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Does Corporate Governance or Corporate Performance Affect CSR Disclosure?

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ABSTRACT

This study aims to determine the relationship between Corporate Governance (CG), Company Performance (CP), and Corporate Social Responsibility (CSR) Disclosure. This research uses quantitative methods with secondary data sources. The data analysis technique tests the hypothesis using multiple linear regression with the help of SPSS software. This research indicates that corporate performance have positive impact on the CSR disclosure. The board of commissioners in Indonesian companies does not have the authority to pressure companies to care more about the environment and social communities. In addition, companies in Indonesia still adhere to a patrilineal kinship system so that men are in control, including in decision-making. This study suggest that companies can change the mindset of the patrilineal system in the hope that corporate governance can improve CSR disclosure. Beside that, the company can increase the number of independent commissioners in order have the authority to pressure companies to be more concerned about the environment and social communities. This research successfully proves that the patrilineal system is still in use in Indonesia. In addition, the company will disclose CSR activities when it has a good performance.

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1. INTRODUCTION

The concept of corporate social responsibility is significant in both business and academia. The effects that their operations have on the economy, society, and environment are something that many institutions and organizations around the world, including corporations, have to consider (Natalia et al., 2019). According to Anna and Dwi R.T. 2019) companies that do CSR disclosure will get "recognition" from the community or its environment. In other words, corporate business is legitimate. According to the theory of legitimacy companies always strive to ensure that the company's operations have been in line with the standards of society or its environment (Deegan, 2002). According to stakeholder theory, CSR disclosure is carried out by companies to gain sympathy and support from stakeholders (Amalia, 2013). The stakeholder theory explains that companies and social environments are closely interrelated (Meiryani et al., 2023). The application of CSR in the concept of triple bottom line has to do with corporate governance (CG). Corporate governance (CG) helps companies to achieve the goals and objectives of the organization. Corporate governance ensures accountability, transparency, and ethical standards (Jati et al., 2023). The company must implement CSR and inform its stakeholders (KNKG, 2006). The main principles of the GCG are closely related to CSR, namely accountability and transparency (Wardhani and Cahyonowati, 2011). In order to preserve the long-term viability of the company, the GCG must implement the accountability principle by fulfilling its obligations to the community, the environment, and the relevant laws (KNKG, 2006). The application of GCG transparency principles is linked to CSR disclosure reporting in company reports (Susanto and Joshua, 2019). According to Act No. 40 of 2007 section 66, disclosure of CSR is mandatory in company reports. Therefore, the application of GCG in CSR disclosure is vital to the company and is inseparable.

One indicator in the CG to assess its impact on CSR disclosure is an independent commissioner. Research by (Nurhandika and Hamzah, 2020) and (Setyarini and Paramitha, 2011) shows that independent commissioners and CSR disclosure have a positive relationship. The existence of an independent commissioner becomes one of the aspects that must be met to establish independent and effective surveillance or monitoring (Wardhani and Cahyonowati, 2011). Independent commissioners as a proxy for corporate governance do not pay much attention to corporate social activities, but only focus on cost savings to maximize corporate profitability, so that the cost of carrying out corporate social activities will be reduced. This means that the independent commissioners has negative effect on CSR disclosure (Susanto and Joshua, 2019). However, research by (Nugroho and Yulianto, 2015) and (Utari, 2014) did not even find any link between independent commissioners and CSR disclosure. Other CG indicators are the percentage of women in the line of director (gender diversity). A study by Giannarakis (2014) showed a positive correlation between the percentage of women in management with CSR disclosure because women were considered more sensitive to social issues. Women have moral values that tend to give more motivation and use more participatory strategies, so the presence of a female board of directors is vital to the company (Anita and Lasma, 2021). Although, Muttakin et al., (2015) explains that gender diversity results in a lower extent of CSR disclosure. Even Giannarakis (2014) and (Chen and Hamilton, 2020) did not find a connection between gender diversity with CSR revelation.

Another factor that influences CSR disclosure is company performance. Company performance consists of financial performance and environmental performance. The financial performance of a company informs whether the company's performance is good (profitable) or not (loss) through financial reports or annual reports of the company (Candrayanthi and Saputra, 2013; Rachman and Handayani, 2013). Companies that have higher profits are obliged to make wider CSR disclosure to the public (Chaklader and Gulati, 2015). Companies with high

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profitability will make a greater contribution to CSR activities and make wider disclosure of it (Purbawangsa et al., 2020). Businesses with higher ROE values will explain to stakeholders what constitutes strong financial success. Subsequently, they will push the business to contribute significantly and provide more favorable reports regarding its CSR disclosure. The higher ROE, the wider of CSR disclosure (Kartini et al., 2019; Purbawangsa et al., 2020; Handayani and Maharani, 2021). The higher ROA ratio, the more CSR will disclose (Muttakin et al., 2015; Purbawangsa et al., 2020; Kartini et al., 2019; Kamaliah, 2020). However, Aprifa and Didik Ardiyanto (2017) explain that the management will use the profits for investment or expansion of the enterprise thus affecting the decrease of CSR disclosure. Further, Rachman and Handayani (2013) explains that one of the reasons companies implement social and environmental responsibility is because of the claims of stakeholders. Besides, the company wants to get a corporate image that cares about sustainability, both when it comes to large and small corporate profits. Further Yusuf (2011) explains that management does not need to disclose anything else that can distract the public from information about the profitability of company.

In addition to focusing on financial performance, the triple bottom line concept also focuses on corporate environmental performance (CEP). environmental measurement is an important foundation in the environmental management system by considering various environmental aspects (Retno, 2017). The CEP measurement indicator used in Indonesia is the PROPER index (Public Disclosure Program for Environmental Compliance). The PROPER ratings start with gold, green, blue, and red, and end with the worst ratings with black that will later be published, so the public can see and understand the level of environmental management and conservation of each company based on the colour ratings. This shows that PROPER ratings are crucial to companies because public responses to environmental management responsibilities can have an impact on the sustainability of a company. The participation in the PROPER is one of how companies hold their environmental performance accountable to stakeholders. The company in running the company's operations strives to fulfil the social contract so that the company is legitimized, there is a good relationship between the company and stakeholders (Pratama and Ghozali, 2022). Companies with good environmental performance have been shown to have a social and environmental concern so they will be more broadly involved in disclosing CSR than companies that perform environmentally less well (Fery Hidayat, 2022 ; Nurhopipah et al., 2020). The social concern that companies have is derived from good environmental performance, which encourages companies to express their social responsibilities (Permana and Raharja, 2012). Companies that have good environmental performance feel no need to disclose the company's CSR widely (Safitri and Rahman, 2022). Companies that focus only on reimbursement of capital invested by shareholders, rather than paying the costs necessary to increase their social responsibility. According to the social contract theory, a company that gets a good PROPER rating, this award is enough to prove to the general public how the company should do environmental and social activities. Therefore, management argues that companies do not need to disclose CSR information in detail in annual reports (Puspitasari et al., 2019).

The inconsistency of previous research on the link between corporate governance and corporate performance with CSR disclosure suggests that research related to this is needed. Previous research on corporate governance is still very little that uses the proxy of the board of commissioners in particular gender diversity in the board. It is well known that in Indonesia there is still a patrilineal partnership system where male controllers in decision-making include CSR disclosure.

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2. METHODS

This research was conducted to determine the effect of corporate governance (CG) and corporate performance (CP) on corporate social responsibility (CSR) disclosure listed on the IDX in 2016-2020. Based on these objectives, the appropriate type of research is quantitative research. The quantitative method is a research procedure with numbers as data and statistics as an analytical tool (Sugiyono, 2013). Quantitative research methodology has specific characteristics, namely having sample data taken from a certain population and focusing on variables to determine the hypothesis to be tested. Data sources come from secondary data, namely annual reports, sustainability reports, and Ministry of Environment Decrees related to PROPER ratings which can be accessed through the website proper.menlhk.go.id, IDX, and company websites for the 2016-2020 period. The sample is a segmentation of the total and characteristics in a representative manner (representative) of the research population. The final sample of criteria that will be used in the study totals 90 firm years that meet the criteria of companies listed on the IDX and included in the PROPER category and report Sustainability Report and Annual Report consistently from 2016-2020.

The CSR disclosure is a dependent variable of this study. In measuring CSR disclosure, this study uses a value index based on GRI using the scoring method. Scoring uses dummy variables in determining the value of CSR by using a score of one if the indicator is influential or the company discloses CSR and otherwise using a score of zero. Furthermore, in obtaining the value of the CSR index, this calculation is consistent with previous research (Restuningdiah, 2010; Sukasih and Sugiyanto, 2017) which can be denoted by the formula:

$$CSRIj = \frac{\sum Xij}{nj}$$

Description:
CSRIj: CSR Index of company j;
∑Xij: Number of CSR disclosure items of company j;
nj: Total of CSR disclosure items of company j

The Independent variables of this study are Independent commissioners (IC), Gender Diversity, ROA, ROE, and Proper. Independent commissioners (IC) are members of the board of commissioners who do not come from parties who are bound (non-affiliated) including those who have family and business relationships with controlling shareholders, the board of commissioners, and other directors (Susilo and Mildawati, 2013). Measurement of the independent commissioner indicator is based on Utari (2014).

$$IC = \frac{Number\ of\ Independent\ Commissioners}{Number\ of\ Board\ of\ Commissioners}$$

Gender diversity is the proportion of women on the board of a company (Septianingsih and Muslih, 2019; Mantiri and Eriandani, 2022) Gender diversity is measured by the ratio or percentage between the number of female directors and the total number of directors (Anita and Lasma, 2021; Ciappei et al., 2023)

$$GDI = \frac{Number\ of\ female\ directors}{Number\ of\ Directors}$$

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Return on asset (ROA) is a ratio to measure and assess the company's profit to the company's total assets (Munawir, 2004). The higher ROA indicates the productivity of the company's assets in obtaining net profit. (Munawir, 2004). Measurement of ROA by ratio of net income compared to the company's total assets.

$$ROA = \frac{Net\ Income}{Total\ Assets}$$

Return on equity (ROE) is a ratio to measure and assess the company's profit to the total equity of the company's shareholders (Munawir, 2004). The level of efficiency and effectiveness of capital management by company management can use ROE (Kartini et al., 2019). ROE is measured using the ratio or percentage of the ratio between net income and shareholders' equity.

$$\text{ROE} = \frac{Net\ Income}{Shareholders'\ equity}$$

The measurement of CEP in this study uses PROPER which is a level of company ranking in environmental management and preservation (Angelia and Suryaningsih, 2015). PROPER ratings are published by the Ministry of Environment through the website proper.menlhk.go.id routinely every year to the public so that companies will always be competitive in achieving better environmental management. PROPER rankings are measured by colour which is a simple and communicative form of informative performance achievement to the public ranging from best to worst gold, green, blue, red, and black. PROPER ranking measurement is carried out by giving a score to each colour category, namely gold with a score of 5, green = score 4, blue = score 3, red = score 2, and black = score 1 (Restuningdiah, 2010; Retno, 2017)

Multiple linear regression was used in this study as an analysis technique. The reason for choosing this technique is because the use of independent variables in this study exceeds one. The research data was tested with regression analysis and classical assumption tests. Tests on multiple linear regression must first fulfil the classical assumption test. Meanwhile, regression analysis is used to estimate the average or dependent population by measuring the effect of the independent variable (independent variable) on the dependent variable (dependent variable). In addition, the regression test also measures the strength and direction of the effect (Ghozali, 2013). The formula for multiple linear regression equations in this study is:

$$CSRI = \beta 0 + \beta 1\ KIN + \beta 2\ GDI + \beta 3\ ROA + \beta 4\ ROE + \beta 5\ PROPER + \varepsilon$$

Description:
CSRI: Corporate Social Responsibility Index
β0: Constant regression equation
β1-5: Regression coefficient of each variable
KIN: Independent commissioner
GDI: Gender diversity
ROA: Return On Asset
ROE: Return On Equity
ε: Error term.

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3. RESULTS AND DISCUSSION

3.1. Descriptive Statistics

The descriptive statistics table shows the amount of valid data as a sample of criteria that can be used, namely 90 firm years. **Table 1** shows the data description of the minimum, maximum, average, and standard deviation of each variable. CSRI data is disclosed through the GRI Standard index contained in the sustainability report. Based on table 4.1, the lowest CSRI value is owned by PT Vale Indonesia with a value of 0.29 while the highest CSR is owned by PT Multi Bintang Indonesia with a value of 0.84. The CSRI variable has an average value of 0.4934 with a standard deviation of 0.1186.

Table 1. Descriptive statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
CSRI	90	0,29	0.84	0.4934	0,1186
KIN	90	0,2	0.83	0.3896	0,13152
GDI	90	0	0.56	0.1249	0,18298
ROA	90	-4,44	52.66	94,707	1,311,692
ROE	90	-12,9	145.09	196,581	3,700,799
PROPER	90	3	5	35.444	0,60264

Source: Data processed by the author (2022)

The minimum value of descriptive statistics on the KIN (Independent Commissioner) variable is owned by PT Timah with independent commissioners owned by 1 of the 5 boards of commissioners (0.2) in 2017-2019. The highest value is owned by PT Unilever with independent commissioners owned by 5 of the 6 board of commissioners (0.84) in 2018 and 2020. The KIN variable has an average value of 0.3896 with a standard deviation of 0.13152. The lowest value of the GDI (gender diversity) variable is 0.00 owned by several companies that do not have female directors in the year concerned such as AALI, ANTM, MLBI, SMGR, and PTBA. The highest ratio value is owned by PT Unilever with five female directors out of nine total directors (0.56). The highest value of ROA is 52.66% achieved by PT Multi Bintang Indonesia, while the lowest -4.44% is owned by SMCB. The lowest value of ROE is -12.9% owned by SMCB and the highest value is 145.09% owned by UNVR. The minimum value of the PROPER variable is owned by AKRA, ANJT and INCO. The highest value is owned by PTBA.

3.2. The Classical Assumption Test

The test for normality, in this research, was use the Kolmogorov-Smirnov statistical method. The result of the normality test Asymp. Sig (2-tailed) is 0.160 > 0.05, It higher than the minimum standard of significance for data normality (Ghozali, 2013). This means that the data is normally distributed.

The heteroscedasticity test can be seen from the significance value of each independent variable with the standard of passing heteroscedasticity symptoms, which is more than 0.05.

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(Ghozali, 2013). It means that all variables have a significance value of more than 0.05 (Sig.>0.05). This indicates that the regression model used in this study is free from heteroscedasticity.

The multicollinearity test is seen from the large tolerance and VIF values (Ghozali, 2013). According to the statistical test results, the tolerance value for each independent variable is more than 0.10 (tolerance> 0.10) and a VIF value of less than 10 (VIF < 10). So it can be concluded that the research data in the regression model formed does not occur multicollinearity or pass the multicollinearity test.

The test for autocorrelation uses the Durbin-Watson. Determination of Durbin-Watson (DW) autocorrelation if the dU<DW<4-dU value can be reviewed from the Durbin-Watson table. The upper limit value (dU) of 1.7758 comes from the Durbin-Watson table which refers to the number of observation data (n) of 90 with 5 independent variables (k). So the Durbin Watson value obtained is 1.7758 <2.013 <2.2242 (dU <DW <4-dU). It means that the research data used is free from autocorrelation.

3.3. The Multiple Linear Regression Analysis

The regression equation that explains the effect of corporate governance (CG), and corporate performance (CP) on CSR disclosure is as follows:

$$CSRI = 0{,}354 - 131\ KIN - 0{,}070\ GDI + 0{,}003\ ROA + 0{,}001\ ROE + 0{,}041\ PROPER + \varepsilon$$

From the regression equation above, information is obtained if the independent variables KIN and DIG have a significance level of more than 0.05, which indicates that these variables do not influence the CSRI dependent variable. Meanwhile, ROA, ROE and PROPER have positive and significant regression coefficients as evidenced by a significance value of less than 0.05 (see **Table 2**).

Table 2. CSRI regression equation

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig
	B	Std. Error	Beta		
Constant	0,354	0,068		5,214	0
KIN	-0,13	0,128	-0,145	-1,026	0,308
GDI	-0,07	0,062	-0,108	-1,118	0,267
ROA	0,003	0,002	0,372	2,230	0,028
ROE	0,001	0,001	0,359	2,021	0,046
PROPER	0,041	0,018	0,208	2,262	0,026

a. Dependent Variable: CSRI

Source: Data processed by the author (2022)

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These results indicate that the financial performance of ROA and ROE and the environmental performance of PROPER have a significant positive effect on CSRI. The higher ROA, ROE and PROPER will have an impact on increasing the value of CSRI. The coefficient of determination (R^2) of the research results comes from the Adjusted R Square value of 0.449. This value shows that the KIN, GDI, ROA, ROE, and PROPER variables contribute 44.9% of the influence on CSRI, while the remaining 55.1% is caused by other factors outside the regression model.

3.4. The Hypothesis Testing

The calculated F value is 15.526 with a significance level of 0.000. This significance result is much smaller than the minimum standard of 0.05, which means that simultaneously the independent variables KIN, GDI, ROA, ROE, and PROPER affect CSRI. Thus, it can be said that corporate governance (KIN, GDI) and corporate performance (ROA, ROE, PROPER) together influence CSR disclosure.

The t table value of the test data of 1.66196 comes from the percentage point of the t distribution (df = 90) and a probability of 0.05%. Based on the results of the analysis in Table 2, the significance level of KIN is 0.308, which means that the independent commissioner variable (KIN) does not influence CSR disclosure because the variable probability results are far above 0.05. A GDI significance of 0.267 (more than the maximum standard of significance of 0.05) indicates that The board's varied gender diversity (GDI) has no bearing on CSR disclosure. Corporate financial performance with an ROA indicator has a significance level of 0.28 (<0.05), which means that the variable return on assets (ROA) has a positive effect on CSR disclosure. Furthermore, the ROE indicator also has a significance level of less than 0.05, which is 0.46; indicating ROE has a positive effect on CSR disclosure. Corporate environmental disclosure using the PROPER indicator has value of 0.026 < 0.05, which means that the PROPER has a positive effect on CSR disclosure.

3.5. Effect of Corporate Governance on CSR Disclosure

In this study, corporate governance is measured using independent commissioners and gender diversity. The results showed that there was no relationship between the influence of independent commissioners and gender diversity on CSR disclosure. The number of independent commissioners is relatively less than the number of non-independent commissioners as indicated by the results of the research on the average composition of the board of commissioners of 38%. The low percentage of independent commissioners causes a lack of independence in making objective decisions so the supervision carried out by management is less than optimal, which causes a lack of pressure to carry out CSR disclosure. Pasal 20 (OJK, 2014) stipulates that the minimum percentage of the number of independent commissioners in the company is 30%. Nugroho and Yulianto (2015) states that the ratio of the number of independent and non-independent commissioners should be the same to ensure objectivity in decision-making. Research of Nugroho and Yulianto (2015) also states that a low percentage of independent commissioners can lead to less than optimal supervision of management. The results of this study are in line with research Nugroho and Yulianto (2015) which did not find a relationship between independent commissioners and CSR disclosure.

The results of this study indicate that there is no relationship or influence between gender diversity on CSR disclosure. It can be interpreted that without gender diversity or the presence of women on the board of directors, the company can still run in the implementation of supervision of the company's CSR disclosure. This is because the majority of companies in Indonesia still adhere to a culture that causes a caste in gender diversity. The research

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Wardhani and Cahyonowati (2011) stated that gender diversity on the board does not relate with CSR disclosure (Mantiri and Eriandani, 2022) because it depends on the culture of the company. Indonesia adheres to a patrilineal kinship system, which means that men have control over all family members, including sources of income, ownership of goods, and even decision-making (Muttakin et al., 2015; Septianingsih and Muslih, 2019; Wardhani and Cahyonowati (2011). In this culture, the presence of women is considered less important, so gender diversity on board does not have a relationship with the CSR disclosure. The results of this study are consistent with Muttakin et al. (2015) and Chen and Hamilton (2020) which found no relationship between the percentage of women on the board of directors (gender diversity) and CSR disclosure.

3.6. The Effect of Corporate Financial Performance (CFP) on CSR Disclosure

This study uses Return on Asset (ROA) and Return on Equity (ROE) as proxies for corporate financial performance (CFP). The results showed that ROA (return on assets) has a significant positive influence on CSR disclosure. The high value of ROA indicates that the economy of a company is very strong, which puts more pressure on stakeholders to expand CSR disclosure. Stakeholders want their rights to be fulfilled by providing more information than just financial and operational information, but also social responsibility activities to the community. The results of this study are consistent with stakeholder theory, which has a role related to CSR disclosure carried out to gain sympathy and support from stakeholders (Amalia, 2013). Companies with high profits are more free to take a social approach by integrating CSR disclosure to show their contribution to society and give a positive impression of their company's performance (Giannarakis, 2014). The results of this study are consistent with the research (Giannarakis, 2014; Kartini et al., 2019; Okafor et al., 2021) stated that companies with high ROA tend to provide more information in their disclosure.

Regarding the ROE proxy, the results showed that ROE (return on equity) has a significant positive influence on CSR disclosure. It shows that the consideration of capital investment by shareholders is in the form of CSR disclosure by the company. Investors in Indonesia are beginning to recognise the importance of CSR activities carried out by companies that affect reputation and public perception (Jahid et al., 2020). Therefore, it can be said that CSR is a form of corporate responsibility to shareholders. Stronger financial performance can increase the legitimacy of stakeholder claims against the company (Chen and Hamilton, 2020). In other words, stakeholder pressure to improve corporate social and environmental performance is more targeted at highly profitable companies than less profitable ones. The ability of a company to generate high profits indicates the performance of a company is good and has sufficient funds to carry out activities and provide more useful and comprehensive information in the presentation of CSR disclosure (Kartini et al., 2019). The results of this study are consistent with the results of (Giannarakis, 2014; Kartini et al. 2019) which found a significant positive relationship between ROE and CSR disclosure.

3.7. Effect of Corporate Environmental Performance on CSR Disclosure

Companies with good Corporate Environmental Performance (CEP) are more likely to publish information about environmental performance. The participation of companies in the Corporate Performance Assessment Program (PROPER) is one of how companies hold their environmental performance accountable to stakeholders. This result also supports the theory of legitimacy, in which in conducting operational activities companies strive to fulfil social contracts so that companies will be legitimized. When the company is legitimized then good

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relationships will be awakened between the company and its stakeholders. A company with a good PROPER rating will create a good relationship between the company and the community so that the company can obtain "social permission" (Pratama and Ghozali, 2022). Companies with good environmental performance have been shown to have a social and environmental concern so they will be more broadly involved in disclosing CSR than companies that perform environmentally less well (Fery Hidayat, 2022; Nurhopipah et al., 2020). The social concern that companies have is derived from good environmental performance, which encourages companies to express their social responsibilities (Permana and Raharja, 2012). Environmental performance assessed through the PROPER program influences the disclosure of corporate social responsibility information. The program, organized by the Ministry of Environment, is intended to motivate companies in Indonesia to improve their environmental performance. The company's participation in this program alone has been evaluated positively (Rachman and Handayani, 2013).

4. CONCLUSION

Based on the results of hypothesis testing, it can be concluded that independent commissioners and gender diversity in the board of directors do not influence CSR disclosure. The insignificance of independent commissioners on CSR disclosure is because the ratio of the number of independent commissioners to the total number of commissioners is relatively small at 38%, so it lacks independence in making objective decisions. Furthermore, the presence of women on the board of directors has no relationship to the extent of CSR disclosure because Indonesia adheres to a patrilineal kinship system (paternal descent system) which means that men hold control over all family members even in decision-making.

This study found that financial performance (ROA and ROE) has a positive effect on CSR disclosure. Companies with high ROA tend to provide more information in their disclosure. The high value of ROA indicates that the economy of a company is very strong which puts more pressure on stakeholders to expand CSR disclosure. Furthermore, the study also shows that ROE has a positive effect on CSR disclosure. The positive effect of ROE on CSR disclosure shows that shareholders in capital investment consider the CSR disclosure aspects of the company. The same result is also shown from the company's environmental performance (PROPER) has a positive influence on CSR disclosure. Companies with good environmental performance provide good news to market participants and tend to disclose more CSR disclosure. This means that companies with better CEP (corporate environmental performance) are required to disclose or report more environmental information than companies with poor CEP.

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