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Good Corporate Governance on Corporate Social Responsibility with Profitability, Size and Leverage as Moderating Variables

(*case study at Regional Development Banks in Indonesia*)

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***Abstract*—This research aim is to examine the effect of good corporate governance (GCG) on Corporate Social Responsibility (CSR) with profitability, size and leverage as moderating variables at District Development Banks (BPD) in Indonesia. The legitimacy theory, agency theory and stakeholder theory are employed as underpinning theories. The sample of this study is 15 of BPD which issued annual reports, GCG and CSR reports above the year 2011 to 2015. The independent variable is GCG, and CSR as the dependent variable. The CSR is scored by 78 disclosure items. The GCG is proxy by number of commissaries board; number of audit committee, quality of external auditor, and ownership of managements. For testing the effect of GCG on CSR with moderating variables, Moderated Regression Analysis is employed. The result indicates that GCG affects CSR. Size, Leverage and Profitability respectively is not able to moderate the relationship between GCG and CSR. Size, Leverage, and ROE aggregately influence CSR**.

Keywords--CSR; corporate governance; size; leverage; profitability; moderating

I. INTRODUCTION

Good corporate governance (GCG) is a system that manage and control a company to create value added of company. The concept of GCG is that shareholders has a right to acquire information correctly and well timed; it is an obligation of company to disclose information about company performance, accurately and transparent. One of example of implementation of GCG is doing corporate social responsibility (CSR). Companies with good corporate governance, they will act CSR. CSR is a company responsibility to minimize social gap and ameliorate environmental damage that happened due to companies operational activities. A company with good CSR will have a competitive advantages because they are demanded to be more innovative, long term orientation, has a good relationship with stakeholders, and transparent.

According to [1] company with several CSR activities will increase their company image. Investor are interested to invest in companies which have good image. A higher image of company, their customer will more loyal and induce the increasing of sales and profit, and finally boosting its share price. Meanwhile [2] and [3] argued that profitability significantly affect CSR disclosure. However, [4], [1] and [5] explained that CSR was not be affected by profitability. Meanwhile [6] found a positive effect of size on CSR, however this result contradict with [3] who argued that size did not influence CSR. In addition [7] mentioned that based on agency theory a company with a high leverage will has a high agency cost. To cover the bad signal and to accentuate profit, a company will reduce some costs including to reduce social cost such as cost for CSR activities, in order to show their profit.

The aim of this study is to analyse the influence of GCG on CSR at regional development banks in Indonesia with profitability, size, leverage, as moderating variable.

II. LITERATURE REVIEW

A. Legitimacy theory

Legitimacy theory is a corporate management system which oriented to the alignment of society, the government of individuals and community groups [2]. Sustainability of company is depend on how the company respond the need of society. According to [8], legitimacy theory companies have contracts with communities to perform their activities based on values in society and companies seek to respond to various interest groups to gain legitimacy from the group. Therefore companies are increasingly aware that the survival of the company also depends on the company's relationship with the community and the environment in which the company is running its activities.

B. Stakeholder theory

Stakeholder theory asserted that a company is not only an entity which operates for it self interest but also giving a usefulness for stakeholders. The existence of firm is influenced by supporting from stakeholders, hence company should pay attention stakeholders' interest [9].

The increasing of cost will be a consequence for companies when they implement CSR. This costs will eventually become a burden that reduces revenue, and make company profit decrease. However, by implementing CSR, corporate image will be better, and consumer loyalty increase. Ultimately, with CSR implementation, it is expected that the company's profitability will also incline [10]. Size of company could also influence CSR implementation. Complexity of stakeholders, responsibility of big company to stakeholders in implementing of CSR will be higher than small company. Based on discussion above, the hypotheses are:

Hypothesis 1: There is a positive effect of GCG on CSR

Hypothesis 2: Aggregately Size, leverage and profitability affect CSR

Hypothesis 3: GCG influences CSR with size, leverage and profitability as the moderating variables.

The framework of the relationship between GCG and size, leverage, ROE on CSRU is shown in figure 1

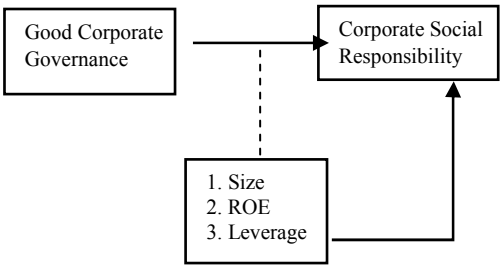

Fig.1. The Framework

III. RESEARCH METHODOLOGY

This study employs a quantitative research due to testing the effect of GCG on CSR with size, leverage and ROE as moderating variables. The population of this research is 26 of regional development banks (RDB) which issued completely annual report and CSR report above the year 2011 to 2015. However, 11 RDB did not publish annual report or CSR, hence only 15 RDB are employed or using 75 data

GCG is proxy by number of commissioner board; number of external auditor; number of audit committee, and ownership structure. CSR is measured by score of disclosure of 78 indicators. Size is proxy by total assets. Leverage is measured by debt divided by equity. Profitability is proxy by ROE.

Moderated Regression analysis and multiple liniear regression are employed for testing the effect of GCG on CSR with size, leverage and ROE as moderating variable

IV. RESULTS AND ANALYSIS

Kolmogorov-Smirnov showed that CSR is 0.283, it means that data has a normal distribution. The output of table 2 and 3 shows that VIF are close to 1 and less than 10. It means that regression model is free from multicollinier between independent variables.

TABLE 1. ONE-SAMPLE KOLMOGOROV-SMIRNOV

		Residual_1	Residual_2
N		75	75
Normal Parameters	a.b Mean	-0.0004	0.0001
Std. Deviation		0.10553	0.12980
Most Extreme Differences	Absolute	0.114	0.100
	Positive	0.114	0.100
	Negative	-0.082	-0.099
Kolmogorov-Smirnov Z		0.988	0.864
Asymp. Sig (2t ailed)		0.283	0.44

TABLE 2. COEFFICIENT OF VIF GCG AND CSR

Model	Collinearity Statistics	
	Tolerance	*VIF*
number of commissioner board	0.896	1.116
number of audit committee	0.707	1.415
quality of external auditor	0.958	1.044
ownership structure	0.761	1.314

a.Dependent Variable: CSR

TABLE 3. COEFFICIENT OF MODERATING VARIABLE AND CSR

Model	Collinearity Statistics	
	Tolerance	*VIF*
Size	0.716	1.397
DER	0.705	1.418
ROE	0.953	1.049

a.Dependent Variable: CSR

Result of first hypothesis

TABLE 4. STATISTIC RESULTS OF GCG ON CSR

Variables	T	Sig
Number of commissioner board	3.439	0.001
Number of committee Audit	-0.832	0.408
Quality of External Auditor	5.821	0.000
Ownership structure	-0.054	0.957
Adj.R square	0.419	
F	14.359	
Sig	0.000	

Table 4 shows that adjusted R square is 0.419. This means that CSR can be explained (41.9%) by number of commissioner board; ownership; number of auditor committee, number of external auditor CSR meanwhile the rest is explained by other variables. The number of commissioner board and number of external auditor significantly affect CSR is proven in table 4. In addition, aggregately, number of commissioner board; ownership; number of auditor committee, number of external auditor influence CSR which is proven by F=14.359 > Ftable (3.97) and sig.000. This is in line with [14] and [3], who underline that demanding on companies to provide transparent information, accountable organizations and good corporate governance compel companies to provide information about their social activities. Implementation of CSR is also one of the principles of GCG implementation, hence companies who implement GCG should conduct CSR. Therefore, hypothesis first is accepted.

Result of second Hypothesis

Table 5 shows that Size, DER and ROE affect CSR simultaneously with F = 4.852. Therefore, we accept 2nd hypothesis which mentioned that Size, DER and ROE affect CSR.

TABLE 5. STATISTIC RESULT OF SIZE ROE AND DER ON CSR

Variables	t	Sig
Size	2.499	0.15
DER	-1.538	1.28
ROE	-2.358	0.21
Adj.Rsquare	0.135	
F	4.852	
Sig	0.000	

The adjusted Rsquare is 0.135 means that only 13.5% CSR is explained by Size, DER and ROE. Table 5 shows that Size influence CSR positively, however ROE has a negative effect on CSR. This result contradict with [11] who asserted that a company with high profit will have a flexibility to implement CSR. According to [12], the negative direction on the effect of ROE on CSR means that when companies have a bad news because of declining of profit, they will try to improve their image by doing CSR more active in order to make stakeholders happy. This result in line with the theory where big companies have more stakeholders, and politic risks to push them to do CSR [13]. Furthermore, aggregately, size, leverage and ROE influence CSR. Therefore, the second hypothesis is accepted.

Result of third hypothesis

Size as the moderating variable cannot support the effect GCG on CSR. This can be seen on table 6, when putting size as a moderating variable the F (8,474) is smaller than the previous F (14.359) (table 4). These also happened when putting DER or ROE as moderating variable, therefore F was decrease. As well as on the result of adjusted R square. Adjusted R square of all moderating variables (size, ROE, and DER) are smaller than the previous Adjusted R square (table 4). Those numbers showed that moderating variables namely size, DER and ROE did not strengthen the affect of GCG on CSR.

TABLE 6. THE RESULT OF MODERATING VARIABLES

Moderating variables	Adjusted R Square	F	Sig
Size	0.233	8.474	0.000
DER	-0.033	0.214	0.886
ROE	0.109	4.027	0.011

Along with that, we reject 3rd hypothesis due to size, leverage, or ROE as the moderating variable could not support the effect of GCG on CSR.

V. CONCLUSION

Good Corporate Governance has a significant effect on CSR (F=14.359), but the rest of it is affected by other factors. Corporate social Responsibility is influenced by aggregate of Size, Leverage, and ROE. However, when size, leverage or ROE was employed as moderating variable, they did not strengthen the effect of GCG on CSR. For the limitation, this research only has 15 banks for data sample, and five years annual reports which are published by Bank of Indonesia. In addition, limitation of scope where GCG was only proxy by number of commissioner board, quality of external auditor, number of audit committee and ownership of management.

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