature to assess and manage risks. The originality of this research lies in its empirical evidence that a firm risk has the ability as a corporate reputation driver to increase market value in a long term by regarding the firm's sustainability, with an emphasis on the stakeholder's interests and monitoring mechanisms through corporate governance.

2. LITERARY REVIEW

2.1. Theoretical Framework

In this research, the relationship between reputation and performance is based on resource based view theory of a firm (Peteraf, 1993) and the stakeholder theory (Freeman, 1994). They argue that corporate reputation is a strategic asset since it generates trust from stakeholders. Therefore, it influences the firm's business performance positively. The argument on resource based view of a firm claims that corporate reputation is a valuable and rare intangible asset, and it has competitive

advantage. It also expects to obtain a sustainable superior financial performance (Grant, 1991; Ambrosini dan Bowman, 2001).

One reason that explains the strategic value of reputation deals with the concept of firm trust (Aqueveque, 2005). This notion is closely related to the instrumental aspect of stakeholder theory (Freeman, 1994). This theory assumes that if the firm's contract (through its manager) with stakeholders is based on mutual trust and cooperation, the firm will have a competitive advantage. In its practice, firm trust can increase exchange opportunities available in a firm, compared with firms that are not trusted (Barney and Hansen, 1994). Many writers consider company reputation as an important signal. According to this argument, reputation is an informative signal (Akerlof, 1970) and contract warrantor (Cornell and Shapiro, 1987).

Based on the theories above, in this research corporate reputation is measured by using CSR disclosure and corporate governance quality, since both variables are signals that the firm can be trusted through stakeholder's interest fulfillment. This is based on social risk theory which states that CSR is a value of corporate reputation (Jacob, 2012). Meanwhile, monitoring effect theory explains that good corporate governance will generate good monitoring function to managerial performance, so that the firm can be trusted (Caers, 2006).

Reputation has an intrinsic value that forms stakeholder's behavior to influence the firm's future value. The perception and opinion of the firm that are created, then and now, about an organization lie on the stakeholder's awareness. Risks are basic elements of the firm's sustainability strategy. Hence, identifying the source and analyzing the risk are important. The relationship between risks, the combination of various risks and their integration influence the risk that should be considered in managing continuous and strategic risks. This is according to resourced based view theory which states that reputation is an important intangible asset and if it is ignored it will have an impact in reputation damage risk (Regan, 2008).

2.2. Hypotheses Formulation

2.2.1. Corporate Reputation and Market Value

Finance theory supports the use of corporate reputation in assessing a firm's financial performance. Gatzert (2015) say that corporate reputation has a value for investors since it generate financial benefit to the corporation. The benefits of corporate reputation are to decrease the mobility of competitors, to support premium price, and to increase the access to capital. Thus, it can be said that corporate reputation contributes to the firm's value (Cole, 2012). The previous studies demonstrate that corporate reputation influences financial performance and market performance

(Sjovall and Talk, 2004; Flanagan and O'Shaughnessy, 2005; Rhee and Haunschild, 2006; Mishina et al., 2012; Nnenna and Carol, 2016).

The previous studies measure corporate reputation mainly on the stakeholder's perception to the firm's image and past performance achievements. In these studies, corporate reputation is measured by using corporate social responsibility and corporate governance quality since a firm that implements CSR by doing monitoring process through corporate governance will give a more accurate reputation level, as explained by Jacob (2012).

Other previous researches show that firms implementing CSR as their good reputation identity can give a positive influence to increase market value. These researches were among others conducted by Luo and Bhattacharya (2006). In their research, they found a positive influence on CSR implementation and the firm's market value. This result is supported by Derwall et al. (2005); Kempf and Osthoff (2007); Sharfman and Fernando (2008); El Ghoul et al. (2010) and Zygadlo et al. (2016).

Other researches on corporate governance and market value also show that corporate governance has a significant influence to the increase of market value. Bubbico et al. (2012) also state that a firm that has good governance according to the index relates with the high stock market valuation. These studies are supported by Kempf and Osthoff (2007), Cole (2012). Based on the above description, the following hypotheses can be formulated:

H_1 : Corporate Social Responsibility has influence to market value

H_2 : Corporate governance has influence to market value

2.2.2. Corporate Reputation and Firm Risk

The firm's ability to maintain good reputation directly relates to the firm's ability to maintain its stakeholders. Crises are risks that must be faces by the firm. The management's ability to handle crises results in an active management, since its inability will increase the chance of risks to occur. If management can manage a crisis, it will be reflected in the stock price (Petersen et al., 2007). Risks are important components of the firm's investment strategy. Hence, it is important to know the source of risks, as well as to identify and to evaluate factors contributing to risks. This research employs the relationship of various risks, namely business risk, financial risk, and market risk.

A business risk is a variability of expected income (profit prior to interest and tax) to the net sales total. An appropriate management will result and create a balance between asset and effect, which in turn will create low business risk so that it can attract investor entities to consider fund investment in the firm's operation. Market risk is the return variability, the result of fluctuation in overall market i.e. stock aggregate. Market risk is the condition caused by the change in market that

is beyond the control of the firm. Market risk is also called comprehensive risk, as its general characteristic is comprehensive and is experienced by the whole firm. Meanwhile, financial risk means how far a firm depends on external financing (including capital market and bank) to support its ongoing operation. A firm that relies on external parties for financing has greater risk than that which not uses its own fund generated internally.

An organization's ability is tested when crises occur (Sharma and Narwal, 2006). Since a firm faces uncertainty during a financial crisis, it tends to avoid the negative effects of repair actions. The most common action is reducing the number of employees, reducing consumption, and deferring investment (Karaibrahimoglu, 2010). On the other hand, during a crisis public demand on corporate transparence on CSR increases. CSR becomes a new risk control factor to the firm, and if it s not performed it will can make the firm lose its reputation. Thus, it can be said that CSR can minimize the risk faced by the firm. This is in line with the studies conducted by Bebbington (2007), Lahrech (2011), and Jacob (2012).

Nowadays stakeholders do not only care about the profit of their investment but also consider how the firm's risk exposure is distributed to them. Thus, the firm is expected to have good governance instead of only caring about high profit. It is also expected to be able to manage risks. The market does not have enough power to control the firm's operation. Therefore, good corporate governance can control and monitor risks. This is in line with the studies conducted by Tandelilin et al. (2007); Lahrech (2011) and Sanusi, et al. (2017), who state that good corporate governance can be used as a risk control.

Based on the explanation above, the following hypotheses can be formulated:

H_3 : Corporate Social Responsibility has influence on business risk

H_4 : Corporate Social Responsibility has influence on financial risk

H_5 : Corporate Social Responsibility has influence on market risk

H_6 : Corporate governance has influence on business risk

H_7 : Corporate governance has influence on financial risk

H_8 : Corporate governance has influence on market risk

2.2.3. Firm Risk and Market Value

Risks can be a threat to a firm's financial health and its opportunity to advance in the competition. Most analysts, when referring to risk management, focus on the threat caused by risks and emphasize on protecting against a threat namely risk hedge (Damodaran, 2003). Gonzales (2010) shows that risk management has a significant influence to the decision of assessment, investment, and funding. The estimation on risk management value, based on both cross-sectional and in time-series test, is consistent with what is reported by Allayannis and Weston (2001).

Generally risk drivers are highly relevant to risk management because of their potential increase of risk level impact or events that damage the firm's financial performance (Gatzert, 2015). The previous empirical studies on corporate risk mainly focus on only one relationship, such as the relationship between risk and financial performance or that between risk and financial impact. Sabate and de Puente (2003), for example, conducted a survey from a preliminary empirical literature on the relationship between corporate risk and financial performance, whereas Walter (2013) gives a brief description of risk impact to financial performance by focusing on reputation risk. Similar studies were also conducted by Tischer and Hildebrandt (2014), Lange et al. (2011), Walker (2010), and Clardy (2012). Based on the explanation above, the following hypotheses can be formulated:

H_{12} : Business Risk has influence to market value

H_{13} : Financial Risk has influence to market value

H_{14} : Market Risk has influence to market value

2.2.4. Firm Risks Mediates the Relationship between Corporate Reputation and Market Value

The explanation of the previous hypotheses in this research shows that the firm's ability to manage risks will fix the relationship between corporate reputation and market value. It is assumed that when the firm can maintain its reputation, but it is not able to manage risks, it will give negative impact to the firm's value and performance. This is because corporate reputation is the firm's competitive advantage and is a non-financial report, while risks will give impact in the short and long term of the firm's continuity. Based on this explanation, this research proposes the following hypotheses:

H_{15} : Business Risk mediates the relationship between corporate social responsibility and market value

H_{16} : Financial Risk mediates the relationship between corporate social responsibility and market value

H_{17} : Market Risk mediates the relationship between corporate social responsibility and market value

H_{18} : Business Risk mediates the relationship between corporate governance and market value

H_{19} :Financial Risk mediates the relationship between corporate governance and market value

H_{20} : Market Risk mediates the relationship between corporate governance and market value

3. RESEARCH METHOD

The population of this research consists of firms listed in the Indonesia Stock Exchange in the course of 2013-2016. The samples are firms that are included in CGPI rating performed by The Indonesia Institute for Corporate Governance and firms that report their corporate social responsibility implementations. Since firms participate in CGPI voluntarily, the number of those participating is different every year. Therefore, the samples in this research were not taken by year consideration. In 2013 there were 33 firms, in 2014 there were 40, in 2015 here were 26, and in 2016 there were 34. Of the total of 133 firms (2013-2016), the researchers selected the firms that conducted report disclosure based on the research variables. The result of sample calculation by using the above criteria reveals the number of samples used in this research, that is 120 firms.

The exogenous variable in this research is corporate reputation measured by using corporate social responsibility index according to ISO 26000 and Corporate Governance Perception Index (CGPI) measured by using a rating developed by IICG in the form of Corporate Governance Perception Index (CGPI). The endogenous variable is Market Value which is measured by calculating the number of outstanding stocks by using closing prices. The mediating variable in this research is risk consisting of three categories viz. business risk, financial risk, and market risk.

Business risk in this research was measured by using operating leverage. Operating leverage measures how income changes due to operating profit. By finding out the operating leverage level, a firm can estimate the change in operating profit as a result of sales change.

$$DOL = (\%\ EBIT\ change) / sales\ change$$

In this research, business risk was measured by using stock beta. Stock beta shows the sensitivity of profit level of a security to market change and is a risk measurement resulted from the relationship between stock return and market return. Stock beta (β) is estimated by using a model of single index in the form of a regression equation as follows:

$$Ri = \alpha + \beta.RM + \varepsilon i$$

Where: Ri = stock return, Rm = market return, α = a constant which is a point of intersection of the regression line and the vertical line, and β = regression line slope.

Meanwhile, financial risk was measured by using debt to equity ratio. This ratio was utilized to measure the part of own capital that is used as a warranty of overall liabilities and debts.

Debt to Equity Ratio = (current liabilities + long term liabilities)/the amount of own capital

The analysis was conducted by utilizing the Structural Equation Modeling (SEM) tool with WarpPLS program version 2.00 to test the hypotheses. This statistic analysis tool was chosen as it has several advantages such as its ability to perform statistic tests using mediating variables without having to perform repeated tests to answer the hypotheses (Kock, 2011; Latan dan Ghozali, 2012).

4. FINDINGS

4.1. Descriptive Statistics

A descriptive statistic method is used to explain the characteristics of the research variables. The explanation on the descriptive statistic of the variables in this research is as follows:

Table 1. Descriptive Statistic Analysis of the Research Variables

	N	Min	Max	Mean	SD
CSRI	120	0,43243	0,94595	0,75747	0,09161
CGPI	120	59,11	91,46	79,6878	7,35445
BR	120	0,00962	1,59	0,61724	0,47439
FR	120	0,06883	20,1501	3,54393	4,03178
MR	120	0,031	5,339	1,2125	0,96428
MV	120	0,09	9,88	2,50442	1,85629

Source: the processed data of this research
CSRI : *Corporate Social Responsibility Indeks*
CGPI : *Corporate Governance Perception Indeks*
BR : *Business Risk*
FR : *Financial Risk*
MR : *Market Risk*
MV : *Market Value*

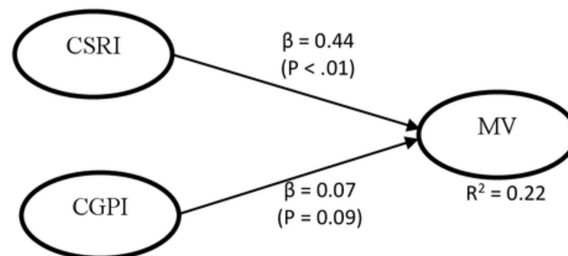
Table 1 shows that the average value of CSRI is 0.76. This means that most of the samples reveal 76% of CSR in accordance with ISO 26000 standard. In addition, the average value of CGPI is 79.69, which means that most of the firms are perceived as reliable. The average value of business risk proxied with the assets turnover is 0.62, the value of financial risk proxied by the debt to equity ratio is 3.54, and the market risk proxied with beta share is 1.21. Furthermore, the average market value is 2.50.

4.2. Hypothesis Testing

4.2.1. Test on the Influence of Corporate Social Responsibility and Corporate Governance on Market Value

A path analysis was conducted before testing the hypotheses to describe the causality between exogenous variables, i.e. Corporate Social Responsibility Index (CSRI) and Corporate Governance Perception Index (CGPI), and endogenous variable (Market Value-MV). The run test shows the result of the path analysis as follows:

Figure 1. The Path Analysis of CSRI and CGPI Influence on Market Value



Source: processed data used in this research

The result of Path coefficients and P value analysis to find out the coefficient and significance level is as follows:

Table 2. The result of Path coefficients and P value of the Influence of CSRI and CGPI on Market Value

Path	Direct Effect	
	Coefficients	P-Value
CSRI → Market Value	0,44	< 0,01*
CGPI → Market Value	0,07	0,09**

Source: processed data used in this research
*significance level = 0.05
**significance level = 0.10
CSRI : *Corporate Social Responsibility Indeks*
CGPI : *Corporate Governance Perception Indeks*

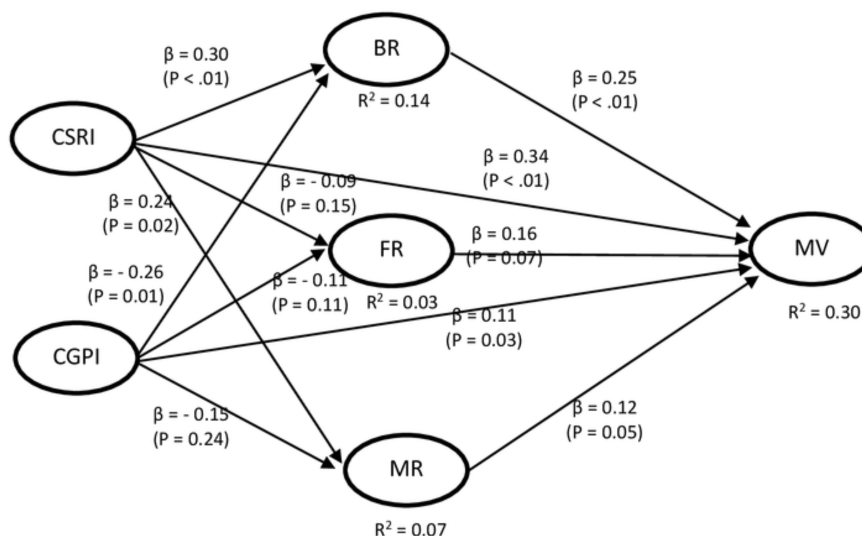
Figure 1 and Table 2 show the causal relationship between variables. Corporate Social Responsibility (CSRI) as the independent variable influences market value (MV) as the dependent variable with 0.44 Path Coefficient value, <0.01 p-value, and 0.05 significance level. *Corporate Governance Perception Indexs (*CGPI) as the independent variable influences market value (MV) as the dependent variable with 0.07 Path Coefficient, 0.09 p-value, and 0.10 significance level. The FV

has 0.22 R square. These tests show that the first hypothesis can be accepted (H1 accepted). This means that corporate social responsibility has a positive influence on the market value because the p-value is <0.01, below the 0.05 significance level. The test conducted for the second hypothesis also shows that H2 can be accepted (H2 accepted), which means that corporate governance has a positive influence on the market value with 0.09 p-value and 0.10 significance level. The result of this research is consistent with that of Sjovall and Talk (2004), Flanagan and O'Shaughnessy (2005), Rhee and Haunschild (2006), and Mishina et al. (2012) which states that the firm's reputation has a positive significant influence on market value.

4.2.2. Test on the Influence of Firm Risk Mediation on the Relationship between CSRI, CGPI and Market Value

A path analysis describing the causal relationship between the mediation and variables was conducted to answer the research hypothesis. The result of run-test of the path analysis is as follows:

Figure 2. Path Analysis on the Influence of Firm Risk Mediation on the Relationship among CSRI, CGPI, and Market Value



Source: processed data used in this research

The second and third hypotheses need to be tested in order to answer the hypothesis of the influence of mediating variables (business risk, financial risk, and market risk) and their relationship with corporate social responsibility, corporate governance, and market value. The result of Path coefficients and P value can be seen in the following table:

Table 3. The Result of Path coefficients and P value on the Influence of Mediation Firm Risk on the relationship among CSRI, CGPI, and Market Value

Path	*Direct Effect*		*Indirect Effect*	
	Coefficients	**P-Value**	**Coefficients**	**P-Value**
CSRI → BR			0,30	< 0,01*
CSRI → FR			-0,09	0,15
CSRI → MR			0,24	0,02*
CSRI → MV	0,44	< 0,01*	0,34	< 0,01*
CGPI → BR			-0,26	0,01*
CGPI → FR			-0,11	0,11
CGPI → MR			-0,15	0,24
CGPI → MV	0,07	0,09**	0,11	0,03*
BR → MV			0,25	< 0,01*
FR → MV			0,16	0,07**
MR → MV			0,12	0,05*

Source: processed data used in this research
*Significance level= 0.05
**Significance level= 0.10
CSRI : *Corporate Social Responsibility Indeks*
CGPI : *Corporate Governance Perception Indeks*
BR : *Business Risk*
FR : *Financial Risk*
MR : *Market Risk*
MV : *Market Value*

Figure 2 and Table 3 demonstrate that the coefficient of CSRI direct effect on market value (MV) in model (1) is 0.44, with <0.01significance level ($p < 0.05$). This result indicates that the first requirement of being mediating variable has been fulfilled (CGPI → MV coefficient is significant). It is also confirmed that the coefficient of direct effect corporate governance (CGPI) on Market Value (MV) in model (1) is 0.07 with 0.09 significant value ($p < 0.10$). This result suggests that the first requirement of being mediating variable is fulfilled, in which the coefficient of CGPI → MV is significant.

The result of indirect effect test indicates that CSRI path coefficient on firm risk is as follows:

- CSRI coefficient value on Business Risk (BR) is 0.30 and the significant level is 0.01 ($p<0.05$). Therefore, it can be concluded that the third hypothesis (H_3) is accepted, which means that CSR

has a significant positive influence on business risk. It implies that the requirement of being the mediating variable is fulfilled, in which the coefficient of CSRI → BR is significant.

- The coefficient value of CSRI on Financial Risk (FR) is -0.09 and the p-value is 0.15 ($p > 0.05$). This means that the fourth hypothesis (H_4) is rejected. In other words, CSR does not have any significant influence on financial risk. Thus, the requirement of being the mediating variable is not fulfilled.
- The coefficient value of CSRI on Market Risk (MR) is 0.24 and the significant value is 0.02 ($p<0.05$). Therefore, it can be concluded that the fifth hypothesis (H_5) is accepted. This means that CSR has significant positive influence on market risk. Thus, the requirement of being the mediating variable is fulfilled in which the coefficient level of CSRI → MR is significant.

The result demonstrates that the firm risk variables significantly influenced by CSR are business risk and market risk. In this case, business risk measured by considering total of sales shows how significant CSR application influences the customers' buying decision. Market risk is seen from how investors respond to CSR as one of the things that influences their investment decision. On the contrary, financial risk does not have any influence since CSR does not affect the firm's decision in deciding funding that comes from debt. This result is in line with the research conducted by Bebbington (2007) and Lahrech (2011).

The result of indirect effect test shows that path coefficient of CGPI to firm risk is as follows:

- The coefficient value of CGPI on Business Risk (BR) is -0.26 and the significance value is <0.01 ($p < 0.05$). This means that the sixth hypothesis (H_6) is accepted, or that CG has significant negative influence on business risk. The requirement of being the mediating variable is fulfilled with significant CGPI → BR coefficient value.
- The coefficient value of CGPI on Financial Risk (FR) is -0.11 and the p-value is 0.11 ($p > 0.05$). It can be concluded that the seventh hypothesis (H_7) is rejected because the CG does not have a significant influence on financial risk. This shows that the requirement of being the mediating variable is not fulfilled.
- The coefficient value of CGPI on Market Risk (FR) is -0.15 and the p-value is 0.24 ($p > 0.05$). It can be concluded that the eighth hypothesis (H_8) is rejected because the CG does not significantly influence the market risk. This shows that the requirement of being the mediating variable is not fulfilled.

The result reveals that firm risk variable that is significantly influenced by corporate governance is business risk, whereas financial risk and market risk are not. This means that the firm has a good control in corporate governance only in its ability to control sales level, but it hasn't

been able to control market and financing resulted from debts. In contrast to the previous studies conducted by Brogi and Sapienza (2005), Tandelilin et al. (2007), Fisher (2010), and Kumah et al. (2014), stating that good corporate governance can be used to control risk, this research reveals that not all types of risk can be controlled by the firm.

Furthermore, the path coefficients of firm risk on market value (MV) are as follows:

- The coefficient value of Business Risk on Market Value (MV) is 0.25 and the significance level is <0.01 ($p > 0.05$). It can be concluded that the ninth hypothesis (H_9) is accepted since business risk has a significant positive influence on market value. This result proves that the requirement of being the mediating variable is fulfilled in which BR → MV is significant.
- The coefficient value of Financial Risk (FR) on Market Value (MV) is 0.16 and the significance level is 0.07 ($p < 0.05$). It can be concluded that the tenth hypothesis (H_{10}) is accepted since financial risk has significant positive influences on market value. This result indicates that the requirement of being the mediating variable is fulfilled in which FR → MV is significant.
- The coefficient value of Market Risk (MR) on Market Value (MV) is 0.12 and the significance level is 0.05 ($p< 0.05$). It can be concluded that the eleventh hypothesis (H_{11}) is accepted since market risk has a significant positive influence on market value. This result indicates that the requirement of being the mediating variable is fulfilled in which MR → MV is significant.

The above result is consistent with the findings of the studies conducted by Tischer and Hildebrandt (2014), Lange et al. (2011), Walker (2010), and Clardy (2012), stating that risks can influence market value. This is in line with the principle of investment, i.e. high risk means high return.

The test result of CSRI on market value (MV) shows that the coefficient value of indirect effect is 0.34 and the significance level is <0.01 ($p<0.05$). The result demonstrates that the coefficient of indirect effect CSRI → MV decreases to 0.34 from 0.44 (direct effect) although it is still significant. It implies that business risk (p-value <0.01) and market value (p-value 0.15) do not mediate the relationship between CSR and market value. In addition, firm risk (p-value 0.15) does not mediate the relationship between CSR and market value. This shows that the twelfth hypothesis (H_{12}) can be accepted as business risk does mediate the relationship between corporate social responsibility and market value. Furthermore, the thirteenth hypothesis (H_{13}) is rejected because financial risk does not mediate the relationship between corporate social responsibility and market value. Finally, the fourteenth hypothesis (H_{14}) is accepted since market risk does mediate the relationship between corporate social responsibility and market value.

The result of the test on the influence of CGPI on market value (MV) reveals that the coefficient value of the indirect effect is 0.11 while the significance value is 0.03 ($p<0.05$).

Although the coefficient value of indirect effect of CSRI → MV has increased into 0.11 from 0.07 (direct effect), it is still significant. This means that firm risk does not mediate the relationship between corporate governance and market value. Therefore, it can be concluded that the fifteenth hypothesis (H_{15}) is rejected because business risk does not mediate the relationship between corporate governance and market value. The sixteenth hypothesis (H_{16}) is also rejected because financial risk does not mediate the relationship between corporate governance and market value. Moreover, the seventeenth hypothesis (H_{17}) is accepted because the market risk does not mediate the relationship between corporate social responsibility and market value.

5. IMPLICATION AND CONCLUSION

Based on the empirical research model developed in this research, the research problem proposed here can be justified by the result of the test, i.e. corporate reputation measured by using corporate social responsibility has a significant influence to market value. In addition, in terms of risk capability, it can be concluded that of the three risks proposed in this research (business risk, financial risk, and market risk), business risk and market risk have the ability to mediate the relationship between corporate social responsibility and market value. This is because if a firm implements CSR, it will spend more cost for the implementation. High business and market risks are in line with the theory of investment, that is, a high risk means a high return. It means that if a firm has a high risk, it is assumed that it will get a high return. In other words, having a high risk is considered to give a high return. Thus, it will attract investors to buy the firm's stocks. This is what causes market value to increase.

The result of this research also demonstrates that the corporate reputation, which was measured by corporate governance, has significant influences on market value. By considering the risk capability, it can also be concluded that only business risk has the ability to mediate the relationship between corporate governance and market value, while financial risk and market risk do not. Business risk mediates the relationship between corporate governance and market value. This proves that the high quality of corporate governance can control the business risk, and subsequently increases the market value.

The primary contribution of this research is the empirical evidence that the implementation of corporate social responsibility and the good quality corporate governance can control the business risks and change those risks into something that may benefit the firm. Even though there are many business risks, the market value is still high because firms have a sense of responsibility towards their stakeholders by implementing CSR and corporate governance. This is in line with the business investment theory, which states that a high-risk investment will give a high return. The

implementation of corporate social responsibility and high quality corporate governance, business risks can be controlled and can be directed to increase market value.

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