View metadata, citation and similar papers at core.ac.uk
brought to you by CORE
provided by International Journal of Public Budgeting, Accounting and Finance (IJPBAF)

THE INFLUENCE OF CORPORATE GOVERNANCE AND PROFITABILITY ON CORPORATE SOCIAL RESPONSIBILITY DISCLOSURE MODERATED BY FIRM SIZE IN THE CONSUMED GOODS INDUSTRIAL COMPANIES ON THE INDONESIA STOCK EXCHANGE

Metyria Hutabarat, Azhar Maksum, Isfenti Sadalia, Rika Surianto Zalukhu
Universitas Sumatera Utara
metyriaimelda@gmail.com

ABSTRACT

The issue of corporate social responsibility disclosure or CSRD grows widely. The researches on CSRD find different results. The objective of this research was to analyze the Influence of Corporate Governance and Profitability on Corporate Social Responsibility Disclosure by Firm Size as Moderating. The sample data selected for this research through census technique that was done in Consumed Goods Industrial Companies listed in Indonesia Stock Exchange in the period 2013-2017. The sample was used of this research was 25 Consumed Goods Industrial Companies. The research used software E-views with panel data as the combination of time series data and cross section. The result of the research showed that board of independent commissioners and managerial ownership did not have any influence on corporate social responsibility disclosure, while institutional ownership significant influence on corporate social responsibility disclosure. Board size of commissioners, audit committee, and profitability did not have any influence on corporate social responsibility disclosure, and firm size could not moderate the correlation of corporate governance and profitability on corporate social responsibility disclosure.

***Key Words**: Board of Independent Commissioners, Managerial Ownership, Institusional Ownership, Board Size of Commissioners, Audit Committee, Profitability, Firm Size, Corporate Social Responsibility Disclosure.*

1. INTRODUCTION

Indonesia’s economic growth ended 2017 rose 0,66%. In 2017, Composite Stock Price Index posted quite high growth namely 19,99% and ranked sixth with the highest growth in the world. The consumed goods industrial companies sector recorded the highest growth rose 23.11% and managed to surpass performance Composite Stock Price Index (outperform) during 2017. Production growth influenced by the consumed goods industrial companies, equal to 27% and grow by 9,24% year on year.

The development of corporate social responsibility disclosure related to the number of disasters that occurred in Indonesia. Ministry of Environment said that from January to December 2012 there had been 729 disasters. The Lapindo mud case, Indorayon and Freeport is real example that corporate social responsibility disclosure very important to be applied. The impact is very wide ranging from factory damage, industry and infrastructure. Impact of environmental damage pollution, global warming, radiation, poisoning, deadly diseases cause discomfort for the community.

Corporate social responsibility disclosure is one of the media chosen to show concern for the company towards the surrounding community, in other words, if the company has a contract with foreign stakeholders both in ownership and trade, so the company will be more supported in doing corporate social responsibility disclosure (Herawati, 2015). Corporate social responsibility disclosure is important because there are companies that don't care about the environment that cause injustice and protest from parties who are ignored because they have to bear the burden and loss due to company activities. Corporate social responsibility disclosure is a phenomenon that is common in some most companies in Indonesia (Restu et all, 2017).

Corporate social responsibility disclosure is carried out as evidence of the phenomenon of corporate social responsibility. Based on the law of the Republic of Indonesia number 25 in 2007 that foreign and domestic corporations, when placing capital in Indonesia must carry out corporate social responsibility. The law of the Republic of Indonesia number 40 in 2007 about PT, article 74, requires that pt related to natural resources must carry out corporate social responsibility with the provision of 2% of profit or adjusted company policy. Corporate social responsibility disclosure must be systematic and integrate with the company's business, developing and sustainable programs related to "development" without conflict communities.

Although corporate social responsibility is a program that is recommended by the government and has a law but not all companies obey it. Utama and Sidharta (2007) revealed that currently the level of corporate social responsibility disclosure in Indonesia is still relatively low. Disclosure of annual reports is very diverse and only positive ones about the company. Resulting in users of annual reports not easy to know and evaluate reports caused not by the form of corporate accountability.

The phenomenon of the development of social responsibility disclosure need to get special attention by the government. Corporate social responsibility disclosure can be socialized in the annual reports to the public so that positive images are obtained by the company and attract investors.

Nurkhin (2010) show influence board of independent commissioners have a positive effect on corporate social responsibility disclosure. The results of this study are supported by the findings Huang (2010). Different from research Herawati (2015), and Restu et al (2017) who stated board of independent commissioners no significant effect on corporate social responsibility disclosure. Murwaningsari (2009), Ramdhaningsih and Utama (2013) show influence managerial ownership have a positive effect on corporate social responsibility disclosure. The results of the study differ from previous research Terzaghi (2012). Nugroho dan Yulianto (2015) show influence institusional ownership have a positive effect on corporate social responsibility disclosure. Different from research (Ramdhaningsih and Utama, 2013). Sembiring (2003) show influence board size of commissioners have a positive effect on corporate social responsibility disclosure. This is supported by Restu et al (2017). Different research results from research Anggraini dan Kurnia (2014). Restu et al (2017) show audit committee have a positive effect on corporate social responsibility

disclosure. Difference from previous research Jian et al (2017). Nurkhin (2010) show profitability have a positive effect on corporate social responsibility disclosure. This is supported Herawati (2015). Different from previous research Esa and Ghazali (2012) which empirically proves that profitability no significant effect on corporate social responsibility disclosure.

This research using research Nurkhin (2010) as a reference, entitled "Corporate Governance and Profitability; Influence on corporate social responsibility disclosure (Empirical Study on companies listed on the Indonesia Stock Exchange). Corporate governance focus on institusional ownership and board of independent commissioners conducted at banking companies, credit, manufacturing, telecommunications, insurance, hotels and travel by using SPSS. The results of the study stated that there was no significant relationship between institusional ownership and disclosure CSR. But found a significant positive relationship between board of independent commissioners and profitability on disclosure CSR. The addition of a variable managerial ownership, board size of commissioners, audit committee is intended because the variable is a significant variable despite inconsistencies in the results of previous studies.

This research intended to obtain empirical evidence and find out what factors can affect corporate social responsibility disclosure by firm size as moderating in consumed goods industrial companies.

2. LITERATURE REVIEW

Agency Theory

Agency theory describes the company as a meeting point between company owner (principal) with company management (agent). In building a positive image of the company and attract investors, the company responsible for disclosing information on social responsibility so that stock prices in the capital market increase along with increasing shareholder trust in the transparency of corporate disclosure information. Mechanism that can overcome agency problems, namely implementing corporate governance as a mechanism that regulates and controls the company. Corporate governance is a key element in improving efficiency, includes a range of relationships and complete information disclosure between company management, the board of commissioners, shareholders and stakeholders.

Signaling Theory

Signaling theory suggests how companies provide signals to users of financial statements. Corporate social responsibility disclosure that is appropriate and in line with stakeholder expectations is used as good news signal that management gave to public that the company has good prospects in the future and ensures sustainability development. This theory reveals a company's management behavior give a positive signal in the form of information about things that have been done by management to realize the interests of investors or the public by maximizing stakeholder benefits. The importance of information published as an announcement will signal investors in making investment decisions.

Corporate Social Responsibility Disclosure

Corporate social responsibility disclosure is the process of communicating social and environmental impacts from the organization's economic activities to special interest groups and towards society as a whole (Sembiring, 2003). Corporate social responsibility disclosure is quality improvement the life image of a company who want to appear as caring, responsible citizens and want to show to the community that social activities carried out by companies have a good influence. Corporate social responsibility disclosure is a commitment of the business world to contribute or economic development in the environment, community, stakeholders, and improving the standard of living of workers and their families.

The company will disclose information if it supports increasing corporate value. From the investment aspect, investors generally tend to invest in companies that care about social problems. The company will use social responsibility information to attract investor attention and as a competitive advantage of the company. Benefits of corporate social responsibility disclosure can improve the company's operational performance and as a new marketing tool by displaying a better company reputation. Corporate social responsibility disclosure can be a signal information company regarding the practice of social responsibility and the way company builds, maintains a company in terms of economics and politics.

Board of Independent Commissioners

Board of independent commissioners is amout of commissioners from outside company not part of management of company officials or stakeholders. The existence of an independent board of commissioners increasing the role of the board as a shareholders' agent. Board of independent commissioners is the culmination of the companys's internal processing system which has a role in surveillance activities and the existence of a regulation concerning the existence of an independent commissioners increasing the effectiveness of supervision carried out by board of commissioners (Nurkhin, 2010). Board of independent commissioners is the best position to carry out the monitoring function in order to create corporate governance. A large board of commissioners can oversee more closely so that companies survive and developing for the long term. The existence of an independent board of commissioners is expected neutral not to be affected by management because play a role in seeing the interests of owners and companies in general and so that the company disclose broader information to stakeholder.

Managerial Ownership

Managerial ownership is the amount of the company's shareholding by the management in the company that is managed. Management here is a shareholder from within the company at managerial level (Terzaghi, 2012). Managerial ownership will encourage management to work harder to meet the interests of shareholder which is also his own party. This will align the interests between management and shareholder, so that managers feel directly the benefits or impacts of each decision set by the company. With greater managerial ownership in the company so that will support the actions of

managers to be more productive in maximizing company performance, profit achievement and increase corporate social responsibility disclosure.

Institusional Ownership

Institusional ownership is company share ownership by financial institutions such as insurance companies, banks, pension funds and investment banking. High institusional ownership can lead to greater overight by institutional investors so that can hinder opportunistic behavior of manager. Through the level of institusional ownership the effectiveness of management can be known. The higher the ownership of the institution, the smaller the chance for management to manipulate fictitious numbers in the form of earnings management through an accurate monitoring process. Because the institutions monitor professionally their investment development so the level of control over management actions is very high so that the potential for fraud can be reduced (Murwaningsari, 2009).

Board Size of Commissioners

Board size of commissioners is the large number of commissioners in a company. The number of board members to supervise and provide guidance and direction on the management of the company or management, can improve efficiency in company performance to encourage corporate social responsibility disclosure. Sembiring (2005) stated that more and more members of the board of commissioners in a company, so menyatakan bahwa semakin banyak jumlah anggota dewan komisaris dalam suatu perusahaan, maka corporate social responsibility disclosure what the company makes will be more widespread. With the larger size of the board of commissioners with more commissioners in the company will be more profitable for the company becaused there are many monitoring roles in the company.

Audit Committee

Audit committee is a small committee from the board of directors and outside the independent director . BAPEPAM-LK in Circular Letter 03/PM/2000 states that every public issuer must have an audit committee. The audit committee is required to have at least three members and at least one of them has the ability and knowledge in the field of accounting or finance. Audit committee is the board of directors oversees the company’s performance and social performance (Krisna dan Suhardianto, 2016). Audit committee formed by a board of commissioners to help him carry out his duties and supervisory function in the implementation of corporate governance. Audit committee has separate tasks to examine the implementation of the company’s management function relating to financial reporting systems.

Profitability

Profitability is the ability of a company to earn profits during a certain period, which can affect the company in corporate social responsibility disclosure (Nugroho dan

Yulianto, 2015). Profitability used in assessing the extent of the company's ability to generate the desired profit from income related to sales, assets and equity of the company. Profitability can increase value and generate benefits for shareholders and investors.

Profitability gives the company confidence to do corporate social responsibility disclosure. The higher the level of profitability will further motivate the company to corporate social responsibility disclosure to get legitimacy and positive from stakeholders (Nurkhin, 2010). Profitability in this research using profitability ratios namely return on equity (ROE). Because corporate goals express social responsibility to make a profit for the survival of the company (Sudana dan Arlindania, 2011). ROE chosen because it is a tool that can describe the company's profitability (Nurkhin, 2010).

Firm Size

Firm size is comparison of large small companies in business operations activities to achieve certain goals. Classification firm size based on number of employees, market capitalization and the total amount of assets owned by the company. Large company has shareholder so that it has the potential to affect the community more actual and more expressing its social responsibility. Related to agency theory, large company will has agency cost which is bigger than small companies, so large company it is estimated to disclose information more widely to reduce agency costs (Titisari, 2010).

3. CONCEPTUAL FRAMEWORK

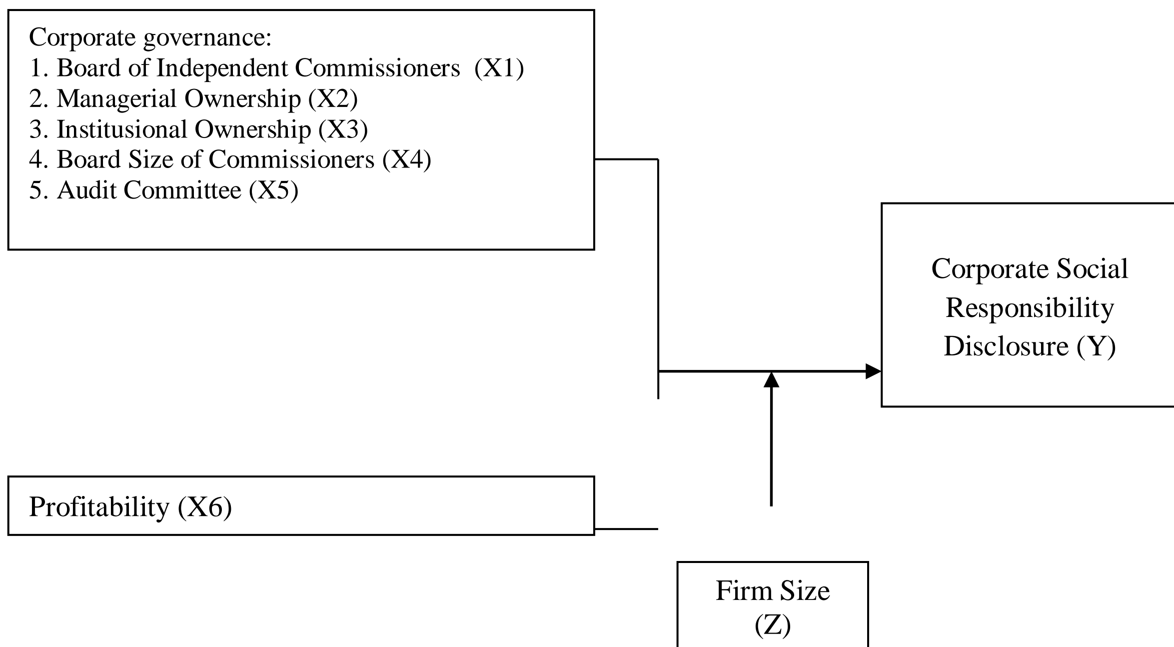

Figure 3.1 Conceptual Framework

4. RESEARCH METHODS

Types of Research

This type of research is a causal research, namely to prove the relationship between cause and effect of several variables. This research will examine the independent variable the influence of corporate governance (that is variable board of independent commissioners, managerial ownership, institusional ownership, board size of commissioners, audit committee) and profitability to dependent variable that is corporate social responsibility disclosure by firm size as moderating. The population studied is all consumed goods industrial companies listed on the Indonesia Stock Exchange 2013 to 2017 period. The sample used was 125 samples consumed goods industrial companies. The type of data used is a type of secondary data sourced from financial statement and annual report listed on the Indonesia Stock Exchange.

Location and Time of Study

This research was a quantitative research because it referred to the calculation of data in the form of numbers. This research took place at the Official Website of the Indonesia Stock Exchange namely *www.idx.co.id* where the data taken of consumed goods industrial companies listed in Indonesia Stock Exchange the period 2013-2017.

Population and Sample Research

Population in this research is consumed goods industrial companies in Indonesia Stock Exchange for the period of 2013-2017. Consumed goods industrial company is one of the sectors of manufactur companies that contribute greatly on economic development in Indonesia so it is necessary to maximizing corporate social responsibility disclosure in the company. The sample selection of this research was conducted by using saturated sampling method. Furthermore, the number of samples was as many as 25 consumed goods industrial companies registered in Indonesia Stock Exchange. The number of samples used in the study amounted to 125 samples.

Method of Collecting Data

Research data needed in this research is secondary data sourced from data was the official website of the Indonesia Stock Exchange. To collect research data used was the financial statements and annual reports of consumed goods industrial companies.

Data analysis method

The data analysis method was a regression analysis of panel data which belongs to the pooled data where E-views Program Software was applied. The model of panel data regression equation used to test the hypothesis was:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + e$$

$$Z = \alpha + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \beta 6X6 + \varepsilon$$ (regresission model II)

$|\varepsilon| = \alpha + \beta 1Y$ (residual test regresission model)

Description:

Y	=	Corporate Social Responsibility Disclosure Index
X1	=	Board of Independent Commissioners
X2	=	Managerial Ownership
X3	=	Institusional Ownership
X4	=	Board Size of Commissioners
X5	=	Audit Committee
X6	=	Return on Equity
Z	=	Firm Size
$\beta 0$	=	Intercept
$\beta 1, ..., \beta 6$	=	Coefficient Value X1,..,X6
e	=	Coefficient Error
$\lvert\varepsilon\rvert$	=	Absolute Residual

5. RESULT AND DISCUSSION

Normality Test

Normality tests are performed to determine whether in a regression model, independent variables and dependent variables or both are normally distributed or not. Normality test for residual in this research can be employed by using Jarque-Bera (J-B) test that the probability value from J-B statistic was 0,0534. Because the probability value (p) was 0,0534> compared with the level of significance of 0.05 it could be concluded that the assumption of normality was met.

Multicollinearity Test The multicolonierity test is performed by analyzing the correlation matrix of the independent variables (Ghozali, 2016). The results of the tests conducted in this study indicate that the tolerance value of colinierity statistic of each variable is greater than 0.1 and the value of Variance Inflation Factor (VIF) of each variable is smaller than 10. From the test results can be concluded that the regression model which will be tested free from multicolinearity problems.

Heteroscedasticity Test

Statistical analysis for heteroscedasticity test in this study using Breusch-Pagan test with criteria if the probability significance of > 0.05 then the regression model does not contain any heteroscedasticity (Ghozali, 2016). The results of testing heteroscedasticity can be seen through the Prob Obs*R-Squared is 0,9962 > 0,05, which means there is no heteroscedasticity.

Autocorrelation Test

The assumption of residual independence (non-autocorrelation) can be tested by Durbin-Watson. The statistical value of the Durbin-Watson test that is smaller than 1 or greater than 3 indicates an autocorrelation. The value of the Durbin-Watson statistic was 1,8449. Durbin-Watson statistic values were between 1 and 3, *i.e* 1 < 1,8449 <3, then

non-autocorrelation assumptions were met. In other words, there were no symptoms of high autocorrelation in residuals.

Results of Hypothesis Test

Hypothesis test results are shown in the table below.

Table 5.7 Hypothesis Test

Variable	Coefficient	Std. Error	t-Statistic	Prob.
Board of Independent Commissioners	0.097842	0.128504	0.761391	0.4479
Managerial Ownership	-0.007679	0.006713	-1.143873	0.2550
Institusional Ownership	-0.020112	0.005672	-3.545974	0.0006
Board Size of Commissioners	0.044196	0.068991	0.640603	0.5230
Audit Committee	0.098112	0.109754	0.893922	0.3732
Profitabilty	0.670065	0.296883	2.257005	0.0258
C	-1.907202	0.650538	-2.931729	0.0040
R-squared	0.245481	Mean dependent var		-1.830784
Adjusted R-squared	0.207116	S.D. dependent var		0.796290
S.E. of regression	0.709049	Sum squared resid		59.32457
F-statistic	6.398508	Durbin-Watson stat		2.307969
Prob(F-statistic)	0.000007			

Coefficient of Determination (Adjusted R^2)

The test results show the coefficient of determination - adjusted R^2 - is 0.2071. It means that 20.71% variable of corporate social responsibility disclosure can be explained by board of independent commissioners, managerial ownership, institusional ownership, board size of commissioners, audit committee and profitability while the rest of 79.29% is explained by other variable outside this research.

Statistic Test F (Simultaneous Test)

F test statistic with significance value 0.0000 is smaller than $\alpha = 5\%$ then Ho is rejected or hypothesis proposed (H1) accepted. This means that it can be concluded that corporate governance and profitability simultaneously have a significant effect on corporate social responsibility disclosure.

Statistic Test t (Partial Test)

Based on partial testing (test t) shows the coefficient value of the independent variable board of independent commissioners is 0.09 with a significance value of probability value variable board of independent commissioners is 0.4479, that is $\alpha > 0.05$, so variable board of independent commissioners no effect on variable corporate social responsibility disclosure, at the level of significance 5%.

Variable managerial ownership has a significance level of -0.007 smaller than $\alpha = 0.05$, with a significance value of probability value variable managerial ownership is 0.2550, that is $\alpha > 0.05$, so variable managerial ownership no effect on variable corporate social responsibility disclosure, at the level of significance 5%.

Variable institusional ownership has a significance level is -0.02, that is negative value. This value can be interpreted Variable institusional ownership have an effect on variable corporate social responsibility disclosure. Known probability value of variables institusional ownership is 0.0006, that is α < 0.05, so variable institusional ownership significant effect on variable corporate social responsibility disclosure, at the level of significance 5%.

Variable board size of commissioners is 0.04 with probability value is 0.5230, that is α > 0.05, so variable board size of commissioners no effect on variable corporate social responsibility disclosure, at the level of significance 5%.

Variable audit committee is 0.09 with a significance value of probability value known variable audit committee is 0.3723, that is α > 0.05, so variable audit committee no effect on variable corporate social responsibility disclosure, at the level of significance 5%.

Variable profitability has a significance level of 0.67 with a significance value of probability value known is 0.0258, that is α > 0.05, so variable profitability no effect on variable corporate social responsibility disclosure, at the level of significance 5%.

Firm size as moderating simultaneously has regression coefficient of variable corporate social responsibility disclosure is 0.0225 with a significance value of probability value known 0.9141, that is α > 0.05, so firm size could not moderate the correlation of corporate governance and profitability on corporate social responsibility disclosure, at the level of significance 5%.

6. CONCLUSION

Based on the results of the analysis and discussion described in the previous chapter it can be concluded that board of independent commissioners no effect on variable corporate social responsibility disclosure. Managerial ownership no effect on variable corporate social responsibility disclosure. Institusional ownership significant effect on variable corporate social responsibility disclosure. Board size of commissioners no effect on variable corporate social responsibility disclosure. Audit committee no effect on variable corporate social responsibility disclosure. Profitability no effect on variable corporate social responsibility disclosure. Firm size could not moderate the correlation of corporate governance and profitability on corporate social responsibility disclosure.

BIBLIOGRAPHY

[1] Aditya Dharmawan Krisna, Novrys Suhardianto. 2016. Factors that Influence the Disclosure of Social Responsibility. *Journal Accounting and Finance*, Vol.18, No.2, pp. 119-128.

[2] Ahmad Nurkhin. 2010. Corporate Governance and Profitability; The Influence on Corporate Social Responsibility Disclosure (Empirical Study on Companies Listed on the Indonesia Stock Exchange). *Journal Accounting Dynamics*, Vol. 2, No. 1, pp 46-55.

[3] Amalia Ramdhaningsih, I Made Karya Utama. 2013. The Influence of Good Corporate Governance and Profitability on Corporate Social Responsibility Disclosure. *E-Journal Accounting University Udayana,* pp. 65-82.

[4] Chi-Jui Huang, 2010. Corporate Governance, Corporate Social Responsibility and Corporate Performance, Department of Banking and Cooperative Management, *Journal Of Management & Organization,* Vol. 16, No. 5, Hal. 641-655.

[5] Elinda Esa and Nazli Anum Mohd Ghazali, 2012. Corporate Social Responsibility and Corporate Governance in Malaysian Government-Linked Companies. *Corporate Governance Q Emerald Group Publishing Limited*. Vol. 12, No. 3, pp 292-305.

[6] Etty Murwaningsari. 2009. Corporate Governance Relations, Corporate Social Responsibilities and

[7] Corporate Financial Performance, in One Continuum. *Journal Accounting and Finance*, Vol. 11, No. 1, pp 30-41

[8] Ghozali, I. (2016). *Application of Multivariate Analysis with IBM SPSS Program 23*, Semarang: Diponegoro University Publishing Agency.

[9] Heti Herawati. 2015. Corporate Governance, Company Characteristics and Corporate Social Responsibility Disclosure. *Journal of Accounting and Taxation Research,* Vol. 2, No. 2, pp. 203-217.

[10] I Made Sudana , Putu Ayu Arlindania W. Corporate Governance and Corporate Social Responsibility Disclosure on Company Go-Public on the Indonesia Stock Exchange. *Theory and Applied Management Journals,* Year 4, No. 1, pp. 37-49.

[11] Kartika Hendra Titisari, 2008. Corporate Social Responsibility (CSR) and Company Performance. *Thesis*, pp. 1-98.

[12] Mirza Nurdin Nugroho, Agung Yulianto. 2015. The Influence of Profitability and Corporate Social Responsibility Disclosure Registered JII 2011 to 2013, *Accounting Analysis Journal,* Vol. 4, No. 1, pp. 1-12.

[13] Muhammad Restu, Willy Sri Yuliandari, Annisa Nurbaiti, 2017. The Influence of Board Size of Commissioners , Proportion of Board of Independent Commissioners and Audit Committee Size on Corporate Social Responsibility Disclosure (Case Studies at BUMN Listed on the Indonesia Stock Exchange 2013 to 2016 Period. *e-Proceeding of Management*, Vol. 4, No.3, pp. 2742-2749.

[14] Muhammad Titan Terzaghi, 2012. The Influence of Earning Management and Mechanism Corporate Governance on Social Responsibility Disclosure Manufacturing Companies listed on the Indonesia Stock Exchange. *Economic journals and Accounting Information*, Vol. 2, No. 1, pp. 31-47.

[15] Sembiring, Eddy Rismanda, 2003. Company characteristics and Social Responsibility Disclosure; Empirical Studies on Companies Listed on the Jakarta Stock Exchange. *MAKSI Journal,* Vol. 6, No. 1, pp. 67-83.

[16] Sembiring, Eddy Rismanda, 2005. Developments Corporate Social Responsibility in Indonesia. National Accounting Symposium VIII. Solo.

[17] Utama, Sidharta, 2007. Evaluation of Supporting Infrastructure Reporting On Social and Environmental Responsibility In Indonesia. pp. 63-76.

[18] Wang Zi Jian, Amar Hisham Jaaffar, Say Keat Ooi, Azlan Amran, 2017. The Effects of National Culture, Corporate Governance and CSR Governance on CSR Disclosure Quality. *Global Business and Management Research: An International Journal,* Vol . 9, No. 4s, pp 298-315.