



Maksimum: Media Akuntansi Universitas Muhammadiyah Semarang, Vol 13 (No.1) 2023,
85-96

<https://jurnal.unimus.ac.id/index.php/MAX>

Nationally Accredited based on the Decree of the Minister of Research, Technology and
Higher Education, Number 1429/E5.3/HM.01.01/2022



Board of Commissioners and Corporate Social Responsibility Disclosure: The Role of Corporate Performance as Moderation

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Info Article

History Article:

Submitted : May 20, 2023

Revised : July 15, 2023

Accepted : August 15, 2023

Keywords:

CSR, Company Performance,
Board of Commissioners,
Liquidity.

Abstract

This research has the desire to prove the role of financial performance in strengthening the relationship between the role of the board of commissioners of liquidity and CSR. Research was conducted on consumer sector companies in the Indonesian capital market. The research was carried out from 2017 – 2021. The data analysis method used is Moderating Regression Analysis (MRA). The process of statistical testing is done with the help of STATA. The result of founding independent commissioners' roles and liquidity has a positive effect on CSR disclosure, besides that company performance which functions as a moderating variable also has a positive effect on company performance. In testing the moderating effect it was found that the company's performance weakened the relationship between liquidity and CSR, while the second test found that the company's performance strengthened the board of commissioners' relationship with CSR disclosure in consumers of good companies in the Indonesian Stock Market, Theoretically, our research will contribute to the development of the concept of green accounting and governance, which of course will encourage increased corporate reputation, besides that practically our research results can be used as a policy reference for public companies in Indonesia in increasing the implementation of environmental, social and environmental responsibility values governance.

JEL Classification: L25, M14

How to Cite: Putra, D.G., Saputra, S. E., Setiawan, P., Susanti, N., & S. Yesmira (2023). Board of Commissioners and Corporate Social Responsibility Disclosure: The Role of Corporate Performance as Moderation. *Maksimum: Media Akuntansi Universitas Muhammadiyah Semarang*, 13(1), 85-96.

DOI: 10.26714/mki.13.1.2023.85-96

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Introduction

The capital market is a very important part of economic development. Likewise with the company's role in absorbing labor. According to [Putra et al. \(2022\)](#) the company's important goal of increasing value must be maximized to attract the attention of investors to provide funds to the company to increase profits. Obtaining profits is one of the goals that every company wants to achieve and will ultimately increase the welfare of shareholders ([Syofyan et al., 2020](#)). According to [Putra & Rahayu \(2020\)](#) Companies get funds to carry out business expansion activities and make efforts to improve performance. Good company business activity processes and guaranteeing integration in reporting can provide investors with good information ([Putra et al., 2021](#)). In the company's operational activities, the company tries to make as much profit as possible regardless of the consequences arising from the business activities carried out. Business operations carried out by the company will always have an impact on the environment and society, both directly and indirectly. Based on this, companies must have a social responsibility towards the environment and society or Corporate Social Responsibility (CSR) in order to gain support in their operational environment so that companies can continue to operate smoothly.

The concept of CSR emerged because of the demands and expectations of society regarding the company's role in the environment and society. According to [Issa \(2017\)](#) Corporate Social Responsibility or what is known as CSR has a very close relationship with ethics in doing business, business ethics as a company guideline in conducting business and believing that business should not conflict with cultural or societal norms as well as laws and ethical standards that are exist in society. The demands on companies are getting bigger because apart from pursuing profits, companies must also pay attention to preserving environmental conditions and be involved in fulfilling community welfare ([Mallouh & Tahtamouni, 2018](#)). One of the emergence of claims against companies due to environmental damage, for example deforestation, increased air pollution, waste that is not properly managed and so forth. Regarding these problems, society demands companies to change their behavior by disclosing CSR.

According to [Santosa & Budiasih \(2021\)](#) CSR disclosure is motivated by the view that corporate responsibility is not only based on maximizing finances by prioritizing shareholder satisfaction, but companies are required to pay attention to social and environmental problems. Disclosure of CSR is inseparable from the implementation of Good Corporate Governance (GCG) to regulate companies in creating added value for all stakeholders in a sustainable manner ([Agustia, 2013; Agustin et al., 2023](#)). The sustainability of the company will be realized if the orientation of the company shifts from initially only to measures of economic performance but must also be based on environmental balance by taking into account the social and economic impacts of society.

Companies that carry out CSR activities regularly certainly give a positive impression of the company in the long term in the eyes of the public, consumers, and investors. Companies can increase public confidence in the products and services sold so that the company's reputation increases and triggers people to buy the company's products. This will also attract investors to invest in the company to create corporate sustainability ([Jihadi et al., 2021](#)). With the many benefits obtained through CSR disclosure, CSR inevitably has an essential role in a company, and companies will be motivated to disclose CSR. In addition, investors and potential investors will obtain information related to company performance, such as the level of sales, company profitability and information regarding CSR disclosure. With complete and accurate information available, investors can rationally decide which company they will invest in.

We plan this research to be carried out at consumer sector companies in the Indonesian capital market. According to the Minister of Industry, in 2018, the consumption sector is the business sector with the highest growth in Indonesia. The sector's contribution to the Indonesian economy reached 7.91%. The same thing happened during the COVID-19 pandemic; in 2020, the consumption sector could still show its existence by

contributing quadrillion Rupiahs to national economic growth (BPS, 2021). The consumption sector is one of the sectors with a good CSR disclosure index. Even though this sector is not directly involved in exploiting natural (extractive) resources, several companies in the consumption sector have higher compliance than extractive sectors to carry out CSR disclosures (Rahmad, 2022).

From 2020 to 2022, the number of CSR disclosures to manufacturing companies, especially the consumption sub-sector in Indonesia, increased by 20% more than five years before the pandemic. Besides that, the consumption sector was considered the most developed during the pandemic. The increasing need for public nutrition during a pandemic has encouraged this sector to feel less of the impact of the pandemic. We predict that the increase in the performance of companies in the consumption sector is driven by good governance processes and an increasing number of CSR disclosures that encourage the strengthening of the company's reputation. In addition, the increasing concern of companies in Indonesia for responsibility for the use of the environment can not only be seen from the continued increase in the number of disclosures made by public companies on the Indonesia Stock Exchange in disclosing CSR but also from the emergence of an ESG-based index called the Sri Kehati Index (Evia et al., 2022; Pradita et al., 2019).

The Sri Kehati Index is a composite index consisting of 25 public stocks that specifically prioritize environmental concerns. The performance of the Sri Kehati Index is considered very promising, and the movement of the stock index was even able to exceed the performance of the IHSG in February 2022. Based on this phenomenon, we assess the continued increase in the attention of consumer sector companies in Indonesia to the values of environmental responsibility, which is reflected in CSR, which is certainly an exciting thing to study, considering that companies in the consumption sector are categorized as low-profile companies.

Empirically, many factors influence CSR disclosure in Indonesia, one of which is the size of the board of commissioners, which is an essential part of corporate governance (Govindan et al., 2021). The size of the board of commissioners is the number of commissioners with supervisory duties. The board of Commissioners plays an essential role in the oversight function of the performance carried out by the directors. If the directors do it incorrectly in making decisions, the board of commissioners is ready to reprimand the directors' decision (Komang et al., 2020; Rahma et al., 2022). Based on this, many commissioners will encourage management to disclose CSR more broadly. The description of this statement encourages us to conjecture that the size of the board of commissioners can affect CSR disclosure.

Another factor that influences the disclosure of Corporate Social Responsibility (CSR) is liquidity. According to Kasmir (2019), it is a ratio that describes a company's resilience in paying off its short-term debt when it is due. Companies with large liquidity ratios will disclose more detailed financial and social information to convince stakeholders that the company has good performance. Nisak & Jaeni (2019) also stated that companies with high liquidity will try to disclose a lot of social activities as a sign that the company has good performance and can form a positive image of the company for stakeholders. Based on this statement, it is suspected that liquidity can influence the disclosure of Corporate Social Responsibility (CSR).

Much research has been carried out on CSR disclosure. However, the results obtained are still varied, such as research conducted by Zulhaimi & Nuraprianti (2019) and Akbar et al. (2019), which obtained the results of the size of the board of commissioners having a significant effect on CSR disclosure. At the same time, the research conducted by Afifah & Immanuela (2021) showed that the size of the board of commissioners has no significant effect on CSR disclosure. Likewise, the research conducted by Nisak & Jaeni (2019) obtained liquidity results that had a significant effect on CSR disclosure, while research conducted by Firdausi & Prihandana (2022) obtained liquidity results that did not have a significant effect on CSR disclosure. The novelty of this study is that if previous research tested a direct relationship, this study tested an indirect effect using a moderating variable, namely company performance. Company performance is a moderating

variable because good company performance is expected to strengthen or weaken the relationship between the factors influencing CSR disclosure. This study wants to prove how vital the role of financial performance is to strengthen the relationship between the board of commissioners and company liquidity by disclosing CSR to consumer sector companies in the Indonesian Capital Market.

Hypothesis Development

Impact of Liquidity on CSR Disclosure

Legitimacy theory was first developed by [Dowling & Pfeffer \(1975\)](#), states that legitimacy is an opportunity for companies to survive by utilizing social and environmental factors. The concept of legitimacy indicates a written or implied agreement between society and the company. The agreement's implementation primarily determines a company's survival and growth. Disclosure of CSR/ESG is proof of the implementation of the agreement's value because the implementation of CSR will encourage an increase in the company's reputation, which is the capital for them to survive.

According to [Kasmir \(2019\)](#), it is a ratio that describes a company's resilience in paying off its short-term debt when it is due. Companies with large liquidity ratios will disclose more detailed financial and social information to convince stakeholders that the company has good performance. [Nisak & Jaeni \(2019\)](#) also stated that companies with high liquidity will try to disclose a lot of social activities as a sign that the company has good performance and can form a positive image of the company for stakeholders. In line with the results of research conducted by [Maryati & Hendrawan \(2020\)](#), liquidity has a significant effect on CSR. [Nisak & Jaeni \(2019\)](#) also obtained similar results that liquidity significantly affects CSR.

H1: *Company liquidity has a positive effect on CSR disclosure*

Impact of Company Performance on CSR Disclosure

The legitimacy theory developed by [Dowling & Pfeffer \(1975\)](#) is an important guideline that encourages better implementation of CSR disclosure. Increasing the number of CSR disclosures will encourage increased company performance. When company performance strengthens, the implementation and funds used for these activities will undoubtedly increase ([Nurcahyono et al., 2021](#)).

The better the company's performance will further increase the company's ability to carry out CSR disclosure better. This is because when a company has a significant operating profit, it will undoubtedly generate excess profits that can be allocated to carry out CSR disclosures. The research results by [Lusiana et al. \(2021\)](#) state a robust positive relationship between company performance and CSR disclosure. The same thing was expressed by [Rafatnia et al. \(2020\)](#), who found that when a company can generate good profits, excess profit will be allocated for various things, one of which is to encourage higher CSR disclosure. Furthermore, the research results by [Harningsih et al. \(2019\)](#) found that company performance, as measured from a profitability perspective, positively affected CSR disclosure.

H2: *Company performance has a positive effect on CSR disclosure*

Company Performance Moderates the Relationship the Board of Commissioners with CSR Disclosure

[Gillan et al., \(2021\)](#) As stated in the concept of legitimacy, when a company can demonstrate good environmental and social responsibility, the effect of these activities will encourage increased performance and corporate governance. The increase in company performance arises because of the increase in reputation and value. A board of commissioners within a company will certainly create better corporate governance, such as information transparency and policies that favour all interested parties. Therefore, a board of commissioners can improve performance while encouraging increased CSR disclosure within the company. The findings obtained are supported by the research results of [Govindan et al. \(2021\)](#), which stated that the more active the role of the board of commissioners is, the more practical business performance will be. When these two things run simultaneously, CSR disclosure will be more robust. The same thing was

expressed by Gillan et al. (2021), who stated that company performance would strengthen the relationship between the board of commissioners and ESG/CSR disclosure in public companies in South America.

H3: *Company performance strengthens the relationship between the board of commissioners with CSR disclosure*

Company Performance Moderates Relationship the Liquidity with CSR Disclosure

The company's balance in managing its business interests with the implementation of its environmental and social responsibilities is a legitimacy that will encourage the long-term sustainability of the company (Kabderian Dreyer et al., 2023). When the company's liquidity position increases, of course, the company is burdened with sizeable current debt payments (Sugiyarti et al., 2021). Even though, at the same time, the company's performance has increased, as seen from the increase in profits, this tends to weaken management's ability to fulfil their obligations to carry out CSR disclosures. The high cost of debt that must be met in the short term also reduces the portion of profits generated, consequently reducing the company's ability to disclose CSR (Gillan et al., 2021). Consistent findings were also expressed by Kabderian Dreyer et al. (2023), a liquidity position that is too high will indeed be able to generate profit, but the amount of excess profit that will strengthen cash or be used to disclose ESG or CSR is also getting lower.

H4: *Company performance strengthens the relationship between company liquidity with CSR disclosure*

Method

Our research includes descriptive and associative research. The analysis used is Moderating Regression Analysis (MRA). This study used 24 consumer sector companies in the Indonesian Capital Market. The data used is from 2017 to 2021. The research we carried out used three variables: CSR. This variable was measured using the CSR concept according to GRI II in 2012, namely using 78 items (Issa, 2017).

CSR is measured by comparing the number of company disclosures divided by the total of all disclosures Gillan et al., (2021) or can be searched using the formula:

$$ICSR = \frac{\sum Corporate Disclosure}{\sum CSR}$$

Company liquidity is the second variable in this study. To measure liquidity, the current ratio is used. According to Ross et al. (2015) the current ratio can be found by using the formula:

$$CR = \frac{Current Assets}{Current Liability}$$

Company performance is a mediating variable between company liquidity and CSR disclosure. Sartono (2016) company performance is measured using the return on assets which can be searched by the formula:

$$ROA = \frac{Net Profit}{Total Assests} \times 100\%$$

The board of commissioners is the third variable in this study. The board of commissioners is part of management and stakeholder efforts in promoting corporate governance. The number of commissioners in the company measures the board of commissioners (Suhardjanto et al., 2017).

The data processing procedures included classical assumption testing, which included normality testing, carried out by the One-Sample Kolmogorov Smirnov Test (Prob > 0.05). The second classic assumption test is that the multicollinearity test is carried out by finding the VIF value (cut off ≤ 10). The next procedure is to

test the autocorrelation using the Durbin-Watson test, with the test procedure $du \leq dw \leq 4 - du$ (Hair et al., 2019). stages The next step is to do heteroscedasticity testing with Glejser. The analytical tool used is Moderating Regression Analysis (MRA). The operational model used in this study is as follows:

$$CSR = \beta_0 + \beta_1 BC + \beta_2 LIQ + e \tag{I}$$

$$CSR = \beta_0 + \beta_1 BC + \beta_2 LIQ + \beta_3 PERF + e \tag{II}$$

$$CSR = \beta_0 + \beta_1 BC + \beta_2 LIQ + \beta_3 PERF + \beta_4 BC * PERF + \beta_5 LIQ * PERF \tag{III}$$

Formation of a new regression model can be done after all the variables to be analyzed are free from classic assumption deviations. Hypothesis testing in our research was carried out using a statistical t-test. Data processing is carried out using the STATA 15.

Result and Discussion

After all the data and information is obtained, the data processing can be carried out. In accordance with the stages of data processing that has been carried out, the following results are obtained

Table 1. Descriptive Variable

Explanation	Min	Max	Mean	Std Deviation
CSR	67.45	90.71	78.54	4.32
Performance	-52.81	71.43	4.53	14.56
Liquidity	2.43	9.48	3.53	2.81
Board of Commissioners	2.00	12.00	4.82	5.43

Table 1 shows that the total amount of data used is 140 observations. From the data, the average consumer sector company can publish CSR disclosures of 78.54%, with the highest number of disclosures for all companies from 2017 to 2021, namely 90.71%. From the data processed, we also found that one of the companies sampled suffered losses of up to -52.81%. In comparison, the average consumer sector company generated an average profit percentage of 4.53%. If observed from the company's liquidity position, it can be seen that the average company has 3.53 times, with the highest liquidity value reaching 9.48 times. Other information obtained shows that consumption sub-sector companies on the Indonesia Stock Exchange from 2017 to 2021 have an average number of members of the board of commissioners of 4.82 people, where the most significant number of boards of commissioners owned by a consumer sector company is 12 people.

Before constructing the regression equation model, classical assumption testing was performed. Those assumptions are intended to create an unbiased and spurious regression model. The stages of testing the assumptions are normality, multicollinearity, autocorrelation, and heteroscedasticity tests. When the procedure is fulfilled, it shows that the BLUE rules can be fulfilled so that the hypothesis testing phase can be carried out immediately. According to the results of the normality test, it can be seen that each variable has a normal distribution ($P > 0.05$). In addition, from the multicollinearity test, it can be seen that each independent variable that makes up the regression model being analyzed has a VIF value < 10 , so all of these independent variables are free from multicollinearity deviations.

In addition, from the serial correlation test results, it can be seen that the DW-stat value obtained was 1,981, which was between the two quadrants $1,691 \leq 1,981 \leq 4 - 1,981 = 2,019$, so it can be concluded that the variables that will form the regression model in our study are free from positive or negative autocorrelation

deviations. From the results of the Glejser heteroscedasticity test, it can be seen that all variables are confirmed to have a constant pattern of diversity so that they are free from heteroscedasticity deviations.

After all the variables to be analyzed are free from classic assumption deviations, hypothesis testing can be carried out immediately. Following the results of the hypothesis testing, the results obtained are described in Table 6 below:

Table 2 Hypothesis Testing Results

	Coefficients	t-statistic
Panel A (Dependent: CSR)		
Constant	0.634	
BC	0.421	3.542***
LIQ	0.312	2.543**
Panel B (Dependent: CSR)		
Constant	0.542	
BC	0.397	3.142***
LIQ	0.325	2.081**
PERF	0.697	4.535***
Panel C (Dependent: CSR)		
Constant	0.427	
BC	0.341	2.142**
LIQ	0.285	0.341
PERF	0.404	1.891*
PERF*BC	-0.294	-3.312***
PERF*LIQ	0.163	1.921*

Following the test results on panel A, it can be seen that the existence of the board of commissioners has a positive effect on CSR disclosure ($P < 0.01$). In the same panel, it is seen that the company's liquidity position is getting stronger in line with the increase in CSR disclosure in consumer sector companies listed on IDX. Thus, the larger the size of the board of commissioners and the company's liquidity, the higher the tendency for CSR disclosure in consumer sector companies.

Furthermore, in panel B, it can be seen by adding performance as in the regression, it can be seen that company performance substantially impacts CSR disclosure. The same is in line with the board of commissioners and firm liquidity. Furthermore, in panel C, it can be seen that the company's performance can moderate (weakness) the relationship between liquidity and CSR disclosure (-3.312), while in the second moderation test, a t-statistic value of 1.921 is obtained at an error rate of 0.10 so that it can be concluded that the company's performance can strengthen the correlation between the board of commissioners and company performance.

Impact of the Board of Commissioners on CSR

The results obtained show that the existence of the board of commissioners encourages management compliance to be more responsible for social and environmental aspects. Management realizes that consistent CSR disclosure will increase the company's reputation. The results are in line with legitimacy theory. First-time legitimacy theory was developed by [Dowling & Pfeffer \(1975\)](#) and is an important guideline that encourages better implementation of CSR disclosure; increasing the number of CSR disclosures will be able to encourage increased company performance when company performance strengthens, then the implementation and funds used for these activities certainly will increase ([Ermawati et al., 2023](#); [Kabderian Dreyer et al., 2023](#)).

The results obtained align with research by [Gillan et al. \(2021\)](#), which states that the more influential the board of commissioners is in monitoring the activities of managers, the higher the company's policy to disclose CSR. Furthermore, [Bacha & Ajina \(2019\)](#) reinforce the opinion of previous researchers who stated that a board of commissioners in a company would increase the company's commitment to disclose CSR. Furthermore, [Gunawan \(2017\)](#) states that the existence of a board of commissioners will be a tool to safeguard the interests of external parties and encourage the improvement of the company's image, one of which is done by ensuring the company consistently discloses CSR.

Impact of Liquidity on CSR

The results of statistical tests found that company liquidity was observed from the current ratio, which positively affected CSR in consumer sector companies on the Indonesia Stock Exchange. These findings indicate that the more optimal the company's liquidity position will help the company carry out CSR disclosure better. When the liquidity position is better or optimal, the company certainly has good cash flow, which can maintain the stability of the company's operations. In addition, with an optimal liquidity position, the company can disclose better CSR to maintain its reputation in assessing stakeholders, especially investors and the public.

[Gillan et al. \(2021\)](#) stated that in the concept of legitimacy when a company can demonstrate good environmental and social responsibility, the effect of these activities will encourage increased performance and corporate governance. The increase in company performance arises because of the increase in reputation and value. The results obtained align with the research results of [Govindan et al. \(2021\)](#), which stated that liquidity stability, as seen with a stable cash value, is a trigger that motivates management to disclose CSR better. [Gillan et al. \(2021\)](#) stated that a company would be better able to disclose CSR with good cash conditions or liquidity. Furthermore, the research results by [Saputra et al. \(2020\)](#) state that every public company will try to create optimal liquidity to carry out its obligations. One of these obligations is to carry out social and environmental responsibility.

Impact of Company Performance on Disclosure of Corporate Social Responsibility (CSR)

In the results of testing the third hypothesis, it was found that the company's performance as measured by ROA positively affected CSR disclosure in consumer sector companies on the Indonesia Stock Exchange. The better the company's performance will further increase the company's ability to carry out CSR disclosure better. This is because when a company has a significant operating profit, it will undoubtedly generate excess profits that can be allocated to carry out CSR disclosures. The findings align with the legitimacy theory, which states that there is an agreement between the company, the community, and the environment. According to [Dowling & Pfeffer \(1975\)](#), implementing corporate responsibility to society and the environment will encourage increased company performance due to strengthening the company's reputation.

The results obtained are consistent with the research by [Lusiana et al. \(2021\)](#), which states that a strong positive relationship exists between company performance and CSR disclosure in high-profile companies. The same thing was expressed by [Dewi \(2019\)](#), who found that when a company can generate good profits, the excess profits will be allocated for various things, one of which is to encourage higher CSR disclosure, to encourage an increase in the company's reputation. Furthermore, the research results by [Harningsih et al. \(2019\)](#) found that company performance, as measured from a profitability perspective, has a positive effect on CSR disclosure in high-profile and low-profile companies.

Company Performance Moderates the Relationship of the Board of Commissioners with CSR

In testing the hypothesis, it was found that company performance weakens the relationship between liquidity and CSR in consumer sector companies on the Indonesia Stock Exchange. These findings show that when a company's liquidity position increases, the company is naturally burdened with large current debt

payments. Even though, at the same time, the company's performance has increased, as seen from the increase in profits, this tends to weaken management's ability to fulfil their obligations to carry out CSR disclosures. The high cost of debt that must be met in the short term also reduces the profit generated, consequently reducing the company's ability to disclose CSR (Gillan et al., 2021).

The findings align with the legitimacy theory, which states that there is an agreement between the company, the community, and the environment. According to Dowling & Pfeffer (1975), implementing corporate responsibility to society and the environment will encourage increased company performance due to strengthening company reputation. Consistent findings were also expressed by Kabderian Dreyer et al. (2023) a liquidity position that is too high will indeed be able to generate profit, but the amount of excess profit that will strengthen cash or be used to disclose ESG or CSR is also getting lower.

Company Performance Moderates the Relationship of Liquidity with CSR

Based on the results of hypothesis testing, it was also found that company performance strengthens the relationship between the board of commissioners and CSR disclosure in consumer sector companies on the Indonesia Stock Exchange. These findings show that having a board of commissioners in the company will create better corporate governance, such as information transparency and policies favouring all interested parties. Therefore, the existence of a board of commissioners can improve performance while encouraging increased CSR disclosure in the company.

The findings align with the legitimacy theory, which states that there is an agreement between the company, the community, and the environment. According to Dowling & Pfeffer (1975), implementing corporate responsibility to society and the environment will encourage increased company performance due to strengthening company reputation. In addition, the results obtained are also supported by research results of Govindan et al. (2021) which stated that the more active the role of the board of commissioners is, the more practical business performance will be. When these two things run simultaneously, CSR disclosure will be more robust. The same thing was expressed by Gillan et al. (2021), who stated that company performance would strengthen the relationship between the board of commissioners and ESG/CSR disclosure in public companies in South America.

Conclusion and Recommendation

We found that a board of commissioners encourages better CSR disclosure in consumer sector companies on the IDX. The same test procedure also found that the company's liquidity and performance encourage increased CSR disclosure in consumer sector companies on the IDX. Further testing found that company performance weakened the relationship between liquidity and CSR disclosure in consumer sector companies on the IDX. In contrast, the second moderation test found that company performance strengthened the relationship between the board of commissioners and CSR disclosure in consumer sector companies on IDX.

This study still has some limitations, namely, it was tested using a small sample of companies. Besides that, the study did not test endogeneity, so future researchers must try to correct these weaknesses. In line with the research results, it shows the importance of the board of commissioners as an entity that monitors management activities and encourages better corporate governance. The effectiveness of the role of the board of commissioners will encourage the optimization of the stability and performance of the company in general while at the same time encouraging a more substantial commitment to companies to maintain their responsibility to the environment and social aspects that directly and indirectly play a role in company activities.

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