

The Effect of Corporate Governance towards Corporate Social Responsibility Disclosure

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Abstract. In recent years the company's sustainability orientation is an important issue. Sustainability of a company is influenced by the company's attention to the profit/economic, environmental and society value. This research aimed to examine the effect of corporate governance on social responsibility disclosure. The population of this research were companies listed on Indonesia Stock Exchange during 2012-2016 periods. The sample were 130 companies which are chosen by purposive sampling method. The analysis technique for this research is multiple regression analysis method. The result showed that audit committee and board of directors have positive effects on social responsibility disclosure.

Keywords--Corporate Social Responsibility, Audit Committee, Board of Directors.

INTRODUCTION

The traditional economic view sees that companies are only oriented on maximizing profits and prospering shareholders. In recent years, the company's sustainability orientation is an important issue. Sustainability of a company is influenced by the company's attention to the profit/economic, environmental and society value, also known as triple bottom line [1].

The phenomenon is associated with moral, environmental and social responsibility by a company is called Corporate Social Responsibility (CSR). CSR is a corporation's initiatives to assess and to take responsibility for the company's effects on environmental and social wellbeing. Along with the economic and social development, CSR disclosure has received significant interest. Attention to CSR has increased significantly in the past decade. Many companies begun to report their ethics, their social and their environmental behavior, which can affect their market share. In scientific studies, CSR has been receiving considerable attentions both corporate's social performance and corporate's financial performance.

In early years, corporate responsibility should be oriented towards the triple bottom line which are social, environmental, and financial aspects. Therefore, every company is required to disclose information about Corporate Social Responsibility (CSR). Globalization is also one of factors that shows Corporate Social

Responsibility (CSR) is important [2]. Companies should disclose positive and negative impacts of their business operations on labor, environmental, economic, and human rights standards through CSR reporting [3]. CSR has been subject of study and debate by researchers and practitioners in the last decade, with some questions that whether companies which implement CSR are more successful in their financial performance [4].

The basic principle of sustainable development and Corporate Social Responsibility is a combination of needs both from the point of view of an institution and the unity of entity within its environment (employees, shareholders, stakeholders, borrowers, local communities) in carrying out their business policies. Thus, the objectives of an organization must be fully respected, as well as, the expectations of other stakeholders (value stakeholders) about technology, social and environmental [5].

Beside CSR, another important issue in recent years is Good Corporate Governance (GCG). Corporate governance is an institutional management, decision-making mechanism and a company's design done by the company's management in the effort to create value for the shareholder with improved corporate performance. Good corporate governance implementation is a prerequisite/basic requirement for succeeded company's financial performance that could stop arbitrariness in decision-making both by principals and agents. Companies that implement good corporate governance better, will produce positive information that will affect the performance its company in accordance with the agency theory initiated by Jensen and Meckling in 1976. This is because good corporate governance is able to overcome problems of mistrust of Principal (shareholder) to the agent (management) [6].

Jensen and Meckling (1976) propose a theory of the firm (Agency Theory) based upon conflicts of interest between shareholders, company managers, and debt holders. They, in addition, specify the existence of "agency costs" which arise owing to the conflicts either between managers and shareholders (agency costs of equity) or between shareholders and debtholders (agency costs of debt). Financial markets capture these agency costs as a value loss to shareholder or agency problem. Moreover, the agency theory argues that an agency relationship exists when shareholders (principals) hire managers (agents) as the decision makers of the corporations. The agency problems arise because

managers will not solely act to maximize the shareholders' wealth; they may protect their own interests or seek the goal of maximizing companies' growth instead of earnings while making decisions. To reduce the agency problems, the need for the existence of CG is come to firms' circumstances because of the agency problems incurred by the separation of the shareholders and managers. When it fails to enforce the contract between capital providers and managers, there has to be other mechanisms to ensure the efficiency of capital allocation in the economy.

An information will be disclosed by the company if the disclosure of such information can improve the performance of the company. Disclosure of CSR is expected to be able to show the company's competitive advantage. CSR is associated with voluntary initiatives that offer flexibility for innovative responses. To make these responses realized, policymakers recognize that CSR needs to be underpinned by an appropriate legal framework [7]. Disclosure of CSR will provide information to outside parties to show that the company has a concern with the environment and society which is also part of the sacrifice of corporate wealth. Companies can use CSR disclosure as a legitimating tool that ensures firm survival in the long term as well as a mechanism of effective communication between the firms and its stakeholders [8].

The main feature of CSR is to recognize good practices that are often based on good CG standards. As long as the issue of corporate responsibility is not integrated into the governance structure, the company will not act responsibly. CG and CSR are considered as two sides of the same coin. Both stressed that companies should disclose their responsibilities and duties to stakeholders [9]. Previous research has shown a positive relationship between CG and CSR disclosure [10] [11] [12].

METHOD

Population in this study are companies listed on the Indonesia Stock Exchange during 2012-2016. The samples are a mining industry company. Data were collected by collecting data from annual financial report 2012-2016 which were obtained from Indonesia Stock Exchange.

The dependent variable in this study is Corporate Social Responsibility Disclosure (CSRDI). Corporate Social Responsibility is defined as a concept that reveals that a company has various forms of responsibility to all stakeholders and their environment. In this research, corporate social responsibility measured by using content analysis in measuring variety of corporate social responsibility disclosure index (CSRDI). This study use CSR disclosure indicators issued by the Global Reporting Initiative (GRI).

The scoring used to measure corporate social responsibility disclosure index is as follows:

Score 0: If the companies do not disclose items on the company's annual report.

Score 1: If the companis disclose items on the company's annual report.

Furthermore, the score of each item is summed to get the overall score for each company by looking at 6 indicators and 91 items of disclosure.

The calculation formula of Corporate Social Responsibility Disclosure Index is as follows:

$$\text{CSRDI} = \frac{\text{Number of CSR Disclosure Items}}{91}$$

The GRI-G4 indicators used in this study:

Indicator of GRI-G4 Index used in research

Indicator	Number of Items
Economic	9
Environment	34
Social:	
Labor	16
Human Rights	12
Social Society	11
Product Responsibility	9
Total Number of Items	91

The independent variable in this study is Corporate Governance which is peroxide with audit committee and board of directors. There are some tasks of the audit committee: (1) to review accounting policies applied by the company, (2) to assess internal controls, (3) to review the reporting system to external parties, and to obedient to external parties. This variable is measured by looking at meeting frequencies of audit committee members. The number of meetings will reflect the effectiveness of communication and coordination among audit committee members in realizing good corporate governance.

Board of Directors is a competent company organ that fully responsible for company's management regarding company's interest, in accordance with the intent and purpose of the company and representing the company both inside and outside the court in accordance with the provisions from basic members. The clear realization of company's plan regarding corporate responsibility can be published through the sustainability report. Sustainability report is a report that shows the seriousness of the company to prove the social and environmental activities of the company that separated from the annual report. In addition, the board of directors is one component who has obligation in realizing good corporate governance so that the board of directors need to publish information on responsibilities in accordance with one of the principles of good corporate governance that is accountability. The Board of Directors' variables are measured by looking at the frequency of meetings of the board of directors over a period of one year. Higher frequency of meetings between members of the board of directors, indicate more frequent communication and coordination among members making it easier to realize good corporate governance.

Data analysis method used to test the hypothesis in this study is multiple regression. The equations for testing the hypothesis in this study are as follows:

$$CSRDI = \alpha + \beta_1 AC + \beta_2 BoD + \varepsilon$$

RESULT

The number of mining companies listed on the Indonesia Stock Exchange are 26 companies, and the annual report data are 130 from 2012-2016.

In descriptive statistical test showed that minimum value of CSR equal to 0,13 total disclosure 12 item, max value equal to 0,75 with total disclosure 68 item and average value equal to 0,3504 and standard deviation equal to 0,10387. This shows that the average sample company in this study has low CSR Disclosure, because the average score is below 50%.

The minimum value of the Audit Committee is 2 and the maximum value of 57. The average score of 9.42 and the standard deviation of 8.4. This shows that the average sample company in this study has a good audit committee because each meeting is held, more than 50% of audit committee members always attend the meeting.

Board of Directors has a minimum value of 2 and a maximum value of 82. The average value of 15.24 and the standard deviation of 14.10. This indicates that the average sample company in this study has a good board of directors because each meeting is held, 50% of board members always attend the meeting.

Table: t- test

Model	Unstandardized Coefficients Beta	t	Sig
1 (Constant)	0.78	18.403	0.000
AC	0.04	4.068	0.000
BoD	0.04	2.901	0.004

From the table above it is known that the Audit Committee has a positive influence on Corporate Social Responsibility, as well as the Board of Directors has a positive influence on Corporate Social Responsibility.

The existence of audit committees helps to ensure disclosure and control systems could work well. The more often the audit committee meets and communicates indicates some audit findings will be evaluated and reported to managers, thereby encouraging managers to make better disclosure. In order to lead better information disclosure, in addition to publish financial statements with integrity, management discloses information in additional reports, namely CSR Disclosure. Board of directors has a duty to plan corporate social responsibility. Evidence of the realization of such planning can be published through a sustainability report that contains social responsibility realization a part of company's annual report. Corporate social responsibility is an effort to gain legitimacy from the communities.

CONCLUSION

Using the Indonesia Stock Exchange data of a mining industry company over the period 2012-2016, this paper presents the evidence of statistically significant positive influence of the Audit Committee and the Board of Directors on Corporate Social Responsibility.

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