

The Influence of Corporate Governance on Disclosure of Corporate Social Responsibility and Corporate Financial Performance as Intervening Variable

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Abstract: The objective of the research was to determine and analyze the influence of Corporate Governance (Managerial ownership, Institutional Ownership, Audit Committee, Independent Commissioner), On Disclosure of Corporate Social Responsibility simultaneously and partially on manufacturing companies listed on the Indonesian Stock Exchange 2014 - 2018. The study also tested the influence of intervening Corporate Financial Performance for Corporate Governance (Managerial Ownership, Institutional Ownership, Audit Committee, Independent Commissioner), On Disclosure of Corporate Social Responsibility. Total population of this research was 136 manufacturing companies. Samples were selected using purposive sampling method amounted to 83 companies, the data is processed by using residual test using SPSS. Result of the research showed that the variables of Corporate Governance (Management Ownership, Institutional Ownership, Audit Committee and Independent Commissioner) direct positive influence on Corporate Social Responsibility. Corporate Governance (Audit Committee and Independent Commissioner) direct positive influence on Corporate Social Responsibility. Corporate Governance (Management Ownership and Institutional Ownership) indirect positive influence on Corporate Social Responsibility. The variables of Corporate Financial Performance as intervening variables to explain influence Corporate Governance (Management Ownership and Institutional Ownership) on Corporate Social Responsibility.

1 INTRODUCTION

Elkington packs CSR into three focus 3Ps, namely Profit, Planet, and People. A good company does not only hunt for economic profit (profit), but also has concern for the preservation of the environment (planet) and the welfare of the people (people). In line with the rapid development of the business sector as a result of economic liberalization, various private sector community organizations and education have sought to formulate and promote the social responsibility of the business sector in relation to society and the environment, and Corporate Responsibility Disclosure is one part of the principles of Good Corporate Governance (GCG). (www.info.ekonomi.com).

In this case, reporting on environmental responsibility in the annual report is still voluntary because previously the obligation to report on environmental impacts stipulated by the Indonesian

Ministry of the Environment was only a non-public disclosure (specifically to relevant government institutions). This should not only be the case because when viewed companies in developed countries reporting environmental and social responsibility is the main thing in reporting the company's performance in addition to being seen from its financial statements. Increasingly the mining industry in Indonesia resulted in many areas that had been isolated began to be opened for mining areas, not least for manufactured. This is what makes each region have a more advanced life.

In case there are cases of environmental damage caused by PT. Nusa Halmahera Mineral (NHM) is engaged in gold mining which causes the spread of waste in Kao Bay, Ternate, North Maluku, which causes the surrounding community to suffer lumps upfront. It is unfortunate due to the pollution of the waste in addition to harming the surrounding community besides that the rivers are contaminated

with limbar even though Kao Bay is the largest anchovy producing area in Indonesia.

Criminal sanctions regarding CSR Disclosure are also contained in Law of Republic Indonesian Number 23 year 1997 concerning Environmental Management (UUPLH) Article 41 paragraph (1) which states: "Whoever violates the law intentionally commits acts that result in environmental pollution and/or damage, face a maximum prison sentence of ten years and a maximum fine of five hundred million rupiah". Furthermore Article 42 paragraph (1) states: "Anyone who for his negligence does an act which results in environmental pollution and/or damage, is threatened with a maximum imprisonment of three years and a maximum fine of one hundred million rupiah" (Sutopoyudo, 2009).

Based on the explanation above, the importance of the influence of the concept of economic performance in influencing company policy, the authors are interested and intends to do the research to establish the title: "**The Influence of Good Governance (Managerial Ownership, Institutional Ownership, Audit Committee, Independent Commissioner) on Disclosure of Corporate Social Responsibility to Corporate Financial Performance as variabel intervening on the Company Manufacturing listed in Indonesia Stock Exchange**".

Problem Formulation

Based on the background above, the problems in this study can be formulated as follows:

1. Does Corporate Governance (Managerial Organization, Institutional Ownership, Audit Committee, Independent Commissioner) influence the partial and simultaneous disclosure of Corporate Social Responsibility to Manufacturing Companies that are listed on the Indonesian Stock Exchange?
2. Does Corporate Governance (Managerial Ownership, Institutional Ownership, Audit Committee, Independent Commissioner) the influence on Disclosure of Corporate Social Responsibility through Corporate Financial Performance in Company Manufacturing is listed on the Indonesian Stock Exchange?

2 LITERATURE REVIEWS

2.1 Disclosure of Corporate Social Responsibility

Corporate Social Responsibility (CSR) is a natural mechanism for a company to 'clean' big profits. As is

known, the company's ways to obtain profits sometimes harm others, both unintentional or intentional. It is said to be a natural mechanism because CSR is a consequence of the impact of decisions or activities made by the company, so the obligation of the company is to reverse the situation of the people experiencing the impact to a better situation (Prastowo and Huda 2011: 17).

Corporate social responsibility or commonly referred to as Corporate Social Responsibility is a concept that the organization, in this case is more specified to the company, is having a responsibility to consumers, employees, shareholders, the community, and the environment in all aspects of the company's operations.

2.2 Corporate Financial Performance

Financial Performance is the level of performance of a business in a certain time period, which is manifested in profit and loss in the relevant time period. Thus, it can be concluded that financial performance is a measure of how well a company can use its assets in running a business and earning revenue. Financial Performance is also a term to compare several companies engaged in the same industry or field.

Financial performance is a picture of the company's success in the form of results that have been achieved thanks to various activities that have been carried out. Financial performance is an analysis to assess the extent to which a company has carried out activities according to the rules of financial implementation (Fahmi, 2012).

2.3 Corporate Governance

The term Corporate Governance itself was first introduced by Cadbury Committee in 1992 which uses the term. In their report known as the Cadbury Report, this report is seen as a turning point that is crucial for corporate governance practices around the world. Cadbury Report defines corporate governance as: "A system that functions to direct and control the organization". Another definition from the Cadbury Report sees Corporate Governance as managers, creditors, the government, employees and other interested parties both internal and external with respect to their rights and responsibilities. "

Kaen (2003) defines Corporate Governance as something about who controls the company and why it controls. The Cadbury Committee in 1992 defined Corporate Governance as a principle that guides and controls the company in order to achieve a balance

between strength and authority of the company in order to achieve a balance between the strengths and authority of the company in providing accountability to shareholders and stakeholders in general. Meanwhile the Forum for Governance in Indonesia (FCGI) defines Corporate Governance as a system that directs and controls the company. Shleifer and Vishny (1997) define Corporate Governance as ways to provide assurance to suppliers of corporate funds that a return on their investment will be obtained (Darmawati, 2006).

2.4 Managerial Ownership

Managerial ownership is a situation where the manager owns the company's shares or the manager as well as the company's shareholder as indicated by the percentage of company share ownership by the manager. Conflicts of interest between managers and owners become greater when ownership between managers and the company gets smaller. In this case the manager will try to maximize his interests compared to the interests of the company. Conversely the greater the manager's ownership in the company, the more productive the manager's actions in maximizing the value of the company.

Managerial ownership is a situation where the manager owns the company's shares or in other words the manager is also a shareholder (Tjeleni, 2013).

2.5 Institutional Ownership

Institutional ownership is the percentage of share ownership by institutional investors such as investment companies, banks, insurance companies and ownership of other institutions and companies. Institutional ownership will encourage more optimal supervision of company performance. This means that the greater the percentage of shares owned by investors.

2.6 Audit Committee

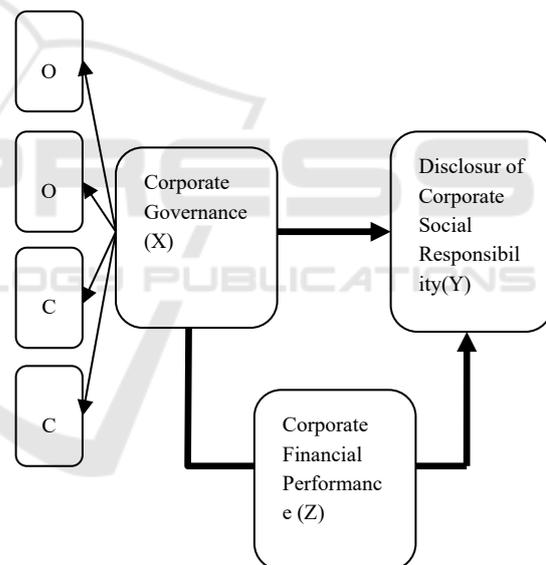
In accordance with Kep. 29/PM/2004, the audit committee is a committee formed by the Board of Commissioners to help carry out its duties and functions. The Audit Committee has a separate task in assisting the Board of Commissioners to fulfill their responsibilities in providing overall oversight (FCGI, 2002).

2.7 Independent Commissioner

The function of an independent commissioner is intended to encourage and create a more independent and objective climate for public companies. As the name implies, an independent commissioner must be independent in the sense that the commissioner is not involved in the management of the company and is expected to be able to carry out his duties as an independent party, and carry out his duties solely for the benefit of the company and regardless of the influence of various parties who have conflicting interests with other parties.

2.8 Conceptual Framework

Conceptual Framework Based on the above theoretical basis and problem formulation, the researchers develop the research framework. The conceptual framework to be studied by the researcher is as the following.



2.9 Research Hypothesis

Based on the previous problem formulation, the hypothesis of this study are:

- H₁: Corporate Governance (Managerial Ownership, Institutional Ownership, Audit Committee, Independent Commissioner) simultaneously and partially and significantly influence the Disclosure of Corporate Social Responsibility in Manufacturing Companies listed on the Indonesia Stock Exchange.
- H₂: Corporate Governance (Managerial Ownership, Institutional Ownership, Audit Committee,

Independent Commissioner) simultaneously and partially and significantly influence the Disclosure of Corporate Social Responsibility with Corporate Financial Performance as an intervening variable on Manufacturing Companies listed on the Indonesia Stock Exchange .

3 RESEARCH METHODS

3.1 Types of The Research

This research is a causal research (Causal Influence), namely research that is intended to reveal the causal relationship between related variables (Sularso, 2004: 13). The purpose of causal research is to investigate the possibility of a causal relationship in a manner based on observations of existing the influences and re-search for factors that might have caused the cause through certain data.

3.2 Research Location

The location of this research was conducted on the IDX through the sites www.idx.co.id and www.bi.go.id, namely Manufacturing Companies listed on the Indonesia Stock Exchange in the period 2014 - 2018 .

3.3 Population and Sample

3.3.1 Population

Population is "a generalization area consisting of objects or subjects which become certain quantities and characteristics determined by researchers to be studied and then conclusions can be drawn". (Erlina, 2011). The population in this study were 136 companies.

3.3.2 Sample

The sample according to Erlina (2011) is "part of the population used to estimate population characteristics". Sampling is done by purposive sampling method, which is sampling based on certain criteria (Ghozali, 2013) . The samples in this study were 83 companies. So the number of observations is 415 observations with details (83 companies X 5 years of observation).

3.4 Data Analysis Model

Model data analysis used is multiple linear regression analysis aimed to test and analyze the the influence of Good Governance (Managerial Ownership, Institutional Ownership, Audit Committee, Independent Commissioner) on Disclosure of Corporate Social Responsibility in Corporate Financial Performance as Variabel intervening on the Company Manufacturing registered on the Indonesia Stock Exchange . The form of the regression equation is:

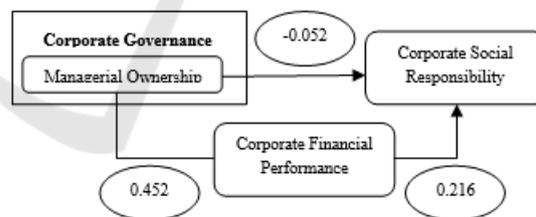
$$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + b_5Z + \epsilon$$

$$Z = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4$$

4 FINDINGS

In the Descriptive Statistics indicates the description of the research variables that shows the minimum value, maximum value, average value and standard deviation. In this study the standard deviation value is smaller than the average value so it can be concluded that the study is distributed normally.

4.1 The Influence of Corporate Governance (Managerial Ownership) on Corporate Social Responsibility through Corporate Financial Performance



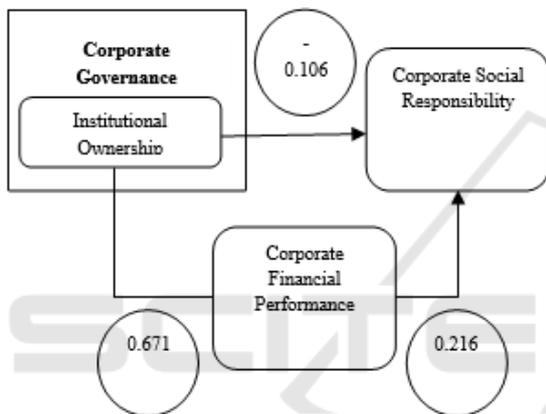
From the data and research concept framework above, it can be interpreted that the direct and indirect influences of Corporate Governance (Managerial Ownership) on Corporate Social Responsibility through Corporate Financial Performance using path analysis can be calculated as follows:

Direct Influence:
 - MO to CSR = - 0,052
 Indirect Influence :
 - MO to CSP to CSR = 0,452 x 0,216 = 0,098
 Total Influence = 0,046

From the results above, the influence of Corporate Governance (Managerial Ownership) on Corporate

Social Responsibility through Corporate Financial Performance is greater than the value of indirect influence rather than direct influence. Therefore the Corporate Financial Performance variable is a good intervening variable. It can be concluded that the influence of Corporate Governance (Managerial Ownership) influences Corporate Social Responsibility through Corporate Financial Performance .

4.2 The Influence of Corporate Governance (Institutional Ownership) on Corporate Social Responsibility through Corporate Financial Performance



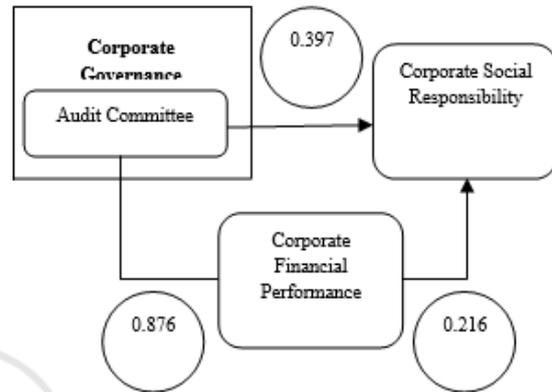
From the data and research concept framework above, it can be interpreted that the direct and indirect influences of Corporate Governance (Institutional Ownership) on Corporate Social Responsibility through Corporate Financial Performance using path analysis can be calculated as follows:

Direct Influence :
 - IO to CSR = - 0,106
 Indirect Influence:
 - IO to CSP to CSR = $0,671 \times 0,216 = 0,145$
Total Influence = 0,039

From the results above, the influence of Corporate Governance (Institutional Ownership) on Corporate Social Responsibility through Corporate Financial Performance is greater than the value of indirect influence rather than direct influence. Therefore the Corporate Financial Performance variable is a good intervening variable. Then it can be concluded that the influence of Corporate Governance (Institutional Ownership) influences Corporate Social

Responsibility through Corporate Financial Performance.

4.3 The Influence of Corporate Governance (Audit Committee) on Corporate Social Responsibility through Corporate Financial Performance

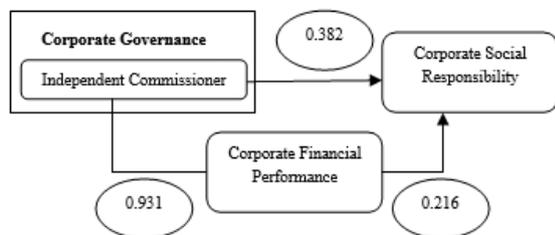


From the data and research concept framework above, it can be interpreted that the direct and indirect influences of Corporate Governance (Audit Committee) on Corporate Social Responsibility through Corporate Financial Performance using path analysis can be calculated as follows:

Direct Influence :
 - AC to CSR = 0,397
 Indirect Influence :
 - AC to CSP to CSR = $0,876 \times 0,216 = 0,189$
Total Influence = 0,586

From the results above, the influence of Corporate Governance (Audit Committee) on Corporate Social Responsibility through Corporate Financial Performance is smaller than the indirect influence value. Therefore the Corporate Financial Performance variable is not a good intervening variable. Then it can be concluded that the influence of Corporate Governance (Audit Committee) has a direct influence on Corporate Social Responsibility.

4.4 The Influence of Corporate Governance (Independent Commissioner) on Corporate Social Responsibility through Corporate Financial Performance

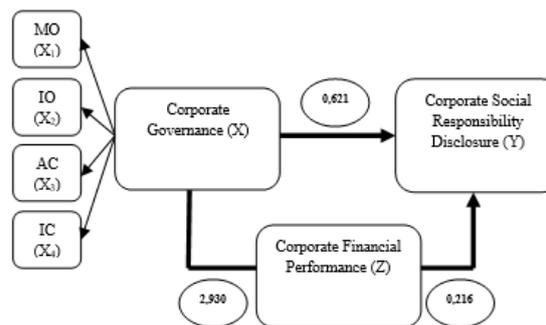


From the data and research concept framework above, it can be interpreted that the direct and indirect influences of Corporate Governance (Independent Commissioner) on Corporate Social Responsibility through Corporate Financial Performance using path analysis can be calculated as follows:

Direct Influence :
 - IO to CSR = 0,382
 Indirect Influence :
 - IO to CSP to CSR = $0,931 \times 0,216 = 0,201$
Total Influence = 0,583

From the results above the influence of Corporate Governance (Independent Commissioner) on Corporate Social Responsibility through Corporate Financial Performance is smaller than the value of indirect influence rather than direct influence. Therefore the Corporate Financial Performance variable is not a good intervening variable. Then it can be concluded that the influence of Corporate Governance (Independent Commissioner) has a direct influence on Corporate Social Responsibility.

4.5 The Influence of Corporate Governance (Management Ownership, Institutional Ownership, Audit Committee and Independent Commissioner) on Corporate Social Responsibility through Corporate Financial Performance



From the data and research concept framework above, it can be interpreted that the direct and indirect influences of Corporate Governance (Management Ownership, Institutional Ownership, Audit Committee and Independent Commissioner) on Corporate Social Responsibility through Corporate Financial Performance by using path analysis can be calculated as follows:

Direct Influence :
 - (MO, IO, AC, and IC) to CSR = 0,621
 Indirect Influence :
 (MO, IO, AC, dan IC) to CSP to CSR = $2,930 \times 0,216 = 0,633$
Total Influence = 1,254

From the results above, the influence of Corporate Governance (Management Ownership, Institutional Ownership, Audit Committee and Independent Commissioner) on Corporate Social Responsibility through Corporate Financial Performance is smaller than the indirect influence value. Therefore the Corporate Financial Performance variable is a good intervening variable. So it can be concluded that the influence of Corporate Governance (Management Ownership, Institutional Ownership, Audit Committee and Independent Commissioner) has a direct influence on Corporate Social Responsibility.

5 CONCLUSIONS

The result of the research showed that the variables of Corporate Governance (Management Ownership, Institutional Ownership, Audit Committee and Independent Commissioner) direct positive influence on Corporate Social Responsibility. Corporate Governance (Audit Committee and Independent Commissioner) direct positive influence on Corporate Social Responsibility. Corporate Governance (Management Ownership and Institutional Ownership) indirect positive influence on Corporate Social Responsibility. The variables of Corporate Financial Performance as intervening variables to explain influence Corporate Governance (Management Ownership and Institutional Ownership) on Corporate Social Responsibility.

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